



Internal Services
Department of Finance
Auditor-Controller Division

County of Sacramento

Ben Lamera,
Assistant Auditor-Controller

Bradley J. Hudson,
County Executive

David Villanueva,
Chief Deputy County Executive

Julie Valverde,
Director of Finance

September 27, 2012

First 5 Sacramento Commission
2750 Gateway Oaks Drive, Suite 330
Sacramento, CA 95833

We have audited the financial statements of the governmental activities and general fund of the First 5 Commission (Commission), a component unit of the County of Sacramento for the year ended June 30, 2012, and have issued our report thereon dated September 27, 2012. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated July 17, 2012, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of the Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of the Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters.

In addition, as required by California Health and Safety Code Section 130151, we conducted certain audit procedures in accordance with *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, issued by the State Controller's Office. We selected and tested transactions and records to determine the Commission's compliance with the laws and regulations according to the above standards and procedures issued by the State Controller's Office. The Commission's management is responsible for the Commission's compliance with laws and regulations. Our audit does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated July 17, 2012.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Commission are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2011-12.

We noted no transactions entered into by the Commission during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimate affecting the financial statements was:

Assembly Bill 99 (AB 99) mandated a total payment of \$48,448,295 (50% of the Commission's total fund balance amount as of June 30, 2010) from the Commission to State Treasurer within fiscal year 2011-12. For the fiscal year ended June 30, 2011, the Commission recorded the \$48,488,295 state mandated payment in the financial statement as a liability to the state. Subsequently, AB 99 was ruled unconstitutional by the Superior Court of the State of California, County of Fresno in November 2011. As the result, in the fiscal year 2011-12 financial statements, the Commission reversed the \$48,448,295

liability and extraordinary item posted in the fiscal year 2010-11 financial statements, and reassigned the fund into fund balance. The recording of this state mandated payment in the financial statements is consistent with accounting principles generally accepted in the United States of America.

The disclosures in the financial statements are neutral, consistent, and clear. We do not note any financial statement disclosures are particularly sensitive to financial statement users.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. None of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We did not have any disagreements with management that arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 27, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Commission, those who charged with governance, and the Commission's management 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.

Sincerely,

JULIE VALVERDE
DIRECTOR OF FINANCE



By: Hong Lun (Andy) Yu
Audit Manager



COUNTY OF SACRAMENTO
DEPARTMENT OF FINANCE
AUDITOR - CONTROLLER

FIRST 5 SACRAMENTO COMMISSION
Audited Financial Statements,
and Other Reports
As of and For the Fiscal Year Ended June 30, 2012

FIRST 5 SACRAMENTO COMMISSION
Audited Financial Statements, and Other Reports
As of and For the Fiscal Year Ended June 30, 2012

FIRST 5 SACRAMENTO COMMISSION
Audited Financial Statements, and Other Reports
As of and For the Fiscal Year Ended June 30, 2012

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FINANCIAL SECTION

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September 27, 2012

First 5 Sacramento Commission
2750 Gateway Oaks Drive, Suite 330
Sacramento, CA 95833

AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities and general fund of the First 5 Sacramento Commission (Commission), a component unit of the County of Sacramento, as of and for the year then ended June 30, 2012, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 opinions.

In connection with the audit contained herein, there are certain disclosures that are necessary pursuant to paragraphs 3.22 through 3.24 of *Government Auditing Standards*.

As required by various statutes within the California Government Code, County Auditor-Controllers or Directors of Finance are mandated to perform certain accounting, auditing, and financial reporting functions. These activities, in themselves, necessarily impair *Government Auditing Standards* independence standards. Specifically, "auditors should not audit their own work or provide non-audit services in situations where the amounts or services involved are significant/material to the subject matter of the audit."

Although the Director of Finance is statutorily obligated to maintain the accounts of departments, districts or funds that are contained within the County Treasury, we believe that the following safeguard and division of responsibility exist. The staff that has the responsibility to perform audits within the Auditor-Controller Division has no other responsibility of the accounts and records being audited including the approval or posting of financial transactions that would therefore enable the reader of this report to rely on the information contained herein.

In our opinion, except for the disclosure for paragraphs 3.22 through 3.24 of *Government Auditing Standards* as noted above, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and general fund of the Commission as of June 30, 2012, and the respective changes in financial positions for the year then ended are in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 27, 2012, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 9 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 management's discussion and analysis 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.

Sincerely,

JULIE VALVERDE
DIRECTOR OF FINANCE



By: Hong Lun (Andy) Yu, C.P.A.
Audit Manager

FIRST 5 SACRAMENTO COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

In November 1998, voters passed a statewide ballot initiative, Proposition 10, to fund programs that promote the physical, cognitive and emotional development of children ages 0-5. Proposition 10 funds are generated by a tax on tobacco products. All revenue generated is collected in the California Children and Families (First 5 California) Trust Fund Account and allocations are made to each of the 58 counties in the State based on the number of births recorded in the relevant county in proportion to the number of births recorded in California. Each county must establish a local First 5 Commission to oversee the use of these funds in accordance with their strategic plan. The intent is for all California children to be healthy, to live in a healthy and supportive environment, and to enter school ready to learn.

