

**FIRST 5 CONTRA COSTA  
CHILDREN AND FAMILIES COMMISSION  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2008**

**FIRST 5 CONTRA COSTA  
CHILDREN AND FAMILIES COMMISSION  
FINANCIAL REPORT  
JUNE 30, 2008**

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## INDEPENDENT AUDITORS' REPORT

Board of Commissioners  
First 5 Contra Costa  
Children and Families Commission  
1485 Enea Court, Suite 1200  
Concord, CA 94520

We have audited the accompanying financial statements of the governmental activities and each major fund of the First 5 Contra Costa Children and Families Commission as of and for the year ended June 30, 2008, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the First 5 Contra Costa Children and Families Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the First 5 Contra Costa Children and Families Commission as of June 30, 2008, 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 23, 2008, on our consideration of the First 5 Children and Families 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 3 through 8 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 supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the First 5 Contra Costa Children and Families Commission basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

*Wallace E. Rowe, CPA*

September 23, 2008

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The financial statements for the fiscal year 2008 are being issued in the format prescribed by the provisions of Government Accounting Standards Board Statement 34 (GASB 34), which requires the Commission to provide this overview of its financial statements for the fiscal year. Please read it in conjunction with the Basic Financial Statements.

### **FISCAL 2008 FINANCIAL HIGHLIGHTS**

During the fiscal year ended June 30, 2008 the Commission completed its ninth year in existence. During this just completed fiscal year the programs and activities envisioned by the Commission in its strategic plan were fully implemented.

Over \$ 9,400,000 of new grant contracts were awarded to subgrantee agencies and individuals during fiscal year 2008.

Financial highlights of the year include the following:

The Commission's net assets increased from \$53,858,693 for fiscal year 2007 to \$54,074,257 for fiscal year 2008.

Total commission's revenues; which include Proposition 10 grants, interest, and other income for fiscal year 2008 were \$14,192,743, a decrease of \$898,251 from the prior year's amount of \$15,090,994. Total expenses for 2008 were \$13,977,179, an increase of \$917,247 from the prior year's balance of \$13,059,932.

### **OVERVIEW OF THE COMPREHENSIVE ANNUAL FINANCIAL STATEMENT**

This annual Financial Report is in four parts:

1. Management's Discussion and Analysis (this part),
2. Independent Auditors' Report,
3. The Basic Financial Statements, which include the Government-wide Financial Statements and the Fund financial Statements; along with the Notes to these financial statements,
4. Report on Compliance and on Internal Control Over Financial Reporting Required by Government Auditing Standards.

### **THE BASIC FINANCIAL STATEMENTS**

The Basic Financial Statements comprise the Commission-wide Financial Statements and the Fund Financial Statements; these two sets of financial statements provide two different views of the Commission's financial activities and financial position.

The Commission-wide Financial Statements provide a longer-term view 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 as a whole on the full accrual basis, similar to that used in the private sector. The Statement of Activities provides information about the Commission's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues and expenses of each of the Commission's programs. The Statement of Activities explains in detail the change in Net Assets for the year.

The Fund Financial Statements report the Commission's operations in more detail than the government-wide statements and focus primarily on the short-term activities of the Commission's General Fund and other Major Funds. The Fund Financial Statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt, and other long-term amounts.

Major funds account for the major financial activities of the Commission and are presented individually, while the activities of Non-major funds (if any were to exist) would be presented in summary, with subordinate schedules presenting the detail for each of the other funds. The Major Funds are explained below.

#### *The Government-wide Financial Statements*

The Statement of Net Assets and the Statement of Activities present information about the following:

*Governmental activities* - All of the Commission's basic services are considered to be governmental activities. The services are supported primarily by tax revenues generated from the State of California Proposition 10.

The Commission-wide financial statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the Commission as a whole.

#### *Fund Financial Statements*

The Fund financial Statements provide detailed information about each of the Commission's most significant funds, called Major Funds. The concept of major funds, and the determination of which are major funds, was established by GASB 34 and replaces the concept of combining like funds and presenting them in total. Instead, each Major Fund is presented individually, with any Non-major Funds summarized and presented in a single column. Major Funds present the major activities of the Commission for the year, and may change from year to year as a result of changes in the pattern of the Commission's activities. In the Commission's case, the First 5 Fund is a major fund for the fiscal year 2008. Fund Financial Statements include the governmental funds discussed below.

