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, 2012

FIRST 5 CONTRA COSTA CHILDREN AND FAMILIES COMMISSION
FOR THE YEAR ENDED JUNE 30, 2012

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

VALUE THE DIFFERENCE

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, 2012, 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, 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 19, 2012, 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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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7, the budgetary comparison information on page 29, and the schedule of funding progress on page 30 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 the Commission's basic financial statements. The Schedule of Expenditures by Fund Source and Net Assets of CCFC Funds for First 5 Programs and Activities on page 32 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Vavrinek, Trine, Day & Co., LLP

Sacramento, California
September 19, 2012

This Management's Discussion and Analysis in intended to serve as a narrative overview of the financial activities of First 5 Contra Costa County for the year ended June 30, 2012. This information should be read in conjunction with the financial statements and the notes to the financial statements (beginning on page 8).

FISCAL 2012 FINANCIAL HIGHLIGHTS

The end of fiscal year 2011-2012 marked the Commission's twelfth year in existence. During this 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 2011-2012 by $41,236,769 (net assets). Of this amount, $798,143 was invested in capital assets and $8,929 was restricted for the Thomas J. Long Foundation Grant. The remaining net assets, $40,429,697 were available to meet the Commission's ongoing obligations.

The Commission's net assets increased from $19,727,157 for fiscal year 2011 to $41,236,769 for fiscal year 2012, an increase of $21,509,612. This change in net assets has two components. The first is a loss of $1,979,292, reflecting the Commission's planned use of fund balance to keep programs stable and in line with budget expectations. The second component is an increase of $23,488,904 due to the Fresno Superior Court's legal invalidation of Assembly Bill 99 (AB 99) in November 2011 and the State electing in March 2012 not to file a notice of appeal to the Superior Court's judgment. AB 99 had required that county First 5s 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 fiscal year 2010-2011 and reversed it in fiscal year 2011-2012 by booking it as extraordinary income.

Total commission revenues for fiscal year 2011-2012, which included Contra Costa's Proposition 10 tobacco tax allocation, project-specific funding from First 5 California, grants, interest, and other income, were $11,501,885, an increase of $ 612,985 from the prior year's amount of $10,888,900. Total expenses for 2012 were $13,481,177, a decrease of $2,190,958 from prior year expenses of $15,672,135.

For the first time since 2005, the 2011-12 Proposition 10 tax revenue total, $9,091,348, exceeded the previous year by 2%, thereby confounding a steady trend over the previous six years of annual decreases ranging from 2% to 11%. A significant portion of the increase is due to a 0.9% increase in tobacco tax revenue statewide; the rest is due to an increase in Contra Costa's portion of all California births. Overall increased total revenue from all sources reduced by half the amount the Commission needed to draw from its reserves to cover its expenses.

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

<u>Government-Wide Financial Statements</u>

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.

<u>Fund Financial Statements</u>

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, 2012 and June 30, 2011.

	Governmental Activities		
	2012	2011	Change
Assets:			
Current and other assets	$ 42,045,013	$ 44,597,470	$ (2,552,457)
Noncurrent assets	1,119,143	1,166,036	(46,893)
Total Assets	43,164,156	45,763,506	(2,599,350)
Liabilities			
Current liabilities	1,419,859	25,605,330	(24,185,471)
Noncurrent liabilities	507,528	431,019	76,509
Total Liabilities	1,927,387	26,036,349	(24,108,962)
Net Assets:			
Invested in capital assets	798,143	845,036	(46,893)
Restricted	8,929	155,793	(146,864)
Unrestricted	40,429,697	18,726,328	21,703,369
Total Net Asset	$ 41,236,769	$ 19,727,157	$ 21,509,612

The Commission's net assets from governmental activities increased from $19,727,157 in 2011 to $41,236,769 in 2012. This increase in the Change in Net Assets reflected in the Statement of Activities is primarily due to the reversal 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. Current and other assets decreased $2,552,457 from the prior year June 30 balance. Another component of Current Assets is the due from other governments balance in the amount of $2,079,480 at June 30, 2012. These receivables are due from the State for the May and June 2012 Proposition 10 tax revenues not remitted to the Commission prior to June 30th, and for First 5 CA School Readiness and First 5 CA Cares Plus grant expenditures.

Current liabilities for the year ending June 30, 2012 decreased $24,185,471 from the prior year primarily due to the elimination of the AB99 payable to the State. Other current liabilities include account payables of $256,251, 4th quarter contract payments of $951,025 due to service providers that had not been paid at June 30, 2011, and accrued wages and benefits of $198,540.

