SIMONA PADILLA-SCHOLTENS, CPA
SOLANO COUNTY AUDITOR-CONTROLLER'S OFFICE

INTERNAL AUDIT SERVICES

AN AUDIT OF THE
FIRST 5 SOLANO
CHILDREN & FAMILIES COMMISSION

Independent Auditor's Report and Financial Statements

Independent Auditor's Report on Compliance and Internal Control over Financial Reporting

Independent Auditor's Report on State Compliance

For the fiscal year ended June 30, 2010

Auditor-Controller: Simona Padilla-Scholtens, CPA
Audit Manager: Ian Goldberg, CGAP
Auditor: Melinda S. Ingram, CPA

First 5 Solano
Children & Families Commission

For the fiscal year ended June 30, 2010

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First 5 Solano Children & Families Commission
Commission Members
(as of audit report date)

Debbee Gossell, Chairperson
Speech Language Pathologist-Special Education Teacher, Vacaville Unified School District

Dan Ayala, Vice Chairperson
Funeral Arranger/Counselor, Bryan Braker Funeral Home

Norma Thigpen
Health Services Manager, Black Infant Health Program, Solano County

Elaine Norinsky
Solano Community College Dean of Health Occupations (retired)

Dana Dean
Principal- Law Offices of Dana Dean/Benicia School Board Trustee

Sheryl Fairchild
Community College Faculty Intern

Dee Alarcón
Solano County Superintendent of Schools

Stephan Betz
Assistant Director- Operations, Health & Social Services, Solano County

Linda Siefert
Solano County Board of Supervisors District 2

Executive Director:
Christina L. Arrostuto

Deputy Director:
Michele D. Harris

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OFFICE OF THE AUDITOR-CONTROLLER

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Auditor-Controller

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Phyllis Taynton, CPA
Assistant Auditor-Controller

Independent Auditor's Report

First 5 Solano
Children and Families Commission

We have audited the accompanying basic financial statements of First 5 Solano Children & Families Commission (First 5 Solano) Special Revenue Funds, as of and for the fiscal year ended June 30, 2010. These financial statements are the responsibility of the First 5 Solano Children & Families Commission management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In connection with the audit contained herein, there are certain disclosures that are necessary pursuant to *Government Auditing Standards Statement No.3*, more specifically, the general standard related to independence. As required by various statutes within the California Government Code, County Auditor-Controller's are mandated to perform certain accounting, auditing and financial reporting functions. These activities could impair an audit organization's independence. 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 Auditor-Controller is statutorily obligated to maintain the accounts of departments, districts, or funds that reside within the county treasury, we believe that the following safeguard and division of responsibility exists. The Internal Audit Division has the responsibility to perform audits within the Auditor-Controller's Office and as such has no other responsibility for the accounts and records being audited including the approval or posting of financial transactions that would therefore preclude the reader of this report from relying on the information contained therein.

As discussed in Note I. A, the financial statements present only the First 5 Solano Children & Families Commission Special Revenue Funds and do not purport to, and do not, present fairly the financial position of the County of Solano, as of June 30, 2010, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, except for the disclosure for *Government Auditing Standards Statement No.3* as noted above, the financial statements referred to above present fairly, in all material respects, the financial position of First 5 Solano Children and Families Commission as of June 30, 2010, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 5-11 and the budgetary comparison information on pages 27-28 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued two reports dated September 23, 2010, on our consideration of the Commission's internal control over financial reporting, the Commission's compliance with certain provisions of laws and regulations and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of these reports is to describe the scope of our testing of internal control over financial reporting and compliance with various provisions of laws and regulations and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance with various provisions of laws and regulations. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Simona P. Scholtens

Simona P. Scholtens, CPA
Auditor-Controller

September 23, 2010

Management's Discussion and Analysis

As management of the First 5 Solano Children & Families Commission, we offer readers of the Commission's financial statements this narrative overview and analysis of the financial activities of the Commission for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with additional information in our financial statements.

Financial Highlights

- The Commission's net assets totaled $17,558,654 at June 30, 2010. Of this amount, the entire $17,558,654 is restricted for the purposes outlined under the California Children and Families Act of 1998 (Proposition 10).
- The Commission's total net assets decreased by $2,172,362 as a result of the fiscal year's operations. This decrease in net assets was anticipated as First 5 Solano receives funding from the Proposition 10 tax on tobacco, which is a declining funding source. The Commission has a Long-Term Financial Plan that spends down their total assets over time.
- At June 30, 2010, the Commission's governmental funds reported an ending fund balance of $17,638,613, a decrease of $2,180,414 as a result of current year's operations. Approximately $2,981,439 is available for spending at the Commission's discretion to meet current year funding requirements (unreserved, undesignated fund balance).