Financial Highlights

During the fiscal year ending June 30, 2012, First 5 Sacramento Commission (Commission) implemented the second year of programs outlined in the 2009 Strategic Plan Update, which covers fiscal years 2010-11 through 2014-15. Highlights of program implementation for fiscal year 2011-12 include:

- The Commission received a total of \$14.7 million from the Proposition 10 funds.
- The total amount of interest earned for the fiscal year was approximately \$340,000 with the average pooled yield .39%.
- Program related contract expenditures were approximately \$23.4 million.
- Accounts payable increased by \$1.9 million.
- The fund balance increased by \$39.8 million (99%): from \$40.1 million in fiscal year 2010-11 to \$79.9 million in fiscal year 2011-12 due to the excess of expenditures over revenues by \$8.7 million and the elimination of a \$48.4 million liability from Assembly Bill 99. See page 7 of this report for more detail.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Commission's basic financial statements. These financial statements are comprised of two components: *Government-wide Financial Statements* and *Fund Financial Statements*. The government-wide and fund financial statements for the Commission are presented on pages 10 and 11.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Commission's finances in a manner consistent to a private sector business.

The *Statement of Net Assets* presents summary information on all of the Commission's assets and liabilities with the difference between the two reported as net assets.

FIRST 5 SACRAMENTO COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

The *Statement of Activities* presents information showing how the Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave).

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. The Commission, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements report essentially the same functions as those reported in government-wide financial statements. However, unlike the government-wide financial statements, fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

The Commission adopts an annual appropriated budget for its fund. A budgetary comparison statement has been provided for the fund to demonstrate compliance with the budget.

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 and general fund financial statements. The notes to the financial statements can be found on pages 13 through 25 of this report.

Government-wide Financial Analysis

The Commission has presented its financial statements under the reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB 34), Basic Financial Statements – and Management's Discussion and Analysis (MD&A) – for State and Local Governments. A chart comparing prior year balances as shown in the governmental fund balance sheet is provided to assist the reader in evaluating the financial position of the Commission.

Financial Analysis of the Commission's Governmental Fund

As noted earlier, the Commission uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. For our purposes, Governmental fund analysis and Government-wide analysis show little difference because the Commission operates within one governmental fund and does not have significant capital assets and long term liabilities. Accordingly, the Commission chooses to compare the fund balances as presented on page 5.

FIRST 5 SACRAMENTO COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Summary of Governmental Fund
As of June 30, 2011 and 2012

	Governmental Fund		Percent Change
	June 30, 2011	June 30, 2012	
Current and Other Assets	\$ 93,617,257	86,907,096	-7.2%
Total Assets	<u>\$ 93,617,257</u>	<u>86,907,096</u>	-7.2%
Current Liabilities	\$ 53,520,521	7,018,819	-86.9%
Total Liabilities	<u>53,520,521</u>	<u>7,018,819</u>	-86.9%
Fund Balance			
Committed	18,747,313	21,560,020	15.0%
Assigned	18,757,980	58,052,666	209.5%
Unassigned	2,591,443	275,591	-89.4%
Total Fund Balances	<u>40,096,736</u>	<u>79,888,277</u>	99.2%
Total Liabilities and Fund Balance	<u>\$ 93,617,257</u>	<u>86,907,096</u>	-7.2%

Fund balance may serve over time as a useful indicator of a government's financial position. In the case of the Commission, assets exceed liabilities by \$79.9 million at the close of the most recent year.

The most substantial portion of the Commission's assets is its cash and investments balance of \$83.7 million, which has decreased by \$6.5 million over last year's balance. This is largely due to the fact that expenditures exceeded revenue by \$8.7 million and the remaining is a result of timing differences. Cash and investments are maintained in the County's cash and investment pool where interest earned on the Commission's balance is apportioned to the Commission.

The Commission also reports Accounts Payable of \$6.7 million representing payments due on program service contracts that had not been expended at year-end. This amount is approximately \$1.9 million over last year's balance. In addition, the account "Due to Other Government" decreased by approximately \$48.4 million mainly because of Assembly Bill 99, state mandated payment of \$48.4 million was ruled to be unconstitutional by the Superior Court of the State of California, County of Fresno in November 2011.

The components of total fund balance are as follows (see Note 9 of Notes to the Basic Financial Statements on page 22 of this report for more information):

- *Nonspendable* – this category includes amounts that are not in a spendable form or are legally or contractually required to be maintained intact. The Commission has no amounts in this category.
- *Restricted* – this category includes amounts where their use is externally constrained by creditors, grantors, or contributors or laws and regulations of other

FIRST 5 SACRAMENTO COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

governments, or imposed by law through constitutional provisions or enabling legislation.

- *Committed* – \$21.6 million represents amounts that can be used only for the specific purposes determined by a formal action of the Commission's highest level of decision-making authority. Commitments may be changed or lifted only by the Commission taking the same formal action that imposed the constraint originally and this must occur no later than the close of the reporting period. These represent contract, and commitments designated within the Implementation Plan detail, Ten Year Financial Plan and budget.
- *Assigned* – \$58.1 million within this category comprises amounts intended to be used by the government for specific purposes. Intent can be expressed by the governing body (Commission), or by an official or body to which the governing body delegates the authority (Executive Director). \$46 million of the total assigned fund balance is defined as Minimum Balance for Future Sustainability.
- *Unassigned* – This category is the residual classification for the general fund and includes all amounts not contained in the other classifications. The amount falling into this category is \$276 thousand.

Financial Analysis

A schedule comparing the current year to the past two years is included on page 8. The most significant events affecting the comparability of the Commission's financial statements for the year ended June 30, 2012 to the prior year ending June 30, 2011 are highlighted below:

Investment revenue decreased from \$486 thousand to \$340 thousand due to a decrease in the average pooled investment yield on the pooled funds from approximately .52% to .39%.