The following is a summary of the Commission's revenue, expenses and change in net assets comparing fiscal year 2011-2012 with fiscal year 2010-2011:

	Governmental Activities		
	2012	2011	Change
Revenues:			
Prop 10 Tax	$ 9,091,348	$ 8,913,866	$ 177,482
Prop 10 State School Readiness	577,913	1,268,279	(690,366)
Prop 10 CARES Plus	329,054	100,167	228,887
Grant income	1,218,171	426,938	791,233
Other revenue	97,331	25,473	71,858
Total Program Revenues	11,313,817	10,734,723	579,094
General Revenues:			
Interest income	188,068	154,177	33,891
Total Revenues	11,501,885	10,888,900	612,985
Expenses			
Program Expenses:			
Early care and education	3,524,653	3,842,309	(317,656)
Family support	3,401,255	3,616,143	(214,888)
Early intervention	2,588,142	3,598,010	(1,009,868)
Community information and education	445,663	855,296	(409,633)
Salaries and employee benefits	1,491,923	1,468,428	23,495
Other program expenditures	200,332	392,055	(191,723)
Evaluation:			
Salaries and employee benefits	408,305	411,993	(3,688)
Other evaluation expenditures	347,424	324,768	22,656
Administrative:			
Salaries and employee benefits	781,564	801,998	(20,434)
Other administrative expenditures	291,916	361,135	(69,219)
Total expenses	13,481,177	15,672,135	(2,190,958)
Extraordinary item	23,488,904	(23,488,904)	46,977,808
Change in net assets	21,509,612	(28,272,139)	
Net assets, beginning of year	19,727,157	47,999,296	
Net assets, end of year	$ 41,236,769	$ 19,727,157	

The financial statements for fiscal year 2011-2012 show an increase of net assets of $21,509,612. Of that amount, $23,488,904 remains in the Commission's assets as a result of the invalidation of AB99. The other component of the change in net assets is a decrease of $1,979,292, reflecting the Commission's planned use of fund balance to keep programs stable.

Proposition 10 tax revenues increased by $177,482 (2%) compared to the 2010-2011 fiscal year. State grant income decreased $461,479, reflecting the conclusion of the First 5 California School Readiness initiative and the onset of the First 5 California CARES Plus initiative for child care provider professional development. Grant funds from the Thomas J. Long Foundation were in the third year of funding for Preschool Makes a Difference scholarships.

The 2011-2012 expenses decreased by $2,190,958 (14%) from the prior year. Due to the potential loss of funds presented by AB99, the Commission reduced expenditures for programs, contracts and staffing. In the Early Care and Education Initiative, the decrease of $317,656 reflected decreased state grant funding. In the Family Support, Early Intervention and Community Information & Education initiatives, contracts were reduced or eliminated, community grants were eliminated, public information efforts were significantly reduced, and administrative expenses were reduced. Two First 5 staff positions were eliminated. Benefits costs increased but were offset by administrative cost savings.

Financial Analysis of the Governmental Fund

The fluctuations in the Commission's General Fund from the year ended June 30, 2011 to June 30, 2012 year are similar to those in the government wide statement of activities. Differences between the General Fund and the governmental activities arise primarily due to differences in accounting treatment for compensated absences, other post employee benefits (OPEB), and capital assets resulting from the governmental fund financial statements being reported on a modified accrual basis of accounting.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Commission's capital assets consist of land, buildings and improvements, and furniture and fixtures. No capital assets were purchased during the 2011-12 fiscal year resulting in the change in capital assets over the prior year being entirely attributable to $46,893 in accumulated depreciation additions.

Debt Administration

The Commission's debt consists of the net OPEB obligation and the long-term portion of compensated absences. The increase in the Commission's non-current obligations of $89,337 over the prior year was primarily attributable to an increase in the net OPEB obligation in the 2011-2012 fiscal year.

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

In April, 2011, the Governor signed AB99, which required 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. Contra Costa's potential remittance of $23,488,904 was to have been paid to the state no later than June 30, 2012. The loss of these funds would have significantly reduced the funds held in prior years to fill the gap between program expenditures and ever-decreasing cigarette tax revenues. In response to AB 99, the Commission reduced its budget for the 2011-2012 fiscal year by $3.3 million. A lawsuit brought by a consortium of county First 5s was successfully argued in Fresno County Superior Court in November 2011. The judge subsequently ruled that AB 99 was invalid as it amounted to a diversion of local Proposition 10 funds, an action which only the voters can approve. The state chose not to appeal the ruling.