Overview of the Financial Statements

This management discussion and analysis is intended to serve as an introduction to the Commission's basic financial statements. The Commission's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

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 similar to a private-sector business.

The statement of net assets presents information on the Commission's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating. The Commission has adopted a Long-Term Financial Plan (LTFP) which spends the Commission's assets over an eight year period of time.
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The statement of activities presents information showing how the Commission's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of 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.

The government-wide financial statements can be found on pages 12-13 of this report.

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 state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental 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. Such information may be useful in evaluating a Commission's near-term financing requirements.

Since the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Commission's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The basic governmental fund financial statements can be found on pages 14-17 of this report.

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 fund financial statements. The notes to the financial statements can be found on pages 18-25 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Commission's budgetary comparison schedule for the Special Revenue Funds. Required supplementary information can be found on pages 27-29 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the Commission's financial position. In the case of the Commission, assets exceeded liabilities by $17,558,654 at June 30, 2010.

First 5 Solano Children & Families Commission
Statement of Net Assets
as of June 30, 2010 & 2009

	6/30/2010	6/30/2009
Assets:		
Current and other assets	$ 19,322,412	$ 21,286,566
Total assets	$ 19,322,412	$ 21,286,566
Liabilities:		
Current liabilities	$ 1,683,799	$ 1,467,539
Noncurrent liabilities	79,959	88,011
Total liabilities	1,763,758	1,555,550
Net Assets:		
Restricted	17,558,654	19,731,016
Total net assets	17,558,654	19,731,016
Total liabilities and net assets	$ 19,322,412	$ 21,286,566

The Commission's total restricted net assets, for fiscal year 2009/10 have limitations on their use imposed by legally enforceable enabling legislation [California Children and Families Act of 1998 (Proposition 10)].

The key elements in the significant changes in current assets and liabilities are as follows:

Current assets: Current assets decreased by $1,964,154 from fiscal year 2008/09 to 2009/10. The primary reason for the decrease is a reduction in the Commission's cash in the County Treasury resulting from the funding of various multi-year grantee agreements coupled with the continuing anticipated reduction in tobacco tax revenue. In addition, amounts due from various organizations decreased in the current fiscal year.

Current liabilities: Current liabilities increased by $216,260 from fiscal year 2008/09 primarily as a result of outstanding warrants and amounts due to other agencies. Outstanding warrants represent warrants issued but not presented to the County Treasury for payment as of the balance sheet date and amounts due to other agencies represent outstanding grant related expenses incurred but not yet reimbursed to various grantee organizations.

Governmental (Commission) activities decreased the Commission's net assets by $2,172,362 during fiscal year 2009/10, which represents a decrease of 11% from fiscal year 2008/09 total net assets.

First 5 Solano Children & Families Commission
Changes in Net Asssets
For the fiscal years ended June 30, 2010 & 2009

	2010	2009
General expenses:		
Employee services	$ 1,006,187	$ 942,387
Professional & specialized services	111,035	141,871
Rents & leases	87,467	86,700
Office renovation	80,000	-
Insurance	32,437	7,005
Administrative overhead	30,132	18,396
Interfund services	27,078	9,186
Special departmental expense	17,215	28,013
Transportation & travel	10,569	13,230
Supplies	8,660	17,164
Communication	8,418	10,217
Non-capitalized equipment	3,900	4,445
Maintenance	278	3,473
Miscellaneous	10,221	9,798
Total general expenses	1,433,597	1,291,885
Program expenses:		
Pre-natal	$ 1,296,493	$ 1,332,123
School readiness	975,780	833,461
Early mental health	936,974	758,284
SR family support	904,637	912,260
Child care and development	315,457	204,136
Program evaluation costs	274,430	253,140
EPSDT	271,156	-
Health access initiative	246,354	272,135
Child care-CARES	172,286	198,316
Internal programs	168,972	331,778
Direct services	157,000	15,008
Community engagement	57,869	-
Organizational support	57,755	-
Co-sponsorship of conferences	50,000	29,101
New parent kits	42,345	-
Total program expenses	5,927,508	5,139,742
Total expenses	7,361,105	6,431,627
Program revenues:		
Operating grants and contributions	4,494,925	4,979,402
Charges for services	438,434	128,888
Total program revenues	4,933,359	5,108,290
Net program expenses	(2,427,746)	(1,323,337)
General revenues:		
Revenues from the use of money and property	232,841	446,613
MediCal administrative activities (MAA)	19,886	74,730
Miscellaneous	2,657	2,550
Total general revenues	255,384	523,893
Change in net assets	(2,172,362)	(799,444)
Net assets:		
Beginning of the fiscal year	19,731,016	20,389,224
Prior period adjustment	-	141,236
Beginning, restated	19,731,016	20,530,460
End of the fiscal year	$ 17,558,654	$ 19,731,016

The key elements in the significant changes in net assets are as follows:

Program revenues: Program revenues decreased overall from prior year by $174,931 due to the following:

- Operating grants and contributions decreased by $484,477 as a result of the decline in Proposition 10 State funding from First 5 California. The trend for this revenue stream is to decrease over time as the overall sales of tobacco products declines each year.
- Charges for services increased by $309,546 as a result of the Commission partnering with the Health & Social Services Department to provide early childhood mental health services.

