

**DRAFT**

**FIRST 5 EL DORADO CHILDREN**

**AND FAMILIES COMMISSION**

**(A Component Unit of the County of El Dorado, California)**

**INDEPENDENT AUDITOR'S REPORT, MANAGEMENT'S DISCUSSION AND ANALYSIS, BASIC  
FINANCIAL STATEMENTS, AND REQUIRED SUPPLEMENTARY INFORMATION**

**FINANCIAL STATEMENTS AND**

**SUPPLEMENTAL INFORMATION**

**JUNE 30, 2011**

**FIRST 5 EL DORADO CHILDREN AND FAMILIES COMMISSION**  
**June 30, 2011**

**DRAFT**

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**Commission Membership**  
**June 30, 2011**

<b><u>Name</u></b>	<b><u>Position</u></b>
Debra Herr	Chair, District IV Representative
Wendy David	Vice-Chair, District V Representative
Davia Weiner	Treasurer, Attorney at Law, District III Representative
Vicki L. Barber	Superintendent's Council Representative
Sharon Elliott, PhD	Public Health Representative
Clinton R. Collins, M.D.	Sierra Sacramento Valley Medical Society
Sherri Springer	District I Representative
John Knight	Board of Supervisor Representative

INDEPENDENT AUDITOR'S REPORT

To: First 5 El Dorado Children and Families Commission  
Placerville, California

I have audited the accompanying financial statements of the governmental activities and general fund of the First 5 El Dorado Children and Families Commission a component unit of El Dorado County as of and for the fiscal year then ended June 30, 2011, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commission's management. My responsibility is to express my opinion on these financial statements based on my audit.

I have conducted my 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 I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the First 5 El Dorado Children and Families Commission as of June 30, 2011, and the respective changes in financial position thereof for the year ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated September 29, 2010 on my consideration of the Commission's internal control over financial reporting and my test of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of my 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 my audit.

The Management's Discussion and Analysis on pages 2 through 5 is not a required part of the basis financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the First 5 El Dorado Children and Families Commission's basic financial statements. The organization table and summary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Vaughn Johnson*

Vaughn Johnson, CPA  
September 29, 2011

**FIRST 5 EL DORADO CHILDREN AND FAMILIES COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2011**

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First 5 El Dorado Children and Families Commission was established in 1998 following the passage of Proposition 10 (Prop 10). The Commission is responsible for the management and investment of Prop 10 revenues in El Dorado County. First 5 El Dorado's vision is "The people of El Dorado County will promote nurturing, stable and loving family environments so that all children enter school physically and emotionally healthy, ready to learn."

Proposition 10 was approved by California voters in 1998, and established the California Children and Families Commission, know as First 5 California. It authorized the establishment of county commissions in all fifty-eight California counties. Prop 10 generates approximately \$450 million annually from tax on cigarettes and other tobacco products. First 5 California uses 20 percent of the annual revenues for statewide parent education efforts and administration. The remaining 80 percent is divided among county commissions, with county birth rates used to determine annual funding allocations. All Prop 10 revenues must be spent only on promoting, supporting and improving the development of all children, from prenatal through age five.

The work and investments of First 5 El Dorado are guided by a nine member commission. Commissioners are appointed by the El Dorado County Board of Supervisors in compliance with the California Children and Families Act. First 5 El Dorado is a public entity legally separate and apart from the County, and is considered a component unit of the County due to the operational relationship between First 5 and the County. Commissioners represent the fields of education, health, mental health and local government. As a public entity, the commission bases its decisions on community input. We observe *The Brown Act Open Meetings for Local Legislative Bodies* and public comment is always invited and welcome.

Scientific findings presented within the last decade identify the profound connection between early experiences, environment, and brain development. A baby is born with over 100 billion brain cells or neurons. Trillions of connections or synapses form between neurons based on a child's earliest experiences. Experience gathered from a child's environment and relationships with parents and caregivers inspires new connections and reinforces existing connections. It also influences how the brain organizes or "wires" itself to guide physical activity, behavior and learning. The critical time in life when the intense level of brain development occurs is from birth through age five.

