FIRST 5 CONTRA COSTA
CHILDREN AND FAMILIES COMMISSION

(a Component Unit of the County of Contra Costa, California)

Independent Auditors' Reports, Basic Financial Statements,
Required Supplementary Information,
Other Supplementary Information and Compliance Section

For the Year Ended June 30, 2011

FIRST 5 CONTRA COSTA CHILDREN AND FAMILIES COMMISSION
FOR THE YEAR ENDED JUNE 30, 2011

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Children and Families Commission of Contra Costa County

We have audited the accompanying financial statements of the governmental activities and the general fund of the Children and Families Commission of Contra Costa County (the Commission), a component unit of the County of Contra Costa, California, as of and for the year ended June 30, 2011, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the Commission, as of June 30, 2011, 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.

As described in Note 1 to the financial statements, the Commission has adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2011 on our consideration of the Commission'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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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The management's discussion and analysis on pages 3 through 7, the budgetary comparison information on page 28 and the schedule of findings progress on page 29 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Vavrinek, Trine, Day & Co., LLP

Sacramento, California
October 28, 2011

FIRST 5 CONTRA COSTA CHILDREN AND FAMILIES COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
June 30, 2011

This Management's Discussion and Analysis in intended to serve as a narrative overview and analysis of the financial activities of First 5 Contra Costa County for the year ended June 30, 2011. This information should be read in conjunction with the financial statements and the notes to the financial statements (beginning on page 8).

FISCAL 2011 FINANCIAL HIGHLIGHTS

During the fiscal year ended June 30, 2011 the Commission completed its eleventh year in existence. During this just completed fiscal year, the programs and activities envisioned by the Commission in its 2010-2015 Strategic Plan were implemented.

Financial highlights of the year include the following:

The assets of the Commission exceeded its liabilities at the close of fiscal year 2010-2011 by $19,727,157 (net assets). Of this amount, $845,036 was invested in capital assets and $155,793 was restricted for the Thomas J. Long Foundation Grant. Of the remaining net assets, $18,726,328 was available to meet the Commission's ongoing obligations.

The Commission's net assets decreased from $47,999,296 for fiscal year 2010 to $19,727,157 for fiscal year 2011, a decrease of $28,272,139. A large portion of the decrease ($23,488,904) was due to the passage of Assembly Bill 99, which requires county First 5s to remit to the State Treasurer an amount equivalent to 50% of their total Proposition 10 fund balance as of June 30, 2010. First 5 Contra Costa booked this liability as an extraordinary expense in FY10/11. The remaining decrease of net assets ($4,783,235) was in line with budget expectations.

Total commission revenues for fiscal year 2011, which included Contra Costa's Proposition 10 tobacco tax allocation, project-specific funding from First 5 California, grants, interest, and other income, were $10,888,900, a decrease of $405,876 from the prior year's amount of $11,294,776. Total expenses for 2011 were $15,672,135, an increase of $588,501 from the prior year expenses of $15,083,634. Nevertheless, 2011 expenses were 10.3% under budget, saving $1 million in the Commission's fund balance.

The Commission implemented GASB 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This GASB standard leaves unchanged the total amount reported as fund balance, but substantially alters the focus and terminology used to describe its components. The Commission's year end fund balance is reported according to the new requirements (See Note 1).

OVERVIEW OF THE FINANCIAL STATEMENTS

First 5 Contra Costa County financial report includes:

1. The basic financial statements, which include the *government-wide financial statements* and the *fund financial statements*.
2. Notes to the financial statements
3. Required supplementary information
4. Other supplementary information

Government-Wide Financial Statements

The *government-wide financial statement*s provide a broad overview of the Commission's activities as a whole, and are comprised of the *statement of net assets* and the *statement of activities*. The *statement of net assets* provides information about the financial position of the Commission on the full accrual basis, similar to that used in the private sector. It shows the Commission's assets and liabilities, with the difference between the two reported as net assets. The *statement of activities* provides information about the Commission's revenues and all its expenses, also on the full accrual basis, and explains in detail the change in net assets for the year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the First 5 Contra Costa Commission's activities are accounted for in the general fund.

The *fund financial statements* report essentially the same functions as those reported in the government-wide financial statements. However, unlike the government-wide financial statements, the fund financial statements report the Commission's operations in more detail and focus primarily on the short-term activities of the Commission. The fund financial statements are prepared on the modified accrual basis and measure only current revenues, expenditures and fund balances; they exclude capital assets and long-term liabilities.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide, general fund financial statements and required supplementary information.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain other required supplementary information concerning the First 5 Contra Costa finances.

The following is a summary of the Commission's Statement of Net Assets comparing balances at June 30, 2011 and June 30, 2010.

	Governmental Activities		
	2011	2010	Change
Assets			
Current and other assets	$ 44,597,470	$ 48,754,089	(4,156,619)
Noncurrent assets	1,166,036	1,212,930	(46,894)
Total Assets	45,763,506	49,967,019	(4,203,513)
Liabilities			
Current liabilities	25,605,330	1,657,234	23,948,096
Noncurrent liabilities	431,019	310,489	120,530
Total Liabilities	26,036,349	1,967,723	24,068,626
Net Assets			
Invested in Capital Assets,	845,036	891,930	(46,894)
Restricted Net Assets	155,793	0	155,793
Unrestricted	18,726,328	47,107,366	(28,381,038)
Total Net Assets	$ 19,727,157	$ 47,999,296	(28,272,139)

The Commission's net assets from governmental activities decreased from $47,999,296 in 2010 to $19,727,157 in 2011. This decrease is the Change in Net Assets reflected in the Statement of Activities is primarily due to the recognition of the AB99 liability.

