

**SONOMA COUNTY  
CHILDREN AND FAMILIES COMMISSION  
(dba First 5 Sonoma County)**

**ANNUAL REPORT  
FOR THE FISCAL YEAR ENDED  
JUNE 30, 2008**

**SONOMA COUNTY  
CHILDREN AND FAMILIES COMMISSION**

**Basic Financial Statements  
For the Fiscal Year Ended  
June 30, 2008**

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**SONOMA COUNTY  
CHILDREN AND FAMILIES COMMISSION  
Roster of Commission Members**

As of September 12, 2008, the Commission consisted of the following members:

- Rita Scardaci  
Director, Sonoma County Department of Health Services
  
- Jo Weber, Vice Chair  
Director, Sonoma County Department of Human Services
  
- Tamah Hulett, Chair  
Parent Commissioner
  
- Jane Escobedo  
Regional Director, Sonoma County Office of Education
  
- Katherine Foster, M.D.  
Pediatrician
  
- Joel Gordon  
Director, Early Childhood Education  
Santa Rosa Junior College
  
- Valerie Brown  
Sonoma County Board of Supervisors

## **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, 2008, 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, 2008 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 September 12, 2008, on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards 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 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 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*

September 12, 2008

## Management's Discussion and Analysis

As management of the Sonoma County Children and Families Commission (the 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, 2008. We encourage readers to consider the information presented here in conjunction with the Commission's financial statements and the accompanying notes to the basic financial statements.

### Financial Highlights

- The assets of the Commission are held by the County of Sonoma in a special revenue fund. The use of these assets is restricted for the purposes outlined under the California Children and Families Act of 1998 (Proposition 10).
- The Commission received \$4,525,536 from the State of California from revenues collected under the California Children and Families Act of 1998 (Proposition 10).
- During the current fiscal year, the Commission disbursed \$3,477,271 in grants and contracts to various service providers, and has designated \$6,353,598 to be distributed over the next two years.
- The assets of the Commission exceeded its liabilities at the close of the most recent fiscal year by \$30,833,075 (net assets). All of this amount may be used to meet the Commission's ongoing obligations.
- The Commission's total net assets increased by \$2,573,785. This increase is largely attributable to the receipts of Proposition 10 Tobacco Tax funding and a decrease in expenditures in comparison with the prior year.
- As of the close of the current fiscal year, the Commission's governmental fund reported combined ending fund balances of \$30,833,075, an increase of \$2,573,785, in comparison with the prior year. Approximately \$19,690,143 or 64% of this total amount is available for spending at the Commission's discretion (unreserved fund balance).
- At the end of the current fiscal year, the unreserved fund balance for the governmental funds \$19,690,143 was 448% of the Commission's total expenditures during FY 07-08.

### 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 a dedicated fund and an operations fund 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 \$30,833,075 at the close of the most recent fiscal year.

By far, the largest portion of the Commission's net assets (99%) is in cash.

### Net Assets

	Governmental Activities	
	2008	2007
Current and other assets	\$ 31,380,796	\$ 28,843,612
Other Liabilities	<u>547,721</u>	<u>584,322</u>
Net Assets:		
Restricted	\$ <u>30,833,075</u>	\$ <u>28,259,290</u>

The balance of the restricted net assets (\$30,833,075) may be used to meet the Commission's ongoing obligations and is subject to external restrictions on how they are used.

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.

The Commission's net assets increased by \$2,573,785 during the current fiscal year. The increase in the Commission's current and other assets was a result of increases in ongoing revenues and a decrease in expenses. Each year, the Commission sets aside 40% of the Proposition 10 revenue for future use.

**Governmental activities.** Governmental activities increased the Commission's net assets by \$2,573,785. This increase is the result of revenues exceeding expenses in the governmental activities.

## Changes in Net Assets

	Governmental Activities	
	2008	2007
Revenues:		
Program Revenues:		
Operating grants and contributions	\$ 880,478	\$ 169,470
General Revenues:		
Tobacco taxes	4,525,536	5,392,373
State interest (SMIF)	24,244	30,056
Investment earnings	1,536,987	1,295,740
Total revenues	6,967,245	6,887,639
Expenses:		
General government	4,393,460	5,043,314
Change in net assets	2,573,785	1,844,325
Net assets - beginning	28,259,290	26,339,020
Prior period adjustment	0	75,945
Net assets - beginning, as restated	28,259,290	26,414,965
Net assets - ending	\$ 30,833,075	\$ 28,259,290

### 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 \$30,833,075, an increase of \$2,573,785 in comparison with the prior year. Approximately 64% of the total amount \$19,690,143 constitutes unreserved fund balance, which is available for spending at the Commission's discretion. The remainder of fund balance \$11,142,932 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.

