

**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 Information and Compliance Section

For the Year Ended June 30, 2014

**FIRST 5 CONTRA COSTA CHILDREN AND FAMILIES COMMISSION  
FOR THE YEAR ENDED JUNE 30, 2014**

*Table of Contents*

	<b>PAGE</b>
<b>INDEPENDENT AUDITORS' REPORT</b>	1
Management's Discussion and Analysis	3
<b>BASIC FINANCIAL STATEMENTS</b>	
Government-Wide Financial Statements	
Statement of Net Position	9
Statement of Activities	10
Governmental Fund Financial Statements	
Balance Sheet – General Fund	11
Reconciliation of Governmental Fund Balance Sheet to the Statement of Net Position	12
Statement of Revenues, Expenditures and Changes in Fund Balance – General Fund	13
Reconciliation of the Change in Fund Balance to the Change in Net Position	14
Notes to Basic Financial Statements	15
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	31
Schedule of Funding Progress for the Retiree Health Plan	32
Note to Required Supplementary Information	33
<b>OTHER INFORMATION</b>	
Schedule of Expenses By Fund Source and Net Position of CCFC Funds For First 5 Programs And Activities	34
<b>COMPLIANCE SECTION</b>	
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 <i>Government Auditing Standards</i>	35
Independent Auditors' Report on State Compliance	37



## INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners  
First 5 Contra Costa Children and Families Commission  
Concord, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of the First 5 Contra Costa Children and Families Commission (the Commission), a component unit of the County of Contra Costa, California, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### *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 First 5 Contra Costa Children and Families Commission, as of June 30, 2014, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and schedule of funding progress on pages 3 through 8 and pages 31 through 33 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.

### *Other Information*

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 Expenses by Fund Source and Net Position of CCFC Funds for First 5 Programs and Activities is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Expenses by Fund Source and Net Position of CCFC Funds for First 5 Programs and Activities is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Expenses by Fund Source and Net Position of CCFC Funds for First 5 Programs and Activities is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2014 on our consideration of the Commission's internal control over financial reporting and 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* in considering the Commission's internal control over financial reporting and compliance.



Sacramento, California

September 24, 2014

**FIRST 5 CONTRA COSTA CHILDREN AND FAMILIES COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)  
June 30, 2014**

This Management's Discussion and Analysis is intended to serve as a narrative overview of the financial activities of First 5 Contra Costa for the year ended June 30, 2014. This information should be read in conjunction with the financial statements and the notes to the financial statements (beginning on page 9).

**FISCAL 2014 FINANCIAL HIGHLIGHTS**

Financial highlights of the year include the following:

The assets of the Commission exceeded its liabilities at the close of fiscal year 2013-2014 by \$36,295,182 (net position), a decrease of 8% from the previous year. Of this amount, \$743,225 was invested in capital assets and \$223,109 was restricted for the Thomas J. Long Foundation Grant. The remaining net position, \$35,328,848, was available to meet the Commission's ongoing obligations. The change in net position reflects the Commission's planned use of resources to keep program funding stable and in line with budget expectations.

After reviewing alternative ways to offset the growing unfunded accrued actuarial liability (UAAL), last year the Commission approved an agreement with Contra Costa County Employee Retirement Association (CCCERA) to pay \$2 million, to be amortized over 11 years, toward the Commission's UAAL. As a result of this payment and CCCERA's net investment return, the Commission received a discount on current year pension payments and ended the year with a prepaid pension asset of \$1,818,182. In addition, last year the Commission joined the California Employers Retirement Benefits Trust (CERBT), administered by CALPERS, for the purpose of funding the Commission's OPEB liability. This year the Commission had a net OPEB asset of \$111,297 at year end.

Total commission revenues for fiscal year 2013-2014, which included Contra Costa's Proposition 10 tobacco tax allocation, project-specific funding from First 5 California and the California Department of Education, grants, interest, and other income, were \$10,836,858, a decrease of \$668,543 from the prior year's amount of \$11,505,401. Total expenses for fiscal year 2014 were \$13,808,460, an increase of \$333,074 from prior year expenses of \$13,475,386.

The 2013-14 Proposition 10 tax revenue total of \$8,353,104 decreased 4% from the previous year's total of \$8,729,939 due to the decrease in tobacco tax revenue statewide.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

First 5 Contra Costa 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 information

**FIRST 5 CONTRA COSTA CHILDREN AND FAMILIES COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)  
June 30, 2014**

Government-Wide Financial Statements

The *government-wide financial statements* provide a broad overview of the Commission's activities as a whole, and are comprised of the *statement of net position* and the *statement of activities*. The *statement of net position* 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 position. 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 position for the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Fund Financial Statements

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

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

**OTHER INFORMATION**

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

**FIRST 5 CONTRA COSTA CHILDREN AND FAMILIES COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)  
June 30, 2014**

The following is a summary of the Commission's Statement of Net Position comparing balances at June 30, 2014 and June 30, 2013.