The most significant portion of the Commission's Current Assets is its cash balances. Cash is maintained in the Contra Costa County's cash and investment pool where interest earned on the Commission's balance is apportioned to the Commission. The County also maintains individual investment accounts for the Commission. Cash and investments decreased $3,964,267 from the prior year June 30 balance. Another source of Current Assets is the Commission's grants receivables of $2,060,063 at June 30, 2011. These receivable amounts are due from the State for the May 2011 and June 2011 Proposition 10 tax revenues collected for 2011 and not remitted to the Commission prior to June 30, 2011, and for School Readiness and Cares Plus grant expenditures.

Current liabilities for the year ending June 30, 2011 increased $23,948,096 from the prior year because the AB99 payable to the State is included in this total. The balance of the current liabilities also includes accounts payable $528,197 and 4^{th} quarter contract payments $1,425,318 due to service providers that had not been paid at June 30, 2011.

The following is a summary of the Commission's revenue, expenses and change in net assets comparing fiscal year 2010-2011 with fiscal year 2009-2010:

	Governmental Activities		
	2011	2010	Change
Revenues			
Prop 10 Tax	$ 8,913,866	$ 9,098,876	$ (185,010)
State Grants	1,368,446	941,863	426,583
Grant Income	426,938	451,687	(24,749)
Interest	154,177	738,994	(584,817)
Other Revenue	25,473	63,356	(37,883)
Total Revenues	10,888,900	11,294,776	(405,876)
Expenditures			
Program Expenses:			
Early Care and Education	$ 3,842,309	$ 3,222,969	$ 619,340
Family Support	3,616,143	3,755,171	(139,028)
Early Intervention	3,598,010	3,607,048	(9,038)
Community Information & Education	855,296	1,047,377	(192,081)
Salaries and Employee Benefits	1,468,428	1,296,806	171,622
Other program expenditures	392,055	282,020	110,035
Evaluation			
Salaries and Employee Benefits	411,993	370,515	41,478
Other evaluation expenditures	324,768	343,905	(19,137)
Administration			
Salaries and Employee Benefits	801,998	825,099	(23,101)
Other administrative expenses	361,135	332,724	28,411
Total Expenses	15,672,135	15,083,634	588,501
Extraordinary item	23,488,904	0	23,488,904
Change in net assets	(28,272,139)	(3,788,858)	(24,483,281)
Net Assets, beginning of year	47,999,296	51,788,154	(3,788,858)
Net Assets, End of Year	$ 19,727,157	$ 47,999,296	$ (28,272,139)

The financial statements for fiscal year 2010-2011 show a decrease of net assets of $28,272,139. Of that amount $23,488,904, shown as an extraordinary item, is due to the State of California after the passage of AB99 by the State Legislature. This number represents 50% of First5 Contra Costa's Prop 10 fund balance at June 30, 2010. The expense is booked in fiscal year 2010-2011 however the payment is not due to the State until June 30, 2012. The balance of the loss reflects the Commission's use of reserve funds to keep programs stable despite less tobacco tax revenue in fiscal year 2010-2011.

Proposition 10 tax revenues decreased by $185,010 (2%) compared to the 2009-2010 fiscal year. State grant income increased $426,583 and is a combination of School Readiness and new CARES Plus grants from the California State First 5. Grant funds are from the Thomas J. Long Foundation to provide preschool scholarships.

The fiscal year 2010-2011 expenses of the Commission increased by $588,501 (3.8%) from the prior fiscal year. In the Early Care and Education Initiative, the increase of $619,340 from last fiscal year is due to increased state and local grant expenditures. Staff and benefits increases are due to filling staff vacancies and increases in benefit costs. These increases were offset by administrative cost savings.

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

In April, 2011, the California Legislature passed – and the Governor subsequently signed – AB99, which requires county First 5s to remit to the State Treasurer an amount equivalent to 50% of their total Proposition 10 fund balance as of June 30, 2010. The total amount of these remittances statewide is expected to be $950 million. Contra Costa's remittance of $23,488,904 must be paid to the state no later than June 30, 2012. The loss of these funds comes close to eliminating the funds held in prior years to fill the gap between program expenditures and ever-decreasing cigarette tax revenues. As a result, the Commission reduced its budget for the 2011-2012 fiscal year by $3.3 million and will engage in strategic planning to further reduce budgets in coming years in order to reach a level where expenditures match revenues. As the Commission addresses the challenge of this significant loss of funds, the legality of AB99 has been challenged in court by First 5 agencies and counties. The result of the legal challenge and any appeals may not be known before the end of the 2011-2012 fiscal year.

It is expected that Proposition 10 cigarette tax revenues will continue to decrease approximately 3% each year for the foreseeable future as tobacco consumption declines in California.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This annual report is intended to provide the community with a general overview of the Commission's finances. Questions about this report should be directed to the Commission's Executive Director at 1485 Enea Court, Suite 1200, Concord, California 94520.

FIRST 5 CONTRA COSTA
CHILDREN AND FAMILES COMMISSION
STATEMENT OF NET ASSETS
JUNE 30, 2011

	Governmental Activities
ASSETS	
Current Assets:	
Cash and investments	$ 42,321,665
Accounts receivable	144,776
Grants receivable	2,060,063
Prepaid expense	70,966
Total current assets	44,597,470
Noncurrent Assets:	
Note receivable	321,000
Capital assets, net of accumulated depreciation	845,036
Total noncurrent assets	1,166,036
TOTAL ASSETS	45,763,506
LIABILITIES	
Accounts payable	528,197
Grants and contracts payable	1,425,318
Accrued wages and benefits	162,911
Due to other governments- AB99	23,488,904
Compensated absences:	
Due within one year	12,828
Due in more than one year	115,456
OPEB liability	302,735
TOTAL LIABILITIES	26,036,349
NET ASSETS	
Invested in capital assets	845,036
Restricted for:	
Thomas J. Long Foundation Grant	155,793
Unrestricted	18,726,328
TOTAL NET ASSETS	$ 19,727,157

See accompanying notes to the basic financial statements.