### **Economic Factors and Next Year's Budgets and Rates**

- Proposition 10 annual revenues decreased 8.53% from the prior year. This is a larger decline than predicted and may be attributable to increased costs deducted from Proposition 10 revenues by the Bureau of Equalization. These expenses are predicted to pay off in greater capture of taxes on tobacco sales in future years. The Commission's financial models project a revenue decline of 2% from the previous fiscal year.
- Interest earnings are expected to average 4% in fiscal year 2009. 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, 2009.

### **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 Sonoma County Children and Families Commission, 490 Mendocino Avenue, Suite 202, Santa Rosa, CA 95401.

## **BASIC FINANCIAL STATEMENTS**

**SONOMA COUNTY  
CHILDREN AND FAMILIES COMMISSION  
Statement of Net Assets  
June 30, 2008**

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and investments	\$ 30,506,692
Due from other governments	<u>874,104</u>
Total assets	<u>31,380,796</u>
<b>Liabilities</b>	
Accounts payable	545,274
Deferred revenue	<u>2,447</u>
Total liabilities	<u>547,721</u>
<b>Net Assets</b>	
Restricted	<u>30,833,075</u>
Total net assets	<u>\$ 30,833,075</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, 2008**

		Total Governmental Funds
<b>Assets</b>		
Cash and investments	\$	30,506,692
Due from other governments		874,104
Total assets	\$	<u>31,380,796</u>
 <b>Liabilities and Fund balance</b>		
Liabilities:		
Accounts payable	\$	545,274
Deferred Revenue		2,447
Total liabilities		<u>547,721</u>
Fund balance:		
Reserved for Encumbrances		755,198
Reserved for Obligations		8,931,927
Reserved for Funds Not Yet Obligated		3,345
Reserved for First 5 California Initiatives		1,452,462
Unreserved, designated for local initiatives and program sustainability		17,288,135
Unreserved, undesignated		2,402,008
Total fund balance		<u>30,833,075</u>
Total liabilities and fund balance	\$	<u>31,380,796</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, 2008**

	<u>Total Governmental Funds</u>
<b>Revenues</b>	
Investment earnings	\$ 1,536,987
Intergovernmental:	
Proposition 10 allocation	4,525,536
School Readiness	425,873
Special Needs	314,084
CARES	76,371
Health Access for All	50,595
State interest (SMIF)	24,244
MediCal administrative activities (MAA)	6,157
Miscellaneous Revenue	<u>7,398</u>
Total revenues	<u>6,967,245</u>
<b>Expenditures</b>	
Current:	
Salaries and benefits	489,889
Services and supplies	1,056,390
Other charges	<u>2,847,181</u>
Total expenditures	<u>4,393,460</u>
Net change in fund balance	2,573,785
Fund balance - beginning	<u>28,259,290</u>
Fund balance - ending	<u>\$ 30,833,075</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, 2008**

**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. On June 6, 2000 the Board of Supervisors passed Ordinance No. 5236 which amended Ordinance No. 5142. The new ordinance changed the Commission's name to the Sonoma County Children and Families Commission. 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.

In addition, Ordinance 5236 and increased the number of commissioners from five (5) to seven (7). 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 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 seven 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 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.

**SONOMA COUNTY**  
**CHILDREN AND FAMILIES COMMISSION**  
**Notes to the Basic Financial Statements**  
**June 30, 2008**

**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.

**3. Deferred Revenue**

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

**SONOMA COUNTY**  
**CHILDREN AND FAMILIES COMMISSION**  
**Notes to the Basic Financial Statements**  
**June 30, 2008**

**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.
- 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 either have not yet been allocated for a specific purpose.

**SONOMA COUNTY  
CHILDREN AND FAMILIES COMMISSION  
Notes to the Basic Financial Statements  
June 30, 2008**

**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 \$755,198 and \$766,182 for the fiscal years ending June 30, 2007 and 2006, respectively. These encumbrances represent commitments made for services related to fulfilling the Commission's mission.