What happens from age 0 through 5 strongly influences how a child will function in school and later in life. A clear goal for First 5 Commissions across the state is for children to be socially, emotionally, physically and intellectually ready for school. Four long-range outcomes, or strategic results, have been identified to support this universal Prop 10 goal:

1. Improved Family Functioning: Strong Families
2. Improved Child Development: Children Learning
3. Improved Child Health: Healthy Children
4. Improved Infrastructure: Community Collaboration

Investment opportunities in early care and education benefit families, children, and the community. First 5 El Dorado's local investment of Prop 10 revenues connects early brain development to school readiness. Our vision, mission, goals and objectives aim to enhance the health and well-being of El Dorado County's youngest residents, promoting optimal brain development today and powerful possibilities for the future.

By focusing investment on the 0 through 5 years of peak brain development, Prop 10 has a positive impact on public spending. Significant spending reductions in the areas of special education, welfare assistance and criminal justice will occur as children become better prepared for school and progress toward becoming contributing members of the workforce and society.

Significant changes in Fiscal Year 2010-2011 audit include how fund balances are reported and pending legislation impacting First 5 Commission funding. The Government Accounting Standards Board (GASB) issued GASB 54 to provide clearer fund balance classifications. GASB 54 requires new reporting standards for the fiscal years beginning after June 15, 2010 and establishes five (5) categories for reporting the Commission's fund balance: Unspendable, Restricted, Committed, Assigned, and Unassigned. On March 24, 2011 the Governor signed AB 99 into law. This legislation takes \$1 billion from First 5 Commissions, \$950 million from county commissions and \$50 million from the state commission. Under AB 99, El Dorado County will lose half of the 2009-2010 fund balance, a total of \$2.3 million.

## FISCAL YEAR 2010-2011 FINANCIAL HIGHLIGHTS

In 2011, the Commission completed its 12<sup>th</sup> year of operations in El Dorado County promoting the development and well-being of children 0 through 5 years of age. As the Commission expended funds to implement its strategic plan, it also continued to implement a plan to spend down a reserve accumulated when the Commission first began operations. When the Commission was first created, provisions of law prevented expenditures from being made until specific activities were completed (adoption of a strategic plan, for example). Consequently, the highlights of the 2010-2011 fiscal year tend to reflect these efforts:

- Total revenues decreased approximately \$227,242 (15%) from 2010 to 2011 primarily due to fewer tobacco sales, a reduction in reimbursements for the school readiness program, and a reduction in interest earnings resulting from the downturn in the nation's economy.
- Even with revenues declining, Commission expenditures decreased only \$87,000 (3%), indicating the Commission's commitment to its Strategic Plan supporting the delivery of essential early childhood system services. During 2010-2011, expenditures exceeded revenues by more than \$1,200,000.
- Total expenditures were lower than budgeted by \$648,468 and revenues were lower by \$64,896.
- Legislation enacted by the Legislature and signed into law by the Governor in March of 2011 (AB 99) requires the Commission to send approximately \$2,300,000 of its fund balance to the State General Fund by June 30, 2012. When this amount is subtracted from available reserves, the reserve balance drops dramatically in 2011. (It should be noted that a suit regarding the constitutionality of AB 99 is has been filed by eleven counties. An appeal of the trial court's decision could mean it will be years before the matter is finally decided. Until then, the Commission must set aside this \$2,300,000 until a final decision is issued.)
- Due to declining revenue and reserves, along with AB 99, the Commission must reduce the amount of funds provided to the community beginning with the 2012-2013 fiscal year.
- The Commission engages in 5 year Strategic Plans. A new Strategic Plan (for 2012 through 2017) is tentatively scheduled for adoption in January of 2012. A Funding Plan to implement the Strategic Plan, with more detail about Commission priorities and direction, will be adopted in conjunction with the Strategic Plan. The 2012-2017 Strategic Plan will commit the reduced resources available to the Commission in a way that continues to support the delivery of high quality early childhood system services in El Dorado County.