FIRST 5 CONTRA COSTA
CHILDREN AND FAMILES COMMISSION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

		Program Revenues	Net (Expense) Revenue and Changes in Net Assets
	Expenses	Operating Grants And Contributions	Governmental Activities
Governmental Activities:			
Child development	$ 15,672,135	$ 10,709,250	$ (4,962,885)
General Revenues:			
Investment income			154,177
Miscellaneous			25,473
Extraordinary item (Note #8):			
AB99 Liability			(23,488,904)
Total General Revenues and Extraordinary Items			(23,309,254)
Change in Net Assets			(28,272,139)
Net Assets, July 1			47,999,296
Net Assets, June 30			$ 19,727,157

See accompanying notes to the basic financial statements.

FIRST 5 CONTRA COSTA CHILDREN AND FAMILIES COMMISSION
GOVERNMENTAL FUND BALANCE SHEET
JUNE 30, 2011

	General Fund
ASSETS	
Cash and investments	$ 42,321,665
Accounts receivable	144,776
Grant receivable	2,060,063
Prepaid expense	70,966
Note receivable	321,000
Total Assets	$ 44,918,470
LIABILITIES AND FUND BALANCES	
LIABILITIES	
Accounts payable	$ 528,197
Grants and contracts payable	1,425,318
Accrued wages and benefits	162,911
Due to other governments- AB99	23,488,904
Total Liabilities	25,605,330
FUND BALANCES	
Nonspendable	391,966
Restricted	155,793
Committed	841,227
Assigned	3,931,875
Unassigned	13,992,279
Total Fund Balances	19,313,140
Total Liabilities and Fund Balances	$ 44,918,470

See accompanying notes to the basic financial statements.

FIRST 5 CONTRA COSTA CHILDREN AND FAMILIES COMMISSION
RECONCILIATION OF GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

Fund balances of governmental funds	$ 19,313,140
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	845,036
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Compensated absences	(128,284)
OPEB obligation	(302,735)
Net Assets of governmental activities	$ 19,727,157

See accompanying notes to the basic financial statements.

FIRST 5 CONTRA COSTA CHILDREN AND FAMILIES COMMISSION
GOVERNMENTAL FUND STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2011

REVENUES	
Prop 10 Tobacco Tax	$ 8,913,866
Prop 10 State School Readiness	1,268,279
Prop 10 CARES Plus	100,167
Grant income	426,938
Interest income	154,177
Other revenue	25,473
Total Revenues	10,888,900
EXPENDITURES	
Current:	
Program Expenditures:	
Early care and education	3,842,309
Family support	3,615,287
Early intervention	3,598,010
Community information and education	855,296
Salaries and employee benefits	1,409,893
Other program expenditures	366,598
Evaluation:	
Salaries and employee benefits	392,501
Other evaluation expenditures	324,768
Administrative:	
Salaries and employee benefits	771,990
Other administrative expenditures	339,701
Total Expenditures	15,516,353
Excess (deficiency) of revenues over (under) expenditures	(4,627,453)
EXTRAORDINARY ITEM	
AB99 liability	(23,488,904)
Change in Fund Balance	(28,116,357)
FUND BALANCE, July 1, 2010	47,429,497
FUND BALANCE, June 30, 2011	$ 19,313,140

See accompanying notes to the basic financial statements.

FIRST 5 CONTRA COSTA CHILDREN AND FAMILIES COMMISSION
RECONCILIATION OF THE CHANGE IN FUND BALANCE
TO THE CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011

Net changes in fund balance - total governmental funds	$ (28,116,357)
Amounts reported for governmental activities in the statement of activities differs from the amounts reported in the statement of activities because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.	
Depreciation expense	(46,894)
Compensated absences expenses 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. This amount represents the net change in the compensated absences liability.	(16,660)
OPEB expenses 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. This amount represents the net change in the OPEB liability.	(92,228)
Change in net assets of governmental activities	$ (28,272,139)

See accompanying notes to the basic financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

First 5 Contra Costa Children and Families Commission (the Commission) was established by the Contra Costa County Board of Supervisors. The Commission was established to implement the provisions of Proposition 10 adopted on November 3, 1998. The Board of Supervisors originally appointed nine commission members and nine alternate members on September 1, 1999. One of the Commissioner positions will be occupied by a member of the County Board of Supervisors and will serve a one year term, three of the Commissioner positions will be occupied by employees of Contra Costa County and will serve without term limit, the remaining five Commissioner positions will consist of representatives from various organizations or recipients of services. These positions were originally appointed for three or four years. Upon completion of the initial terms of appointment these five positions will be appointed for three year terms. The mission of the Commission is, in partnership with parents, caregivers, communities, public and private organizations, advocates and county government, to foster optimal development of children, prenatally to five years of age. The Contra Costa County Board of Supervisors appoints members of the Commission and may remove any Commission member at any time. The Commission is considered a discretely presented component unit of the County of Contra Costa.

Basis of Accounting and Measurement Focus

The basic financial statements of the Commission are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Government-Wide Financial Statements

Government-wide financial statements consist of the statement of net assets and the statement of activities. These statements are presented on an economic resources measurement focus. All economic resources and obligations of the reporting government are reported in the financial statements.

The government-wide financial statements have been prepared on the accrual basis of accounting. Under the accrual basis of accounting all assets and liabilities of the Commission are included on the statement of net assets. The difference between the Commission's assets and liabilities is net assets. Net assets represent the resources the Commission has available for use in providing services. The Commission's spending priority is to spend restricted funds first, followed by unrestricted. The Commission's net assets are classified as follows:

Invested in Capital Assets – This amount represents the Commission's capital assets, net of accumulated depreciation.

Restricted Net Assets – This category represents restrictions imposed on the use of the Commission's resources by parties outside of the government or by law through constitutional provisions or enabling legislation. The Commission's net assets of $155,793 at June 30, 2011 were restricted for the Thomas J. Long Foundation Grant.