Governmental Fund Financial Statements are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and long-term liabilities (were they to exist), are not presented in Governmental Fund Financial Statements.

Comparisons of Budget and Actual financial information are presented only for the General Fund and other Major funds that are Special Revenue Funds.

## **FINANCIAL ACTIVITIES OF THE COMMISSION AS A WHOLE**

The Commission's net assets from governmental activities increased from \$53,858,693 in 2007 to \$54,074,257 in 2008. This increase is the Change in Net Assets reflected in the Statement of Activities, and an explanation of the more significant account changes are explained below.

Cash and investments decreased \$43,264. This cash must be used to provide for early childhood development programs to aid children ages zero to five.

Grants receivable at June 30, 2008 were \$2,006,975. These receivable amounts are due from the State for Proposition 10 tax revenues collected for 2008 and not remitted to the Commission prior to June 30, 2008.

Expenses of the Commission increased \$917,247.

### ***Analysis of Major Governmental Funds***

#### **First 5 Fund**

The First 5 Fund accounts for the activities of the various grants and programs administered directly for the Proposition 10 funded early childhood development programs.

**FIRST 5 CONTRA COSTA  
CHILDREN AND FAMILIES COMMISSION  
COMPARATIVE STATEMENT OF NET ASSETS  
JUNE 30, 2008**

	<u>Governmental Activities</u>		<u>Percentage Change</u>
	<u>2008</u>	<u>2007</u>	
<u>Assets</u>			
Current and Other Assets	\$ 55,535,951	\$ 55,575,630	(0.1)%
Capital assets	969,825	908,947	6.7
Total Assets	<u>\$ 56,505,776</u>	<u>\$ 56,484,577</u>	<u>0.0</u>
<u>Liabilities</u>			
Current liabilities	\$ 2,348,257	\$ 2,552,879	(8.0)
Noncurrent liabilities	83,262	73,005	14.0
Total Liabilities	<u>2,431,519</u>	<u>2,625,884</u>	<u>(7.4)</u>
<u>Net Assets</u>			
Invested in Capital Assets, net of related debt	969,825	908,947	6.7
Unrestricted Net Assets	<u>53,104,432</u>	<u>52,949,746</u>	<u>0.3</u>
Total Net Assets	<u>\$ 54,074,257</u>	<u>\$ 53,858,693</u>	<u>0.4%</u>

**FIRST 5 CONTRA COSTA  
CHILDREN AND FAMILIES COMMISSION  
COMPARATIVE STATEMENT OF ACTIVITIES  
JUNE 30, 2008**

	<u>Governmental Activities</u>		<u>Percentage Change</u>
	<u>2008</u>	<u>2007</u>	
<u>Revenues</u>			
Prop 10 tax revenues	\$ 11,843,800	\$ 12,340,648	4.0%
Interest	2,347,943	2,748,945	(14.6)
Other	1,000	1,401	(28.6)
Total Revenues	<u>14,192,743</u>	<u>15,090,994</u>	<u>(6.0)</u>
<u>Expenditures</u>			
Grants	10,016,030	9,643,658	3.9
Salaries	1,054,677	1,159,778	(9.1)
Employee benefits	676,342	591,423	14.4
Professional services	703,653	555,649	26.6
Evaluation services	355,079	468,144	(24.2)
Depreciation	35,051	3,418	925.5
Other administrative expenses	1,136,347	637,862	78.1
Total Expenditures	<u>13,977,179</u>	<u>13,059,932</u>	<u>7.0</u>
Change in net assets	215,564	2,031,092	(89.4)
Net Assets, beginning of year	<u>53,858,693</u>	<u>53,858,693</u>	<u>3.9</u>
Net Assets, End of Year	<u>\$ 54,074,257</u>	<u>\$ 53,858,693</u>	<u>0.4%</u>

**FIRST 5 CONTRA COSTA  
CHILDREN AND FAMILIES COMMISSION  
CHANGES IN CAPITAL ASSETS**

	<u>2008</u>	<u>2007</u>	<u>Increase (Decrease)</u>
Land	\$ 245,430	\$ 245,430	-%
Buildings and Improvements	666,935	666,935	-
Furniture and fixtures	<u>95,929</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,008,204</u>	<u>\$ 912,365</u>	<u>29.0%</u>

**ECONOMIC OUTLOOK AND MAJOR INITIATIVES**

It is expected that revenues will decrease and expenses will increase only slightly for the next fiscal year. The decrease in revenues is due to expected decreases in Proposition 10 tax revenues. Commission expenses are expected to increase due to the future implementation of early childhood development-related grants and Commission-managed programs.