Program expenses: Program expenses increased from prior year by $787,766 due to the following:

- Funded programs for school readiness, early mental health, child care & development, early periodic screening diagnosis and treatment (EPSDT) and direct service grants increased specific services that address the key initiatives identified by the Commission.

General revenues: General revenues decreased from prior year by $268,509 due to the following:

- Interest earnings on the Commission's funds maintained in the County Treasury decreased by $213,772 from prior year. The decrease is due to the decline in interest earnings from the County Treasury Cash/Investment Pool resulting from current economic conditions impacting market interest rates.
- Medi-Cal administrative activities (MAA) reimbursement from the State declined from prior year by $54,844 due to less Commission staff time dedicated to such support services.

General expenses: General expenses increased from prior year by $141,712 due to the following:

- Employee services increased from the prior year in the amount of $63,800 as a result of the addition of a full-time Accounting Technician as well as merit and COLA increases.
- Office renovation expenses increased by $80,000 due to a one- time charge for tenant improvements associated with the relocation of the First 5 Solano Administrative Office to a County owned building.

Financial Analysis of the Commission's Governmental Funds

As noted earlier, the Commission uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The Special Revenue Fund is a governmental fund type that is used to account for general government functions of the Commission. The Special Revenue Fund is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The focus of the Commission's governmental fund is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Commission's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At June 30, 2010, the Commission's governmental funds reported a combined ending fund balance of $17,638,613. This was the result of a decrease to fund balance of $2,180,414 for the fiscal year ended June 30, 2010. Of the ending fund balance, $2,981,439 constitutes unreserved, undesignated fund balance, which is considered to be available for spending at the Commission's discretion.

Governmental revenues totaled $5,188,743 in fiscal year 2009/10. This represents a 8% decrease from fiscal year 2008/09 which is primarily due to declines in interest earnings from the County Treasury Cash/Investment Pool as well as the Proposition 10 tobacco tax annual allocation from the State Commission.

Conversely, expenditures totaled $7,289,157 in fiscal year 2009/10. This represents a 14% increase from fiscal year 2008/09 which is primarily due to increases in employee services and grant disbursement expenditures.

Budgetary Highlights

The General and School Readiness Programs Special Revenue Fund budgets (Original and Final versions) are reflected in the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual, as presented on pages 27-28 in the Required Supplementary Information (RSI) section of this report.

There were several changes between the original budget and the final amended budget of the General Program Special Revenue Fund in fiscal year 2009/10. The changes were the result of budget adjustments decreasing overall grant disbursements in the amount of $250,838 and decreasing general operating expenditures in the amount of $27,521. For fiscal year 2009/10, revenues recognized were less than budget by $688,084 and expenditures incurred were less than budget by $1,346,020. This was the result of the Commission incurring fewer grant disbursement expenditures than anticipated which was the result of various grantee organizations under spending their annual allocation.

There were minimal changes between the original budget and the final amended budget of the School Readiness Program Special Revenue Fund in fiscal year 2009/10. The adjustment to the School Readiness grant allocation increased in the amount of $195,717. For fiscal year 2009/10, revenues recognized exceeded budget by $56,191 and expenditures incurred were less than budget by $156,885. This was mainly the result of school readiness program sites under spending their total annual allowable allocation and the elimination of Americorp services.

Debt Administration

Long-term debt. At June 30, 2010 the Commission had $79,959 of long term debt composed entirely of compensated absences. This amount is entirely backed by the full faith and credit of the Commission. For more information see Note II A on page 22 of this report.

Economic Factors and Next Year's Operating Activities

The Commission's management anticipates an overall decrease of approximately 9% in the following significant revenue sources in the upcoming fiscal year.

- Proposition 10 tobacco funds, as the full impact of the federal State Children's Health Insurance Program (SCHIP) tax is realized.
- Interest income earned on the Commission's funds residing in the Solano County Treasury as current economic conditions continue to have a negative impact on the market interest rate.

The projected decrease is expected to be offset in part by an increase in state match program revenues attributable to the expansion of school readiness activities.

In addition, the Commission projects an overall increase of 4% in expenditures, primarily due to the following:

- School Readiness grant allocations for expanded Cycle 1 services.
- Increased allocation to the Organizational Support Fund to support development of the First 5 Futures sustainability strategy.
- An overall 3% COLA for all active grantees.

Total fund balance in excess of $17 million is dedicated to future years' spending as defined in the First 5 Solano Long-Term Financial Plan.

