

**Sonoma County Children and Families Commission
(dba First 5 Sonoma County)**

**Annual Report
For The Fiscal Year Ended
June 30, 2009**

**Sonoma County
Children and Families Commission**

**Basic Financial Statements
For the Fiscal Year Ended
June 30, 2009
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**Sonoma County Children and Families Commission
Roster of Commission Members**

As of September 28, 2009, the Commission consisted of the following members:

- Jo Weber, Vice Chair
Director, Sonoma County Department of Human Services

- Joel Gordon, Vice Chair
Dean, Santa Rosa Junior College Child Development Department

- Jane Escobedo
Regional Director, Sonoma County Office of Education

- Katherine Foster, M.D.
Pediatrician

- Efren Carrillo
Sonoma County Board of Supervisors

- Tamah Hulett
Parent Representative

- Rita Scardaci
Director, Sonoma County Department of Health Services

- Oscar Chavez
Director, Community Action Partnership of Sonoma County

Financial Section

RODNEY A. DOLE
AUDITOR-CONTROLLER
TREASURER -TAX COLLECTOR



DONNA M. DUNK
ASSISTANT
AUDITOR-CONTROLLER

ROBERT BOITANO
ASSISTANT
TREASURER

PAM JOHNSTON
ASSISTANT
TAX COLLECTOR / AUDITOR

Board of Commissioners
Sonoma County Children and Families Commission
Santa Rosa, California

Auditor's Report

We have audited the accompanying financial statements of the Sonoma County Children and Families Commission (the Commission) also known as First 5 Sonoma County, a component unit of the County of Sonoma, as of and for the year ended June 30, 2009, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on the financial statements based on our audit.

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

As required by various statutes within the California Government Code, County Auditor-Controllers are mandated to perform certain accounting, auditing, and financial reporting functions. These activities, in themselves, necessarily impair *Government Auditing Standards* of independence. Specifically, "auditors should not audit their own work or provide non-audit services in situations where the amounts or services involved are significant and/or material to the subject of the audit." Although the Auditor-Controller is statutorily obligated to maintain the accounts of departments, districts or funds that are contained within the county treasury, we believe adequate safeguards and division of responsibility exist. The staff in charge of performing audits within the Auditor-Controller Department has no other responsibility for the accounts and records being audited. This would therefore enable the reader of this report to rely on the information contained herein.

In our opinion, except for the effects, if any, of the disclosure noted above, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Commission as of June 30, 2009 and the respective changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 1, 2009, on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis (MD&A) is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the information. However, we did not audit the information and express no opinion on it.

The accompanying financial information listed as Required Supplementary Information in the Table of Contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Sonoma County Children and Families Commission. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements of each of the respective individual funds taken as a whole.

Sonoma County Auditor-Controller

October 1, 2009

Management's Discussion and Analysis

In November, 1998, voters passed a statewide ballot initiative, Proposition 10, adding an additional excise tax on cigarettes and tobacco-related products to fund programs that promote, support, and improve early childhood development for children prenatal through five years of age. Proposition 10 was designed to address the lack of public funding and support for early childhood development in the wake of a growing body of scientific evidence indicating that the emotional, physical, and intellectual environment that a child is exposed to prior to five years of age has a profound impact on how his or her brain develops. The goal is for all young children in California to reach age five healthy and ready to succeed in school.

All revenue generated from the excise tax is collected in the California Children and Families (First 5 California) Trust Fund Account and allocations are made to each of the 58 counties in the State based on the number of births recorded in the relevant county in proportion to the number of births recorded in California. Each county must establish a local Commission to oversee the use of these funds in accordance with their strategic plan. The governing body of First 5 Sonoma County is the Sonoma County Children and Families Commission.

This Management Discussion and Analysis is intended to serve as a narrative overview and analysis of the financial activities of First 5 Sonoma County for the year ended June 30, 2009. The information presented should be read in conjunction with the information furnished in the financial statements and notes to the financial statements.