Future annual revenues from the Proposition 10 apportionments are expected to decrease due to the decrease in the amount of tobacco sales within the State. To prepare for this expected decrease in future years' revenues, the Commission has prepared, and will be periodically revising, a Commission long-term sustainability plan.

**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, CA 94520.

**FIRST 5 CONTRA COSTA  
CHILDREN AND FAMILIES COMMISSION  
STATEMENT OF NET ASSETS  
JUNE 30, 2008**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b><u>ASSETS</u></b>			
Current Assets:			
Cash and investments (Note 2)	\$ 52,187,111	\$ -	\$ 52,187,111
Grants receivable	2,006,975	-	2,006,975
Accounts receivable	5,314	-	5,314
Note receivable	693,256	-	693,256
Interest receivable	90,770	-	90,770
Prepaid expenses	<u>552,525</u>	-	<u>552,525</u>
Total current assets	<u>55,535,951</u>	-	<u>55,535,951</u>
Noncurrent Assets:			
Capital assets, net of accumulated			
Depreciation of \$38,469	<u>969,825</u>	-	<u>969,825</u>
Total noncurrent assets	<u>969,825</u>	-	<u>969,825</u>
Total assets	<u>\$ 56,505,776</u>	<u>\$ -</u>	<u>\$ 56,505,776</u>
<b><u>LIABILITIES</u></b>			
Current liabilities:			
Accounts payable	\$ 275,315	\$ -	\$ 275,315
Due to other agencies	1,856,320	-	1,856,320
Unearned grants	52,655	-	52,655
Accrued payroll	154,716	-	154,716
Compensated absences	<u>9,251</u>	-	<u>9,251</u>
Total current liabilities	<u>2,348,257</u>	-	<u>2,348,258</u>
Compensated absences	<u>83,262</u>	-	<u>83,262</u>
Total noncurrent liabilities	<u>83,262</u>	-	<u>83,262</u>
Total liabilities	<u>2,431,519</u>	-	<u>2,431,519</u>
<b><u>NET ASSETS</u></b>			
Invested in capital assets, net of related debt	969,825	-	969,825
Unrestricted	<u>53,104,432</u>	-	<u>53,104,432</u>
Total net assets	<u>\$ 54,074,257</u>	<u>\$ -</u>	<u>\$ 54,074,257</u>

See accompanying notes to financial statements

**FIRST 5 CONTRA COSTA  
CHILDREN AND FAMILIES COMMISSION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Program Revenues</u>	<u>Net Revenue and Changes to Net Assets</u>		<u>Total</u>
	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Functions/Programs</u>				
<u>Governmental Activities:</u>				
First 5 programs	\$ 11,843,800	\$ (2,133,379)	\$ -	\$ (2,133,379)
Total governmental activities	<u>11,843,800</u>	<u>(2,133,379)</u>	<u>-</u>	<u>(2,133,379)</u>
<u>Business-type Activities:</u>				
Total business-type activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>Total</u>	<u>\$ 11,843,800</u>	<u>(2,133,379)</u>	<u>-</u>	<u>(2,133,379)</u>
<u>General Revenues:</u>				
Investment earnings		2,347,943	-	2,347,943
Miscellaneous		1,000	-	1,000
Total general revenues		<u>2,348,943</u>	<u>-</u>	<u>2,348,943</u>
<u>Change in net assets</u>		215,564	-	215,564
Net assets – beginning		53,858,693	-	53,858,693
Net assets, ending		<u>\$ 54,074,257</u>	<u>\$ -</u>	<u>\$ 54,074,257</u>

See accompanying notes to financial statements

## **FUND FINANCIAL STATEMENTS**

GASB 34 revises the format of the Fund Financial Statements so that only individual major funds are presented, while non-major funds (if any) are combined in a single column. Major funds are defined generally as having significant activities or balances in the current year. No distinction is made between fund types and the practice of combining like funds and presenting their totals in separate columns (Combined Financial Statements) has been discontinued, along with the use of the General Fixed Assets and General Long-term Debt Account Groups.