Unrestricted – This category represents neither restrictions or invested in capital assets and may be used by the Commission for any purpose though they may not be necessarily liquid.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Financial Statements

The fund financial statements consist of the balance sheet, the statement of revenues, expenditures and changes in fund balance, and the statement of revenues, expenditures and changes in fund balance – budget and actual of the Commission's general fund. These statements are presented on a current financial resources measurement focus. Generally, only current assets and current liabilities are included on the balance sheet. The statement of revenues, expenditures and changes in fund balance for the governmental fund generally presents increases (revenues) and decreases (expenditures) in net current assets. All operations of the Commission are accounted for in the general fund.

The fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Prop 10 Tobacco Tax revenue, interest and certain grant payments are accrued when their receipt occurs within ninety (90) days after the end of the accounting period so as to be both measurable and available. Expenditure-driven grant revenues are accrued when their receipt occurs within one year.

Adjustments Between Fund Financial Statements and Government-Wide Financial Statements

Capital assets, net of accumulated depreciation

Capital assets are not considered to be financial resources and therefore, is not reported as an asset in the fund financial statements. Capital assets are capitalized and reported at cost, net of accumulated depreciation in the government-wide financial statements. There were no additions to the capital assets in the current year.

Capital assets are recorded at cost. The Commission capitalizes assets with cost in excess of $5,000 and a useful life greater than one year. The Commission depreciates capital assets using a straight-line method over the estimated useful life of each asset. The estimated useful life used for the depreciable capital assets, ranges from 5 to 10 years.

Depreciation expense for the year ended June 30, 2011 amounted to $46,894 and is included in the child development and administrative functions in the statement of activities.

Long-Term Liabilities

Compensated absence obligations are considered long-term in nature and are reported in the fund financial statements as expenditures in the period paid or when due and payable at year-end under the modified accrual basis of accounting. The compensated absences have been accrued in the government-wide financial statements and are included in long-term liabilities. The compensated absences are liquidated by the general fund.

Due to other governments

Due to other governments represents amounts owed to the State of California relating to AB99.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. The Commission's significant estimates are recorded in accounts payable, grants and contracts payable and pertain to accruals for services provided by grantees and vendors but not invoiced as of June 30, 2011.

Budget and Budget Reporting

The Commission is required by County ordinance to prepare a budget each year based on estimates of revenues and expected expenditures. The Commission's Board of Commissioners adopted an annual budget of expenditures for the year ended June 30, 2011, which is prepared on the modified accrual basis of accounting. The accompanying statement of revenues, expenditures and changes in fund balance – budget and actual includes the budgeted expenditures for the year, along with management's estimate of revenues for the year. The legal level of budgetary control is at the total fund level.

Fund Balance

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. With the implementation of GASB 54 in FY 2010-2011, the Commission established the following classifications and definitions of fund balance for the year ended June 30, 2011:

> Nonspendable – Resources that cannot be spent because they are not in an expendable form (e.g. prepaid asset, inventory) or must be maintained intact (e.g. endowment principal).
>
> Restricted – Resources that are constrained to specific purposes by an external provider (e.g. grantors, contributors, governmental laws and regulations) or by constitutional provisions or enabling legislation.
>
> Committed – Resources with self-imposed limitations and require both a formal action of the highest level of decision making authority (Board of Commissioners) and the same formal action to remove or modify the limitations. The formal action for the Board of Commissioners is a vote.
>
> Assigned – The assigned portion of the fund balance reflects the Commission's intended use of resources, which can be established either by the Commission or the Executive Director. The "assigned" fund balance is similar to the "committed" fund balance, with the difference that Commission action is not necessary to assign funds or later modify or remove them. Assigned funds may include the appropriation of a portion of existing fund balance sufficient to eliminate a projected deficit in the subsequent year's budget. Funding that has been set aside for previously executed legally enforceable contracts, such as a multi-year lease.
>
> Unassigned – Resources that cannot be reported in any other classification.

The Commission's spending priority is to spend restricted fund balance first, followed by committed, assigned and unassigned fund balance.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contingency Fund

The Commission Board approved a contingency fund of $7,500,000 which is classified as part of the unassigned fund balance as of June 30, 2011. The fund balance will be used to mitigate the impact of unanticipated circumstances. Such events would include, but are not be limited to, legislation, lawsuits, ballot initiatives or other measures that would reduce, eliminate or otherwise threaten First 5 revenues or reserves. In such circumstances, the Commission could elect to use the contingency fund to meet or extend contracts or meet other emergent expenses.

Refer to Note 9 for additional details regarding the GASB 54 classification of fund balance.

Effect of New Governmental Accounting Standards Board (GASB) Pronouncements

GASB Statement No. 54 – In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The Commission has implemented this statement for the fiscal year ended June 30, 2011.

GASB Statement No. 57 – In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. This statement addresses the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements. This statement is effective in June 30, 2011. The Commission has determined that this statement is not applicable.

GASB Statement No. 59 – In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*. This statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This statement is effective in June 30, 2011. The Commission has determined that this statement is not applicable.

GASB Statement No. 60 – In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This Statement is to improve financial reporting by addressing issues related to service concession arrangements. This statement is not effective until June 30, 2012. The Commission has determined that this statement is not applicable.

GASB Statement No. 61 – In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*. This statement is to results in financial reporting entity financial statements being more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. This statement is not effective until June 30, 2013. The Commission has not determined the effect of this statement.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Effect of New Governmental Accounting Standards Board (GASB) Pronouncements (Continued)

GASB Statement No. 62 – In June 2011, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in FASB and AICPA pronouncements issued on or before November 30, 1989 which does not conflict with our contradict GASB pronouncements. This statement is not effective until June 30, 2013. The Commission has not determined the effect of this statement.

GASB Statement No. 63 – In June 2011, GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Positions*. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and the resulting net position. This statement is not effective until June 30, 2013. The Commission has not determined the effect of this statement.