Program Contract expenditures increased by \$1.4 million; from \$22.1 million to \$23.4 million. This 6.3% increase was due to the Commission funding additional safety net programs in the area of Dental such as Dental Clinics and Fluoridation.

Community Building expenditures decreased by \$299 thousand or 66.5%. The reduction from \$450 thousand to \$151 thousand was a result of the Commission's redirection of funded programs in the Strategic Plan. Expenditures for this program will continue to decline as contracted community grants expire.

Administrative expenditures are limited to and budgeted at or below 10% of total budgeted expenses. Administrative costs were 5.6% of total actual expenses and decreased from \$1.7 million to \$1.5 million from previous year.

Fiscal year 2011-12 expenditures were \$8.6 million over revenue and reserve funds were utilized to pay for current operations. This reflects the Commission's intention to use reserve funds to provide more services in Sacramento County over the over the term of the current 10 year plan.

FIRST 5 SACRAMENTO COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Budgetary Analysis

A schedule comparing final budget to actual for each result area is shown in the schedule on page 9. This schedule shows actual revenues over the budget by \$566 thousand (3.2%) and expenditures being under spent by \$3.8 million (13.4%). The following are the main reasons for this under spending. First, a fluoridation contract within the result area Dental underspent the budgeted amount by \$2.3 million during the fiscal year. Second, the Health Care result area underspent by \$536 thousand and School Readiness and Effective Parenting result areas underspent \$396 thousand and \$402 thousand, respectively. Administration was underspent by \$229 thousand during the fiscal year.

Capital Assets and Debt Administration

Capital Assets

The Commission has capital assets totaling \$22,485 which has been reflected in these financial statements as equipment with an adjustment of accumulated depreciation in amount of \$17,656.

Debt Administration

The Commission's long-term debt consists of compensated absences payable and other post-employment benefits. Additional information about this debt is presented in Note 7 of Notes of the Basic Financial Statements on pages 22 of this report.

Economic or Political Factors

- The declines in the economy have increased the need for our services at the same time the County is reducing funding for services due to the poor economic situation.
- The Federal Reserve Bank lowered interest rates resulting in reduced interest earnings on our investments and this trend is expected to continue.
- Tobacco taxes continue to represent a declining funding stream.
- Assembly Bill 99, adopted as part of the fiscal year 2011-12 State Budget Act, was ruled unconstitutional by the Superior Court of the State of California, County of Fresno in a November 2011 ruling. As such, the \$48.4 million extraordinary item and liability posted in the prior year financial statements were reversed from the current year financial statements and returned to fund balance.

FIRST 5 SACRAMENTO COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Comparison of Revenues and Expenditures
Fiscal Years 2009-10, 2010-11, 2011-12 (in thousands)

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
<u>Revenues</u>			
Prop 10 Allocations	\$ 14,959	14,524	14,655
School Readiness	1,578	1,732	1,636
CARES/Health Access	204	51	
MAA	302	974	877
CAPIT & CBCAP		470	504
Interest Income	1,059	486	340
Total Revenue	18,102	18,237	18,012
<u>Expenditures</u>			
Program Contracts	22,950	22,056	23,448
Prog. Sal., Ben., & Supplies	1,220	1,744	1,065
Evaluation Expenses	1,195	1,087	660
Admin Salaries and Benefits	943	1,090	962
Admin Services and Supplies	924	612	534
Total Expenditures	27,232	26,589	26,669
Excess/(Deficit)	(9,130)	(8,352)	(8,657)
Extraordinary Item		(48,448)	48,448
Net Changes		(56,800)	39,792
Fund Balances, Beginning of Period	106,027	96,897	40,097
Fund Balances, Ending of Period	\$ 96,897	40,097	79,888

FIRST 5 SACRAMENTO COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

First 5 Sacramento Commission
Budget and Expenditures Comparison by Result Area
As of June 30, 2012 (in thousands)

	<u>Final Budget</u>	<u>Actual</u>	<u>Variances</u>
Revenues			
Prop 10 Allocation	\$ 14,069	14,655	586
School Readiness	1,550	1,636	86
MAA	1,000	877	(123)
CBCAP & CAPIT	451	504	53
Interest Income	376	340	(36)
Total Revenue	<hr/> 17,446	<hr/> 18,012	<hr/> 566
Fund Balance Transfer	<hr/> 13,220	<hr/> 8,657	<hr/> (4,563)
Total Sources of Funds	<hr/> <u>\$ 30,666</u>	<hr/> <u>26,669</u>	<hr/> <u>(3,997)</u>
Expenditures			
Administration	\$ 1,725	1,497	228
Evaluations	<hr/> 648	<hr/> 660	<hr/> (12)
Program by Result area:			
Improved Nutrition	1,098	966	132
Decrease Dental Disease	8,455	6,167	2,288
Child Care	1,915	1,892	23
Health Access	1,390	854	536
School Readiness	5,391	4,995	396
Effective Parenting	9,888	9,487	401
Community Building	<hr/> 156	<hr/> 151	<hr/> 5
Total Program Expenditures	<hr/> 28,293	<hr/> 24,512	<hr/> 3,781
Total Expenditures	<hr/> 30,666	<hr/> 26,669	<hr/> 3,997
Total Use of Funds	<hr/> <u>\$ 30,666</u>	<hr/> <u>26,669</u>	<hr/> <u>3,997</u>

Contact Information

This financial report is designed to provide a general overview of the Commission's finances. Questions concerning the information provided in this report or requests for additional financial information should be addressed to the Executive Director of the First 5 Sacramento Commission office located at 2750 Gateway Oaks, Drive, Ste. 330, Sacramento, CA 95833.