The funds described below were determined to be Major Funds by the Commission for the fiscal year 2008.

### **GENERAL FUND**

The General Fund is used for all the general revenues of the Commission not specifically collected for other Commission funds, and the related expenditures.

### **FIRST 5 FUND**

The First 5 Fund accounts for the activities of the programs funded from the proceeds of Proposition 10. These programs are designed in partnership with parents, caregivers, communities, public and private organizations, advocates and county government, to foster the optimal development of children prenatally to five years of age.

Each year a portion of the excess of revenues over expenditures are being designated for sustainability of the Commission for the future years when expenditures are expected to exceed revenues. Proceeds from Proposition 10 are derived from the sales of tobacco products within the State of California. It is anticipated that future tax revenues will decrease annually.

**FIRST 5 CONTRA COSTA  
CHILDREN AND FAMILIES COMMISSION  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2008**

	<u>General</u>	<u>First 5</u>	<u>Total Governmental Funds</u>
<b><u>ASSETS</u></b>			
Cash and investments (Note 2)	\$ -	\$ 52,187,111	\$ 52,187,111
Accounts receivable	-	5,314	5,314
Grants receivable	-	2,006,975	2,006,975
Notes receivable	-	693,256	693,256
Interest receivable	-	90,770	90,770
Prepaid expenses	-	552,525	552,525
Total assets	<u>\$ -</u>	<u>\$ 55,535,951</u>	<u>\$ 55,535,951</u>
<b><u>LIABILITIES AND EQUITY</u></b>			
<b><u>LIABILITIES</u></b>			
Accounts payable	\$ -	\$ 275,315	\$ 275,315
Due to other agencies	-	1,856,320	1,856,320
Unearned grants	-	52,655	52,655
Accrued payroll	-	154,716	154,716
Total liabilities	<u>-</u>	<u>2,339,006</u>	<u>2,339,006</u>
<b><u>FUND BALANCE: (Note 3)</u></b>			
Reserved:			
Encumbrances	-	27,127	27,127
Obligations	-	9,687,210	9,687,210
Loans receivable	-	693,256	693,256
Prepaid expenses	-	552,525	552,525
Unreserved:			
Designated for sustainability	-	34,646,834	34,646,834
Designated for local initiatives	-	2,356,126	2,356,126
Undesignated	-	5,233,867	5,233,867
Total fund balances	<u>\$ -</u>	<u>\$ 53,196,945</u>	<u>\$ 53,196,945</u>
Total liabilities and fund balance	<u>\$ -</u>	<u>\$ 55,535,951</u>	<u>\$ 55,535,951</u>

See accompanying notes to financial statements



**FIRST 5 CONTRA COSTA  
CHILDREN AND FAMILIES COMMISSION  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>General</u>	<u>First 5</u>	<u>Total Governmental Funds</u>
<u>Revenues</u>			
Proposition 10 tax revenue	\$ -	\$ 11,843,800	\$ 11,843,800
Interest	-	2,347,943	2,347,943
Other income	-	1,000	1,000
	<u>-</u>	<u>14,192,743</u>	<u>14,192,743</u>
<u>Expenditures</u>			
Grants	-	10,016,030	10,016,030
Salaries	-	1,049,985	1,049,985
Employee benefits	-	676,342	676,342
Evaluation services	-	355,080	355,080
Professional services	-	703,653	703,653
Other administrative expenses	-	1,136,347	1,136,347
Capital outlay	-	95,929	95,929
	<u>-</u>	<u>14,033,366</u>	<u>14,033,366</u>
Net change in fund balance	-	159,377	159,377
Fund balance, beginning	<u>-</u>	<u>53,037,568</u>	<u>53,037,568</u>
Fund balance, June 30, 2008	<u>\$ -</u>	<u>\$ 53,196,945</u>	<u>\$ 53,196,945</u>

See accompanying notes to financial statements

**FIRST 5 CONTRA COSTA  
CHILDREN AND FAMILIES COMMISSION  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES  
OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008**

Net changes in fund balances - total governmental funds \$ 159,377

**CAPITAL ASSET TRANSACTIONS**

Governmental Funds report capital outlays as expenditures. However, on the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