	<u>Governmental Activities</u>		<u>Change</u>
	<u>2014</u>	<u>2013</u>	
<u>Assets:</u>			
Current and other assets	\$ 35,041,968	\$ 37,859,262	\$ (2,817,294)
Noncurrent assets	2,993,704	3,206,741	(213,037)
Total Assets	<u>38,035,672</u>	<u>41,066,003</u>	<u>(3,030,331)</u>
<u>Liabilities:</u>			
Current liabilities	1,602,772	1,684,890	(82,118)
Noncurrent liabilities	137,718	114,329	23,389
Total Liabilities	<u>1,740,490</u>	<u>1,799,219</u>	<u>(58,729)</u>
<u>Net Position:</u>			
Net investment in capital assets	743,225	772,672	(29,447)
Restricted	223,109	492,441	(269,332)
Unrestricted	35,328,848	38,001,671	(2,672,823)
Total Net Position	<u>\$ 36,295,182</u>	<u>\$ 39,266,784</u>	<u>\$ (2,971,602)</u>

The Commission's net position from governmental activities decreased from \$39,266,784 in 2013 to \$36,295,182 in 2014. This decrease in Net Position reflected in the Statement of Activities is primarily due to the budgeted use of net position to sustain consistent program funding.

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 \$2,817,294 from the prior year June 30 balance due to the planned usage of resources in accordance with the Commission's Strategic Plan. Another component of current assets is the due from other governments balance in the amount of \$1,783,538 at June 30, 2014. These receivables are due from the State for the May and June 2014 Proposition 10 tax revenues not remitted to the Commission prior to June 30th, and for First 5 CA Cares Plus grant expenditures.

Noncurrent assets decreased as a result of expensing a portion of the Commission's prior year prepayment towards its share of the Contra Costa County Retirement System's unfunded accrued actuarial liability. The Commission also paid its annual other post employment benefits (OPEB) obligation, decreasing its net OPEB asset.

Current liabilities for the year ending June 30, 2014 decreased \$82,118 from the prior year due to decreased 4th quarter contract payments. Current liabilities include accounts payable of \$69,643, 4th quarter contract payments of \$1,148,553 payable to service providers at June 30, 2014, and accrued wages and benefits of \$204,378. The California Department of Education proceeds received but not earned equaled \$164,896 and are included in current liabilities.

**FIRST 5 CONTRA COSTA CHILDREN AND FAMILIES COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)  
June 30, 2014**

The following is a summary of the Commission's revenues, expenses and change in net position comparing fiscal year 2013-2014 with fiscal year 2012-2013:

	<u>Governmental Activities</u>		<u>Change</u>
	<u>2014</u>	<u>2013</u>	
<u>Program Revenues:</u>			
Prop 10 Tax	\$ 8,353,104	\$ 8,729,939	\$ (376,835)
Prop 10 CARES Plus	263,569	288,360	(24,791)
Grant income	1,631,636	2,229,229	(597,593)
Total Program Revenues	<u>10,248,309</u>	<u>11,247,528</u>	<u>(999,219)</u>
<u>General Revenues:</u>			
Interest income	103,467	153,804	(50,337)
Other revenue	485,082	104,069	381,013
Total Revenues	<u>10,836,858</u>	<u>11,505,401</u>	<u>(668,543)</u>
<u>Expenses:</u>			
Child development	<u>13,808,460</u>	<u>13,475,386</u>	<u>333,074</u>
Change in net position	(2,971,602)	(1,969,985)	
Net position, beginning of year	<u>39,266,784</u>	<u>41,236,769</u>	
Net position, end of year	<u>\$ 36,295,182</u>	<u>\$ 39,266,784</u>	

The financial statements for fiscal year 2013-2014 show a decrease in net position of \$2,971,602. The change in net position reflects the Commission's use of resources to keep program funding stable.

Proposition 10 tax revenues decreased by \$376,835 compared to the 2012-2013 fiscal year. Grant income decreased \$597,593 primarily due to declining Thomas J. Long Foundation funding. These grant funds were in the fourth year of funding for Preschool Makes a Difference scholarships and end December 2015. Other revenue increased due to a refund of \$364,541 from Contra Costa Health Services for overpayment on a prior year contract related to the provision of local funding from the Commission for the County Medi-Cal program.

The Commission's overall expenses increased by \$333,074 (2%) in 2013-14 from the prior year. The Early Care and Education Initiative increased Race to the Top spending, while there were fewer preschool scholarships funded by the Thomas J. Long Foundation grant. The Early Intervention Initiative had increased expenses from the prior year due to contracts for developmental play groups and early mental health services for young children and their parents in substance abuse treatment settings. The Community and Information Initiative's Sugar Bites anti-obesity campaign increased funding to expand the second phase of the project.



**FIRST 5 CONTRA COSTA CHILDREN AND FAMILIES COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)  
June 30, 2014**

**Financial Analysis of the General Fund**

The fluctuations in the Commission's General Fund from the year ended June 30, 2013 to June 30, 2014 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 employment benefits (OPEB), and capital assets resulting from the governmental fund financial statements being reported on a modified accrual basis of accounting.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

Total revenues exceeded the budgeted amount by \$283,811, or 3 percent (3%), and total expenses were less than budgeted by \$2,454,160 or fourteen percent (-14%). The increase in revenues was due to the State tobacco tax revenue being greater than projected by the State Department of Finance and a refund from a prior year contract. Total expenditures were less than budgeted due to under-spending and savings in all areas of the budget, particularly in the Early Care and Education and Early Intervention Initiatives.