In the 2012-2013 fiscal year budget, the Commission has restored some, but not all, of the cuts it made in the previous year. The Commission will update its strategic plan and budget projections accordingly. With the fiscal uncertainty that still clouds the state of California, First 5 could still be a target in future attempts to claim Proposition 10 resources for state uses.

Despite the sudden uptick in Proposition 10 revenues in the 2011-2012 fiscal year, it is nevertheless expected that Proposition 10 cigarette tax revenues will continue to decrease approximately 2-3% 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, 2012

		Governmental Activities
ASSETS		
Current Assets:		
Cash and investments	$	39,786,059
Accounts receivable		106,067
Due from other governments		2,079,480
Prepaid expense		73,407
Total current assets		42,045,013
Noncurrent Assets:		
Note receivable		321,000
Capital assets, net of accumulated depreciation		798,143
Total noncurrent assets		1,119,143
TOTAL ASSETS		43,164,156
LIABILITIES		
Current Liabilities:		
Accounts payable		256,251
Grants and contracts payable		631,817
Grants and contracts payable to related parties		319,208
Accrued wages and benefits		198,540
Compensated absences		14,043
Total current liabilities		1,419,859
Noncurrent Liabilities:		
Compensated absences		126,390
OPEB liability		381,138
Total current liabilities		507,528
TOTAL LIABILITIES		1,927,387
NET ASSETS		
Invested in capital assets		798,143
Restricted for:		
Thomas J. Long Foundation Grant		8,929
Unrestricted		40,429,697
TOTAL NET ASSETS	$	41,236,769

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, 2012

	Expenses	Program Revenues: Operating Grants And Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities
Governmental Activities:			
Child development	$ 13,481,177	$ 11,216,486	$ (2,264,691)
	General Revenues:		
	Investment income		188,068
	Miscellaneous		97,331
	Extraordinary item (Note 8):		
	AB99 settlement		23,488,904
	Total General Revenues and Extraordinary Item		23,774,303
	Change in Net Assets		21,509,612
	Net Assets, July 1		19,727,157
	Net Assets, June 30		$ 41,236,769

See accompanying notes to the basic financial statements.

FIRST 5 CONTRA COSTA CHILDREN AND FAMILIES COMMISSION
GOVERNMENTAL FUND BALANCE SHEET
JUNE 30, 2012

		General Fund
ASSETS		
Cash and investments	$	39,786,059
Accounts receivable		106,067
Due from other governments		2,079,480
Prepaid expense		73,407
Note receivable		321,000
Total Assets	$	42,366,013
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	$	256,251
Grants and contracts payable		631,817
Grants and contracts payable to related parties		319,208
Accrued wages and benefits		198,540
Total Liabilities		1,405,816
FUND BALANCES		
Nonspendable		394,407
Restricted		8,929
Committed		841,227
Assigned		4,710,053
Unassigned		35,005,581
Total Fund Balances		40,960,197
Total Liabilities and Fund Balances	$	42,366,013

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, 2012

Fund balances of governmental funds	$	40,960,197
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.		798,143
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences		(140,433)
OPEB obligation		(381,138)
Net Assets of governmental activities	$	41,236,769

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, 2012

	General Fund
REVENUES	
Prop 10 Tobacco Tax	$ 9,091,348
Prop 10 State School Readiness	577,913
Prop 10 CARES Plus	329,054
Grant income	1,218,171
Interest income	188,068
Other revenue	97,331
Total Revenues	11,501,885
EXPENDITURES	
Current:	
Program Expenditures:	
Early care and education	3,524,653
Family support	3,400,287
Early intervention	2,588,142
Community information and education	445,663
Salaries and employee benefits	1,440,961
Other program expenditures	174,874
Evaluation:	
Salaries and employee benefits	393,391
Other evaluation expenditures	347,424
Administrative:	
Salaries and employee benefits	757,855
Other administrative expenditures	270,482
Total Expenditures	13,343,732
Excess (deficiency) of revenues over (under) expenditures	(1,841,847)
EXTRAORDINARY ITEM (Note 8)	
AB99 settlement	23,488,904
Change in Fund Balance	21,647,057
FUND BALANCE, July 1, 2011	19,313,140
FUND BALANCE, June 30, 2012	$ 40,960,197

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, 2012

Net changes in fund balance - total governmental funds	$ 21,647,057
Amounts reported for governmental activities in the statement of activities differs from the amounts reported in the statement of revenues, expenditures and changes in fund balance 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	(46,893)
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.	(12,149)
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.	(78,403)
Change in net assets of governmental activities	$ 21,509,612

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 $8,929 at June 30, 2012 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 and the statement of revenues, expenditures and changes in fund balance 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.