Expenditures for capital assets	95,929
Less current year's depreciation	(35,051)

**LONG-TERM ASSETS AND LIABILITIES**

The change in net assets for governmental activities in the Statement of Activities is different because the changes in compensated absences do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds

(4,691)

Change in net assets of governmental activities (page 10)	<u>\$ 215,564</u>
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**See accompanying notes to financial statements**

**FIRST 5 CONTRA COSTA  
CHILDREN AND FAMILIES COMMISSION  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>	<u>Variance With Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
<u>REVENUES</u>				
Grants	\$ -	\$ -	\$ -	\$ -
Interest	-	-	-	-
Miscellaneous	-	-	-	-
Total Revenues	-	-	-	-
<u>EXPENDITURES</u>				
Administration	-	-	-	-
Program costs	-	-	-	-
Total Expenditures	-	-	-	-
Fund balance - beginning	-	-	-	-
Fund balance - Ending	\$ -	\$ -	\$ -	\$ -

See accompanying notes to financial statements

**FIRST 5 CONTRA COSTA  
CHILDREN AND FAMILIES COMMISSION  
FIRST FIVE FUND  
SCHEDULE OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>Budgeted Amounts</u>		<u>Actual Amounts Budgetary Basis</u>	Variance With Final Budget Favorable
	<u>Original</u>	<u>Final</u>		<u>(Unfavorable)</u>
<b><u>REVENUES</u></b>				
Grants	\$ 12,447,662	\$ 12,546,865	\$ 11,843,800	\$ (703,065)
Interest	2,767,500	2,167,500	2,347,943	180,443
Miscellaneous	<u>-</u>	<u>60,000</u>	<u>1,000</u>	<u>(59,000)</u>
Total Revenues	<u>15,215,162</u>	<u>14,774,365</u>	<u>14,192,743</u>	<u>(581,622)</u>
<b><u>EXPENDITURES</u></b>				
Administration	2,094,207	1,412,475	1,161,700	250,775
Program evaluation (Note 8)	753,443	753,443	605,547	147,896
Program costs	<u>14,347,144</u>	<u>14,424,228</u>	<u>12,266,119</u>	<u>2,158,109</u>
Total Expenditures	<u>17,194,794</u>	<u>16,590,146</u>	<u>14,033,366</u>	<u>2,556,780</u>
Excess of revenues over Expenditures	(1,979,633)	(1,815,781)	159,377	1,975,158
Fund balance - beginning	<u>53,037,568</u>	<u>53,037,568</u>	<u>53,037,568</u>	<u>-</u>
Fund balance - ending	<u>\$ 51,057,936</u>	<u>\$ 51,221,787</u>	<u>\$ 53,196,945</u>	<u>\$ 1,975,158</u>

**See accompanying notes to financial statements**

**FIRST 5 CONTRA COSTA  
CHILDREN AND FAMILIES COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The 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.

**B. Basis of Presentation**

The accompanying financial statements are presented on the basis set forth in Government Accounting Standards Board Statement 34, *Basic financial Statements-and Management's Discussion and Analysis-for State and Local Governments*. GASB 34 requires that the financial statements described below be presented.

**Government-wide Statements:** The Statement of Net Assets and Statement of Activities display information about the primary government (the Commission). These statements include the financial activities of the overall Commission. These statements distinguish between the *governmental and business-type activities* of the Commission. Governmental activities generally are financed through taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties. There were no business-type activities for the Commission for fiscal 2008.

**FIRST 5 CONTRA COSTA  
CHILDREN AND FAMILIES COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008  
(Continued)**

**Note 1 (continued)**

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Commission and for each function of the Commission's governmental activities. Direct expenses are those that are specifically associated with a program of function and, are clearly identifiable to a particular function. Program revenues include grants and contributions that are restricted to the operations of a particular program. Revenues that are not classified as program revenues are presented as general revenues.

**Fund Financial Statements:** The fund financial statements provide information about the Commission's funds. The emphasis of fund financial statements is on major individual governmental funds, each of which is displayed in a separate column.

**C. Major Funds**

GASB 34 defines major funds and requires that the Commission's major governmental and business-type funds be identified and presented separately in the Fund financial statements. All other funds, called non-major funds, are to be combined and reported in a single column, regardless of their fund type. There were no non-major funds for the Commission for 2008.