The final budget was amended from the original budget due to receipt of additional funding from an amendment to the Race to the Top program from the California Department of Education. The budget amendment increased the budgeted revenues and related expenditures.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

The Commission's capital assets consist of land, buildings and improvements, and furniture and fixtures. The change in capital assets over the current year is entirely attributable to \$29,447 in accumulated depreciation.

**Debt Administration**

The Commission's debt at June 30, 2014 consists of the long-term portion of compensated absences. The increase in the Commission's non-current obligations of \$23,389 over the prior year is attributable to an increase in compensated absences in the 2013-2014 fiscal year.

**ECONOMIC OUTLOOK AND MAJOR INITIATIVES**

Proposition 10 cigarette tax revenues decreased 4% in FY2013/14 and it is anticipated that revenue will decline 2-3% each year for the foreseeable future as tobacco consumption declines in California. The Commission completed the fourth year of its 2010-2015 strategic plan, which entails using reserves to sustain program funding levels. We are in the planning stages of the next strategic phase, which will reduce expenditures, taking into account decreased Prop 10 revenue in 2016-2020 and a reduced fund balance.

**FIRST 5 CONTRA COSTA CHILDREN AND FAMILIES COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)  
June 30, 2014**

**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 Civic Court, Suite 1200, Concord, California 94520.

**FIRST 5 CONTRA COSTA CHILDREN AND FAMILIES COMMISSION**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2014**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Current Assets:	
Cash and investments	\$ 33,101,857
Accounts receivable	87,560
Due from other governments	1,783,538
Prepaid expense	69,013
Total current assets	<u>35,041,968</u>
Noncurrent Assets:	
Note receivable	321,000
Capital assets, net of accumulated depreciation	743,225
Prepaid pension asset	1,818,182
Net OPEB asset	111,297
Total noncurrent assets	<u>2,993,704</u>
TOTAL ASSETS	<u>38,035,672</u>
 <b>LIABILITIES</b>	
Current Liabilities:	
Accounts payable	69,643
Grants and contracts payable	715,991
Grants and contracts payable to related parties	432,562
Accrued wages and benefits	204,378
Unearned grant revenue	164,896
Compensated absences	15,302
Total current liabilities	<u>1,602,772</u>
Noncurrent Liabilities:	
Compensated absences	137,718
Total noncurrent liabilities	<u>137,718</u>
TOTAL LIABILITIES	<u>1,740,490</u>
 <b>NET POSITION</b>	
Net investment in capital assets	743,225
Restricted for:	
Thomas J. Long Foundation Grant	223,109
Unrestricted	35,328,848
TOTAL NET POSITION	<u>\$ 36,295,182</u>

See accompanying notes to the basic financial statements.

**FIRST 5 CONTRA COSTA CHILDREN AND FAMILIES COMMISSION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2014**

	Expenses	Program Revenues Operating Grants And Contributions	Net (Expense) Revenue and Changes in Net Position Governmental Activities
Governmental Activities:			
Child development	\$ 13,808,460	\$ 10,248,309	\$ (3,560,151)
General Revenues:			
Investment income			103,467
Miscellaneous			485,082
Total General Revenues			588,549
Change in Net Position			(2,971,602)
Net Position, July 1			39,266,784
Net Position, June 30			\$ 36,295,182

See accompanying notes to the basic financial statements.

**FIRST 5 CONTRA COSTA CHILDREN AND FAMILIES COMMISSION  
GOVERNMENTAL FUND BALANCE SHEET  
JUNE 30, 2014**

	General Fund
<b>ASSETS</b>	
Cash and investments	\$ 33,101,857
Accounts receivable	87,560
Due from other governments	1,783,538
Prepaid expense	69,013
Note receivable	321,000
Total Assets	\$ 35,362,968
 <b>LIABILITIES AND FUND BALANCES</b>	
<b>LIABILITIES</b>	
Accounts payable	\$ 69,643
Grants and contracts payable	715,991
Grants and contracts payable to related parties	432,562
Accrued wages and benefits	204,378
Unearned grant revenue	164,896
Total Liabilities	1,587,470
 <b>FUND BALANCES</b>	
Nonspendable	390,013
Restricted	223,109
Committed	841,227
Assigned	6,599,270
Unassigned	25,721,879
Total Fund Balances	33,775,498
Total Liabilities and Fund Balances	\$ 35,362,968

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 POSITION  
JUNE 30, 2014**

Fund balances of governmental funds	\$	33,775,498
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		743,225
The prepaid pension asset resulting from contributions in excess of the annual required contribution are not current financial resources and therefore not reported in the fund financial statements.		1,818,182
The net OPEB asset resulting from contributions in excess of the annual required contribution are not current financial resources and therefore not reported in the fund financial statements.		111,297
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.		
Compensated absences		(153,020)
Net Position of governmental activities	\$	36,295,182