Financial Highlights

During the fiscal year ended June 30, 2009, First 5 Sonoma County, under the direction of the Sonoma County Children and Families Commission (the Commission) implemented the fourth year of programs outlined in its 2006–2010 Strategic Plan. Fiscal year 2008-09 was First 5 Sonoma County's ninth year of program implementation.

- During 2008-09, total First 5 Sonoma County revenues from all sources were \$5,922,159, a decrease of \$1,045,086 from the prior year. Total expenses were \$5,679,972, an increase of \$1,286,512 from the prior year.
- Revenues from the Proposition 10 tobacco tax were \$4,451,701, a decrease of \$73,835 from the prior year, consistent with the projection of a declining revenue source.
- During the 2008-09 fiscal year, the Commission disbursed \$4,585,906 in grants and contracts to various service providers, and designated \$3,188,241 to be distributed next fiscal year.
- The assets of First 5 Sonoma County exceeded its liabilities at the close of the most recent fiscal year by \$31,075,262 (net assets). All of this amount may be used to meet the Commission's ongoing obligations.
- The Commission's total net assets increased by \$242,187. This increase is smaller than in prior years, and is primarily attributable to two factors: 1) greater expenditures and 2) less interest earned.

Overview of the Financial Statements

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

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 all of the Commission's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets compared to the Commission's adopted financial model may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

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

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. The Commission's funds are governmental funds.

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 government's near-term financing requirements.

Because 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 government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Commission uses special revenue funds to account for its activities, which include Proposition 10 funding and the implementation of programs to ensure the healthy development of children, the empowerment of families, and the strengthening of communities for all Sonoma County children ages 0-5. The Commission adopts an annual appropriated budget for its funds. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Notes to the basic 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.

Other information. The combining statements referred to earlier in connection with the financial statements are presented immediately following the notes to the financial statements.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government’s financial position. In the case of the Commission, assets exceeded liabilities by \$31,075,262 at the close of the most recent fiscal year.

By far, the largest portion of the Commission’s net assets (100%) is in cash.

Net Assets			
	<u>2009</u>	<u>2008</u>	<u>Change</u>
Current and other assets	\$ 31,998,211	\$ 31,380,796	\$ 617,415
Other Liabilities	<u>922,949</u>	<u>547,721</u>	<u>375,228</u>
Net Assets:			
Restricted	<u>\$ 31,075,262</u>	<u>\$ 30,833,075</u>	<u>\$ 242,187</u>

The balance of the restricted net assets \$31,075,262 may be used to meet the Commission’s ongoing obligations and is subject to external restrictions on how they are used.

The Commission’s net assets increased by \$242,187 during the current fiscal year. The increase in the Commission’s current and other assets is smaller than in prior years and is primarily attributable to two factors: 1) greater expenditures and 2) less interest earned. Each year, the Commission sets aside 40% of the Proposition 10 revenue for future use.

At the end of the current fiscal year, the Commission is able to report a positive balance in net assets for the government as a whole. The same held true for the prior fiscal year.

Governmental activities. Governmental activities increased the Commission’s net assets by \$242,187. This increase is the result of revenues exceeding expenses in the governmental activities.

Changes in Net Assets

	Governmental Activities		
	2009	2008	Change
Revenues:			
Program Revenues:			
Operating grants and contributions	\$ 892,529	\$ 880,478	\$ 12,051
General Revenues:			
Tobacco taxes	4,451,701	4,525,536	(73,835)
State interest (SMIF)	10,994	24,244	(13,250)
Investment earnings	566,935	1,536,987	(970,052)
Total revenues	<u>5,922,159</u>	<u>6,967,245</u>	<u>(1,045,086)</u>
Expenses:			
General government	<u>5,679,972</u>	<u>4,393,460</u>	<u>1,286,512</u>
Change in net assets	242,187	2,573,785	(2,331,598)
Net assets - beginning	<u>30,833,075</u>	<u>28,259,290</u>	<u>2,573,785</u>
Net assets - ending	<u>\$ 31,075,262</u>	<u>\$ 30,833,075</u>	<u>\$ 242,187</u>

Financial Analysis of the Government’s Funds

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

Governmental funds. The focus of the Commission’s governmental fund financial statements 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.

