

FIRST 5
Santa Clara County
(A Component Unit of the County of Santa Clara, California)

**INDEPENDENT AUDITORS' REPORTS,
MANAGEMENT'S DISCUSSION AND ANALYSIS,
BASIC FINANCIAL STATEMENTS,
AND REQUIRED SUPPLEMENTARY INFORMATION**

For the Fiscal Years Ended June 30, 2010 and 2009

FIRST 5
Santa Clara County
(A Component Unit of the County of Santa Clara, California)

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INDEPENDENT AUDITORS' REPORT

Board of Commissions
FIRST 5 Santa Clara County
San Jose, California

We have audited the accompanying financial statements of the governmental activities of FIRST 5 Santa Clara County (Commission), a component unit of the County of Santa Clara, California, as of and for the years ended June 30, 2010 and 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 these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Commission as of June 30, 2010 and 2009, and the respective changes in financial position thereof for the years 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 a report dated October 27, 2010, on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 6 and the Schedule of Statement of Activities Budget and Actual on page 25 are not a required part of the basic financial statements, but are 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 supplementary information. However, we did not audit the information and express no opinion on it.

Member of The Leading Edge Alliance

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the FIRST 5 Santa Clara County (Commission) basic financial statements. The Schedule of Governmental Fund Balance and Statement of Revenues & Expenditures for the year ended June 30, 2010 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and, accordingly, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Burr, Pitzer & Mayer

San Jose, California
October 27, 2010

**FIRST 5
SANTA CLARA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2010

FIRST 5 Santa Clara County was formed when voters approved Proposition 10 in November 1998, 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 and their families. 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/her brain develops. The goal is for all young children in California to reach age five physically healthy and to enter school ready to learn.

In March 1999 the Santa Clara County (“County”) Board of Supervisors created the nine-member FIRST 5 Santa Clara County (“FIRST 5”) Commission. FIRST 5 is a public entity legally separate and apart from the County, and is considered a component unit of the County due to the operational relationship between FIRST 5 and the County.

Our Community Investment Strategy is based on extensive research and Community feedback, which resulted in the Commission developing a clear strategy for making sound funding decisions for the programs and services offered at FIRST 5. The funding strategy is consistent with the Vision, Mission and Goals of the Commission and meets the FIRST 5 California mandate for serving all children prenatal through age five. The programs and services offered by FIRST 5 are grounded in research and evidenced based practices. The Commission adopted two county-wide funding strategies under which all investments were aligned:

1. Community Engagement and Awareness
2. Direct Impact

These primary strategies provide for continued funding of countywide programs designed to serve all children in the County, prenatal through age five. These strategies allow FIRST 5 to direct resources to reach children prenatal through age five throughout Santa Clara County, while demonstrating improved outcomes of children with high cumulative risk factors in targeted communities with the largest number of children prenatal through age five. FIRST 5 is committed to ensuring that effective programs and services to young children and their families are in place and sustainable.

As management of FIRST 5, we offer readers of our FIRST 5 financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2010.

Overview of the Financial Statements

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

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of FIRST 5's finances, in a manner similar to private sector business.

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

**FIRST 5
SANTA CLARA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2010**

Government-wide Financial Statements, continued

The Statement of Activities presents information showing how FIRST 5's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave). The government-wide financial statements can be found on pages 7 and 8 of this report.

Governmental 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. Governmental fund financial statements report essentially the same functions as those reported 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.

Both the Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance provide a reconciliation to facilitate the comparison between governmental funds and government-wide statements. The fund financial statements can be found on pages 9 and 10 of this report.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and governmental fund financial statements. The notes to the financial statements can be found on pages 11-21 of this report.