As management of First 5, we offer readers of our First 5 financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2011.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to First 5's basic financial statements. First 5's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

**Government-wide Financial Statements.** The government-wide financial statements are designed to provide readers with a broad overview of First 5's finances, in a manner similar to private section business.

The Statement of Net Assets presents information on all of First 5's assets and liabilities, with the difference between the two reported as net assets.

The Statement of Activities presents information showing how First 5'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 the statement for some items that will only result in cash flows in future fiscal periods.

**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 financial statements report essentially the same functions as those reported in the 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.

Both the government fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate the comparison between governmental funds and government-wide statements. The fund statements can be found on pages 6 and 8 of this report.

**FIRST 5 EL DORADO CHILDREN AND FAMILIES COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2011**

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**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 fund financial statements. The notes to the financial statements can be found on pages 10-14 of this report.

**Government-wide financial analysis**

First 5 uses government-wide financial reporting to provide a broad overview in a manner similar to the private sector. In most cases, net assets may serve over time as a useful indicator of a government's financial position. In the case of First 5, assets exceeded liabilities by \$1,618,450 at the close of the most recent fiscal year. The most significant portion of First 5's current assets of \$3,291,958 is its cash in county commingled pool balance of \$2,942,006. This represents resources received from the State Commission from Prop 10 taxes that have not been expended. Accounts receivable from Prop 10 funds is \$222,052. First 5 liabilities primarily represent payments due on grant service contracts that have not been disbursed at year-end. First 5 net assets decreased \$3,529,228 or 65% from the prior fiscal year.

**Net Assets**

	<u>Governmental Activities</u>		
	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>% Change</u>
Current and other assets	\$ 3,291,958	\$ 4,944,932	-33%
Capital assets	<u>715,754</u>	<u>116,968</u>	
Total Assets	4,007,712	5,061,900	-20%
Total Liabilities	2,389,262	289,032	
Net Assets			
Invested in Capital Assets	715,754	116,968	
Restricted	<u>902,696</u>	<u>4,655,900</u>	
Total Net Assets	<u>\$ 1,618,450</u>	<u>\$ 4,772,868</u>	-66%

**Changes in Net Assets**

	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>% Change</u>
Revenue	\$ 1,296,709	\$ 1,523,951	-15%
Expenses			
Salaries, Services, Supplies, Professional	519,735	405,962	28%
Program Expenses	<u>1,978,508</u>	<u>2,417,247</u>	-18%
Total Expenses	2,498,243	2,823,209	
Extraordinary Expense			
Amount to be paid to State of CA per AB 99	2,327,950		
Change in Net Assets	<u>\$ -3,529,484</u>	<u>\$ -1,299,258</u>	

**Governmental Activities.** First 5 does not have business type activities and so the analysis presented above for the government-wide financial statements also represent an analysis of First 5's governmental activities.

**FIRST 5 EL DORADO CHILDREN AND FAMILIES COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
June 30, 2011**

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**Financial Analysis of First 5's Governmental Fund.** For the fiscal year ended June 30, 2011, First 5 reported an ending fund balance of \$902,696 a decrease of \$3,753,204 from the prior year which is committed to First 5 for local initiatives and program sustainability.

Fund Balance

Total Committed Funds	<u>\$ 902,696</u>
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Nonspendable fund balance includes elements of the fund balance that cannot be spent because of their form such as inventory.

Restricted fund balance includes resources that are subject to constraints that are externally enforceable legal restrictions such as funds advanced under specific agreement for services.

Committed funds represent the portion of the fund balance that have been set aside for programs, projects, and activities to be conducted in the future according to our Community Investment Strategy & Budget formally approved by our First 5 County Commission. As a result these funds are unavailable for uses other than the purposes for which they were designated.