Requests for Information

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest with the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the First 5 Solano Children and Families Commission, 601 Texas Street, Fairfield, CA 94533.

First 5 Solano Children & Families Commission
Statement of Net Assets
June 30, 2010

ASSETS	
Current assets	
Cash & equivalents	$ 18,327,518
Due from State Commission	991,322
Accounts receivable	25
Due from other county funds	3,547
Total current assets	19,322,412
Total assets	$ 19,322,412
LIABILITIES	
Current liabilities	
Accounts payable	$ 641,993
Outstanding warrants	243,745
Due to other county funds	480,108
Due to other agencies	317,953
Total current liabilities	1,683,799
Noncurrent liabilities	
Compensated absences	79,959
Total noncurrent liabilities	79,959
Total liabilities	1,763,758
Net Assets	
Restricted	17,558,654
Total net assets	17,558,654
Total liabilities and net assets	$ 19,322,412

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

First 5 Solano Children & Families Commission
Statement of Activities
For the fiscal year ended June 30, 2010

General expenses:		
Employee services	$	1,006,187
Professional & specialized services		111,035
Rents & leases		87,467
Office renovation		80,000
Insurance		32,437
Administrative overhead		30,132
Interfund services		27,078
Special departmental expense		17,215
Transportation & travel		10,569
Supplies		8,660
Communication		8,418
Non capitalized equipment		3,900
Maintenance		278
Miscellaneous		10,221
Total general expenses		1,433,597
Program expenses:		
Pre-natal		1,296,493
School readiness		975,780
Early mental health		936,974
SR family support		904,637
Child care and development		315,457
Program evaluation costs		274,430
EPSDT		271,156
Health access initiative		246,354
Child care - CARES		172,286
Internal programs		168,972
Direct service		157,000
Community engagement		57,869
Organizational support		57,755
Co-sponsorship of conferences		50,000
New parent kits		42,345
Total program expenses		5,927,508
Total expenses		7,361,105
Program revenues:		
Operating grants and contributions		4,494,925
Charges for services		438,434
Total program revenues		4,933,359
Net program (expenses)		(2,427,746)
General revenues:		
Revenues from the use of money and property		232,841
MediCal administrative activities (MAA)		19,886
Miscellaneous		2,657
Total general revenues		255,384
Change in net assets		(2,172,362)
Net assets:		
Beginning of the fiscal year		19,731,016
End of the fiscal year	$	17,558,654

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

First 5 Solano Children & Families Commission
Balance Sheet
Governmental Funds
June 30, 2010

	General Program	School Readiness Program	Total Governmental Funds
Assets			
Cash & equivalents	$ 17,292,377	$ 1,035,141	$ 18,327,518
Due from State Commission	701,346	289,976	991,322
Accounts receivable	25	-	25
Due from other county funds	3,547	-	3,547
Prepaid expense	-	-	-
Total assets	$ 17,997,295	$ 1,325,117	$ 19,322,412
Liabilities			
Accounts payable	$ 641,993	$ -	$ 641,993
Outstanding warrants	243,745	-	243,745
Due to other county funds	480,108	-	480,108
Due to other agencies	52,343	265,610	317,953
Total liabilities	1,418,189	265,610	1,683,799
Fund Balance			
Reserved for:			
Encumbrances	19,130	-	19,130
Unreserved, designated for:			
Local initiatives and program sustainability	14,638,044	-	14,638,044
Unreserved, undesignated	1,921,932	1,059,507	2,981,439
Total fund balance	16,579,106	1,059,507	17,638,613
Total liabilities and fund balance	$ 17,997,295	$ 1,325,117	$ 19,322,412

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

First 5 Solano Children & Families Commission
Reconciliation of the Balance Sheet
of Governmental Funds to the Statement of Net Assets
For the fiscal year ended June 30, 2010

Governmental fund balance	$ 17,638,613
Amounts reported for governmental activities in the statement of net assets are different because:	
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	
Compensated absences	(79,959)
Net assets of governmental activities	$ 17,558,654

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

First 5 Solano Children & Families Commission
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the fiscal year ended June 30, 2010