Capital assets, net of accumulated depreciation

Capital assets are not considered to be financial resources and therefore, are 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 a 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, 2012 amounted to $46,893 and is included in the child development 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.

Compensated Absences

Compensated absences consist of employee earned vacation time and personal holiday time and are accrued by the Commission when earned by the employee. Unused vacation time and personal holiday may be accumulated up to a specified maximum and unused vacation time is paid at the time of termination from Commission employment. The Commission is not obligated to pay for unused personal holiday time if an employee terminates prior to retirement.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Grants and Contracts Payable

The grants and contracts payable account represents amounts due to the contracted services providers implementing programs as part of the four initiatives established in the strategic plan approved by the Commission. The payable balance consists of the fiscal year's fourth quarter payments due to the service providers.

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.

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, 2012, which is prepared on the modified accrual basis of accounting. The accompanying schedule 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. The Commission has established the following classifications and definitions of fund balance for the year ended June 30, 2012:

> 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Balance (Continued)

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 formal 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 or 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.

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, 2012. 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. 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, 2013. 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*. The objective of this statement is to improve financial reporting for governmental financial reporting entities. This statement modifies certain requirements for inclusion of component units in the financial reporting entity and amends the criteria for reporting component units as if they were a part of the primary government in certain circumstances. This statement is not effective until June 30, 2013. The Commission has not determined the effect of this statement.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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 was effective June 30, 2012. This statement is not applicable to the Commission.

GASB Statement No. 65 – In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement is not effective until June 30, 2014. The Commission has not determined the effect of this statement.

GASB Statement No. 66 – In March 2012, GASB issued Statement No. 66, *Technical Corrections – 2012 – and amendment of GASB Statements No. 10 and 62*. The objective of this statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* This statement is not effective until June 30, 2014. The Commission has not determined the effect of this statement.

GASB Statement No. 67 – In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. The objective of this statement is to improve financial reporting by state and local governmental pension plans. This statement replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions. This statement is not effective until June 30, 2014. The Commission has not determined the effect of this statement.

GASB Statement No. 68 – In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. The objective of this statement is to improve accounting and financial reporting by state and local governments for pensions. This statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 27 and 50 remain applicable for pensions that are not covered by the scope of this statement. This statement is not effective until June 30, 2015. 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, 2012:

Cash in County Pool	$ 39,785,059
Imprest cash	1,000
Total Cash and Investments	$ 39,786,059

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.

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 value.

As of June 30, 2012, the Commission had the following investments:

Investment	Maturity	Fair Value	WAM Years
County Investment Pool	N/A	$ 39,785,059	0.49
Total Investments		$ 39,785,059	

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 by 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, 2012:

Investment	S&P	Moody's	Amount
County Investment Pool	AAAf	Aa2	$ 39,785,059

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

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. Refer to the County's CAFR for additional information on custodial credit risks of the County Investment Pool.

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. Refer to the County's CAFR for additional information on concentration of credit risks of the County Investment Pool.

NOTE 3 – COMPENSATED ABSENCES

Changes in the liability for the 2011-2012 fiscal year are summarized as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Amount Due within one year
Compensated Absences	$ 128,284	$ 12,149	$ -	$ 140,433	$ 14,043

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, 2012, were as follows:

Due from State Commission:	
Prop 10 revenue for:	
May 2012	$ 714,944
June 2012	887,603
School Readiness Initiative (SRI)	314,929
Cares Plus	151,583
Race to the Top	5,421
Other	5,000
Total due from other governments	$ 2,079,480

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. The Commission does not anticipate receiving any cash payments from the borrower. The loan had an outstanding balance of $321,000 as of June 30, 2012.

NOTE 6 – CAPITAL ASSETS

Governmental activities:	**July 1, 2011**	**Additions**	**Deletions**	**June 30, 2012**
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	(105,251)	(25,458)	-	(130,709)
Furniture and fixtures	(69,254)	(21,435)	-	(90,689)
Total accumulated depreciation	(174,505)	(46,893)	-	(221,398)
Governmental activities capital assets, net	$ 845,036	$ (46,893)	$ -	$ 798,143

NOTE 7 – COMMITMENTS

The Commission leases office space from a third party under a long-term operating lease, which expires on December 31, 2013. The future minimum rental payments due under the leases are as follows.