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, 2014**

	General Fund
<b>REVENUES</b>	
Prop 10 Tobacco Tax	\$ 8,353,104
Prop 10 CARES Plus	263,569
Grant income	1,631,636
Interest income	103,467
Other revenue	485,082
Total Revenues	10,836,858
<b>EXPENDITURES</b>	
Current:	
Program Expenditures:	
Early care and education	3,282,407
Family support	3,503,702
Early intervention	2,533,655
Community information and education	632,748
Salaries and employee benefits	1,591,305
Other program expenditures	182,250
Evaluation:	
Salaries and employee benefits	460,110
Other evaluation expenditures	355,585
Administrative:	
Salaries and employee benefits	747,254
Other administrative expenditures	280,419
Total Expenditures	13,569,435
Deficiency of revenues under expenditures	(2,732,577)
<b>NET CHANGE IN FUND BALANCE</b>	(2,732,577)
<b>FUND BALANCE, July 1, 2013</b>	36,508,075
<b>FUND BALANCE, June 30, 2014</b>	\$ 33,775,498

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 POSITION  
FOR THE YEAR ENDED JUNE 30, 2014**

Net changes in fund balance - total governmental funds	\$ (2,732,577)
<p>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:</p>	
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is capitalized and allocated over their estimated useful lives as depreciation expense.</p>	
Depreciation expense	(29,447)
<p>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.</p>	
	(25,988)
<p>Governmental funds report the effect of the net OPEB asset as an expenditure, whereas the amount is amortized in the Statement of Activities. This is the amortization of the net OPEB asset.</p>	
	(1,772)
<p>Governmental funds report the effect of the net pension asset when first paid, whereas the amount is amortized in the Statement of Activities. This is the amortization of the net pension asset.</p>	
	<u>(181,818)</u>
Change in net position of governmental activities	<u><u>\$ (2,971,602)</u></u>

See accompanying notes to the basic financial statements.



**FIRST 5 CONTRA COSTA CHILDREN AND FAMILIES COMMISSION  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**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, and the remaining five Commissioner positions will consist of representatives from various organizations or recipients of services and 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 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 position 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 position. The difference between the Commission's assets and liabilities is net position. Net position represents 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 position is classified as follows:

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

Restricted Net Position – 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 position of \$223,109 at June 30, 2014 was restricted for the Thomas J. Long Foundation Grant.

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

**FIRST 5 CONTRA COSTA CHILDREN AND FAMILIES COMMISSION  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**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.

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, 2014 amounted to \$29,447 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.

**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 are paid at the time of termination from Commission employment.

**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.

**FIRST 5 CONTRA COSTA CHILDREN AND FAMILIES COMMISSION  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

**Fund Balance**

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, 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, 2014:

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 to commit funds for a specific purpose.

Assigned – The assigned portion of fund balance reflects the Commission’s intended use of resources, which can be established either by the Commission Board 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, 2014. 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 8 for additional details regarding the classification of fund balance.

**FIRST 5 CONTRA COSTA CHILDREN AND FAMILIES COMMISSION  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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 was effective July 1, 2013 and did not have a material impact.

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 was effective July 1, 2013. The commission has determined that this statement is not applicable.

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 No. 25 and No. 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 was effective July 1, 2013. The commission has determined that this statement is not applicable.

GASB Statement No. 70 – In April 2013, GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of this Statement is to improve accounting and financial reporting by State and local governments that extend and receive nonexchange financial guarantees. The Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This statement was effective July 1, 2013. The commission has determined that this statement is not applicable.

**FIRST 5 CONTRA COSTA CHILDREN AND FAMILIES COMMISSION  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Future Governmental Accounting Standards Board (GASB) Pronouncements**

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 No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement. This Statement is not effective until the fiscal year ending June 30, 2015. The Commission has not determined the effect of this Statement.

GASB Statement No. 69 – In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. The objective of this Statement is to improve accounting and financial reporting by State and local governments for government combinations and disposals of government operations. The Statement provides authoritative guidance on a variety of government combinations including mergers, acquisitions, and transfers of operations. This Statement is not effective until the fiscal year ending June 30, 2015. The Commission has not determined the effect of this Statement.

GASB Statement No. 71 – In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. The objective of this statement is to improve accounting and financial reporting by addressing an issue in Statement No. 68, *Accounting and Financial Reporting for Pensions*, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68. 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, 2014:

Cash in County Pool	\$ 33,100,557
Imprest cash	1,300
Total Cash and Investments	\$ 33,101,857

**FIRST 5 CONTRA COSTA CHILDREN AND FAMILIES COMMISSION  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**NOTE 2 – CASH AND INVESTMENTS (CONTINUED)**

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 by the Commission’s board approved Consolidated Financial Policies 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. Investments held in the Pool are available on demand and are stated at their fair value.

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 following table.