Assigned fund balance reflects a commission's intended use of resources, which is established either by the county First 5 Commission, a body created by the commission, or an official designated by commission.

**Requests for Information**

This financial report is designed to provide a general overview of First 5 El Dorado's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to First 5 El Dorado, 2776 Ray Lawyer Drive, Placerville, California 95667.

Respectfully Submitted,

Kathleen Walker  
Assistant Director

**FIRST 5 EL DORADO CHILDREN AND FAMILIES COMMISSION**  
**Balance Sheet and Statement of Net Assets**  
**June 30, 2011**

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	General Fund	Adjustments	Statement of Net Assets
<b>ASSETS</b>			
Cash in county treasury	\$ 2,942,006		\$ 2,942,006
Due from other governments	347,052		347,052
Prepaid	2,900		2,900
Fixed assets		715,754	715,754
Total Assets	\$ 3,291,958	\$ 715,754	\$ 4,007,712
<b>LIABILITIES</b>			
Accounts payable	\$ 61,312		\$ 61,312
Amount to be paid to State of CA per AB 99	2,327,950		\$ 2,327,950
Total Liabilities	2,389,262	0	2,389,262
<b>FUND BALANCE/NET ASSETS</b>			
Fund Balances			
Committed fund balance	902,696	(902,696)	
Total Fund Balance	902,696	(902,696)	
Total Liabilities and Fund Balance	\$ 3,291,958		
<b>NET ASSETS</b>			
Invested in capital assets		715,754	715,754
Restricted		902,696	902,696
TOTAL NET ASSETS		1,618,450	1,618,450
TOTAL LIABILITES AND NET ASSETS			\$ 4,007,712

**The accompanying notes are an integral part of the financial statements.**

**FIRST 5 EL DORADO CHILDREN AND FAMILIES COMMISSION**  
**Adjustments - Total Government Fund Balance to Net Assets of Governmental Activities**  
**June 30, 2011**

Total Governmental Fund Balance	\$	902,696
Amounts reported in governmental activities in the statement of net assets are different because		
Capital assets used in the governmental activities are not financial resources and therefore are not reported in the funds, net of depreciation allocated		<u>715,754</u>
Net Assets of Government Activities	\$	<u><u>1,618,450</u></u>

The accompanying notes are an integral part of the financial statements.

**FIRST 5 EL DORADO CHILDREN AND FAMILIES COMMISSION**

**Statements of Governmental Funds Revenues, Expenditures and Changes in Fund Balances and Statement of Activities**  
**For the Year Ended June 30, 2011**

	General Fund	Adjustments	Statement of Activities
<b>REVENUES</b>			
Proposition 10 funds	\$ 1,230,950		\$ 1,230,950
Health access	3,079		3,079
Small county administration	44,030		44,030
SMIF	655		655
Federal MAA	7,070		7,070
Interest earned	10,925		10,925
<b>TOTAL REVENUES</b>	<b>1,296,709</b>		<b>1,296,709</b>
<b>EXPENDITURES</b>			
Salaries and benefits	395,337		395,337
Program service grants and other allocations	2,246,691	(268,183)	1,978,508
Professional and specialized services	8,050		8,050
Services and supplies	71,885	44,463	116,348
<b>TOTAL EXPENDITURES</b>	<b>2,721,963</b>	<b>(223,720)</b>	<b>2,498,243</b>
<b>EXTRAORDINARY</b>			
Amounts to be paid to State of CA per AB 99	2,327,950		2,327,950
<b>CHANGE IN FUND BALANCE</b>	<b>(3,753,204)</b>		
<b>CHANGE IN NET ASSETS</b>		<b>223,720</b>	<b>(3,529,484)</b>
<b>FUND BALANCE/NET ASSETS</b>			
Beginning	4,655,900		4,772,868
Reclassified Dental Van Expenditures			375,066
<b>Ending</b>	<b>\$ 902,696</b>		<b>\$ 1,618,450</b>

The accompanying notes are an integral part of the financial statements.