Year Ended June 30,	
2013	$ 170,604
2014	85,302
	$ 255,906

Rent expense was $224,800 for the year ended June 30, 2012.

NOTE 8 – EXTRAORDINARY ITEM

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 required $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) represented 50% of their fund balance as of June 30, 2010. For the Contra Costa County Children and Families Commission, this amount was $23,488,904. The AB 99 payment was due by June 30, 2012. In accordance with the legislation, no 2012-2013 Commission revenues would have been paid until the full AB 99 payment was made. Accordingly, the Commission accrued the AB 99 obligation as a liability at June 30, 2011. A lawsuit was filed by a number of First 5 Commission against the State challenging that the bill violated the intent of Proposition 10. In fiscal year 2011-2012, the Superior Court of California ruled in favor of the Commissions, therefore AB99 was no longer an obligation. The State chose not to appeal the ruling of the Superior Court. The Commission accrued the expenditure as an extraordinary item in fiscal year 2010-2011 and has reversed this item in fiscal year 2011-2012 resulting in an extraordinary gain in the amount of $23,488,904.

NOTE 9 – FUND BALANCE

Fund balance is classified using 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. Fund balance at June 30, 2012 consists of the following:

Fund Balance:	**General Fund**
Nonspendable:	
Prepaid Expense	$ 73,407
Note Receivable - Perinatal	321,000
Restricted:	
Long Foundation Grant	8,929
Committed:	
Capital Asset Replacement	841,227
Assigned:	
Elimination of FY12/13 budget deficit	4,454,147
Leases	255,906
Unassigned:	
Unassigned fund balance	35,005,581
Total Fund Balance	**$ 40,960,197**

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, 2012.

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.

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 fiscal year 2011-2012 expenses with agencies represented by Commissioners and Alternate Commissioners:

Contractor	Fiscal Year 2011-12 Expenses
Contra Costa Department of Health Services - Alcohol and Other Drugs Services	$ 32,635
Contra Costa Department of Health Services - Mental Health Division	420,208
Contra Costa Department of Health Services - Medically Vulnerable Infant Program	322,998
Contra Costa Department of Health Services - Family, Maternal and Child Health Program	279,602
Brighter Beginnings	339,395
Diablo Valley College	228,094
WE Care Services for Children	584,741
Total	$ 2,207,673

The following table shows balances due to agencies represented by Commissioners and Alternate Commissioners:

Contractor	Balances Due June 30, 2012
Contra Costa Department of Health Services - Mental Health Division	$ 98,057
Contra Costa Department of Health Services - Medically Vulnerable Infant Program	34,491
Contra Costa Department of Health Services - Family, Maternal and Child Health Program	71,487
Brighter Beginnings	33,939
Diablo Valley College	22,810
WE Care Services for Children	58,424
Total	$ 319,208

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 $99,225 for County services provided during the year ended June 30, 2012.

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, 2012, the Commission expended $740,815 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% at 50 for safety members and 2% 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.

NOTE 13 – DEFINED BENEFIT PENSION PLAN (CONTINUED)

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.

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, 2012, 2011 and 2010 were $543,503, $502,830, and $436,084 respectively.

Fiscal Year Ending	Annual Required Contributions (ARC)	Percentage of ARC Contributed	Net Pension Obligation
6/30/2010	$ 436,084	100.00%	-
6/30/2011	502,830	100.00%	-
6/30/2012	543,503	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 this report 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 2011-2012 the Commission funding was based on the "pay-go" basis. The Commission had no retirees receiving healthcare benefits during 2011-2012, 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	$ 84,373
Interest on net OPEB obligation	13,623
Adjustment to annual required contribution	(19,593)
Annual OPEB cost (expense)	78,403
Contributions made	-
Increase in net OPEB obligation	78,403
Net Post Employment Benefit obligation - beginning of year	302,735
Net Post Employment Benefit obligation - end of year	$ 381,138

The Commission's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal year 2011-2012:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2012	$ 78,403	0%	$ 381,138
6/30/2011	92,228	0%	302,735
6/30/2010	90,265	0%	210,507

Funded Status and Funding Progress. As of July 1, 2011, the most recent actuarial valuation date, the actuarial accrued liability for benefits was $537,405, all of which is unfunded. The covered payroll (annual payroll of active employees covered by the plan) was $1,121,213, and the ratio of the unfunded accrued actuarial liability (UAAL) to the covered payroll was 47.9%.