As of June 30, 2014, the Commission had the following investments:

<u>Investment</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>WAM Years</u>
County Investment Pool	N/A	<u>\$ 33,100,557</u>	0.51
Total Investments		<u><u>\$ 33,100,557</u></u>	

Credit Risk

The following is a summary of the credit quality of the County Investment Pool at June 30, 2014:

<u>Investment</u>	<u>S&amp;P</u>	<u>Moody's</u>	<u>Amount</u>
County Investment Pool	AAAf	Aa2	\$ 33,100,557

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.

**FIRST 5 CONTRA COSTA CHILDREN AND FAMILIES COMMISSION  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**NOTE 2 – CASH AND INVESTMENTS (CONTINUED)**

Concentration of Credit Risk

Investments held in the Pool are subject to the County’s investment policy and contains certain limits on the amount that can be invested in any one issuer beyond that stipulated by California code. 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 2013-2014 fiscal year are summarized as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Amount Due within one year
Compensated Absences	\$ 127,032	\$ 136,740	\$ (110,752)	\$ 153,020	\$ 15,302

**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, 2014, were as follows:

Due from State Commission:

Prop 10 revenue for:

May 2014 \$ 751,588

June 2014 773,658

Cares Plus - Phase 2 258,292

Total due from other governments \$ 1,783,538

**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 loaned to the Perinatal Council \$428,000 for a period of twenty years. The Commission agreed to forgive 25% of the loan on the 5<sup>th</sup> anniversary date of the issuance of the Certificate of Completion, 25% on the 10<sup>th</sup> anniversary, 25% on the 15<sup>th</sup> 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, 2014.

**FIRST 5 CONTRA COSTA CHILDREN AND FAMILIES COMMISSION  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**NOTE 6 – CAPITAL ASSETS**

<b>Governmental activities:</b>	<b>June 30, 2013</b>	<b>Additions</b>	<b>Deletions</b>	<b>June 30, 2014</b>
Capital assets, not being depreciated				
Land	\$ 245,430	\$ -	\$ -	\$ 245,430
Total capital assets, not being depreciated	<u>245,430</u>	<u>-</u>	<u>-</u>	<u>245,430</u>
Capital assets, being depreciated:				
Buildings and improvements	666,935	-	-	666,935
Furniture and fixtures	125,012	-	-	125,012
Total capital assets, being depreciated	<u>791,947</u>	<u>-</u>	<u>-</u>	<u>791,947</u>
Less accumulated depreciation for:				
Buildings and improvements	(156,167)	(25,458)	-	(181,625)
Furniture and fixtures	(108,538)	(3,989)	-	(112,527)
Total accumulated depreciation	<u>(264,705)</u>	<u>(29,447)</u>	<u>-</u>	<u>(294,152)</u>
Governmental activities capital assets, net	<u>\$ 772,672</u>	<u>\$ (29,447)</u>	<u>\$ -</u>	<u>\$ 743,225</u>

**NOTE 7 – COMMITMENTS**

The Commission leases office space from third parties under long-term operating leases for the local First 5 centers and the administration office. All of the Commission's leases are non-cancellable leases except the First 5 Contra Costa office lease which can be terminated after June 30, 2016, with a minimum of 6 months notice to the lessor. The future minimum rental payments due under the leases are as follows.

Year Ended June 30,	Concord First 5 Center	Delta First 5 Center	Bay Point First 5 Center	First 5 Contra Costa Office	Total
2015	\$ 12,000	\$ 67,500	\$ 8,800	\$ 173,556	\$ 261,856
2016	-	67,500	-	177,992	245,492
2017	-	-	-	182,424	182,424
2018	-	-	-	186,852	186,852
2019	-	-	-	94,164	94,164
	<u>\$ 12,000</u>	<u>\$ 135,000</u>	<u>\$ 8,800</u>	<u>\$ 814,988</u>	<u>\$ 970,788</u>

Rent expense was \$311,234 for the year ended June 30, 2014.



**FIRST 5 CONTRA COSTA CHILDREN AND FAMILIES COMMISSION  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**NOTE 8 – 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, 2014 consisted of the following:

<b>Fund Balance:</b>	<u><b>General Fund</b></u>
Nonspendable:	
Prepaid Expense	\$ 69,013
Note Receivable - Perinatal	321,000
Restricted:	
Long Foundation Grant	223,109
Committed:	
Capital Asset Replacement	841,227
Assigned:	
Elimination of FY14/15 budget deficit	5,628,482
Operating Leases	970,788
Unassigned:	
Unassigned fund balance	25,721,879
<b>Total Fund Balance</b>	<u><u><b>\$ 33,775,498</b></u></u>

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, 2014.

**NOTE 9 – 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 10 – 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.