**SONOMA COUNTY  
CHILDREN AND FAMILIES COMMISSION  
Notes to the Basic Financial Statements  
June 30, 2008**

**C. Implementation of Governmental Accounting Standards Board Statements**

In fiscal year 2008, the Commission adopted two new statements of financial accounting standards issued by the GASB: Statement No. 45 – Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions, and Statement No. 50 – Pension Disclosures – An Amendment of GASB Statements No. 25 and No. 27.

GASB Statement No. 45 – In addition to pensions, many state and local governmental employers provide other post-employment benefits (OPEB) as part of the total compensation offered to attract and retain the services of qualified employees. OPEB includes post-employment health care, as well as other forms of post-employment benefits, such as life insurance, when provided separately from a pension plan. This statement establishes standards for the measurement, recognition, and display of OPEB expense/supplementary information (RSO) in the financial reports of state and local governmental employers.

GASB Statement No. 50 – This Statement more closely aligns the financial reporting requirements for pensions with those for other post-employment benefits and enhances information disclosed in notes to financial statements or presented as required supplementary information by pension plans and by employers that provide pension benefits.

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.

**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

**SONOMA COUNTY**  
**CHILDREN AND FAMILIES COMMISSION**  
**Notes to the Basic Financial Statements**  
**June 30, 2008**

Treasury Oversight Committee has regulatory oversight for all monies deposited into the Treasury Pool.

As of June 30, 2008, the Commission's share of the decrease in fair value of investments was \$205,428.

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.

As of June 30, 2007, approximately 69 percent of 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.

**SONOMA COUNTY  
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Notes to the Basic Financial Statements  
June 30, 2008**

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 2007 Sonoma County CAFR.

**B. Restricted Assets**

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

**SONOMA COUNTY  
CHILDREN AND FAMILIES COMMISSION  
Notes to the Basic Financial Statements  
June 30, 2008**

**IV. OTHER INFORMATION**

**A. Risk Management**

On May 23, 2000 the Sonoma County Board of Supervisors approved Resolution #00-0604 which included the Sonoma County Children and Families Commission under its insurance programs. The County maintains self-insured retentions of \$750,000 per occurrence for general liability coverage and \$300,000 per occurrence for Workers' Compensation coverage.

Additional limits of \$15,000,000 are provided through the CSAC Excess Insurance Authority Liability Program. The County Supervisors Association of California Excess Insurance Authority (CSAC-EIA) is a joint powers agency providing excess insurance coverage for activities of participating counties and county agencies.

**B. Program Evaluation**

The Commission spent \$282,445 in program evaluation during the audit period.

## **Required Supplementary Information**

**SONOMA COUNTY  
CHILDREN AND FAMILIES COMMISSION  
Combining Balance Sheet  
Governmental Funds  
June 30, 2008**

	<u>Operations</u>	<u>Dedicated Fund</u>	<u>Total</u>
<b>Assets</b>			
Cash and investments	\$ 3,139,814	\$ 27,366,878	\$ 30,506,692
Due from other governments	<u>565,113</u>	<u>308,991</u>	<u>874,104</u>
Total assets	<u>\$ 3,704,927</u>	<u>\$ 27,675,869</u>	<u>\$ 31,380,796</u>
<b>Liabilities</b>			
Accounts payable	\$ 545,274	\$	\$ 545,274
Deferred revenue	<u>2,447</u>	<u></u>	<u>2,447</u>
Total liabilities	<u>\$ 547,721</u>	<u>0</u>	<u>\$ 547,721</u>
<b>Fund Balance</b>			
Reserved for encumbrances	755,198		755,198
Reserved for Obligations		8,931,927	8,931,927
Reserved for Funds Not Yet Obligated		3,345	3,345
Reserved for First 5 California Initiatives		1,452,462	1,452,462
Unreserved, designated for local initiatives and program sustainability		17,288,135	17,288,135
Unreserved, undesignated	<u>2,402,008</u>	<u></u>	<u>2,402,008</u>
Total fund balance	<u>3,157,206</u>	<u>27,675,869</u>	<u>30,833,075</u>
Total liabilities and fund balance	<u>\$ 3,704,927</u>	<u>\$ 27,675,869</u>	<u>\$ 31,380,796</u>