**FIRST 5 EL DORADO CHILDREN AND FAMILIES COMMISSION**  
**Adjustments - Total Government Fund Revenues, Expenditures and Changes in Fund Balance to Statement**  
**of Activities**  
**For the Year Ended June 30, 2011**

Net Change in Governmental Fund Balance	\$ (3,753,204)
Amounts reported for the governmental activities in the statement of activities are different because	
Governmental funds report capital outlay as expenditures. In the Statement of Activities, the cost of assets are capitalized as capital assets.	268,183
Less current year depreciation	(44,463)
Some expenses are 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	
Change in Net Assets of Governmental Activities	<u><u>\$ (3,529,484)</u></u>

**The accompanying notes are an integral part of the financial statements.**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Reporting Entity

The First 5 El Dorado Children and Families Commission (the Commission) was established in December 1998 by ordinance of El Dorado County Board of Supervisors under the authority of the California Children and Families First Act of 1998 and Section 130100, et seq. of the Health and Safety Code. The County Board of Supervisors appoints all nine members of the Commission. The Board can remove appointed members at will. The Commission accounts for receipts and disbursements of California Children and Families Trust Funds (Proposition 10) allocation and appropriation to the Commission. The Commission is a discretely presented component of the County of El Dorado as the Commission's governing body is not substantially the same as that of the County.

Governmental Accounting Standards Board Statements and Interpretation

The financial statements are prepared in accordance with GASB Statement No. 34. This statement affects the manner in which the Commission records transactions and presents financial information.

*Management's Discussion and Analysis* – GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and analytical overview of the Commission's financial activities in the form of "management's discussion and analysis" (MD&A). This analysis is similar to the analysis provided in the annual reports of private-sector organizations.

*Government-wide Financial Statements* – The reporting model includes financial statements prepared using full accrual accounting for all of the Commission's activities. This approach includes not just current assets and liabilities but also capital and other long-term assets as well as long-term liabilities. Accrual accounting also reports all of the revenues and costs of providing services each year, not just those received or paid in the current year or soon thereafter.

*Statement of Net Assets* – The Statement of Net Assets is designed to display the financial position of the government. The net assets of the Commission are broken down into two categories – invested in capital assets and restricted.

*Statement of Activities* – The Statement of Activities reports expenses and revenues in a format that focuses on the cost of the Commission's function. The expense of individual functions is compared to the revenue generated directly by the function.

The Commission has recorded long-term assets in the Statement of Net Assets and has reported all revenues and the cost of providing services under the accrual basis of accounting in the Statement of Activities.

**Statement No. 38.** The Commission adopted the provisions of GASB Statement No. 38, "Certain Financial Note Disclosures." This statement modifies, establishes and rescinds certain financial statement disclosure requirements. Accordingly, certain footnote disclosures have been revised to conform to the provisions of GASB Statement No. 38.

Basis of Presentation and Accounting

*Government-wide Financial Statements*

The Statement of Net Assets and Statement of Activities display information about the primary government (Commission). These statements include the financial activities of the overall government.

The Statement of Activities presents a comparison between direct expenses and program revenues for the Commission's governmental activity. Direct expenses are those that are specifically associated with the Commission. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of the Commission. Revenues that are not classified as program revenues, including investment income, are presented as general revenues.

**FIRST 5 EL DORADO CHILDREN AND FAMILIES COMMISSION**  
**Notes to Financial Statements**  
**June 30, 2011**

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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 flows take place.