**FIRST 5 CONTRA COSTA CHILDREN AND FAMILIES COMMISSION**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2014**

**NOTE 10 – RELATED PARTY TRANSACTIONS (CONTINUED)**

The following table shows fiscal year 2013-2014 expenses with agencies represented by Commissioners and Alternate Commissioners:

Related Party	Fiscal Year 2013-14 Expenses
Contra Costa County	\$ 554,056
Contra Costa Child Care Council	1,761,469
We Care Services for Children	678,321
Total	<u>\$ 2,993,846</u>

The Commission incurred expenses totaling \$554,056 for County services provided during the year ended June 30, 2014. Of the total expenses paid to the County, \$114,062 is for administrative and general services. 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. In addition, the County purchases worker’s compensation and crime insurance on behalf of the Commission. Of the remaining \$439,994 of expenses, \$144,398 was for the County’s Behavioral Health Services, and \$295,596 was for the County’s Mental Health Division.

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

Related Party	Balances Due June 30, 2014
Contra Costa County	\$ 274,317
Contra Costa Child Care Council	111,558
We Care Services for Children	46,687
Total	<u>\$ 432,562</u>

The Commission has accrued expenses totaling \$274,317 for County services provided during the year ended June 30, 2014. Of the total payable amount, \$9,752 is for administrative and general services as indicated above. Of the remaining \$264,565, \$120,167 is owed for the County’s Mental Health Division, \$144,398 is payable for Behavioral Health Services.

The following table shows fiscal year 2013-2014 revenue with agencies represented by Commissioners and Alternate Commissioners:

Related Party	Fiscal Year 2013-14 Revenue
Contra Costa County	\$ 451,443
Contra Costa Child Care Council	9,500
Total	<u>\$ 460,943</u>

The Commission earned revenue totaling \$451,443 from Contra Costa County during the year ended June 30, 2014. This revenue was solely for Health Services, which includes Public Health, Behavioral Health, and Mental Health Services.

**FIRST 5 CONTRA COSTA CHILDREN AND FAMILIES COMMISSION  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**NOTE 11 – 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, 2014, the Commission expended \$815,695 for program evaluation.

**NOTE 12 – DEFINED BENEFIT PENSION PLAN**

A. Plan Description

The Contra Costa County Employee Retirement Association (CCCERA) is governed by the Board of Retirement under the County Employees Retirement Law of 1937, as amended. The plan covers substantially all of the employees of the County and sixteen 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 or disability to its members, 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. Covered employees are required by statute to contribute toward their pensions; the amount is determined by when the employee was hired, the employee's salary and their age when entering the retirement system.

CCCERA operates as a cost sharing, multiple employer defined benefit pension plan. In October 2009, the Retirement Board depooled CCCERA's assets, actuarial accrued liability (AAL), and normal cost both by tier and employer for determining employer contribution rates. This Board action yielded 12 separate cost groups by employer, with the exception of smaller employers (those with less than 50 active members, including First 5 Contra Costa) who continued to be pooled with the applicable County tier. The depooling action affected the actuarially determined employer rates effective July 1, 2011. The plan is currently divided into eight benefit levels in accordance with the 1937 Act. These levels are known as General Tier I enhanced and non-enhanced; Tier II; Tier III enhanced and non-enhanced; Safety Tier A, enhanced and non-enhanced and Safety Tier C, 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% at 50 for safety members and 2% at 55 for general members, effective July 1, 2002 and January 1, 2003, respectively. First 5 Contra Costa employees hired prior to January 1, 2011 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.

**FIRST 5 CONTRA COSTA CHILDREN AND FAMILIES COMMISSION  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**NOTE 12 – DEFINED BENEFIT PENSION PLAN (CONTINUED)**

**A. Plan Description (Continued)**

In March 2010, the Board agreed to adopt a change to terminal pay elements for members with membership dates on or after January 1, 2011. Under this amended policy, certain terminal pay elements are no longer included in the determination of compensation for retirement purposes. In April 2011, the Board voted to develop terminal pay assumptions by cost group, beginning with the December 31, 2010 valuation. CCCERA's actuary prepared contributions rates that became effective for both employee and employer on July 1, 2011, for those members with membership dates on or after January 1, 2011.

On September 12, 2012, the California Public Employee' Pension Reform Act (PEPRA) was signed into law establishing a new tier for General and Safety employees entering CCCERA membership on or after January 1, 2013. The benefit formula for General members is 2.5% at age 67 and the Safety formula is 2.7% at age 57. Benefits under the new PEPRA tiers are based on a three-year final average compensation period. Additionally, PEPRA limits the amount of compensation CCCERA can use to calculate a retirement benefit.

On September 12, 2012 AB197 was passed by the California Legislature. Changes mandated in AB197, in which the legislation changed the definition of "compensation earnable" in Section 31461 of the Government code, would apply to current CCCERA members. On November 28, 2012, the Deputy Sheriff's Association and the International Association of Firefighters filed a lawsuit against CCCERA and the Board of Retirement on behalf of all active and deferred members of CCCERA to stop CCCERA and the Board of Retirement from implementing AB197. With CCCERA's agreement, the Contra Costa County Superior Court issued a stay order, requiring CCCERA to refrain from implementing AB197 and continue to follow its current policy on final average salary calculations for all members who are not "new members" as defined in PEPRA, until after this matter was heard and decided.