Government-wide Financial Analysis

FIRST 5 uses government-wide financial reporting to provide a broad overview in a manner similar to the private sector. In most cases, net assets may serve over time as a useful indicator of a government's financial position. In the case of FIRST 5, assets exceeded liabilities by \$83.0 million at the close of the most recent fiscal year. The most significant portion of FIRST 5's current assets of \$84.4 million is its cash and investments balance of \$81.0 million. This represents resources received from the State Commission from Proposition 10 taxes that have not been expended. The majority of cash and investments are maintained by Merrill Lynch where interest earned is reinvested. The balance of cash is maintained in the County's cash and investment commingled pool where interest earned on FIRST 5's balance is apportioned to FIRST 5. Another source of current assets resides in FIRST 5's receivables due from the State Commission for Proposition 10 tax revenue. These receivables of \$3.3 million represent taxes remitted by the State but not received by FIRST 5 as of June 30, 2010.

FIRST 5 also reports total liabilities of \$7.0 million of which accounts payable represents \$6.5 million, primarily representing payments due on grant service contracts that had not been disbursed at year-end.

FIRST 5 net assets of \$83.0 million decreased by \$0.9 million or 1% from the prior fiscal year.

**FIRST 5
SANTA CLARA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2010

Government-wide Financial Analysis, continued

Condensed Statement of Net Assets			
	FY 2009/2010	FY 2008/2009	% Change
Assets:			
Current and other assets	\$ 84,393,694	\$ 86,318,667	-2.2%
Capital assets	5,582,183	5,805,833	-3.9%
Total assets	\$ 89,975,877	\$ 92,124,500	-2.3%
Total liabilities	6,974,304	8,263,290	-15.6%
Net assets:			
Invested in capital assets	5,582,183	5,805,833	-3.9%
Restricted	77,419,390	78,055,377	-0.8%
Total net assets	83,001,573	83,861,210	-1.0%
Total liabilities and net assets	\$ 89,975,877	\$ 92,124,500	

Condensed Statement of Activities

	FY 2009/2010	FY 2008/2009
Total revenue	\$ 25,832,991	\$ 29,302,704
Expenses:		
Salaries, supplies and service	6,025,457	6,876,212
Grant expenses	20,667,171	31,339,673
Total expenses	26,692,628	38,215,885
Change in net assets	\$ (859,637)	\$ (8,913,181)

Total revenue consisting of Proposition 10 funds, interest, rental and investment income, State Commission matching and other revenue decreased from \$29.3 million to \$25.8 million for the year ended June 30, 2010. This decrease was primarily due a decrease in Proposition 10 funds.

Salary, supplies, and service expenditures decreased to \$6.0 million, a decrease of \$0.9 million from the prior year. This decrease was primarily due to a decrease in operating costs.

Grant expenditures decreased to \$20.7 million, an decrease of \$10.7 million from the prior year. This decrease was primarily due to an decreased budget for the community investment grant contracts.

For the fiscal year ended June 30, 2010, FIRST 5 reported a change in net assets of \$(0.9) million from the prior year. This decrease represents the amount of expenditures in excess of revenues for the period ended June 30, 2010.

Governmental Activities

FIRST 5 does not have business type activities and so the analysis presented above for the government-wide financial statements also represents an analysis of FIRST 5's governmental activities.

**FIRST 5
SANTA CLARA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2010**

Financial Analysis of FIRST 5's Governmental Fund

For fiscal year ended June 30, 2010, FIRST 5 reported an ending fund balance of \$77.6 million. FIRST 5 has committed 100% of the \$77.6 million as shown below:

Fund Balance	
Fiscal Year 2009/2010	
Program sustainability	\$ 38,675,511
Reserved for obligation	23,576,579
Designated for local initiatives	14,745,808
Reserved for encumbrances	613,537
Total fund balance	<u><u>\$ 77,611,435</u></u>

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

Budgetary Highlights

Total expenditures were \$9.6 million less than budget due to the uncertainty associated with declining revenues from Proposition 10 and a need to restructure program initiatives. Fiscal year 2009/2010 was a transition year as FIRST 5 needed to end several significant program initiatives which included Parent Workshop programs, Community Engagement program, Lead Agency program and Family Partner program. Transition costs were lower than planned as FIRST 5 transitions program to meet lower program cost expectations for the future and provide more effective researched based services to the community. This was accomplished through a new 3 year contract development cycle which restructured and created new approaches for future community programs. As FIRST 5 rolled out new initiatives, the Learning Together Initiative, the Superior Court, and Family Resource Initiative experienced lower than planned startup costs. We also experienced lower than planned expenditures on two of our key signature priority programs; Power of Preschool Program and Healthy Kids Program.