Nonexchange transactions, in which the Commission gives (or receives) value without directly receiving (or giving) equal value in exchange, include Proposition 10 taxes and grants. Revenues from Proposition 10 taxes are recognized when all eligibility requirements are met which coincides with the State apportionments Proposition 10 tax revenues to the Commission. Revenues from grants are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Separate financial statements are provided for the governmental fund. The governmental 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 to finance expenditures of the current period. Proposition 10 apportionments, grant revenues and investment income are accrued when their receipt occurs within ninety days after the end of the accounting period so as to be both measurable and available. All receivables are expected to be collected within the current year. Expenditures are generally recorded when a liability is incurred, under the accrual basis of accounting. In the current year, the bulk of the accounts payable balance relates to payables owed to contractors used in the operation of the Commission's programs.

Non-current Governmental Assets/Liabilities

GASB Statement No. 34 eliminates the presentation of account groups, but provides for these records to be maintained and incorporates the information into the Government-wide Statement of Net Assets.

Accounts Receivable

Significant receivables included amounts due from the State of California for Proposition 10 taxes. These receivables are due within one year. Management has determined that no allowance for bad debts is required

Property and Equipment

Fixed assets are accounts for at cost or if the cost is not determinable, at estimated cost. Donated fixed assets are recorded at their estimated fair value at the time received. Additions to property and equipment are recorded as expenditures in the year of acquisition.

Budgets and Budgetary Accounting

Formal budgetary integration is employed as a management control device during the year. The budget is adopted on a basis consistent with generally accepted governmental accounting principles.

Concentrations of Credit Risk

There are no financial instruments which potentially expose the program to concentrations of credit risk as defined by the Statement of Financial Accounting Standards Number 105.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America may require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

2. EQUITY IN POOLED CASH AT COUNTY TREASURY

The commission has instructed the County of El Dorado to invest excess funds on deposits in their overall pooling of investment. The Commission's interest is then allocated according to the average cash balance in the County Treasury based upon the overall investments of the County.

The County maintains written investment policies which address a wide variety of investment practices, including primary investment objectives, investment authority, allowable investment vehicles, investment maturity terms, eligible financial institutions, capital preservation, and cash flow management.

All cash deposits at the County conform to the California Government Code Section 53646 and are fully collateralized by governmental securities pledged for the purpose of Public Deposit Collateral.

3. COMPLIANCE REQUIREMENTS OF PROPOSITION 10 FUNDS

In November 1998, voters of California approved Proposition 10, the initiative being known as the "California Children and Families Act of 1998", which increased the state surtax on cigarettes by fifty (50) cents per pack. The Commission was established by subdivision (1)(a) of Section 130140 of the California Health and Safety Code and was subsequently established on December 8, 1998 by ordinance Number 4514 of the Board of Supervisors of the County of El Dorado. Funds are to be used to create a program for the purpose of promoting, supporting and improving the early development of children from the prenatal state through five (5) years of age.

4. LEASE COMMITMENTS

A new building lease was entered into December 1, 2008 through December 13, 2013 for a year at \$1,800 per month. The total lease expense in fiscal year 2010 was \$21,600.

Future minimum lease payments are as June 30:

2012	21,600
2013	<u>10,800</u>
Total	<u>\$32,400</u>

5. COMMITMENTS AND CONTINGENCIES

AGREEMENTS

The Commission has entered into an agreement with the El Dorado County Superintendent of Schools to employ an Executive Director and supporting staff on behalf of the El Dorado County Superintendent of Schools and Commission, to act in the capacity of a liaison in the implementation of various programs. The Commission has agreed to fully reimburse the Superintendent for all costs incurred regarding this employment. This agreement is subject to annual review and renewal.

GRANTS

The Commission recognizes as revenue, grant monies received as reimbursement for costs incurred in certain Federal and State programs. Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, including, the Federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures, which may be disallowed by the grantor, cannot be determined at this time. The Commission expects such amounts, if any, to be immaterial.

6. RELATED PARTY TRANSACTIONS

The Commission is made up of nine members of which two members are from the County Health and Mental Health Departments, one member is from the County Board of Supervisors with the remaining four Supervisors appointing a representative. Of the two remaining Commissioners, one is the Superintendent of the County Office of Education and the other part of the Sierra Sacramento Valley Medical Group. The County, the County Office of Education, and various Community Service Districts are recipients of grants.