On May 12, 2014, the Superior Court issued a judgment directing CCCERA to proceed to comply with AB 197 for all retirements effective on or after July 12, 2014. The matter was appealed. The Court of Appeal was requested to issue a "stay" of the implementation of AB 197 past July 11th during the pendency of the appeal. On June 30, 2014 the Court of Appeal issued an order denying the request for an additional "stay." CCCERA is therefore required to implement the AB 197 changes in calculating benefits for all retirements with an effective date of July 12, 2014 or later.

**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. In addition to the fiscal year 2012-13 annual required contribution, on June 24, 2013, the Commission Board approved an agreement with CCCERA to make a \$2,000,000 prepayment contribution to the Unfunded Actuarial Accrued Liability (UAAL) to be amortized over an eleven year period. The following table shows the components of the Commission's annual Pension cost for the year and changes in the Commission's Prepaid Pension asset:

**FIRST 5 CONTRA COSTA CHILDREN AND FAMILIES COMMISSION  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**NOTE 12 – DEFINED BENEFIT PENSION PLAN (CONTINUED)**

B. Funding Policy (Continued)

Annual required contribution	\$ 421,034
Contributions made:	
Contributions	(334,023)
FY 2013 overpayment applied to FY2014	(69,976)
Prepayment discount	(17,035)
Amortization of prepaid pension	<u>(181,818)</u>
Increase (decrease) in prepaid pension asset	<u>(181,818)</u>
Prepaid pension asset - beginning of year	<u>2,000,000</u>
Prepaid pension asset - end of year	<u><u>\$ 1,818,182</u></u>

Contra Costa County and special districts, including First 5 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, 2014, 2013 and 2012 were \$421,034, \$2,566,991, and \$543,503 respectively.

Fiscal Year Ending	Annual Required Contributions (ARC)	Percentage of ARC Contributed	Prepaid Pension Asset / (Obligation)
6/30/2014	\$ 351,058	83.38%	\$ 1,818,182
6/30/2013	566,991	452.74%	2,000,000
6/30/2012	543,503	100.00%	-

**NOTE 13 – 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 employees hired prior to January 1, 2009, the Commission will contribute a percentage (varying by medical plan) of the medical and/or dental premiums. For current eligible 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.

**FIRST 5 CONTRA COSTA CHILDREN AND FAMILIES COMMISSION  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**NOTE 13 – OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS (CONTINUED)**

*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. Employees hired on or after January 1, 2009 are not eligible to receive a Commission contribution toward their retirement medical or dental costs. There were thirteen plan members eligible for Commission contributions 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 retiree contribution guidelines. In fiscal year 2013-2014 the Commission funding was based on the "pay-go" basis. The Commission had one retiree receiving healthcare benefits during 2013-2014, and the "pay-go" cost was \$16,660.

The Commission board passed a resolution on November 5, 2012 to participate in the California Employers Retirees Benefit Trust (CERBT), an irrevocable trust established to fund OPEB effective December 27, 2012. CERBT is administered by the CalPERS Board, who has sole and exclusive control and power over the administration and investment of the prefunding plan.

Separately issued financial statements for CERBT may be obtained from CalPERS at P.O. Box 942709, Sacramento, California 94229-2709.

*Annual OPEB Cost and Net OPEB Obligation (Asset).* 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 (asset):

Annual required contribution	\$ 23,100
Interest on net OPEB obligation	(7,983)
Adjustment to annual required contribution	9,755
Annual OPEB cost (expense)	<u>24,872</u>
Contributions made	<u>(23,100)</u>
Decrease (increase) in net OPEB (asset) obligation	1,772
Net Post Employment Benefit (asset) obligation - beginning of year	<u>(113,069)</u>
Net Post Employment Benefit (asset) - end of year	<u><u>\$ (111,297)</u></u>

**FIRST 5 CONTRA COSTA CHILDREN AND FAMILIES COMMISSION  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**NOTE 13 – OTHER POSTEMPLOYMENT HEALTHCARE BENEFITS (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 2013-2014:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation/(Asset)
6/30/2014	\$ 24,872	93%	\$ (111,297)
6/30/2013	59,048	937%	(113,069)
6/30/2012	78,403	0%	381,138

*Funded Status and Funding Progress.* As of June 30, 2013, the most recent actuarial valuation date, the Actuarial Accrued Liability (AAL) for benefits was \$553,255. As of June 30, 2013, the Plan Assets were \$561,057, resulting in a Funded Actuarial Accrued Liability (Asset) (UAAL) of (\$7,802). The covered payroll was \$1,138,000, and the ratio of the UAAL to covered payroll was (0.69%).

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.

In the June 30, 2013 actuarial valuation, the valuation used to determine the FY 2013-14 ARC, the entry age normal actuarial cost method was used. The actuarial assumptions included a 7.06% 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 7% in 2014 initially, reduced by 0.5% decrements to an ultimate rate of 5% after five years. The UAAL is being amortized as a level dollar amount over 30 years on a level dollar closed basis. The remaining amortization period at June 30, 2014, was twenty-four years.