GASB Statement No. 64 – In June 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB No. 53*. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. This statement is not effective until June 30, 2012. The Commission has not determined the effect of this statement.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments consisted of the following at June 30, 2011:

Cash in County Pool	$ 34,309,718
Imprest cash	1,200
Investments Held by County Treasury	8,010,747
Total Cash and Investments	$ 42,321,665

Investment Policy

The Commission adopted a resolution in February 2001 delegating investment authority to the County Treasurer, and specifying that the Commission "will continue to advise how the Children and Families Trust Funds are to be invested". The Executive Director is authorized to invest in securities of varying maturity according to cash flow and long term needs. Investments not specifically directed by the Commission to be invested separately are maintained with the County Treasurer in the County investment pool (Pool). On a quarterly basis, the Treasurer allocates interest to participants based upon their average daily balances. Required disclosure information regarding the classification of investments and other deposit and investment risk disclosures can be found in the County's Comprehensive Annual Financial Report (CAFR). The county's financial statements may be obtained by contacting the County of Contra Costa's Auditor-Controller's office at 625 Court Street, Martinez, California 94553. The Contra Costa County Treasury Oversight Committee oversees the Treasurer's investments and policies.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

The Commission follows the County of Contra Costa's investment policy that addresses a specific type of risk. Investments held in the Pool are available on demand and are stated at their fair market value.

As of June 30, 2011, the Commission had the following investments:

Investment	Interest Rates	Maturity	Fair Value	WAM Years
County Investment Pool	N/A	N/A	$ 34,309,718	0.42
FHLMA - Discount Note	0.223%	8/16/2011	8,010,747	0.13
Total Investments			$ 42,320,465	

Interest Rate Risk

Interest rate risk is the measurement of how changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the more sensitive to changes in market interest rates of its fair value. The County manages its exposure to declines in fair value of Pool investments investing in securities that have a term remaining to maturity in less than five years, unless the legislative body has granted express authority to make that investment either specifically or as part of an investment program approved by the legislative body no less than three months prior to the investment. Information about the sensitivity of the fair value of the Commission investments to market interest rate fluctuations is provided in the preceding table.

Credit Risk

The following is a summary of the credit quality distribution and concentration of credit risk by investment type as a percentage of Commission's investment portfolio at June 30, 2011:

Investment	S&P	Moody's	% of Portfolio	Amount
County Investment Pool	AAAf	Aa2	81.07%	$ 34,309,718
FHLMA - Discount Note	AAA	Aaa	18.93%	8,010,747
			100.00%	$ 42,320,465

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. At year-end, the Commissions investments were held in a separate custody account with a third party custodian in the County's name.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

Concentration of Credit Risk

Investments held in the Pool are subject to the County's investment policy and contains certain limits on the amount that can be invested in any one issuer beyond that stipulated by California code. Information about Commission investments outside the Pool that represent 5% or more as of June 30, 2011 are as follows:

Issuer	Investment Type	Amount	Percentage
Federal Home Loan Mortgage Corporation	Federal Agency Bonds/Notes	$ 8,010,747	18.93%

NOTE 3 – COMPENSATED ABSENCES

Changes in the liability for the 2010-2011 fiscal year are summarized as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Amount Due within one year
Compensated Absences	$ 111,624	$ 16,660	$ -	$ 128,284	$ 12,828

NOTE 4 – DUE FROM OTHER GOVERNMENTS

The due from other governments account represents amounts due to the Commission from the California Children and Families Commission ("State Commission") for Prop 10 related revenues and other governmental agencies. The amounts due to the Commission at June 30, 2011, were as follows:

Due from State Commission:	
Prop 10 revenue for:	
May 2011	$ 786,748
June 2011	821,229
School Readiness Initiative (SRI)	351,919
Cares Plus	100,167
Total Grants Receivable	$ 2,060,063

NOTE 5 – NOTES RECEIVABLE

In November 2005, the Commission entered into a forgivable loan agreement with the Perinatal Council (now known as Brighter Beginnings) to acquire and renovate a property in Antioch, California for the purpose of operating a First 5 Center on site. The Commission lent the Perinatal Council $428,000 for a period of twenty years. The Commission agreed to forgive 25% of the loan on the 5th anniversary date of the issuance of the Certificate of Completion, 25% on the 10th anniversary, 25% on the 15th anniversary and 25% at the end of the loan term. The loan is secured by a Deed of Trust and recorded as a lien against the property. The loan does not bear interest unless there is a default by the Borrower, such as an unauthorized transfer of the property or change in the use of the site. First 5 forgave the initial 25% of the loan, in the amount of $107,000 in the 2010-2011 fiscal year. The Commission does not anticipate receiving any cash payments from the borrower.

NOTE 6 – CAPITAL ASSETS

Governmental activities:	**July 1, 2010**	**Additions**	**Deletions**	**June 30, 2011**
Capital assets, not being depreciated				
Land	$ 245,430	$ -	$ -	$ 245,430
Total capital assets, not being depreciated	245,430	-	-	245,430
Capital assets, being depreciated:				
Buildings and improvements	666,935	-	-	666,935
Furniture and Fixtures	107,176	-	-	107,176
Total capital assets, being depreciated	774,111	-	-	774,111
Less accumulated depreciation for:				
Buildings and improvements	(79,793)	(25,458)	-	(105,251)
Furniture and Fixtures	(47,818)	(21,436)	-	(69,254)
Total accumulated depreciation	(127,611)	(46,894)	-	(174,505)
Governmental activities capital assets, net	$ 891,930	$ (46,894)	$ -	$ 845,036

NOTE 7 – COMMITMENTS

The Commission leases office space from a third party under a long-term operating lease, which expires in February 28, 2013. The future minimum rental payments due under the leases are as follows.

Year Ended June 30,	
2012	$ 224,800
2013	151,400
	$ 376,200

Rent expense was $201,255 for the year ended June 30, 2011.