Major funds are defined as funds which have either assets, liabilities, revenues, or expenditures equal to ten percent of their fund-type total and five percent of the grand total. The General fund is always a major fund.

The Commission reported the following major governmental funds in the accompanying financial statements:

**General Fund** - This is the Commission's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**First 5 Fund** - This fund accounts for Proposition 10 tax increments which must be used for programs aiding development of children ages prenatally to five years of age.

**FIRST 5 CONTRA COSTA  
CHILDREN AND FAMILIES COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008  
(Continued)**

**Note 1 (continued)**

**D. Basis of Accounting**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *full accrual basis* of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when related cash flows take place.

Revenue from grants and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds 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*. The Commission considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds.

**E. Accounting Policies**

*Non-exchange transactions*, in which the Commission gives or receives value without directly receiving or giving equal value in exchange, include Proposition 10 tax increments and other grants. On an accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

**F. Budgeting Procedures**

Each year management of the Commission prepares a proposed budget which is presented to the Commission's Board of Commissioners. The annual budget is then legally enacted through adoption of a budget resolution.

Budgets are prepared on the modified accrual basis of accounting. Operating budgets which have not been encumbered lapse at the end of the fiscal year.

**FIRST 5 CONTRA COSTA  
CHILDREN AND FAMILIES COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008  
(Continued)**

**Note 2 - CASH AND INVESTMENTS**

The majority of cash and investments of the Commission is maintained in Contra Costa County's internal pool or specified individual securities, and are invested by the County Treasurer. Income from pooled investments is allocated to the Commission's fund based on average daily cash balances. The County also maintains individual investment accounts for the Commission. These accounts are separate from the pool and are reported in an investment trust fund. The types of investments for these funds are made at the direction of the Commission, and the income derived, from these investments and changes in the investments value affect only the trust fund of the Commission.

The Commission categorizes its individual securities investments in ascending order to reflect relative risk of loss of these instruments. This risk is called Credit Risk, the lower the number, the lower the risk. Categorization does not measure Market Risk, which is the risk that investments will fluctuate in market value. The three levels of risk prescribed by generally accepted accounting principles are described below:

***Category 1*** - Security instruments in this category are in the Commission's name and are in the possession of a Trust Department of a bank employed solely for this purpose. The commission is the registered owner of securities held in book entry form by the bank's Trust Department. Insured certificates of deposit are included in this category.

***Category 2*** - Security instruments and book entry form securities in this category are in the bank's name as agent for the Commission, but are held by its Trust Department in the Commission's name.

***Category 3*** - Investments in this category include only Commission owned securities instruments or book entry form securities which are not in the Commission's name or held by the bank's Trust Department.

***Pooled Investments*** - Pooled investments are not categorized because of their pooled, rather than individual, nature.

**FIRST 5 CONTRA COSTA  
CHILDREN AND FAMILIES COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008  
(Continued)**

**Note 2 (continued)**

Investments are carried at fair value, which is the same as fair market value and are categorized as follows at June 30, 2008:

	<u>Category 1</u>	<u>Non-Categorized</u>	<u>Total</u>
Cash with banks	\$ 10,000	\$ -	\$ 10,000
Petty cash		1,200	1,200
Pooled investments with County	<u>-</u>	<u>52,175,911</u>	<u>52,175,911</u>
Total cash and Investments	<u>\$ 10,000</u>	<u>\$ 52,177,111</u>	<u>\$ 52,187,111</u>

California Law requires banks and savings and loan institution to pledge government securities with a market value of 110% of the Commission's cash or deposit or first trust deed mortgage notes with a value 150% of the deposit as collateral for these deposits. Under California Law this collateral is held in the Commission's name and places the Commission ahead of general creditors of the institution. The Commission has waived the collateral requirements for the portion of deposits covered by federal deposit insurance.