FIRST 5 SACRAMENTO COMMISSION
STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET
JUNE 30, 2012

	General Fund	Adjustments	Statement of Net Assets
Assets:			
Cash and investments	\$ 83,739,739		83,739,739
Receivables, net of allowance for uncollectibles:	3,166,129		3,166,129
Due from other government	1,228		1,228
Capital Assets, net of depreciation		4,829	4,829
Total assets	<u>\$ 86,907,096</u>	<u>4,829</u>	<u>86,911,925</u>
Liabilities and fund balances			
Liabilities:			
Accounts payable and accrued expenses	\$ 6,718,718		6,718,718
Due to other government	300,101		300,101
Long term liabilities:			
Due within one year		162,087	162,087
Due after one year		79,068	79,068
Total liabilities	<u>7,018,819</u>	<u>241,155</u>	<u>7,259,974</u>
Fund balances/Net assets:			
Fund balances:			
Committed	21,560,020	(21,560,020)	
Assigned	58,052,666	(58,052,666)	
Unassigned	275,591	(275,591)	
Total fund balances	<u>79,888,277</u>	<u>(79,888,277)</u>	
Total liabilities and fund balances	<u>\$ 86,907,096</u>	<u>(79,647,122)</u>	<u>7,259,974</u>
Net assets:			
Invested in capital assets, net of related debt		4,829	4,829
Unrestricted		79,647,122	79,647,122
Total net assets		<u>\$ 79,651,951</u>	<u>79,651,951</u>

The notes to the financial statements are an integral part of this statement.

FIRST 5 SACRAMENTO COMMISSION
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	General Fund	Adjustments	Statement of Activities
Revenues:			
Program revenues	\$ 17,671,990		17,671,990
Interest and investment earnings	340,270		340,270
Total revenues	18,012,260		18,012,260
Expenditures/Expenses:			
Current:			
Program activities	25,172,501		25,172,501
Administrative costs	1,496,513	(22,035)	1,474,478
Total expenditures/expenses	26,669,014	(22,035)	26,646,979
Excess of revenues over/(under) expenditures	(8,656,754)	22,035	(8,634,719)
Extraordinary Item	48,448,295		48,448,295
Net Changes	39,791,541	22,035	39,813,576
Beginning fund balances/net assets	40,096,736	(258,361)	39,838,375
Ending fund balances/net assets	\$ 79,888,277	(236,326)	79,651,951

The notes to the financial statements are an integral part of this statement.

FIRST 5 SACRAMENTO COMMISSION
STATEMENT OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive / (Negative)</u>
Revenues:				
Program revenues	\$ 17,093,600	17,070,135	17,671,990	601,855
Interest and investment earnings	<u>753,200</u>	<u>375,500</u>	<u>340,270</u>	<u>(35,230)</u>
Total revenues	<u>17,846,800</u>	<u>17,445,635</u>	<u>18,012,260</u>	<u>566,625</u>
Expenditures:				
Current:				
Program activities	28,818,125	28,941,818	25,172,501	3,769,317
Administrative costs	<u>1,779,647</u>	<u>1,725,035</u>	<u>1,496,513</u>	<u>228,522</u>
Total expenditures/expenses	<u>30,597,772</u>	<u>30,666,853</u>	<u>26,669,014</u>	<u>3,997,839</u>
Excess of revenues over / (under) expenditures	<u>(12,750,972)</u>	<u>(13,221,218)</u>	<u>(8,656,754)</u>	<u>4,564,464</u>
Extraordinary Item			<u>48,448,295</u>	<u>48,448,295</u>
Net change in fund balances	<u>\$ (12,750,972)</u>	<u>(13,221,218)</u>	<u>39,791,541</u>	<u>53,012,759</u>

The notes to the financial statements are an integral part of this statement.

FIRST 5 SACRAMENTO COMMISSION
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 1 - REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the First 5 Sacramento Commission (Commission) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing GAAP for state and local government organizations. The Commission's significant accounting policies are described below.

Scope of Financial Reporting Entity

In November 1998, the people of the State of California passed Proposition 10, also known as the Children and Families Act. This Act became effective on January 1, 1999, and imposed a 50¢ tax per pack on cigarettes and other tobacco products. The State of California allocates revenues generated by this tax to the Commission for all programs within Sacramento County.

The Commission was established by the Sacramento County Board of Supervisors (BOS) through adoption of Ordinance SCC-1154 dated October 5, 1999. This ordinance amended Chapter 2.99 of the Sacramento County Code (SCC).

The purpose of the Commission is to promote, support, and improve the early development of children from prenatal stage through five years of age.

The Commission consists of a seven-person board. The board includes one member from the BOS. The board also includes the Administrator for the Countywide Services Agency and the County Health Officer. The remaining four board members shall be appointed from members of the community or community based organizations as described in the SCC §2.99.050(b) with representation of/by early childhood education expertise, child care resource or referral programs, prevention or early intervention agencies, expertise in the promotion of early childhood development, local school districts, and from local medical, pediatric or obstetric societies.

The Commission's reporting entity includes all financial activities under control of its Board of Commissioners. Control was determined on the basis of budget adoption and continuing oversight responsibilities.

The Commission is an agency of the County of Sacramento (County). As such, it is included within the County's financial reporting entity as a blended component unit. The Commission's fund is accounted for in Fund 013A, a special revenue fund in the County's financial system.

Government-wide and Fund Financial Statements Presentation

Government-wide Financial Statements - The statement of net assets and statement of activities display information about the primary government. These statements include the financial activities of the overall government.