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, 2011 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% 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, 2012, was twenty-six years.

NOTE 15 – RISK MANAGEMENT

The Commission is exposed to various risks of loss related to the loss of, damage to and destruction of assets caused by accidents, forces of nature, and the requirements of the California Labor Code.

The Commission mitigates its exposure to loss through multiple risk treatment mechanisms. The Commission participates in the County of Contra Costa’s self insurance program for public and automobile liability, and property losses, where excess insurance has been purchased through California State Association of Counties Excess Insurance Authority (CSAC-EIA), a joint powers authority. The Commission participates in a joint power authority, separate from the County’s, effected through CSAC-EIA for its workers’ compensation exposure. Crime insurance is covered through the purchase of commercial insurance.

During the year ending June 30, 2012, the Commission has no settlements exceeding insurance coverage for these categories of risk. For the past three years, settlements or judgment amounts have not exceeded insurance provided for the Commission.

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, 2012

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	(Negative)
REVENUES				
Prop 10 Tobacco Tax	$ 8,462,369	$ 8,462,369	$ 9,091,348	$ 628,979
Prop 10 State School Readiness	577,913	577,913	577,913	-
Prop 10 CARES Plus		300,000	329,054	29,054
Grant income	1,222,750	1,222,750	1,218,171	(4,579)
Interest income	120,000	120,000	188,068	68,068
Other revenue	-	75,000	97,331	22,331
Total Revenues	10,383,032	10,758,032	11,501,885	743,853
EXPENDITURES				
Current:				
Program Expenditures:				
Early care and education	3,013,940	3,313,940	3,524,653	(210,713)
Family support	3,515,905	3,644,605	3,400,287	244,318
Early intervention	3,158,299	3,213,299	2,588,142	625,157
Community information and education	511,958	465,458	445,663	19,795
Salaries and employee benefits	1,456,172	1,445,072	1,440,961	4,111
Other program expenditures	265,896	265,896	174,874	91,022
Evaluation:				
Salaries and employee benefits	408,211	397,111	393,391	3,720
Other evaluation expenditures	388,938	388,938	347,424	41,514
Administrative:				
Salaries and employee benefits	759,470	759,470	757,855	1,615
Other administrative expenditures	459,918	459,918	270,482	189,436
Total Expenditures	13,938,707	14,353,707	13,343,732	1,009,975
Excess (deficiency) of revenues over (under) expenditures	(3,555,675)	(3,595,675)	(1,841,847)	1,753,828
EXTRAORDINARY ITEM				
AB99 settlement	-	-	23,488,904	23,488,904
Change in Fund Balance	(3,555,675)	(3,595,675)	21,647,057	25,242,732
FUND BALANCE, July 1, 2011	19,313,140	19,313,140	19,313,140	(22,512,750)
FUND BALANCE, June 30, 2012	$ 15,757,465	$ 15,717,465	$ 40,960,197	$ 2,729,982

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, 2012

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, 2011	$ -	$ 537,405	$ 537,405	0%	$ 1,121,213	47.9%
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 operations, commencing July 1st, are 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. 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, 2012

Program	Source	Revenue CCFC Funds	Expenditures	Change in Net Assets	Net Assets Beginning of Year	Net Assets End of Year
School Readiness Program	CCFC Program Funds	$ 577,913	$ 577,913	$ -	$ -	$ -
	County, Local Funds	1,332,206	1,332,206	-	-	-
CARES PLUS	CCFC Program Funds	329,054	329,054	-	-	-
	County, Local Funds	966,812	966,812	-	-	-

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, 2012, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated September 19, 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 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 previously.

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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*.

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 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.

Vavrinek, Trine, Day & Co., LLP

Sacramento, California
September 19, 2012

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, 2012 and have issued our report thereon dated September 19, 2012. 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, 2012. 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, the 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, 2012.

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
September 19, 2012

FIRST 5 CONTRA COSTA CHILDREN AND FAMILIES COMMISSION
SCHEDULE OF PRIOR YEAR FINDINGS
JUNE 30, 2012

Summarized below is the current status of all audit findings reported in the prior year audit's schedule of audit findings and responses.

Finding No.	Condition	Status
2011-1	Documentation of Rationale for Bidder Selection	Implemented