**Note 3 - CAPITAL ASSETS**

	<u>7/1/07</u>	<u>Additions</u>	<u>6/30/08</u>
Land	\$ 245,430	\$ -	\$ 245,430
Buildings and Improvements	666,935	-	666,935
Furniture and fixtures	<u>-</u>	<u>95,929</u>	<u>95,929</u>
	912,365	95,929	1,008,294
Less accumulated Depreciation	<u>3,418</u>	<u>35,051</u>	<u>38,469</u>
Capital assets – net	<u>\$ 908,947</u>	<u>\$ 60,878</u>	<u>\$ 969,825</u>

**FIRST 5 CONTRA COSTA  
CHILDREN AND FAMILIES COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008  
(Continued)**

**Note 4 - FUND BALANCES**

Governmental funds report the differences between their assets and liabilities as *fund balance*, which is divided into *reserved* and *unreserved* portions. The *reserved fund balance* is the portion of fund balance that is not available for the following period's budget, except for obligations that will be contractually executed in the following period.

*Unreserved fund balance* may, in turn, be subdivided into *designated* and *undesignated* portions. Designations represent management's intended future use of resources and reflect actual plans approved by the Commissions Board of Commissioners.

The Commission has elected to separate its unreserved fund balance into three designations which are as follows:

- A. Designated For Local Initiatives  
Funds which are designated for Local Initiatives include the Commission approved funding pools for First Five capital assets, special reserves, equity, and the Home Visiting Database. Funds are added or subtracted from these pools upon Commission approval.
- B. Designated for Sustainability  
Funds designated to ensure that the Commission is able to continue providing services for future years when revenues are expected to decrease and expenditures are expected to exceed revenues for those years.
- C. Undesignated  
Funds required for funding the operations of the Commission for the future fiscal year.

**Note 5 - SUPPLANT REQUIREMENT**

Management of the Commission has represented that the supplant requirement stated in Section 30134.4 of the California Tax and Revenue Code has been met.

**FIRST 5 CONTRA COSTA  
CHILDREN AND FAMILIES COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008  
(Continued)**

**Note 6 - EMPLOYEES RETIREMENT 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. 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 1, 2002, the Contra Costa County Board of Supervisors adopted Resolution No. 2002/608, 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. Member contributions are refundable upon termination from the retirement system.

**FIRST 5 CONTRA COSTA  
CHILDREN AND FAMILIES COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008  
(Continued)**

**Note 6 (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, 2008, 2007, and 2006 were \$365,671, \$321,971, and \$262,278 respectively.

**Note 7 - POSTEMPLOYMENT HEALTHCARE PLAN**

*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. Benefit provisions are established and may be amended by the Commission. The Commission currently follows the County's benefit provisions, although there is no requirement to do so.

The County contracts with Kaiser Permanente, Health Net, Contra Costa Health Plans, and the California Public Employees' Retirement System (CalPERS) to provide medical benefits, and Delta Dental and PMI Deltacare for dental benefits. For eligible Commission retirees, the Commission will contribute a percentage (varying by medical plan) of the medical premiums (single, dual, or family). For 2008 the percentage varies from 59% for Health Net PPO to 98% for the Contra Costa Health Plan A. Medicare eligible retirees receive an additional contribution to cover the Medicare Part B premium. For current employees, the Commission contribution will be capped at the 2009 premium level for future years.

*Eligibility.* Commission retirees are eligible for membership in the plans upon retirement from the Commission (drawing a pension from CCCERA) and 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. The Commission currently has no retirees or beneficiaries receiving benefits. There were fourteen active plan members as of the date of this report. There is one member in deferred retirement status that will be eligible to receive benefits at retirement.

**FIRST 5 CONTRA COSTA  
CHILDREN AND FAMILIES COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008  
(Continued)**

**Note 7 (continued)**

**Funding Policy.** The contribution requirements of program members and the Commission are established and may be amended by the Commission. For fiscal year 2007/2008 the funding was based on the “pay-go” basis. The Commission had no retirees receiving healthcare benefits during 2007/2008, so the “pay-go” cost was \$0. The Commission is currently exploring the option of prefunding its postemployment healthcare obligations, including hiring its own actuary to determine these obligations independently from the County.

Premiums for medical coverage for retirees, including dependent options, under age 65 and those over age 65 not subscribing to Medicare Part B range in 2008 from \$499.70 to \$1,977.04 with related retiree contributions ranging from \$10.33 to \$819.67. Premiums for medical coverage for retirees over 65 subscribing to Medicare Part B, including dependent options, range in 2008 from \$226.97 to \$1,284.97 with related retiree contributions ranging from \$0.01 to \$339.95. These premiums include an implicit subsidy for the retirees.