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, 2008**

	<u>Operations</u>	<u>Dedicated Fund</u>	<u>Total</u>
<b>Revenues</b>			
Investment earnings	\$ 182,701	\$ 1,354,286	\$ 1,536,987
Intergovernmental:			
Proposition 10 allocation	2,715,322	1,810,214	4,525,536
School Readiness	425,873		425,873
Special Needs	314,084		314,084
CARES	76,371		76,371
Health Access for All	50,595		50,595
State interest (SMIF)	14,547	9,697	24,244
MediCal administrative activities (MAA)	6,157		6,157
Miscellaneous Revenue	7,398		7,398
Total revenues	<u>3,793,048</u>	<u>3,174,197</u>	<u>6,967,245</u>
<b>Expenditures</b>			
Current:			
Salaries and benefits	489,889		489,889
Services and supplies	1,056,390		1,056,390
Other charges	2,847,181		2,847,181
Total expenditures	<u>4,393,460</u>	<u>0</u>	<u>4,393,460</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(600,412)</u>	<u>3,174,197</u>	<u>2,573,785</u>
<b>Other financing sources (uses)</b>			
Transfer in from dedicated fund	534,100		534,100
Transfer out to operations		(534,100)	(534,100)
Total other financing sources and (uses)	<u>534,100</u>	<u>(534,100)</u>	<u>0</u>
Net change in fund balance	(66,312)	2,640,097	2,573,785
Fund balance - beginning	3,223,518	25,035,772	28,259,290
Fund balance - ending	<u>\$ 3,157,206</u>	<u>\$ 27,675,869</u>	<u>\$ 30,833,075</u>

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, 2008**

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	Final Budget
				Favorable
				(Unfavorable)
<b>Revenues</b>				
Investment earnings	\$ 158,452	\$ 158,452	\$ 182,701	\$ 24,249
Intergovernmental:				
Proposition 10 allocation	3,000,000	3,000,000	2,715,322	(284,678)
State Other:				
School Readiness	810,169	810,169	425,873	(384,296)
Special Needs			314,084	314,084
CARES			76,371	76,371
Health Access for All			50,595	50,595
State interest (SMIF)			14,547	14,547
MediCal administrative activities (MAA)	10,489	10,489	6,157	(4,332)
Miscellaneous Revenue			7,398	7,398
Total revenues	<u>3,979,110</u>	<u>3,979,110</u>	<u>3,793,048</u>	<u>(186,062)</u>
<b>Expenditures</b>				
Current:				
Salaries and benefits	521,446	521,446	489,889	31,557
Services and supplies	886,531	1,001,531	1,140,923	(139,392)
Other charges	4,499,231	4,384,231	3,517,846	866,385
Total expenditures	<u>5,907,208</u>	<u>5,907,208</u>	<u>5,148,658</u>	<u>758,550</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,928,098)</u>	<u>(1,928,098)</u>	<u>(1,355,610)</u>	<u>572,488</u>
<b>Other financing sources (uses)</b>				
Transfer in from dedicated fund	<u>534,100</u>	<u>534,100</u>	<u>534,100</u>	<u>0</u>
Total other financing sources and (uses)	<u>534,100</u>	<u>534,100</u>	<u>534,100</u>	<u>0</u>
Net change in fund balance	(1,393,998)	(1,393,998)	(821,510)	572,488
Fund balance - beginning	3,223,518	3,223,518	3,223,518	0
Fund balances - ending	<u>\$ 1,829,520</u>	<u>\$ 1,829,520</u>	<u>\$ 2,402,008</u>	<u>\$ 572,488</u>
<b>Budgetary Adjustments:</b>				
Basis adjustments:				
Encumbrances			<u>755,198</u>	
Net change in fund balance, GAAP basis			<u>\$ (66,312)</u>	

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, 2008, and have issued our report thereon dated September 12, 2008. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Governmental 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 grants, 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 Commission, management, and others within the entity, and federal and state awarding agencies, and is not intended to be and should not be used by anyone other than the specified parties.

*Sonoma County Auditor - Controller*

September 12, 2008

**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, 2008 and have issued our report thereon dated September 12, 2008.

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.

<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 California Children and Families 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*

September 12, 2008