The statement of activities presents direct expenses and program revenues for each function of the Commission's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular

FIRST 5 SACRAMENTO COMMISSION
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

function. Program revenues include 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented instead as general revenues.

When restricted assets become available, for their restricted purposes, they are used first, and then unrestricted assets are used as they are needed.

Fund Financial Statements - The fund financial statements provide information about the Commission's funds, which include only governmental funds.

The Commission has combined its government-wide financial statements, the statement of net assets and the statement of activities, with its fund financial statements, the balance sheet and the statement of revenues, expenditures, and changes in fund balances, into two statements, the statement of net assets and governmental funds balance sheet and the statement of activities and governmental fund revenues, expenditures, and changes in fund balances, for simplicity.

The Commission reports a *General fund* that is used to account for all financial resources except those required or designated by the Board of Commissioners to be accounted for in another fund.

Measurement Focus and Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flow takes place. Non-exchange transactions, in which the Commission gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements and donations. Revenues from grants, entitlements 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 revenues to be available if they are collectible in the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues that are accrued include state revenues, interest income, and charges for current services. Revenues that are not accrued include permits and fines, forfeitures, and penalties, if applicable. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due. General capital assets are reported as expenditures in governmental funds. Proceeds of general long-term and capital assets are reported as other financing sources.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the GASB.

FIRST 5 SACRAMENTO COMMISSION
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Non-Current Governmental Assets/Liabilities

GASB Statement No. 34 eliminates the presentation of the General Fixed Asset and the General Long Term Debt account groups, but provides for these records to be maintained and incorporates the information into the Governmental Activities column in the government-wide statement of net assets.

Accounts and Records

Financial transactions initiated by the Commission are processed by the Sacramento County Department of Finance, Auditor-Controller. The Commission maintains copies of source documents. The Department of Finance, Auditor-Controller provides related general ledger, revenue, and expenditure computer listings. In addition, claims are paid and warrants are issued by the Department of Finance, Auditor-Controller.

Budgetary Principles

As required by the laws of the State of California, the Commission prepares, and adopts a final balanced operating budget on or before August 30 of each fiscal year and is included in the Final Budget of the County. Prior to the Commission adopting its Final Budget, it shall be submitted to the County for review and comment prior to its adoption by the Commission in accordance with SCC §2.99.130. Also, in accordance with §2.99.130, the Commission's budget shall be prepared and adopted by the Commission prior to the adoption of the County's proposed budget. The Commission may, by resolution, extend on a permanent basis or for a limited period, the date from August 30 to October 2. The final budget for Fiscal Year 2011-12, was approved on August 1, 2011 in a public hearing.

Operating budgets are adopted for the Commission's General Fund on the modified accrual basis of accounting except as explained below. Budgetary control and the legal level of control are at the object level which classifies expenditures by type of goods purchased and services obtained. The *Statement of Revenues, Expenditures – Budget and Actual* presents revenues at the source level and expenditures at the function level.

It is not feasible to compare budget to actual data at the object level in this report. Therefore, this information is contained in a separate report prepared by the Sacramento County Department of Finance, Auditor-Controller, titled "Expenditures Status Report." Significant amendments, appropriation transfers between objects and transfers from contingencies must be approved by the Commission. The Commission also must approve supplemental appropriations financed by unanticipated revenues.

Encumbrances, which are commitments related to the future purchase of goods or services, are recorded in the General Fund. For budgetary purposes, encumbrances outstanding at year-end are recorded as expenditures. For financial reporting purposes, encumbrances outstanding at year-end do not constitute expenditures or liabilities. Unencumbered appropriations lapse at year-end and encumbrances outstanding at that time are reported as committed or assigned fund balances for subsequent-year expenditures.

FIRST 5 SACRAMENTO COMMISSION
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

The Commission's budget for governmental funds is prepared on the modified accrual basis of accounting, except that encumbrances represent expenditures on a budgetary basis. Encumbrances not liquidated in the current year are added to the subsequent-year budget for reporting and control purposes.

Cash and Investments

As described in Note 2, the Commission's cash and investments are held with the Sacramento County Department of Finance, Treasurer, as part of the cash and investment pool with other County Funds. In accordance with GASB Statement No. 31, investments are stated at fair value. However, the value of the pool shares in the County Treasurer's investment pool that may be withdrawn is determined on an amortized cost basis, which is different than the fair value of the Commission's position in the pool. The Commission's fund financial statements do not reflect the fair value of investments as the differences between total investment cost and fair value has been determined to be immaterial. The County Treasurer's investment pool is subject to regulatory oversight by the Treasury Oversight Committee, as required by Section 27134 of the California Government Code.

Statutes authorize the County to invest in the following:

- a) Obligations of the County or any local agency and instrumentality in or of the State of California;
- b) Obligations of the U.S. Treasury, agencies and instrumentalities;
- c) Bankers' acceptances eligible for purchase by Federal Reserve System;
- d) Commercial paper with an A-1 rating by Moody's Investors Service or P-1 rating by Standard & Poor's Corporation;
- e) Repurchase agreements or reverse repurchase agreements;
- f) Medium-term notes with a five-year maximum maturity of corporations operating within the United States and rated in the top three rating categories by Moody's Investor Service or Standard & Poor's Corporation;
- g) Guaranteed investment contracts; and
- h) Shares of beneficial interest issued by diversified management companies (money market funds) investing in securities and obligations as outlined in a) through g). Certain security rankings and/or organizational requirements apply to this type of investment.