NOTE 8 – DUE TO OTHER GOVERNMENTS

On March 24, 2011, the Governor signed Assembly Bill 99 (AB 99) into law. AB 99 established the Children and Families Health and Human Services Fund (Fund). As specified in the legislation, the Fund will be used, upon appropriation, by the California State Legislature for health and human services. The bill requires $1 billion of the combined state and local children and families funds to be deposited in the Fund for the 2011-2012 fiscal year. The amount required from each first five commission (AB 99 payment) represents 50% of the fund balance as of June 30, 2010. For the Contra Costa County Children and Families Commission, this amount was $23 million and the expense was recorded as an extraordinary item. The AB 99 payment is due by June 30, 2012. In accordance with the legislation, no 2012-2013 commission revenues will be paid until the full AB 99 payment is made. Accordingly, the Commission has accrued the AB 99 obligation as a liability at June 30, 2011.

A lawsuit has been filed by a number of First 5 Commissions against the State challenging that the bill violates the intent of Proposition 10. Refer to Note 10 for additional details.

NOTE 9 – FUND BALANCE

In March 2009, GASB issued State No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The Commission established these fund balance classifications in FY 2010-2011 and the balances at June 30, 2011 consist of the following:

Fund Balance:		**General Fund**
Nonspendable:		
Prepaid Expense	$	70,966
Note Receivable - Perinatal		321,000
Restricted:		
Long Foundation Grant		155,793
Committed:		
Capital Asset Replacement		841,227
Assigned:		
Elimination of FY11/12 budget deficit		3,555,675
Leases		376,200
Unassigned:		
Unassigned fund balance		13,992,279
Total Fund Balance	**$**	**19,313,140**

The Commission Board approved a contingency fund of $7,500,000 which is classified as part of the unassigned fund balance as of June 30, 2011.

NOTE 10 – CONTINGENCIES

The Commission is involved in various legal proceedings from time to time in the normal course of business. In management's opinion, the Commission is not involved in any legal proceeding that will have a material adverse effect on financial position or changes in financial position of the Commission.

AB99 was signed into effect on March 24, 2011 requiring $1 billion of the combined state and local children and families funds to be deposited in the Children and Families Health and Human Services Fund for the 2011-2012 fiscal year. The amount required from each first five commission (AB 99 payment) represents 50% of the fund balance as of June 30, 2010. For the Contra Costa Children and Families Commission, the AB 99 liability amount is $23,488,904 and is due by June 30, 2012. A number of First 5 Commissions have filed a lawsuit against the state challenging the legality of Assembly Bill 99 (AB99). On August 30, 2011, the Fresno Superior Court heard arguments from the attorneys for the First 5 Commissions. The judge has 90 days from the hearing date to issue a decision, followed by a 60 day-period in which an appeal can be filed.

NOTE 11 – RELATED PARTY TRANSACTIONS

The legally required composition of the Children and Families Commission 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 and Alternate Commissioners. Commissioners and Alternate Commissioners must abstain from voting on issues and participating in discussions directly related to their respective organizations. The following table shows those contracts awarded in FY 2011 to agencies represented by Commissioners and Alternate Commissioners.

Contractor	Award Amount
Diablo Valley College	$ 228,094
Contra Costa Department of Health Services - Alcohol and Other Drug Services	225,866
Contra Costa Department of Health Services - Alcohol and Other Drug Services	677,850
Contra Costa Department of Health Services - Mental Health Division	759,638
Contra Costa Department of Health Services - Medically Fragile Infant Program	344,793
Contra Costa Department of Health Services - Family, Maternal and Child Health Program	382,532
We Care Services for Children	615,573
Brighter Beginnings	350,200
Contra Costa Employment and Human Services Department	580,312
Total	$ 4,164,858

The County provides banking, investment and legal services, payroll and benefits administration, computer hardware and technical support, facility maintenance, and other administrative services to the Commission. The Commission participates in the County's risk management programs (commercial and self-insurance programs) for general and automobile liability insurance and personal property. The County purchases worker's compensation and crime insurance on behalf of the Commission. The Commission incurred expenses totaling $110,106 for County services provided during the year ended June 30, 2011.

NOTE 12 – PROGRAM EVALUATION

In accordance with the Standards and Procedures for Audits of California Counties Participating in the California Children and Families Program, issued by the California State Controller, the Commission is required to disclose the amounts expended during the fiscal year on program evaluation. Program evaluation costs pertain to those activities undertaken to support the collection, production, analysis and presentation of evaluation information for Commission management, Commissioners and other interested parties.

For the year ended June 30, 2011, the Commission expended $717,269 for program evaluation.

NOTE 13 – DEFINED BENEFIT PENSION PLAN

A. Plan Description

The Contra Costa County Employee Retirement Association (CCCERA) is a cost-sharing multiple-employer defined benefit pension plan (the plan) governed by the County Employees' Retirement Law of 1937 (the 1937 Act). The plan covers substantially all of the employees of the County, its special districts, the Housing authority and thirteen member agencies, including First 5 Contra Costa Children and Families Commission. The plan issues stand-alone financial statements which can be directly obtained from its office at 1355 Willow Way, Suite 221, Concord, California 94520.

The plan provides for retirement, death and survivor benefits, in accordance with the 1937 Act. Annual cost-of-living adjustments to retirement benefits can be granted by the Retirement Board as provided by state statutes.

The plan is currently divided into seven benefit sections in accordance with the 1937 Act. These sections are known as General Tier I, enhanced and non-enhanced; Tier II; Tier III enhanced and non-enhanced; Safety enhanced and non-enhanced. On October 15, 2002, the Contra Costa County Board of Supervisors adopted Resolution No. 2002/609, which provides enhanced benefit changes commonly known as 3 percent at 50 for safety members and 2 percent at 55 for general members, effective July 1, 2002 and January 1, 2003, respectively. Covered First 5 Contra Costa employees are all classified as General Tier I, enhanced.