**FIRST 5 CONTRA COSTA CHILDREN AND FAMILIES COMMISSION  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2014**

**NOTE 14 – 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, 2014, the Commission has no settlements exceeding insurance coverage for these categories of risk. For the past two 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  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Prop 10 Tobacco Tax	\$ 8,248,465	\$ 8,248,465	\$ 8,353,104	\$ 104,639
Prop 10 CARES Plus	300,000	300,000	263,569	(36,431)
Race to the Top	387,300	529,332	364,436	(164,896)
Thomas J. Long Foundation	1,267,200	1,267,200	1,267,200	-
Interest income	120,000	120,000	103,467	(16,533)
Other revenue	75,000	88,050	485,082	397,032
Total Revenues	<u>10,397,965</u>	<u>10,553,047</u>	<u>10,836,858</u>	<u>283,811</u>
<b>EXPENDITURES</b>				
Current:				
Program Expenditures:				
Early care and education	3,839,644	3,981,676	3,282,407	699,269
Family support	3,766,463	3,772,513	3,503,702	268,811
Early intervention	3,286,657	3,286,657	2,533,655	753,002
Community information and education	667,086	674,086	632,748	41,338
Salaries and employee benefits	1,853,448	1,853,448	1,591,305	262,143
Other program expenditures	236,866	236,866	182,250	54,616
Evaluation:				
Salaries and employee benefits	545,776	545,776	460,110	85,666
Other evaluation expenditures	363,353	363,353	355,585	7,768
Administrative:				
Salaries and employee benefits	880,866	880,866	747,254	133,612
Other administrative expenditures	428,354	428,354	280,419	147,935
Total Expenditures	<u>15,868,513</u>	<u>16,023,595</u>	<u>13,569,435</u>	<u>2,454,160</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(5,470,548)</u>	<u>(5,470,548)</u>	<u>(2,732,577)</u>	<u>2,737,971</u>
Net Change in Fund Balance (BUDGETARY BASIS)	<u>\$ (5,470,548)</u>	<u>\$ (5,470,548)</u>	<u>(2,732,577)</u>	<u>\$ 2,737,971</u>
Total Basis Adjustments			-	
NET CHANGE IN FUND BALANCE (GAAP BASIS)			(2,732,577)	
FUND BALANCE, BEGINNING OF YEAR			<u>36,508,075</u>	
FUND BALANCE, END OF YEAR			<u>\$ 33,775,498</u>	

See accompanying note 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, 2014**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded Actuarial Accrued Liability (Asset)	Funded Ratio	Covered Payroll	UAAL (Asset) as a Percentage of Covered Payroll
June 30, 2013	\$ 561,057	\$ 553,255	\$ (7,802)	101%	\$ 1,138,000	0.69%
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 note to required supplementary information.

**FIRST 5 CONTRA COSTA CHILDREN AND FAMILIES COMMISSION  
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2014**

**BUDGET AND BUDGETARY ACCOUNTING**

The Commission prepares and legally adopts a final budget on or before June 30<sup>th</sup> of each fiscal year. The Commission operations, commencing July 1<sup>st</sup>, 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 INFORMATION**

**FIRST 5 CONTRA COSTA CHILDREN AND FAMILIES COMMISSION  
SCHEDULE OF EXPENSES BY FUND SOURCE AND  
NET POSITION OF CCFC FUNDS FOR FIRST 5 PROGRAMS AND ACTIVITIES  
FOR YEAR ENDED JUNE 30, 2014**

Program	Source	Revenue CCFC		Change in Net Position	Net Position	
		Funds	Expenses		Beginning of Year	Net Position End of Year
CARES PLUS	CCFC Program Funds	\$ 263,569	\$ 263,569	\$ -	\$ -	\$ -
	County, Local Funds	821,916	821,916	-	-	-

## **COMPLIANCE REPORTS**



**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  
First 5 Contra Costa Children and Families Commission  
Concord, California

We have audited, in accordance with the 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, the financial statements of the governmental activities and the general fund of the First 5 Contra Costa Children and Families Commission (the Commission), a component unit of the County of Contra Costa, California, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated September 24, 2014.

***Internal Control Over Financial Reporting***

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

*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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.



### ***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from 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*.

### ***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Sacramento, California  
September 24, 2014



**INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE**

To the Board of Commissioners  
 First 5 Contra Costa Children and Families Commission  
 Concord, California

We have audited the First 5 Contra Costa Children and Families Commission's (the Commission) 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, 2014.

***Management's Responsibility***

Management is responsible for compliance with the requirements of the laws and regulations applicable to the California Children and Families Act.

***Auditors' Responsibility***

Our responsibility is to express an opinion on the Commission's compliance with the requirements referred to above based on our audit. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller of the United States, and the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, issued by the State Controller's Office. Those standards and the State of California's *Standards and Procedures for 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 direct and 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 on compliance. However, 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

***Opinion***

In our opinion, the First 5 Contra Costa Children and Families Commission complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the California Children and Families Program for the year ended June 30, 2014.

***Purpose of this Report***

The purpose of this report on compliance is solely to describe the scope of our testing over compliance and the results of that testing based on 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. Accordingly, this report is not suitable for any other purpose.



Sacramento, California  
September 24, 2014