FIRST 5 SACRAMENTO COMMISSION
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

In accordance with GASB Statement No. 40, Deposit and Investment Disclosures (Amendment of GASB No. 3), certain disclosure requirements, if applicable, for Deposits and Investment Risks are specified in the following areas:

- a) Interest Rate Risk
- b) Credit Risk
- c) Custodial Credit Risk
- d) Concentrations of Credit Risk
- e) Foreign Currency Risk

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

Capital Assets

Capital assets, which include land, structures and improvements, machinery and equipment, and infrastructure assets, are reported in the government-wide financial statements. Capital assets are defined as assets with an initial individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased, and are estimated fair market value at the date of donation if donated. Amortization of assets acquired under capital lease is included in depreciation and amortization. Equipment and vehicles are depreciated using the straight-line method over 5 years.

Compensated Absences

Regular, full-time Commission employees are granted vacation in varying amounts based upon length of service. Any accrued hours, not in excess of the maximum allowable, which are unused during the current period, are carried forward to following years. The General Fund records expenditures for compensated absences as they are taken by employees. Each year's budget includes a provision for the estimated expenditure for the current year. A year-end accrual is not made in the General Fund as the Commission does not believe any of the available year-end financial resources will be required to fund the year-end compensated absences liability. The accrual for the compensated absences is included in the government-wide statement of net assets.

Commission employees are granted vacation in varying amounts based on classification and length of service. Maximum vacation hours eligible for carry forward to future years is limited to no more than 400 hours of accrual time at calendar year end. Additionally, certain employees are allowed compensated time-off (CTO) in lieu of overtime compensation and/or for working on holidays.

Sick leave is earned by regular, full-time employees. Any sick leave hours not used during the period are carried forward to future years, with no limit to the number of hours that can be accumulated. Any sick leave hours unused at the time of an employee's retirement are added to the actual period of service when computing retirement benefits. Upon retirement for employees in Management Class, accrued sick leave is added to retirement benefits at a ratio of fifty percent (50%). The Commission does not pay accumulated sick leave to employees who terminate prior to retirement.

FIRST 5 SACRAMENTO COMMISSION
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Other Post-Employment Benefits (OPEB)

OPEB are recorded as long term liabilities on the *Statement of Net Assets*, see Note 6 and 7.

See the County of Sacramento annual comprehensive financial report for additional pension information.

NOTE 2 - CASH AND INVESTMENTS

The Commission maintains specific cash deposits and investments with the County and involuntarily participates in the external investment pool of the County. The Commission's share of the investment pool is separately accounted for and interest earned, net of related expenses, is apportioned quarterly and at the end of the fiscal year based upon the relationship of its daily cash balance to the total of the pooled account.

The following is a summary of the Commission's cash and investments at carrying value

	<u>June 30, 2012</u>
Cash in Treasury	\$ 83,739,439
Cash on Hand	300
Total	<u>\$ 83,739,739</u>

The Commission believes exposures to deposits and investment risks in accordance with GASB Statement No. 40 were minimal. The disclosures of Cash in Treasury are included in the County's Annual Comprehensive Report (CAFR).

NOTE 3 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

For the year ended June 30, 2012, total fund balance of the Commission's governmental funds, \$79,888,277, differs from net assets of governmental activities, \$79,651,951, reported in the *Statement of Net Assets and Governmental Fund Balance Sheet* by (\$236,326).

Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets are as follows:

When capital assets that are to be used in governmental activities are purchased or donated, the costs of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets among the assets of the Commission as a whole.

FIRST 5 SACRAMENTO COMMISSION
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

Cost of capital assets, (net of depreciation) \$ 4,829

Long-term liabilities applicable to the Commission's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets.

Compensated absences	(217,703)
OPEB	<u>(23,452)</u>
Total Long Term Liabilities	<u>(241,155)</u>

Total differences between the governmental fund balance sheet and the government-wide statement of net assets \$ (236,326)

The net change in fund balances for governmental funds, (\$39,791,541), differs from the change in net assets for governmental activities, (\$39,813,576) reported in the statement of activities and governmental fund revenues, expenditures, and changes in fund balances by (\$22,035).

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities are as follows:

The change in capital assets, net of depreciation, 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.	\$ (4,497)
--	------------

The change in compensated absences reported in the statement of activities does not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	41,397
--	--------

The change in OPEB reported in the statement of activities does not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.	<u>(14,865)</u>
--	-----------------

Total	<u>\$ 22,035</u>
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FIRST 5 SACRAMENTO COMMISSION
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2012 consists of the following:

Proposition 10 revenue the California Children and Families Commission (State Commission) for the months of May and June 2012.	\$ 2,581,517
Medi-Cal Administrative Activities Federal Revenue for fiscal year 2010-11 Second, Third and Fourth Quarters.	584,612
Total	\$ 3,166,129

NOTE 5 - CAPITAL ASSETS AND DEPRECIATION

The following is a summary of Capital Assets activity for the year ending June 30, 2012:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets being depreciated:				
Vehicles	\$ 7,000			7,000
Equipment	15,485			15,485
Total Assets:	22,485			22,485
Less accumulated depreciation:				
Vehicles	(4,900)	(1,400)		(6,300)
Equipment	(8,259)	(3,097)		(11,356)
Total accumulated depreciation:	(13,159)	(4,497)		(17,656)
Total capital assets, net:	\$ 9,326	(4,497)		4,829

NOTE 6 - RETIREMENT PLAN

All full time employees of the Commission participate in the Sacramento County Employees' Retirement System (SCERS). SCERS is a multiple employer, cost-sharing public employee retirement system acting as a common investment and administrative agent for participating public entities within the County of Sacramento. A separate audit of the financial statements of the SCERS is available by contacting SCERS by mail at P.O. Box 627, Sacramento, CA 95812-0627.