	General Program	School Readiness Program	Total Governmental Funds
Revenues:			
Intergovernmental revenues	$ 3,327,087	$ 1,167,838	$ 4,494,925
Charges for services	438,434	-	438,434
Revenues from the use of money and property	220,297	12,544	232,841
MediCal administrative activities (MAA)	19,886	-	19,886
Miscellaneous	225	2,432	2,657
Total revenues	4,005,929	1,182,814	5,188,743
Expenditures:			
General:			
Employee services	875,054	139,185	1,014,239
Program evaluation costs	274,430	-	274,430
Professional & specialized services	100,942	10,093	111,035
Rents & leases	76,427	11,040	87,467
Insurance	28,934	3,503	32,437
Administrative overhead	26,365	3,767	30,132
Interfund services	27,078	-	27,078
Special departmental expense	16,390	825	17,215
Transportation & travel	9,122	1,447	10,569
Supplies	7,723	937	8,660
Communication	8,418	-	8,418
Non capitalized equipment	3,900	-	3,900
Maintenance	278	-	278
Miscellaneous	9,326	895	10,221
Total general expenditures	1,464,387	171,692	1,636,079
Grant disbursements:			
Pre-natal	1,296,493	-	1,296,493
School readiness	-	975,780	975,780
Early mental health	936,974	-	936,974
SR family support	904,637	-	904,637
Child care and development	315,457	-	315,457
EPSDT	271,156	-	271,156
Health access initiative	246,354	-	246,354
Child care - CARES	172,286	-	172,286
Internal programs	159,724	9,248	168,972
Direct service	157,000	-	157,000
Community engagement	57,869	-	57,869
Organizational support	57,755	-	57,755
Co-sponsorship of conferences	50,000	-	50,000
New parent kits	42,345	-	42,345
Total grant disbursements	4,668,050	985,028	5,653,078
Total expenditures	6,132,437	1,156,720	7,289,157
Excess/(deficiency) of revenues over/(under) expenditures	(2,126,508)	26,094	(2,100,414)
Other financing uses:			
Transfers out-office renovation	80,000	-	80,000
Total other financing uses	80,000	-	80,000
Net change in fund balance	(2,206,508)	26,094	(2,180,414)
Fund balances - beginning	18,785,614	1,033,413	19,819,027
Fund balances - ending	$ 16,579,106	$ 1,059,507	$ 17,638,613

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

First 5 Solano Children & Families Commission
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance
of Governmental Funds to the Statement of Activities
For the fiscal year ended June 30, 2010

Net change in fund balance	$ (2,180,414)
Amounts reported for governmental activities in the statement of activities are different because:	
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	
Compensated absences	8,052
Change in net assets of governmental activities	$ (2,172,362)

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

First 5 Solano Children & Families Commission
Notes to the Financial Statements
For the fiscal year ended June 30, 2010

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Solano County is a political subdivision of the State of California. An elected, five-member Board of Supervisors governs the County.

First 5 Solano Children and Families Commission of Solano County (Commission) was organized on July 8, 1999, by the Solano County Board of Supervisors through the adoption of Ordinance No. 1579 in accordance with the California Children and Families Act of 1998. The Commission currently operates under the State of California Health and Safety Code § 130100-130155 and Solano County Code § 7.3. The purpose of the Commission is to promote, support, and improve the early development of children from the prenatal stage through five years of age. The First 5 Solano Commission is funded by a tax of fifty (50) cents per pack of cigarettes and by a similar tax on other tobacco related products.

The Commission consists of nine members serving four-year terms. The Board of Supervisors of Solano County approves the appointment of each member.

The activities of the Commission are accounted for as a special revenue fund. This is a governmental fund type which is a part of the basic financial statements of the County of Solano, the reporting entity. The Special Revenue Fund accounts for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.

B. Government-wide and Fund Financial Statements

The Commission's financial accounts are maintained in accordance with generally accepted accounting principles (GAAP) and the uniform accounting system for counties prescribed by the State Controller in compliance with the Government Code of the State of California.

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Commission. The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Intergovernmental revenue, interest income and other items not properly included among program revenues are reported as general revenues.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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 when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year they are levied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Proposition 10 funds, grants, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the government receives cash.

The Commission reports the following major governmental fund:

The *Special Revenue Fund* is the Commission's primary operating fund. The Special Revenue Fund is used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

The amounts reported as program revenues in the statement of activities include charges to customers for program services, as well as operating grants received from First 5 California. General revenues include Proposition 10 state funding as well as interest income.

D. Assets, Liabilities, Net Assets or Equity

1. Cash

The Commission’s cash is maintained in the County Treasury and is pooled with the County of Solano. The Commission is a mandatory depositor, pursuant to Solano County Code § 7.3 and Health & Safety Code § 130105. The Commission’s ability to withdraw large sums of cash from the County Treasury may be subject to certain restrictions set by the County Treasurer.

The County's pooled cash and investments are invested pursuant to investment policy guidelines established by the County Treasurer and approved by the County Board of Supervisors. The objectives of the policy (in order of priority) are: legality, preservation of capital, liquidity, and yield. The policy addresses the soundness of financial institutions in which the County will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio which may be invested in certain instruments with longer terms of maturity. The County Treasury Oversight Committee annually reviews the investment

policy and the portfolio activity. A detailed breakdown of cash and investments and a categorization of risk factors per GASB Statement No. 40, *Deposits and Investment Risk Disclosures*, are presented in the County of Solano Comprehensive Annual Financial Report.