7. RESTRICTED FUND BALANCE

The Government Accounting Standards Board (GASB) issued GASB 54 to provide clearer fund balance classifications. GASB 54 requires new reporting standards for the fiscal years beginning after June 15, 2010 and establishes five (5) categories for reporting the Commission's fund balance: Unspendable, Restricted, Committed, Assigned, and Unassigned.

The First 5 California Children and Families Commission has attempted to define the allocation of fund balance in terms that are generally accepted accounting principles in the United States.

For consistency with the State Commission, the fund balance as reported on the balance sheet is presented in their format as follows:

Total Fund Balance	\$ 902,696
Committed fund balance	902,696

Nonspendable fund balance includes elements of the fund balance that cannot be spent because of their form such as inventory.

Restricted fund balance includes resources that are subject to constraints that are externally enforceable legal restrictions such as funds advanced under specific agreement for services. Restricted fund balance represent the portion of the future fund balance restricted by law or legally obligated to outside parties.

Committed funds represent the portion of the fund balance that have been set aside for programs, projects, and activities to be conducted in the future according to our Community Investment Strategy & Budget formally approved by our First 5 County Commission. As a result these funds are unavailable for uses other than the purposes for which they were designated. Committed fund balance represents use of funds is constrained by limits imposed by the government's highest level of decision making (Commission) and removal or modification of use of funds can be accomplished only by formal action of the Commission.

Assigned fund balance reflects a commission's intended use of resources, which is established either by the county First 5 Commission, a body created by the commission, or an official designated by commission.

**FIRST 5 EL DORADO CHILDREN AND FAMILIES COMMISSION**  
**Notes to Financial Statements**  
**June 30, 2011**

**DRAFT**

8. PROPERTY AND EQUIPMENT

Assets are stated at historical cost. Depreciation is recorded using the straight line method over the estimated useful lives of the assets presently estimated at five (5) years for furniture and equipment, fifteen years (15) for tenant improvements and dental van. Operating expenses include depreciation on all depreciable assets.

A summary of changes in fixed assets during the current year is presented as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Equipment	\$ 17,662			\$ 17,662
Tenant improvements	119,357	\$ 0	\$ 0	119,357
Furniture	21,719			21,719
Dental Van		643,249		643,249
Accumulated depreciation	(41,770)	(44,463)	0	(86,233)
Net	\$ 116,968	\$ 598,786	\$ 0	\$ 715,754

9. RISK MANAGEMENT

The Commission is exposed to various risks of loss. The Commission has purchased insurance to cover general liability up to \$1 million each for bodily injury, property damage, personal injury, automobile liability, employment practices, and errors and omissions.

10. PROGRAM EVALUATION

The Commission is required by the California State Commission to disclose the amount spent on Program Evaluation. During the fiscal year ended June 30, 2011 the Commission spent \$58,893 on program evaluation during the audit period.

**SUPPLEMENTAL INFORMATION**

**DRAFT**

**FIRST 5 EL DORADO CHILDREN AND FAMILIES COMMISSION**  
**Statement of Governmental Funds Revenues, Expenditures and Changes in Fund Balance**  
**Budget and Actual**  
**June 30, 2011**

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
<b>Revenues</b>				
Prop 10 taxes	\$ 1,318,747	\$ 1,318,747	\$ 1,278,714	\$ (40,033)
Miscellaneous income	22,858	22,858	7,070	(15,788)
Investment income	<u>20,000</u>	<u>20,000</u>	<u>10,925</u>	<u>(9,075)</u>
<b>Total Revenues</b>	<u>1,361,605</u>	<u>1,361,605</u>	<u>1,296,709</u>	<u>(64,896)</u>
<b>Expenditures</b>				
Salaries and benefits	386,000	403,119	395,337	7,782
Professional	12,000	9,000	8,050	950
Services and supplies	90,400	88,990	71,885	17,105
Program	<u>2,869,066</u>	<u>2,869,066</u>	<u>2,246,691</u>	<u>622,375</u>
<b>Total Expenditures</b>	3,357,466	3,370,175	2,721,963	648,212
Extraordinary Amounts to be paid AB 99			2,327,950	
<b>Change in Fund Balance</b>	<u>\$ (1,995,861)</u>	<u>\$ (2,008,570)</u>	<u>\$ (3,753,204)</u>	<u>\$ 583,316</u>