Service retirement benefits are based on age, length of service and final average salary in accordance with the California Government Code Section 31462 and 31462.1. The retirement benefit is based on a one-year average salary.

B. Funding Policy

The employees and members contribute to CCCERA based on rates recommended by an independent actuary and adopted by the CCCERA Board of Retirement. Covered employees are required by statute to contribute toward their pensions. Member contributions are formulated on the basis of the date of entry and the actuarially calculated benefits.

NOTE 13 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

Contra Costa County and special districts, including First Five Contra Costa, are required by statute to contribute the amounts necessary to finance the estimated benefits accruing to their employees. The Commission's contributions to CCCERA for the years ending June 30, 2011, 2010, and 2009 were $502,830, $436,084 and $424,696 respectively.

Fiscal Year Ending	Annual Required Contributions (ARC)	Percentage of ARC Contributed	Net Pension Obligation
6/30/2009	$ 424,696	100.00%	-
6/30/2010	436,084	100.00%	-
6/30/2011	502,830	100.00%	-

NOTE 14 – OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS

Plan Description. First 5 Contra Costa Children and Families Commission ("Commission") participates in the County of Contra Costa Post Retirement Health Benefits Plan. The County is the plan sponsor and administers the single-employer defined benefit healthcare plan. The plan provides post employment medical and dental insurance benefits to eligible retired Commission employees and their dependents. The OPEB plan is presented as a trust fund with the County of Contra Costa Comprehensive Annual Financial Report. A copy of can be obtained at 625 Court Street, Finance Building, Martinez, California 94553.

The County contracts with health plans to provide medical and dental benefits. For eligible Commission retirees, the Commission will contribute a percentage (varying by medical plan) of the medical and/or dental premiums. For current employees, the Commission contribution will be capped at the 2009 premium level for future years. Any person who becomes age 65 and is eligible for Medicare must immediately enroll in Medicare Parts A and B.

Eligibility. Commission staff are eligible for membership in the plan when they retire at age 50 or older from the Commission (drawing a pension from CCCERA), are active subscribers to one of the County contracted health/dental plans, and have 10 years of service (15 years if hired after December 31, 2006). Members in deferred retirement status may maintain membership in County health plans at their own cost and become eligible for coverage as a retiree upon commencement of their pension. There were fourteen active plan members as of the date of this report.

Funding Policy. The contribution requirements of program members and the Commission are established by the Contra Costa Board of Supervisors and may be amended by the Commission. Currently the Commission follows the County’s contribution guidelines. In fiscal year 2010-2011 the Commission funding was based on the "pay-go" basis. The Commission had no retirees receiving healthcare benefits during 2010-2011, so the "pay-go" cost was $0.

NOTE 14 – OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS (CONTINUED)

Annual OPEB Cost and Net OPEB Obligation. The Commission's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Commission's annual OPEB cost for the year and changes in the Commission's Net OPEB obligation:

Annual required contribution	$ 95,679
Interest on net OPEB obligation	9,473
Adjustment to annual required contribution	(12,924)
Annual OPEB cost (expense)	92,228
Contributions made	-
Increase in net OPEB obligation	92,228
Net Post Employment Benefit obligation - beginning of year	210,507
Net Post Employment Benefit obligation - end of year	$ 302,735

The Commission's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal year 2010/2011:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2011	$ 92,228	0%	$ 302,735
6/30/2010	90,265	0%	210,507
6/30/2009	89,474	0%	120,474

Funded Status and Funding Progress. As of July 1, 2008, the most recent actuarial valuation date, the actuarial accrued liability for benefits was $359,199, all of which is unfunded. The covered payroll (annual payroll of active employees covered by the plan) was $1,125,207, and the ratio of the unfunded accrued actuarial liability (UAAL) to the covered payroll was 31.9%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

NOTE 14 – OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS (CONTINUED)

In the July 1, 2008 actuarial valuation, the entry age normal actuarial cost method was used. The actuarial assumptions included a 4.5% investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the County's own investments and an annual healthcare cost trend rate of 9% initially, reduced by 0.5 percent decrements to an ultimate rate of 5% after eight years. The UAAL is being amortized as a level dollar amount over 30 years on a level dollar basis. The remaining amortization period at June 30, 2011, was twenty-seven years.

REQUIRED SUPPLEMENTARY INFORMATION

FIRST 5 CONTRA COSTA CHILDREN AND FAMILIES COMMISSION
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	(Negative)
REVENUES				
Prop 10 Tobacco Tax	$ 9,229,435	$ 9,229,435	$ 8,913,866	$ (315,569)
Prop 10 State School Readiness	1,052,023	1,216,934	1,268,279	51,345
Prop 10 CARES Plus	-	-	100,167	100,167
Grant income	887,500	887,500	426,938	(460,562)
Interest income	284,543	284,543	154,177	(130,366)
Other revenue	75,000	75,000	25,473	(49,527)
Total Revenues	11,528,501	11,693,412	10,888,900	(804,512)
EXPENDITURES				
Current:				
Program Expenditures:				
Early care and education	3,944,175	4,109,086	3,842,309	266,777
Family support	4,056,211	4,056,211	3,615,287	440,924
Early intervention	4,055,264	4,055,264	3,598,010	457,254
Community information and education	1,227,704	1,227,704	855,296	372,408
Salaries and employee benefits	1,363,131	1,363,131	1,409,893	(46,762)
Other program expenditures	353,261	353,261	366,598	(13,337)
Evaluation:				
Salaries and employee benefits	386,431	386,431	392,501	(6,070)
Other evaluation expenditures	382,329	393,763	324,768	68,995
Administrative:				
Salaries and employee benefits	806,722	806,722	771,990	34,732
Other administrative expenditures	545,445	545,445	339,701	205,744
Total Expenditures	17,120,674	17,297,019	15,516,353	1,780,666
Excess (deficiency) of revenues over (under) expenditures	(5,592,173)	(5,603,607)	(4,627,453)	976,154
EXTRAORDINARY ITEM				
AB99 liability	-	-	(23,488,904)	(23,488,904)
Change in Fund Balance	(5,592,173)	(5,603,607)	(28,116,357)	(22,512,750)
FUND BALANCE, July 1, 2010	47,429,497	47,429,497	47,429,497	
FUND BALANCE, June 30, 2011	$ 41,837,324	$ 41,825,890	$ 19,313,140	$ (22,512,750)

See accompanying notes to required supplementary information.