Under SCERS, benefits are established by statutes and provide for retirement, death and disability benefits and vest after five years of service. Upon reaching five years of service, participants have earned the right to receive a retirement benefit. Members covered under Miscellaneous Tier I, who retire at age 50, are entitled to a retirement benefit, payable monthly for life, which is equal to 1.181

FIRST 5 SACRAMENTO COMMISSION
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

percent of their final-average salary for each year of credited service. It includes a cost-of-living adjustment of up to 4 percent annually. Final average salary is the member's average salary for the highest twelve consecutive months of credited service. Members covered under Miscellaneous Tier III, who retire at age 50, are entitled to a retirement benefit, payable monthly for life, equal to 1.181 percent of their final-average salary for each year of credited service. It includes a cost of living adjustment of up to 2 percent annually. Final average salary is the member's average salary for the highest thirty-six consecutive months of credited service. The retirement benefit of Miscellaneous Tier I and Tier III members who retire after age 50 is increased by an age factor.

Under the actuarial funding method used by the SCERS, investments are valued at market and all unrealized gains and losses are recognized over the next five years. Therefore, contribution rates reflect the impact of market fluctuations on investments during the five-year period after they occur.

Member contributions are required by law. Member contribution rates are actuarially determined and are based on age of entry into the SCERS. Commission contributions are actuarially determined to provide for the balance of contributions needed. The Retirement Board adopts a rate based on the actuary's recommendation. The rate is then forwarded to the BOS for their information and adoption for budget purposes. The authority for both benefit provisions and contributions obligations is derived from the County Employees Retirement Act of 1937, Section 31450 et seq. of the California Government Code. The payroll for the Commission's employees covered by SCERS for the fiscal year ended June 30, 2012 was \$1,899,524. The total contribution requirement for the year ended June 30, 2012, was \$286,723. This consisted of \$223,376 in contributions from the Commission and \$63,347 from its employees, or 11.8 percent and 3.3 percent of Commission covered payroll, respectively.

The following table shows the Commission's required contributions and the percentage contributed for the current year:

<u>Fiscal Year</u>	<u>Annual Pension Cost (APC)</u>	<u>Percent of APC Contributed</u>
2011-2012	\$ 286,723	100%

SCERS does not make separate measurements of assets and pension obligation benefits of individual employers.

Other Post-Employment Benefits (OPEB) are included in the short and long term liability section of the *Statement of Net Assets and Governmental Fund Balance Sheet*. The liability is calculated as the difference between the required and actual contributions based upon the OPEB actuary valuation amount on June 30, 2012. Additional disclosure of the retirement plan and OPEB is included in the County's annual comprehensive financial report.

FIRST 5 SACRAMENTO COMMISSION
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 7 - LONG-TERM OBLIGATIONS

The following is a summary of long-term liabilities transactions for the year ended June 30, 2012:

	<u>Beginning Balances</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balances</u>	<u>Amounts Due Within One Year</u>
Governmental activities:					
Compensated absences	\$ 259,100	151,503	(192,900)	217,703	162,087
OPEB	<u>8,587</u>	<u>14,865</u>	<u> </u>	<u>23,452</u>	<u> </u>
Total governmental activities:					
Long-term obligations	<u>\$ 267,687</u>	<u>166,368</u>	<u>(192,900)</u>	<u>241,155</u>	<u>162,087</u>

NOTE 8 - OPERATING LEASE

On March 6, 2006, the Commission approved the terms of a lease with the Metcalf Family Living Trust, to provide 8,303 square feet office space for the Commission's staff and business operations at 2750 Gateway Oaks Drive, Suite 330, Sacramento, California, 95833. The lease started on June 1, 2006, with a term of ten full years and two months with the option to terminate the lease after 62 months with at least 60 days written notice. The Real Estate Division of the County makes the payment to the lessor on behalf of the Commission.

On June 20, 2011, the Commission approved an amendment for the lease for a term through July 31, 2016. For the fiscal year ended June 30, 2012, the total rent payments are \$132,989. The rent schedule for the remaining term is as follows:

<u>Year Ended, June 30</u>	<u>Amount</u>
2013	\$ 129,830
2014	133,550
2015	137,259
2016	140,978
2017	11,774

NOTE 9 - NET ASSETS/FUND BALANCES

The government-wide financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted and unrestricted.

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

FIRST 5 SACRAMENTO COMMISSION
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

- *Restricted Net Assets* – This category represents net assets of the Commission, restricted for specified project or purpose.
- *Unrestricted Net Assets* – This category represents net assets of the Commission, not restricted for any project or other purpose.

Fund Balance refers to the difference between assets and liabilities in the governmental funds balance sheet. Fund balances are categorized as a hierarchy based largely on the extent to which a government is bound to observe spending constraints. Categories include:

- *Nonspendable* – This category includes amounts that are not in a spendable form or are legally or contractually required to be maintained intact.
- *Restricted* – This category includes amounts where their use is externally constrained by creditors, grantors, or contributors or laws and regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.
- *Committed* – This category represents amounts that can be used only for the specific purposes determined by a formal action of the Commission's highest level of decision-making authority. Commitments may be changed or lifted only by the Commission taking the same formal action that imposed the constraint originally and this must occur no later than the close of the reporting period.
- *Assigned* – This category comprises amounts intended to be used by the government for specific purposes. Intent can be expressed by the governing body (Commission), or by an official or body to which the governing body delegates the authority (Executive Director).
- *Unassigned* – This category is the residual classification for the general fund and includes all amounts not contained in the other classifications.