2. Due from State Commission

Due from State Commission represents amounts approved by the State Commission, but not received as of June 30.

3. Accounts Receivable

Accounts receivable represents the balance owed to the Commission for services rendered.

4. Due to/ from other county funds

Due to other funds/from other funds represents amounts owed to/by funds within the County for grantee services provided by Health and Social Services Department.

5. Accounts Payable

Accounts payable represents the balance owed for goods received and/or services rendered.

6. Outstanding Warrants

Outstanding warrants represent the amount of warrants issued but not yet presented to the County for payment. When warrants are mailed, expenditures are recorded in the Commission's fund and an outstanding warrant liability is created, pending payment of the warrant.

7. Due to Other Agencies

Due to other agencies represents amounts owed to grantees outside the reporting entity.

8. Compensated Absences

The Commission follows County policy which permits permanent employees to accumulate earned but unused vacation and sick leave benefits. Accrued vacation and sick leave is paid at the time of the employee's termination based on established County limitations. Compensated absences leave is accrued when incurred in the government-wide financial statements. A liability is reported in the governmental fund only if unused vacation and sick leave after limitations are expected to be liquidated (paid out due to an employee separating from service with the Commission) with expendable available financial resources.

The notes to the County's basic financial statements provide detail for the County as a whole regarding compensated absences in accordance with accounting principles generally accepted in the United States of America.

9. Net Assets/Fund Balance

The government-wide financial statements utilize a net assets presentation. Net assets are categorized as restricted.

- *Restricted* – This category represents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Reservations and designations of fund balance represents segregated portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by GAAP and the actions of the Commission.

As of June 30, 2010, reservations of fund balance are described below:

- *Encumbrances* – reflects outstanding contractual obligations for which goods and services have not been received as of June 30, 2010.

As of June 30, 2010, the portion of fund balance classified as unreserved is described below:

- *Designated for Local Initiatives and Program Sustainability* – reflects the portion of fund balance reserved to operate a specific program or project in the current or future fiscal years that has not yet been encumbered or authorized for definite contracts and funds that have been set aside for long-term program sustainability based on the Commission's Long Term Financial Plan.

- *Undesignated funds*– reflects the fund balance not designated for any specific purpose and available to support current year programs.

10. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

II. DETAILED NOTES

A. *Compensated Absences*

Long-term liability activity for the fiscal year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated absences	$ 88,011	$ -	$ 8,052	$ 79,959	$ -
Total compensated absences	$ 88,011	$ -	$ 8,052	$ 79,959	$ -

III. OTHER INFORMATION

A. Description of Programs

1. General Program

General programs address the issue of developing a comprehensive, collaborative, and integrated system of information and services to promote, support, and optimize early childhood development from the prenatal stage to five years of age.

2. School Readiness (SR)

The School Readiness Initiative is a jointly-funded (State and County First 5 Commissions) set of services to children ages 0-5 and their families which are designed to better prepare children to enter Kindergarten healthy and ready to learn. There are four SR school/neighborhood "catchment areas" in Solano County that bring together resources from early education, schools, families, health, social services, Family Resource Centers, and other community partners to promote school readiness. The goal of the statewide initiative is to ensure that children are ready for school, schools are ready for children, and to engage parents as their children's first and best teachers. SR programs feature Pre-Kindergarten Academies, parent advisory groups, parent education, health and other social services, as well as articulation activities between the early care/preschool and Kindergarten systems and other system change activities.

3. Integrated Family Support Initiative (IFSI) - (SR Family Support)

IFSI is a comprehensive set of services which are centrally coordinated through the Family Resource Center network in Solano County, including information and referral, basic needs, and home-visiting for high-risk families. IFSI features multi-disciplinary team case conferencing (including a Child Welfare Services Social Worker and Public Health Nurse), case management, information-sharing via a comprehensive case management and tracking system, parenting education, provider capacity-building and support, and many other services to children ages 0-5 and their families.

4. Quality Child Care Initiative – (Child Care and Development)

a. Comprehensive Approaches to Raising Educational Standards (CARES)

CARES is a jointly-funded (State and County First 5 Commissions) program to provide resources to address the retention of qualified child care employees and increase the education and skills of the child care workforce for children aged birth-to-five. The local CARES program is administered in conjunction with a parallel program for school-age children which is funded pursuant to the State of California Education Code Section 8300 and administered through the California Department of Education.

b. Head Start Wrap-Around Care

This grant funds full-day, full-year wrap-around care for up to 40 children in the Head Start Program.

c. Constructing Connections

The ABCD "Constructing Connections" project is designed to create a streamlined process for the financing, construction, and development of child care facilities in Solano County.

d. Child Care Access

The Child Care Access grant is designed to improve the lives of children and families by encouraging partnerships, promoting the use of data, developing resources and tools, and emphasizing the importance of outcomes and results.