**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	\$ 31,000
Interest on net OPEB obligation	0
Adjustment to annual required contribution	<u>0</u>
Annual OPEB cost (expense)	31,000
Contributions made	<u>(0)</u>
Increase in net OPEB obligation	31,000
Net OPEB obligation – beginning of year	<u>0</u>
Net OPEB obligation – end of year	<u><u>\$ 31,000</u></u>

**FIRST 5 CONTRA COSTA  
CHILDREN AND FAMILIES COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008  
(Continued)**

**Note 7 (continued)**

The Commission's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation for fiscal year 2007/2008:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/08	\$31,000	0%	\$31,000

Refer to the Required Supplemental Information for the schedule of funding progress.

***Funded Status and Funding Progress.*** As of January 1, 2008, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$251,000, all of which is unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$1,059,000, and the ratio of the unfunded accrued actuarial liability (UAAL) to the covered payroll was 23.7%.

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.

**FIRST 5 CONTRA COSTA  
CHILDREN AND FAMILIES COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008  
(Continued)**

**Note 7 (continued)**

In the January 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 10% initially, reduced by 1 percent decrements to an ultimate rate of 5% after five years. Both rates included a 3.5% inflation assumption. The UAAL is being amortized as a level dollar amount over 30 years on a closed basis. The remaining amortization period at December 31, 2008, was twenty-nine years.

**REQUIRED SUPPLEMENTARY INFORMATION  
Schedule of Funding Progress  
For the Retiree Health Plan**

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Accrued Liability</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
Jan. 1, 2008	\$ 0	\$ 251,000	\$251,000	0%	\$ 1,059,000	0%

**Note 8 – PROGRAM EVALUATION**

The Commission spent \$605,547 on program evaluation during the audit period.

**Note 9 – OFFICE LEASE**

The Commission leases office space under a noncancelable operating lease. Total costs for the leased office space for the year ended June 30, 2008 was \$188,270. The future lease payments for the noncancelable lease are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2009	\$ 190,180
2010	195,240
2011	200,325
2012	205,415
2013	151,400
	<u>\$ 942,560</u>

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Commissioners  
First 5 Contra Costa  
Children and Families Commission  
1485 Enea Court, Suite 1200  
Concord, CA 94520

We have audited the accompanying financial statements of the governmental activities and each major fund of the First 5 Contra Costa Children and Families Commission as of and for the year ended June 30, 2008, which collectively comprise the First 5 Children and Families Commission basic financial statements and have issued our report thereon dated September 23, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the First 5 Contra Costa Children and Families Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing an opinion 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 First 5 Contra Costa Children and Families Commission's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

#### Compliance

As part of obtaining reasonable assurance about whether the First 5 Contra Costa Children and Families 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 which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards*.

This report is intended solely for the information of the Board of Commissioners, management, others within the entity, and the First 5 California Children and Families Commission and is not intended to be and should not be used by anyone other than these specified parties.

*Wallace E. Rowe, CPA*

September 23, 2008

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

Board of Commissioners  
First 5 Contra Costa  
Children and Families Commission  
1485 Enea Court, Suite 1200  
Concord, CA 94520

We have audited the basic financial statements of the First 5 Contra Costa Children & Families Commission. A component unit of Contra Costa County, as of and for the year ended June 30, 2008 and have issued our report thereon dated September 23, 2008.

Our audit was conducted in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State of California's *Standards and Procedures for Audits of California Counties Participating in the First 5 California (Children and Families) Program*, issued by the State Controller's Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Commission's management is responsible for the Commission's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the Commission's compliance with the laws and regulations to the following items.

<u>Description</u>	<u>Audit Guide Procedures</u>	<u>Procedures Performed</u>
Contracting and Procurement	6	yes
Administrative Costs	3	yes
Conflict of Interest	3	yes
County Ordinance	4	yes
Long-range Financial Plans	2	yes
Financial Condition of the Commission	1	yes
Program Evaluation	3	yes
Salaries and Benefit Policies	2	yes

Based on our audit we found that, for the items tested, the First 5 Contra Costa Children and Families Commission complied with the laws and regulations of the items referred to above. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the Commission had not complied with the laws and regulations of the First 5 California (Children and Families) Program.

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

*Wallace E. Rowe, CPA*

September 23, 2008