Capital Assets and Debt Administration

Capital Assets

FIRST 5's capital assets for its governmental activities as of June 30, 2010, amounted to \$5.6 million (net of accumulated depreciation). Capital assets include building, building improvements, land, furniture and equipment. See Note 3 to the Notes to the Financial Statements for a more detailed analysis of changes in capital assets.

Debt Administration At the end of the current fiscal year, FIRST 5 did not have any long-term obligations outstanding.

Requests for Information

This financial report is designed to provide a general overview of FIRST 5's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to FIRST 5 Santa Clara County, 4000 Moorpark Ave., Suite 200, San Jose, California 95117.

FIRST 5
SANTA CLARA COUNTY
STATEMENTS OF NET ASSETS - GOVERNMENT-WIDE
June 30, 2010 and 2009

ASSETS

	2010	2009
Cash and investments	\$ 81,046,317	\$ 82,562,690
Interest receivable	47,829	91,424
Grant and other receivables	8,434	139,865
Due from the State - Proposition 10	3,263,097	3,509,097
Prepays and other assets	28,017	15,591
Capital assets, net of depreciation	5,582,183	5,805,833
Total assets	\$ 89,975,877	\$ 92,124,500

LIABILITIES AND NET ASSETS

Accounts payable	\$ 6,505,409	\$ 7,750,992
Accrued salaries and benefits	229,224	241,180
Accrued vacation payable	192,045	203,040
Other accrued liabilities	47,626	68,078
Total liabilities	6,974,304	8,263,290
Net Assets:		
Invested in capital assets	5,582,183	5,805,833
Restricted	77,419,390	78,055,377
Total net assets	83,001,573	83,861,210
Total liabilities and net assets	\$ 89,975,877	\$ 92,124,500

See accompanying notes to basic financial statements.

FIRST 5
SANTA CLARA COUNTY
STATEMENTS OF ACTIVITIES - GOVERNMENT-WIDE
For the Years Ended June 30, 2010 and 2009

	2010	2009
FIRST 5 Program Expenses:		
Salaries and benefits	\$ 4,146,489	\$ 4,621,214
Supplies and services	1,649,608	2,023,794
Grant expenditures	20,667,171	31,339,673
Depreciation	229,360	231,204
Total Program Expenses	26,692,628	38,215,885
Program Revenue:		
Operating grants and contributions		
Proposition 10 taxes	18,544,567	20,342,215
Foundation and state matching grants	3,669,895	3,944,828
Total Program Revenues	22,214,462	24,287,043
Net Program Expenses	(4,478,166)	(13,928,842)
General Revenue		
Investment income	2,677,874	4,164,223
Rental income	142,813	145,708
Other income	797,842	705,730
Total General Revenue	3,618,529	5,015,661
Change in net assets	(859,637)	(8,913,181)
Net assets, beginning of year	83,861,210	92,774,391
Net assets, end of year	\$ 83,001,573	\$ 83,861,210

See accompanying notes to basic financial statements.

FIRST 5
SANTA CLARA COUNTY
BALANCE SHEETS - GOVERNMENTAL FUND
June 30, 2010 and 2009

ASSETS

	2010	2009
Cash and investments	\$ 81,046,317	\$ 82,562,690
Interest receivable	47,829	91,424
Grant and other receivable	8,434	139,865
Due from the State - Proposition 10	3,263,097	3,509,097
Prepays and other assets	28,017	15,591
Total assets	\$ 84,393,694	\$ 86,318,667