5. BabyFirst Solano Initiative – (Prenatal Services Initiative)

BabyFirst Solano is designed to help increase the number of children born full-term at optimum birthweight and health, and to help reduce infant mortality, low birth weight, and pre-/perinatal substance abuse.

6. Children's Health Initiative – (Health Access Initiative)

The Commission is a funding partner in the Regional Children's Health Initiative with the goal of 100% health insurance coverage for children in Solano, Napa, Sonoma, and Yolo Counties. SKIP (Solano Kids Insurance Program) is funded to increase the number of children ages 0-5 who have health insurance and access to health services. The program includes outreach, enrollment, assistance to access medical services, and health insurance retention assistance.

7. Early Childhood Mental Health Initiative

a. Early Periodic Screening Diagnosis and Treatment (EPSDT)

First 5 Solano provides funding to Solano County Health and Social Services Department to expand the EPSDT program, which provides early mental health screening, assessment and treatment to Medi-Cal-eligible children. The Commission funding leverages a 90% state and federal match which exponentially increases the capacity of the early childhood mental health system.

b. Partnership for Early Access for Kids (PEAK) Initiative

The PEAK initiative is a county-wide, multi-agency collaborative with the overarching goal of earlier identification of infants and children with special needs in order to link them with needed services prior to reaching school age, thus improving their developmental potential.

B. Program Evaluation Costs

The Commission spent $274,430 on program evaluation during the audit period. Evaluation activities include an ongoing, countywide evaluation of First 5 Solano Children and Families Commission funded programs, initiatives and system-change activities aimed at improvements in the health, well-being and development of young children.

C. Employee Pension Plan

Plan Description: The Commission contributes through the County of Solano to the California Public Employees Retirement System (CalPERS), an agent multiple-employer public employee defined benefit pension plan. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public employers within the State of California. Benefit provisions and all other requirements are established by state statute and local ordinance. CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from CalPERS Executive Office located at 400 P St., Sacramento, CA 95814.

All permanent employees participate in CalPERS. Benefits vest after five years of service. Employees who retire at or after age 50 with five years of credited service are entitled to retirement benefits. CalPERS combines pension details of the Commission with the County of Solano. The notes to the County of Solano Comprehensive Annual Financial Report provide detail for the County as a whole regarding actuarial funding and assumptions, annual pension costs and unfunded liability as required in accordance with accounting principles generally accepted in the United States of America.

D. Risk Management

The County carries coverage administered through the Solano County Risk Management Division, for all risks under a multi-peril policy, including accident and property, workers' compensation, and general liability insurance programs.

Solano County also participates in the California State Association of Counties–Excess Insurance Authority (CSAC-EIA), a joint powers authority created to provide self-insurance programs for California counties.

REQUIRED SUPPLEMENTARY INFORMATION

First 5 Solano Childdren & Families Commission
Schedule of Revenues, Expenditures and Changes in Fund Balance
General Program
Budget and Actual
For the fiscal year ended June 30, 2010

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Intergovernmental revenues	$ 3,614,699	$ 3,614,699	$ 3,327,087	$ (287,612)
Charges for services	456,000	456,000	438,434	(17,566)
Revenues from the use of money & property	593,314	593,314	220,297	(373,017)
MediCal administrative activities (MAA)	30,000	30,000	19,886	(10,114)
Miscellaneous	-	-	225	225
Total revenues	4,694,013	4,694,013	4,005,929	(688,084)
Expenditures:				
General				
Employee services	915,643	890,152	875,054	15,098
Program evaluation costs	297,430	297,430	274,430	23,000
Professional & specialized services	175,325	175,325	100,942	74,383
Rents & leases	82,426	82,426	76,427	5,999
Insurance	32,442	32,442	28,934	3,508
Interfund services	-	-	27,078	(27,078)
Administrative overhead	26,365	26,365	26,365	-
Special departmental expense	24,700	24,700	16,390	8,310
Transportation & travel	19,000	19,000	9,122	9,878
Communication	12,686	12,686	8,418	4,268
Supplies	19,125	17,095	7,723	9,372
Non capitalized equipment	4,000	4,000	3,900	100
Maintenance	4,500	4,500	278	4,222
Miscellaneous	8,300	8,300	9,326	(1,026)
Total expenditures	1,621,942	1,594,421	1,464,387	130,034
Grant disbursements:				
Pre-natal	1,519,114	1,519,114	1,296,493	222,621
Early mental health	976,300	976,300	936,974	39,326
SR family support	950,048	950,048	904,637	45,411
Child care and development	263,481	475,661	315,457	160,204
EPSDT	300,000	300,000	271,156	28,844
Health access initiative	286,443	286,443	246,354	40,089
Child care - CARES	177,056	177,056	172,286	4,770
Internal programs	171,135	173,165	159,724	13,441
Direct service	1,241,297	776,249	157,000	619,249
Community engagement	60,000	60,000	57,869	2,131
Organizational support	100,000	100,000	57,755	42,245
Co-sponsorship of conferences	50,000	50,000	50,000	-
New parent kits	40,000	40,000	42,345	(2,345)
Total grant disbursements	6,134,874	5,884,036	4,668,050	1,215,986
Total expenditures	7,756,816	7,478,457	6,132,437	1,346,020
Excess/(deficiency) of revenues over/(under) expenditures	(3,062,803)	(2,784,444)	(2,126,508)	657,936
Other financing uses:				
Transfers out-office renovation	-	80,000	80,000	-
Total other financing uses	-	80,000	80,000	-
Net change in fund balance	(3,062,803)	(2,864,444)	(2,206,508)	(657,936)
Fund balances - beginning	18,785,614	18,785,614	18,785,614	-
Fund balance - ending	$ 15,722,811	$ 15,921,170	$ 16,579,106	$ (657,936)