The Commission is the highest level of authority. It establishes, modifies, or rescinds fund balance commitments and assignments by the passage of a resolution, approval of the Detailed Implementation Plan and Ten Year Financial Plan, and Budget.

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first followed by the committed, assigned, and unassigned resources as they are needed.

Fund Balance Policy

The Commission believes that sound financial management principles require that sufficient funds be retained by the Commission to provide a stable financial base. The Commission needs to maintain unrestricted funds sufficient to fund commitments under the current Strategic Planning Cycle as defined in the Implementation Plan Detail. Resources committed within this

FIRST 5 SACRAMENTO COMMISSION
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 FOR THE FISCAL YEAR ENDED JUNE 30, 2012

plan for future services where formal action of the Commission would be required to remove this commitment, fall within the committed fund balance even if a formal contract has not yet been written or extended.

In addition, sustainability principles inherent in the Children and Families Ordinance require that long-term financial projections be made and that funds be maintained to meet these long term goals. The Commission's Ten Year Financial Plan portrays the requirements of the current Strategic Planning Cycle as well as projections at least five more years into the future. This five year projection net of revenue is the Commission's Minimum Fund Balance for Future Sustainability. This fund balance amount is considered to be assigned per the Commissions fund balance policy and was \$46,001,269 at June 30, 2012.

Where the Commission has approved a budget for a Commission directed initiative; and, where the Executive Director has authority to execute, extend or cancel a contract, these amounts are considered to be assigned.

Fund balances are presented in the committed, assigned, and unassigned categories. A detailed schedule of fund balances as of June 30, 2012, is as follows:

<u>Result Area</u>	<u>Committed</u>	<u>Assigned</u>	<u>Unassigned</u>
Health Access	\$ 992,410	569,413	
Dental	786,839	162,732	
Improved Nutrition	3,993,007	441,722	
Effective Parenting	8,095,487	536,116	
Child Care	1,596,928	196,518	
School Readiness	4,804,372	905,190	
CBI	8,421	13,618	
Evaluation	416,122	147,149	
Program Management	246,782	6,023,625	
Administration	619,652	3,055,314	
Minimum for Future Sustainability		46,001,269	
Unassigned			275,591
Subtotals	\$ 21,560,020	58,052,666	275,591
Total Fund Balance			\$ 79,888,277

NOTE 10 - PROGRAM EVALUATION

The Commission spent \$659,963 on program evaluation during the fiscal year.

FIRST 5 SACRAMENTO COMMISSION
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

NOTE 11 - ESTIMATES

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

NOTE 12 - EXTRAORDINARY ITEMS

California Assembly Bill 99, adopted as part of the fiscal year 2011-12 State Budget Act, was ruled unconstitutional by the Superior Court of the State of California, County of Fresno in November 2011. As the result, the Commission's reversed the \$48,448,295 liability and extraordinary item posted in the fiscal year 2010-11 financial statements, and reassigned the fund into fund balance.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

The Commission has received state and local funds for specific purposes that are subject to review and audit by the grantor agencies. If the review or audit discloses exceptions, the Commission may incur a liability to grantor agencies.



Internal Services
Department of Finance
Auditor-Controller Division

Ben Lemara,
Assistant Auditor-Controller

County of Sacramento

Bradley J. Hudson,
County Executive

David Villanueva,
Chief Deputy County Executive

Julie Valverde,
Director of Finance

September 27, 2012

First 5 Sacramento Commission
2750 Gateway Oaks Drive, Suite 330
Sacramento, California 95833

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

We have audited the financial statements of the governmental activities and general fund of the First 5 Sacramento Commission (Commission), a component unit of the County of Sacramento, as of and for the year ended June 30, 2012, and have issued our report thereon dated September 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's basic financial statements are free of material misstatements, we performed tests of the Commission's compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Sacramento County Board of Supervisors, the First 5 Sacramento Commission, the State First 5 Commission, the State Controller's Office, federal agencies, and pass-through entities. This report 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.

Sincerely,

JULIE VALVERDE
DIRECTOR OF FINANCE



By: Hong Lun (Andy) Yu, C.P.A.
Audit Manager

Internal Services
Department of Finance
Auditor-Controller Division

Ben Lamera,
Assistant Auditor-Controller



County of Sacramento

Bradley J. Hudson,
County Executive

David Villanueva,
Chief Deputy County Executive

Julie Valverde,
Director of Finance

September 27, 2012

First 5 Sacramento Commission
2750 Gateway Oaks Drive, Suite 330
Sacramento, California 95833

AUDITOR'S REPORT ON STATE COMPLIANCE

We have audited the basic financial statements of the First 5 Sacramento Commission (Commission), a component unit of the County of Sacramento, as of and for the year ended June 30, 2012, and have issued our report thereon dated September 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have also audited the Commission's compliance with the requirements specified in the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, issued by the State Controller's Office, applicable to the Commission's statutory requirements identified below for the year ended June 30, 2012. Compliance with the requirements referred to above is the responsibility of the Commission's management. Our responsibility is to express an opinion on the Commission's compliance based on our audit.

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

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

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

This report is intended solely for the information and use of the Sacramento County Board of Supervisors, the First 5 Sacramento Commission, the State First 5 Commission, and the State Controller's Office. This report 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.

Sincerely,

JULIE VALVERDE
DIRECTOR OF FINANCE



By: Hong Lun (Andy) Yu, C.P.A.
Audit Manager