LIABILITIES AND FUND BALANCE

Liabilities:		
Accounts payable	\$ 6,505,409	\$ 7,750,992
Accrued salaries and benefits	229,224	241,180
Other accrued liabilities	47,626	68,078
Total liabilities	6,782,259	8,060,250
Fund Balance:		
Reserved for encumbrances	613,537	1,217,151
Reserved for obligations	23,576,579	12,372,608
Reserved for First 5 California initiatives	-	2,303,676
Program sustainability	38,675,511	37,188,195
Designated for local initiatives	14,745,808	25,176,787
Total fund balance	77,611,435	78,258,417
Total liabilities and fund balance	\$ 84,393,694	\$ 86,318,667

RECONCILIATION OF THE BALANCE SHEETS - GOVERNMENTAL
FUND TO THE STATEMENT OF NET ASSETS

Fund balance - from above	\$ 77,611,435	\$ 78,258,417
Amount reported in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and; therefore, are not reported in the governmental funds.	5,582,183	5,805,833
Accrued vacation payable is not due and payable with current financial resources and is not reported in the governmental funds.	(192,045)	(203,040)
Net Assets	\$ 83,001,573	\$ 83,861,210

See accompanying notes to basic financial statements.

FIRST 5
SANTA CLARA COUNTY
STATEMENTS OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUND
For the Years Ended June 30, 2010 and 2009

	2010	2009
Revenues:		
Proposition 10 taxes	\$ 18,544,567	\$ 20,342,215
Foundation and state matching grants	3,669,895	3,944,828
Investment income	2,677,874	4,164,223
Rental income	142,813	145,708
Other revenue	797,842	705,730
Total revenues	25,832,991	29,302,704
Expenditures:		
Salaries and benefits	4,157,484	4,596,698
Supplies and services	1,649,608	2,023,794
Grant expenditures	20,667,171	31,339,673
Capital outlays	5,710	-
Total expenditures	26,479,973	37,960,165
Change in fund balance	(646,982)	(8,657,461)
Fund balance, beginning of year	78,258,417	86,915,878
Fund balance, end of year	\$ 77,611,435	\$ 78,258,417

RECONCILIATION OF THE STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGE IN FUND BALANCE - GOVERNMENTAL FUND TO THE
STATEMENT OF ACTIVITIES

Net change in fund balance - from above	\$ (646,982)	\$ (8,657,461)
Amount reported in the Statement of Activities are different because:		
Governmental funds report capital outlay as expenditures. However, in the Statements of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Expenditure for general capital assets	5,710	-
Less current year depreciation	(229,360)	(231,204)
The change in accrued vacation payable reported in the Statements of Activities does not require the use of current financial resources and therefore is not reported as expenditures in governmental funds.		
Change in net assets	10,995	(24,516)
	\$ (859,637)	\$ (8,913,181)

See accompanying notes to basic financial statements.

**FIRST 5
SANTA CLARA COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2010 and 2009**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Santa Clara County (County) Board of Supervisors created the Commission on March 30, 1999, under the provisions of the Act. The Act became law in 1998 when California (State) voters approved Proposition 10, authorizing the State to levy a tax on tobacco products to pay for programs to promote the healthy development of young children. The Commission is a public entity legally separate and apart from the County. The purpose of the Commission is to develop, adopt, promote and implement early childhood development programs in the County consistent with the goals and objectives of the Act. The Commission's programs are funded by the taxes imposed by Proposition 10.

The Commission consists of nine members appointed by the County Board of Supervisors. The Commission is considered a component unit of the County due to the operational relationship between the Commission and the County; therefore, the Commission's financial statements are included in the County's Comprehensive Annual Financial Report.

Governmental Accounting Standards Board Statements and Interpretation

The financial statements are prepared in accordance with Government Accounting Standards Board Statements (GASB). These statements affect the manner in which the Commission records transactions and presents financial information.

Management's Discussion and Analysis

The financial statements are accompanied by a narrative introduction and analytical overview of the Commission's financial activities in the form of "Management's Discussion and Analysis" (MD&A). This analysis is similar to the analysis provided in the annual reports of private-sector organizations.