As of the end of the current fiscal year, the Commission’s governmental funds reported ending fund balances of \$31,075,262, an increase of \$242,187 in comparison with the prior year. Approximately 77% of the total amount, \$23,848,291, constitutes unreserved fund balance, which is available for spending at the Commission’s discretion. The remainder of fund balance, \$7,226,971, is reserved to indicate that it is not available for new spending because it has already been committed to liquidate contracts and purchase orders of the prior period and to satisfy other contractual agreements and obligations approved by the Commission.

Special Revenue Fund Budgetary Highlights

There were no material differences between the original budget and the final amended budget.

Economic Factors and Next Year's Budgets and Rates

- Proposition 10 annual revenues decreased 1% from the prior year. A new factor in this year's revenue decline is the imposition of an additional federal tax of \$.62 per pack. This tax was authorized by the Children's Health Insurance Reauthorization Act of 2009, known as CHIPRA, which took effect April 1, 2009.
- The Commission's revised financial models, which take into consideration the additional revenue decrease resulting from the CHIPRA tax, now project an annual revenue decline of 8.27%.
- Interest earnings are expected to average 0.75% in fiscal year 2009/10. This will be reflected in the Commission's financial model.
- In an attempt to resolve the State's budget crisis, various threats to divert, reduce, or eliminate Proposition 10 funding have been made. This is predicted to continue into the future.

All of these factors were considered in preparing the Commission's budget for the fiscal year ending June 30, 2010.

Request for Information

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in 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 Sonoma County, 490 Mendocino Avenue, Suite 202, Santa Rosa, CA 95401.

Basic Financial Statements

Sonoma County Children and Families Commission
Statement of Net Assets
June 30, 2009

	<u>Governmental Activities</u>
Assets	
Cash and investments	\$ 31,092,266
Due from other governments	<u>905,945</u>
Total assets	<u>31,998,211</u>
Liabilities	
Accounts payable	920,502
Deferred revenue	<u>2,447</u>
Total liabilities	<u>922,949</u>
Net Assets	
Restricted	<u>31,075,262</u>
Total net assets	<u><u>\$ 31,075,262</u></u>

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

Sonoma County Children and Families Commission
Balance Sheet
Governmental Funds
June 30, 2009

		Total Governmental Funds
Assets		
Cash and investments	\$	31,092,266
Due from other governments		905,945
		<hr/>
Total assets	\$	<u><u>31,998,211</u></u>
 Liabilities and Fund balance		
Liabilities:		
Accounts payable	\$	920,502
Deferred Revenue		2,447
		<hr/>
Total liabilities		<u>922,949</u>
 Fund balance:		
Reserved for Encumbrances		321,703
Reserved for Obligations		6,265,246
Reserved for First 5 California Initiatives		640,022
Unreserved, designated for local initiatives and program sustainability		21,599,126
Unreserved, undesignated		2,249,165
		<hr/>
Total fund balance		<u>31,075,262</u>
Total liabilities and fund balance	\$	<u><u>31,998,211</u></u>

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

**Sonoma County Children and Families Commission
Statement of Revenues, Expenditures and
Changes in Fund Balance
Governmental Funds
For the Fiscal Year Ended
June 30, 2009**

	<u>Total Governmental Funds</u>
Revenues	
Investment earnings	\$ 566,935
Intergovernmental:	
Proposition 10 allocation	4,451,701
School Readiness	425,873
Special Needs	314,084
CARES	96,494
Health Access for All	42,509
State interest (SMIF)	10,994
MediCal administrative activities (MAA)	5,830
Miscellaneous Revenue	<u>7,739</u>
Total revenues	<u>5,922,159</u>
Expenditures	
Current:	
Salaries and benefits	585,896
Services and supplies	849,064
Other charges	<u>4,245,012</u>
Total expenditures	<u>5,679,972</u>
Net change in fund balance	242,187
Fund balance - beginning	<u>30,833,075</u>
Fund balance - ending	<u><u>\$ 31,075,262</u></u>