The notes to the required supplementary information are an integral part of this statement.

First 5 Solano Childdren & Families Commission
Schedule of Revenues, Expenditures and Changes in Fund Balance
School Readiness Program
Budget and Actual
For the fiscal year ended June 30, 2010

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Intergovernmental revenues	$ 1,117,896	$ 1,117,896	$ 1,167,838	$ 49,942
Revenues from the use of money & property	-	-	12,544	12,544
Miscellaneous	8,727	8,727	2,432	(6,295)
Total revenues	1,126,623	1,126,623	1,182,814	56,191
Expenditures:				
General				
Employee services	169,227	166,412	139,185	27,227
Rents & leases	9,418	9,418	11,040	(1,622)
Professional & specialized services	6,392	6,392	10,093	(3,701)
Administrative overhead	3,767	3,767	3,767	-
Insurance	-	-	3,503	(3,503)
Transportation & travel	3,000	3,000	1,447	1,553
Supplies	1,875	1,875	937	938
Special departmental expense	7,000	7,000	825	6,175
Miscellaneous	-	-	895	(895)
Total general expenditures	200,679	197,864	171,692	26,172
Grant disbursements:				
School readiness	899,024	1,071,892	975,780	96,112
Internal programs	21,000	43,849	9,248	34,601
Total grant disbursements	920,024	1,115,741	985,028	130,713
Total expenditures	1,120,703	1,313,605	1,156,720	156,885
Excess of revenues over/(under) expenditures	5,920	(186,982)	26,094	213,076
Fund balance - beginning	1,033,413	1,033,413	1,033,413	
Fund balance - ending	$ 1,039,333	$ 846,431	$ 1,059,507	$ 213,076

The notes to the required supplementary information are an integral part of this statement.

First 5 Solano Children & Families Commission
Notes to Required Supplementary Information
For the fiscal year ended June 30, 2010

Budgetary Information

The Commission shall conform to Solano County Code § 7.3 for the First 5 Solano Children and Families Commission by approving a budget for the fiscal year in accordance with the Solano County annual budget calendar. The budget shall include anticipated revenues to the First 5 Solano Children & Families Trust Fund and shall provide for carrying out the adopted strategic plan. The budget shall be transmitted to the County Administrator for inclusion in the Final Budget of Solano County.

In accordance with provisions of Sections 29000-29144 of the California Government Code and other statutory provisions, commonly known as the County Budget Act, the County prepares and legally adopts a final balanced budget each fiscal year by July 1.

An operating budget prepared on the modified accrual basis is adopted each fiscal year for the special revenue funds.

OFFICE OF THE AUDITOR-CONTROLLER

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Auditor-Controller

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITINGS STANDARDS* AND THE CALIFORNIA CHILDREN AND FAMILIES ACT OF 1998

Children and Families Commissioners
First 5 Solano

We have audited the basic financial statements of First 5 Solano Children and Families Commission, as of and for the year ended June 30, 2010, and have issued our report thereon dated September 23, 2010. 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 purposes of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the 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 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.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with the 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 County Board of Supervisors, the County Commission, the State Commission, and 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.

Respectfully yours,

Simona P. Scholtens

Simona P. Scholtens, CPA
Auditor-Controller

September 23, 2010

OFFICE OF THE AUDITOR-CONTROLLER

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Auditor-Controller

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Assistant Auditor-Controller

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Children and Families Commissioners
First 5 Solano

We have audited the basic financial statements of the First 5 Solano Children and Families Commission, as of and for the year ended June 30, 2010, and have issued our report thereon dated September 23, 2010.

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

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

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

Based on our audit we found that, for the items tested, the Solano County First 5 Children and Families Commission complied with the laws and regulations of the items referred to above**.**

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.

Respectfully yours,

Simona P. Scholtens, CPA
Auditor-Controller

September 23, 2010