See accompanying notes to the financial statements.

**OTHER SUPPLEMENTARY INFORMATION**

**FIRST 5 EL DORADO CHILDREN FAMILIES COMMISSION**  
**Schedule of Expenditures**  
**For the Year Ended June 30, 2011**

	Administration	Program				Evaluation	Total
		Improved Family Functioning	Improved Child Development	Improved Health	Improved Systems of Care		
EXPENDITURES							
Salaries and benefits	\$ 197,667	\$ 1,319	\$ 82,543	\$ 89,395	\$ 19,727	\$ 4,686	\$ 395,337
Program contract and other allocations		14,988	938,178	1,016,053	224,212	53,260	2,246,691
Professional and specialized services	4,025	27	1,681	1,820	402	95	8,050
Services and supplies	35,942	240	15,009	16,255	3,587	852	71,885
<b>TOTAL EXPENDITURES</b>	<b>\$ 237,634</b>	<b>\$ 16,574</b>	<b>\$ 1,037,411</b>	<b>\$ 1,123,523</b>	<b>\$ 247,928</b>	<b>\$ 58,893</b>	<b>\$ 2,721,963</b>

**COMPLIANCE SECTION**

First 5 El Dorado Children and Families Commission  
Placerville, California

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*

I have audited the financial statements of the First 5 El Dorado Children and Families Commission, a component unit of El Dorado County, as of and for the year ended June 30, 2011 and have issued my report thereon dated September 29, 2011. I conducted my 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 my audit, I considered the First 5 El Dorado Children and Families Commission's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the First 5 El Dorado Children and Families Commission's internal control over financial reporting. Accordingly, I 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 financial statements will not be prevented or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the First 5 El Dorado Children and Families Commission's financial statements are free of material misstatements, I 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 the provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the County Board of Supervisors, First 5 El Dorado Children and Families Commission, the State Commission, the State Controller's Office, federal agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Vaughn Johnson*

Vaughn Johnson, CPA  
September 29, 2011

**FIRST 5 EL DORADO CHILDREN AND FAMILIES COMMISSION  
Schedule of Findings of Non-Compliance  
For the Year Ended June 30, 2011**

**DRAFT**

There were no findings of non-compliance in the fiscal year ended June 30, 2011.

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Commissioners  
 First 5 El Dorado Children and Families Commission  
 Placerville, California

I have audited the basic financial statements for the First 5 El Dorado Children and Families Commission (the Commission), a component unit of El Dorado County, as of and for the year ended June 30, 2011 and have issued my report thereon dated September 29, 2011. I conducted my 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. I have also audited the Commission's compliance with the requirements specified in the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, issued by the State Controller's Office, applicable to the Commission's statutory requirements identified below for the year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of the Commission's management. My responsibility is to express an opinion on the Commission's compliance based on my audit.

I conducted my compliance audit in accordance with 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 I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the statutory requirements listed below occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of the Commission's compliance with those requirements.

In connection with the audit referred to above, I selected and tested transactions and records to determine the Commission's compliance with the laws and regulations applicable to the items:

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

In my opinion, First 5 El Dorado Children and Families 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, 2011.

This report is intended solely for the information of the County Board of Supervisors, the County Commission, the State Commission, and the State Controller's Office and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

*Vaughn Johnson*  
 Vaughn Johnson, CPA  
 September 29, 2011