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

Sonoma County Children and Families Commission
Notes to the Basic Financial Statements
June 30, 2009

I. Summary Of Significant Accounting Policies

A. Reporting Entity

The Sonoma County Children and Families Commission, (the Commission) was established by the Sonoma County Board of Supervisors through adoption of Ordinance No. 5142 on December 15, 1998 pursuant to Proposition 10, the California Children and Families First Act of 1998. Subsequently, the ordinance has been modified by the Board as follows:

- On June 6, 2000, Ordinance No. 5236 changed the Commission's name to the Sonoma County Children and Families Commission and increased the number of commissioners from five (5) to seven (7).
- On October 14, 2008, Ordinance No. 5807 increased the number of commissioners from seven (7) to nine (9), established three-year terms, and limited Commissioners' term of office to three consecutive terms.

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 Commission uses the brand name First 5 Sonoma County for the purpose of communicating their dedication to improving the lives of children in the first five years of life.

The Commission is funded by a tax of fifty (50) cents per pack of cigarettes and by a similar tax on other tobacco products. The Department of Health Services acts as administrative agent to the Commission.

Because the Board of Supervisors appoints all nine of the commissioners, the Commission is a component unit of the County of Sonoma. As a result, the Commission's financial statements have also been included as a component unit in the County's annual financial statements.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 or section and 2) grants and contributions that are restricted to meeting operational or capital

Sonoma County Children and Families Commission
Notes to the Basic Financial Statements
June 30, 2009

requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

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 the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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. Taxes, interest, and charges for services are accrued when receipt occurs within 365 days of the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under accrual accounting.

Amounts recorded as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided and 2) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes.

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and Investments

The Commission applies the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, which require governmental entities, including governmental external investment pools, to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB Statement No. 31, the Commission has stated certain investments at fair value.

2. Due from Other Governments

This represents receivables due to the commission from the California Children and Families Commission for revenues related to Proposition 10.

Sonoma County Children and Families Commission
Notes to the Basic Financial Statements
June 30, 2009

3. Deferred Revenue

SB 90 mandated costs reimbursement claims which have not been reimbursed by the State.

4. Net Assets

Net assets are classified into three components: 1) invested in capital assets, net of related debt (if any); 2) restricted (if any); and 3) unrestricted. These classifications are defined as follows:

- a. Invested in capital assets, net of related debt – This component of net assets consists of capital assets, net of accumulated depreciation and reduced by outstanding debt related to financing the acquisition of capital assets.
- b. Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- c. Unrestricted net assets – This component of net assets consists of net assets that do not meet the definitions of “restricted” or “invested in capital assets, net of related debt”.

When both restricted and unrestricted net assets are available, restricted resources are used only after the unrestricted resources are depleted.

5. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. These classifications are as follows:

- a. Reserved for encumbrances – Appropriated legal obligations based on an executed contractual agreement.
- b. Reserved for obligations – Funds reserved to support an authorized, unexecuted contractual agreement.
- c. Reserved funds not yet obligated – Funds received from sources other than the county pro rata share of tobacco tax revenues, and that contain restrictions imposed by the funding source.
- d. Reserved for California initiatives – Funds reserved to meet the Commission’s matching guarantee for State Commission initiatives.

Sonoma County Children and Families Commission
Notes to the Basic Financial Statements
June 30, 2009

- e. Unreserved fund balance, designated – Funds set aside for a current or future program or project, as well as funds set aside for long term program sustainability.
- f. Unreserved, undesignated - Funds that have not yet been allocated for a specific purpose.