FIRST 5 CONTRA COSTA CHILDREN AND FAMILIES COMMISSION
SCHEDULE OF FUNDING PROGRESS
FOR THE RETIREE HEALTH PLAN
FOR THE YEAR ENDED JUNE 30, 2011

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
July 1, 2008	$ -	$359,199	$359,199	0%	$1,125,207	31.9%

See accompanying notes to required supplementary information.

BUDGET AND BUDGETARY ACCOUNTING

The Commission prepares and legally adopts a final budget on or before June 30th of each fiscal year. The Commission operation, commencing July 1st, is governed by the proposed budget, adopted by the board of Commissioners by June of the prior fiscal year.

An operating budget is adopted each fiscal year in the modified accrual basis of accounting. Additionally, encumbrance accounting is utilized to assure effective budgetary control. Encumbrances outstanding at year-end represent the estimated amount of the expenditures ultimately to result if the unpaid contracts in process at year-end are fully performed by year-end or purchase commitments satisfied. Such year-end encumbrances are reported as a liability of fund balances and are included in expenditures because the commitments will be honored and are encumbered. Unencumbered appropriations lapse at year-end and encumbrance balances that will not be honored are liquidated.

The legal level of budgetary control (the level on which expenditures may not legally exceed appropriations) is at the total fund level.

OTHER SUPPLEMENTARY INFORMATION

FIRST 5 CONTRA COSTA CHILDREN AND FAMILIES COMMISSION
SCHEDULE OF EXPENDITURES BY FUND SOURCE AND
NET ASSETS OF CCFC FUNDS FOR FIRST 5 PROGRAMS AND ACTIVITIES
FOR YEAR ENDED JUNE 30, 2011

		Revenue CCFC Funds	Expenditures	Change in Net Assets	Net Assets Beginning of Year	Net Assets End of Year
School Readiness Program	CCFC Program Funds	$ 1,268,279	$ 1,268,279	$ -	$ -	$ -
	County, Local Funds	2,191,402	2,191,402			
CARES PLUS	CCFC Program Funds	100,167	100,167	$ -	$ -	$ -
	County, Local Funds	-	-			

COMPLIANCE REPORTS

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITORS' 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*

To the Board of Commissioners
Children and Families Commission of Contra Costa County

We have audited the financial statements of the governmental activities and the general fund information of the Children and Families Commission of Contra Costa County (the Commission), a component unit of the County of Contra Costa, California, as of and for the year ended June 30, 2011, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated October 28, 2011. Our report included an explanatory paragraph regarding the Commission's adoption of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective July 1, 2010. 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 the Commission is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Commission'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 the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission'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 above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and responses, as finding 2011-1, that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission'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.*

We noted certain matters that we reported to management of the Commission in a separate letter dated October 28, 2011.

The Commission's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Commission's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the County of Contra Costa Board of Supervisors, the Commission Board, the County Commission, the State Commission, the State Controllers 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.

Vavrinek, Trine, Day & Co., LLP

Sacramento, California
October 28, 2011

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

To the Board of Commissioners
Children and Families Commission of Contra Costa County

We have audited the basic financial statements of the Children and Families Commission of Contra Costa County's (the Commission), a component unit of the County of Contra Costa, as of and for the year ended June 30, 2011 and have issued our report thereon dated October 28, 2011. Our report included an explanatory paragraph regarding the Commission's adoption of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective July 1, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. We have also audited the Commission'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, 2011. Compliance with the requirements referred to above is the responsibility of the Commission's management. Our responsibility is to express an opinion on the Commission'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 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 Controller's Office. Those standards and the State of California's *Standards and Procedures for the 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 the Commission's compliance with those requirements and performing such 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 the Commission's compliance with those requirements.

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:

Description	Audit Guide Procedures	Procedures Performed
Contracting and Procurement	6	Yes
Administrative Costs	3	Yes
Conflict of Interest	3	Yes
County of 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

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In our opinion, Children and Families Commission of Contra Costa 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, 2011.

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

Vavrinek, Trine, Day & Co., LLP

Sacramento, California
October 28, 2011

The following finding represents a significant deficiency, related to the financial statements that is required to be reported in accordance with generally accepted government auditing standards:

Finding 2011-1

Documentation of Rationale for Bidder Selection

Criteria:

Procurement file documentation should contain documentation for the rationale for bidder selection and sole source justification and approval, if necessary.

Condition:

Significant Deficiency: The Commission did not consistently document in the contract file the rationale for bidder evaluation and selection for each contract. In addition, in cases where contracts were sole sourced, there was no documentation for sole source justification.

Context:

The condition noted above was identified during our testing over the Commission procurement process. Out of the 10 awarded contracts tested, 5 did not have documentation supporting rationale for bidder selection or sole source justification.

Cause:

The Commission's procurement policies and procedures did not specify the method of documentation of rationale for bidder selection or justification for sole source contracts.

Effect:

The Commission was not able to provide in every case, documentation supporting rationale for bidder selection or sole sourced contracts. As a result, the control environment is weakened.

Recommendation:

We recommend that the Commission document policies and procedures to ensure that rationale for bidder selection is documented for every contract. We also recommend the Commission document policies and procedures for the awarding of sole source contracts.

View of responsible officials:

Management agrees with the recommendation. First 5 employs objective criteria and processes for contractor selection but it has not been First 5's practice to include the selection rationale in the contract file. Management will institute policies and procedure to ensure that rationale for selection will be documented for every contract, including sole source contracts.