6. 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 that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

II. Stewardship, Compliance, And Accountability

A. Budgetary Information

Budgetary revenue estimates represent original estimates modified for any authorized adjustment which was contingent upon new or additional revenue sources. Budgetary expenditure amounts represent original appropriations adjusted by budget transfers and authorized appropriation adjustments made during the year. All budgets are adopted on a non-GAAP basis. Annual appropriations that have not been encumbered lapse at year-end.

Annual budgets are adopted on a basis which differs from generally accepted accounting principles (GAAP) in that encumbrances are treated as budgeted expenditures in the year of incurrence of the commitment to purchase for the purpose of a budgetary presentation. Actual GAAP expenditures have been adjusted to exclude current year encumbrances and to include expenditures against prior year encumbrances. This allows a comparison of a fiscal year's expenditures and commitments with related appropriations.

B. Encumbrances

The Commission has unexpended encumbrances of \$321,703 and \$755,198 for the fiscal years ending June 30, 2009 and 2008, respectively. These encumbrances represent commitments made for services related to fulfilling the Commission's mission.

C. Implementation of Governmental Accounting Standards Board Statements

In fiscal year 2009, the Commission did not adopt any new statements of financial accounting standards issued by the GASB.

Sonoma County Children and Families Commission
Notes to the Basic Financial Statements
June 30, 2009

III. Detailed Notes

A. Cash and Investments

Investment in the Sonoma County Treasurer's Investment Pool

The Commission's cash is pooled with the Sonoma County Treasurer, who acts as a disbursing agent for the Commission. The fair value of the Commission's investment in this pool is reported in the accompanying financial statements at amounts based upon the Commission's pro-rata share of the fair value provided by the Treasury Pool for the entire Treasury Pool portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on accounting records maintained by the Treasury Pool, which are recorded on an amortized cost basis. Interest earned on investments pooled with the County is allocated quarterly to the appropriate fund based on its respective average daily balance for that quarter. The Treasury Oversight Committee has regulatory oversight for all monies deposited into the Treasury Pool.

Investment Guidelines

The Commission's pooled cash and investments are invested pursuant to investment policy guidelines established by the County Treasurer and approved by the Board of Supervisors. The objectives of the policy are, in order of priority: safety of capital, liquidity and maximum rate of return. 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 53601, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

A copy of the Treasury Pool investment policy is available upon request from the Sonoma County Treasurer at 585 Fiscal Drive, Room 100-F, Santa Rosa, California, 95403-2871.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. As a means of limiting its exposure to fair value losses arising from rising interest rates, one of the ways that the Treasury Pool manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturing evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Sonoma County Children and Families Commission
Notes to the Basic Financial Statements
June 30, 2009

As of June 30, 2009, approximately 62% the securities in the Treasury Pool had maturities of one year or less. Of the remainder, less than 4% had a maturity of more than five years.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Treasury Pool does not have a rating provided by a nationally recognized statistical rating organization.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Treasury Pool's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits and securities lending transactions:

- The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by depository regulated under stated law. The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.
- The California Government Code limits the total of all securities lending transactions to 20% of the fair value of the investment portfolio.

With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as the Treasury Pool).

Concentration of Credit Risk

The investment policy of the County contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. For a listing of investments in any one issuer (other than U.S. Treasury securities, mutual funds, or external investment pools) that represent 5% or more of total County investments, refer to the 2008 Sonoma County CAFR.

Sonoma County Children and Families Commission
Notes to the Basic Financial Statements
June 30, 2009

B. Restricted Assets

The Commission's net assets have limitations on their use imposed by legally enforceable enabling legislation.

IV. Other Information

A. Risk Management

The County of Sonoma is self-insured as follows: \$300,000 per occurrence for workers' compensation claims, \$1,000,000 per occurrence for automobile and general liability claims, \$500,000 per occurrence and any amount in excess of \$10,000,000 per occurrence for hospital malpractice claims occurring prior to March 26, 1996, and \$275,000 per occurrence for health insurance claims with a stop loss coverage up to \$1,000,000 per claim. The County is entirely self-insured for unemployment claims and for long-term disability occurring prior to August 1, 1999.

The County participates in the CSAC Excess Insurance Authority excess liability insurance program. The County is covered under this program for \$1,000,000 to \$15,000,000 per occurrence for liability claims. Amounts in excess of \$300,000 per occurrence for worker's compensation claims within statutory limits are maintained through participation in the CSAC Excess Insurance Authority-Excess Workers' Compensation Program.

The County maintains "All Risk" coverage for physical loss and damage including flood and earthquake coverage through participation in the CSAC Excess Insurance Authority with the following limits and deductibles: \$400,000,000 limit per occurrence and \$50,000 deductible for "All Risk" and flood, earthquake deductible at \$500,000 per occurrence. Boiler and machinery coverage is included in the All-Risk coverage.

The County pays an annual basic premium for excess coverage and is assessed an annual risk premium based on an actuarial review that estimates each of the program's participant's ultimate liabilities. Settled claims have not exceeded the commercial coverage in any of the past three fiscal years.

B. Program Evaluation

The Commission spent \$330,902 in program evaluation during the audit period.

C. Employee Retirement Plan

The Commission's employees are employees of the County of Sonoma. The County's financial statements include the required information and disclosures relating to these statements. Please see the County of Sonoma annual comprehensive financial report for additional information.

Required Supplementary Information

Sonoma County Children and Families Commission
Combining Balance Sheet
Governmental Funds
June 30, 2009

	Operations	Dedicated Fund	Total
Assets			
Cash and investments	\$ 2,899,442	\$ 28,192,824	\$ 31,092,266
Due from other governments	594,375	311,570	905,945
Total assets	\$ 3,493,817	\$ 28,504,394	\$ 31,998,211
Liabilities			
Accounts payable	\$ 920,502	\$	\$ 920,502
Deferred revenue	2,447		2,447
Total liabilities	\$ 922,949	\$ 0	\$ 922,949
Fund Balance			
Reserved for encumbrances	321,703		321,703
Reserved for Obligations		6,265,246	6,265,246
Reserved for First 5 California Initiatives		640,022	640,022
Unreserved, designated for local initiatives and program sustainability		21,599,126	21,599,126
Unreserved, undesignated	2,249,165		2,249,165
Total fund balance	2,570,868	28,504,394	31,075,262
Total liabilities and fund balance	\$ 3,493,817	\$ 28,504,394	\$ 31,998,211

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

Sonoma County Children and Families Commission
Combining Statement of Revenues, Expenditures and
Changes in Fund Balances - Governmental Funds
For the Fiscal Year Ended
June 30, 2009

	Operations	Dedicated Fund	Total
Revenues			
Investment earnings	\$ 66,528	\$ 500,407	\$ 566,935
Intergovernmental:			
Proposition 10 allocation	2,671,021	1,780,680	4,451,701
School Readiness	425,873		425,873
Special Needs	314,084		314,084
CARES	96,494		96,494
Health Access for All	42,509		42,509
State Interest (SMIF)	6,597	4,397	10,994
MediCal Administrative Activities (MAA)	5,830		5,830
Miscellaneous revenue	7,739		7,739
Total revenues	3,636,675	2,285,484	5,922,159
Expenditures			
Current:			
Salaries and benefits	585,896		585,896
Services and supplies	849,064		849,064
Other charges	4,245,012		4,245,012
Total expenditures	5,679,972	0	5,679,972
Excess (deficiency) of revenues over (under) expenditures	(2,043,297)	2,285,484	242,187
Other financing sources (uses)			
Transfer in from dedicated fund	1,456,959		1,456,959
Transfer out to operations		(1,456,959)	(1,456,959)
Total other financing sources and (uses)	1,456,959	(1,456,959)	0
Net change in fund balance	(586,338)	828,525	242,187
Fund balance - beginning	3,157,206	27,675,869	30,833,075
Fund balance - ending	\$ 2,570,868	\$ 28,504,394	\$ 31,075,262

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

Sonoma County Children and Families Commission
Schedule of Revenues, Expenditures, and
Changes in Fund Balances Budget and Actual
General Fund - Operations
For the Fiscal Year Ended
June 30, 2009

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Amounts	
Revenues				
Investment earnings	\$ 103,949	\$ 103,949	\$ 66,528	\$ (37,421)
Intergovernmental:				
Proposition 10 allocation	2,940,000	2,940,000	2,671,021	(268,979)
State Other:				
School Readiness	425,873	425,873	425,873	0
Special Needs	104,167	296,682	314,084	17,402
CARES	8,293	111,787	96,494	(15,293)
Health Access for All	56,237	56,237	42,509	(13,728)
State interest (SMIF)			6,597	6,597
MediCal administrative activities (MAA)	7,046	7,046	5,830	(1,216)
Miscellaneous revenue			7,739	7,739
Total revenues	3,645,565	3,941,574	3,636,675	(304,899)
Expenditures				
Current:				
Salaries and benefits	627,379	627,379	585,896	41,483
Services and supplies	1,129,945	1,149,945	854,569	295,376
Other charges	5,092,813	5,368,823	4,561,210	807,613
Total expenditures	6,850,137	7,146,147	6,001,675	1,144,472
Excess (deficiency) of revenues over (under) expenditures	(3,204,572)	(3,204,573)	(2,365,000)	839,573
Other financing sources (uses)				
Transfer in from dedicated fund	1,456,959	1,456,959	1,456,959	0
Total other financing sources and (uses)	1,456,959	1,456,959	1,456,959	0
Net change in fund balance	(1,747,613)	(1,747,614)	(908,041)	839,573
Fund balance - beginning	3,157,206	3,157,206	3,157,206	0
Fund balance - ending	\$ 1,409,593	\$ 1,409,592	\$ 2,249,165	\$ 839,573
Budgetary Adjustments:				
Basis adjustments:				
Encumbrances			321,703	
Net change in fund balance, GAAP basis			\$ (586,338)	

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

Compliance Section

RODNEY A. DOLE
AUDITOR-CONTROLLER
TREASURER -TAX COLLECTOR



DONNA M. DUNK
ASSISTANT
AUDITOR-CONTROLLER

ROBERT BOITANO
ASSISTANT
TREASURER

PAM JOHNSTON
ASSISTANT
TAX COLLECTOR / AUDITOR

Sonoma County Children and Families Commission
Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards*

We have audited the financial statements of the Sonoma County Children and Families Commission (the Commission), also known as First 5 Sonoma County, as of and for the year ended June 30, 2009, and have issued our report thereon dated October 1, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our 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 control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement will not be prevented or detected by the entity's internal control.

Our consideration of the 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 those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported 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, 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 the specified parties. However, this report is a matter of public record and its distribution is not limited.

Sonoma County Auditor-Controller

October 1, 2009

RODNEY A. DOLE
AUDITOR-CONTROLLER
TREASURER -TAX COLLECTOR



DONNA M. DUNK
ASSISTANT
AUDITOR-CONTROLLER

ROBERT BOITANO
ASSISTANT
TREASURER

PAM JOHNSTON
ASSISTANT
TAX COLLECTOR / AUDITOR

Board of Commissions
Sonoma County Children and Families Commission
Santa Rosa, CA 95409

Auditor's Report on State Compliance

We have audited the basic financial statements of the Sonoma County California Children and Families Commission (the Commission), also known as First 5 Sonoma County, a component unit of Sonoma County, as of and for the year ended June 30, 2009 and have issued our report thereon dated October 1, 2009.

Our audit was conducted in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State of California's *Standards and Procedures for Audits of California Counties Participating in the First 5 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.

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

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

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

Sonoma County Auditor-Controller

October 1, 2009