Government-wide Financial Statements

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

Statement of Net Assets

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

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

FIRST 5
SANTA CLARA COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2010 and 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Statement of Activities, continued

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

Recent Government Standards Board Statements

Statement No. 54 – *GASB Statement 54 Fund Balance Reporting and Governmental Fund Type Definitions* is effective for financial statements for periods beginning after June 15, 2010. Fund balance reclassification and footnote disclosures will have to be revised to conform to the provisions of GASB Statement No. 54. The Commission did not adopt the provisions of GASB Statement 54 at June 30, 2010. This statement would enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied by clarifying the existing governmental fund type definitions. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent. Below are the definitions for the fund classifications.

- Restricted - includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation
- Committed - includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority
- Assigned - are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed (the remaining amount that is not restricted or committed)
- Unassigned - residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications

Statement No. 56 – The Commission has adopted the provisions of GASB Statement 56 *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. This statement incorporates into GASB certain accounting and financial reporting guidance in the AICPA standards. This statement addresses three issues—related party transactions, going concern considerations, and subsequent events. This statement does not establish new accounting standards but rather incorporates the existing guidance into GASB standards.

Statement No. 59 – GASB Statement 59 *Financial Instruments Omnibus* is effective for periods beginning after June 15, 2010 and has not been adopted by the Commission in these financial statements. This statement emphasizes the requirements to certain external investment pools—known as 2a7-like pools—to provide users more consistent information on qualifying pools. This statement would have no financial impact but would lead to additional disclosures on investment pools and commingled funds.

FIRST 5
SANTA CLARA COUNTY

NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2010 and 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Basis of Presentation and Accounting

Government-wide Financial Statements

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Commission gives (or receives) value without directly receiving (or giving) equal value in exchange, include Proposition 10 taxes, grants, entitlements and donations. Revenues from Proposition 10 taxes are recognized when all eligibility requirements are met which coincides with the State apportionment of Proposition 10 tax revenues to the Commission. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting.

Under this method, revenues are recognized when measurable and available to finance expenditures of the current period. Proposition 10 apportionments, grant revenues and investment income are accrued when their receipt occurs within ninety days after the end of the accounting period so as to be both measurable and available. All receivables are expected to be collected within the current year. Expenditures are generally recorded when a liability is incurred, under the accrual basis of accounting. In the current year, the bulk of the accounts payable balance (approximately 90% and 87% at June 30, 2010 and 2009, respectively) relates to payables owed to contractors used in the operation of the Commission's programs. The balance relates to miscellaneous accounts payable. General capital assets acquisitions are reported as expenditures in the governmental fund.

Non-current Governmental-wide Assets/Liabilities

GASB Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* eliminates the presentation of account groups, but provides for these records to be maintained and incorporates the information into the Statement of Net Assets-Government-wide.

**FIRST 5
SANTA CLARA COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2010 and 2009**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Investments

The Commission participates in the common investment pool of the County. In addition, the Commission has a specifically invested portfolio with Merrill Lynch. Investments are recorded at fair market value.

Accounts Receivable

Significant receivables included amounts due from the State of California for Proposition 10 taxes and the County for earnings on commission funds held in the County's commingled pool. These receivables are due within one year.

The Commission utilizes the allowance method for recognizing bad debts. Management has determined that no allowance for bad debt is required.

Capital Assets

Capital assets include furniture and equipment, building and building improvements that are reported as governmental activity in the Statement of Net Assets. Capital assets are defined as assets with an initial individual cost of \$5,000 or more and an estimated useful life in excess of one year. Donated capital assets are recorded at estimated fair market value at the date of donation. Furniture and equipment, building and building improvements are depreciated using the straight-line method over the following estimated useful lives:

Furniture and equipment	5 years
Building	20 years
Building improvements	20 years

Accrued Vacation and Sick Leave Pay

Vacation pay, which may be accumulated up to six weeks, depending on the employee's length of service, is payable upon termination.

Sick leave accrues at approximately three hours per pay period and is not limited by how much may be accumulated. Sick leave earned is non-vesting and employees are not reimbursed for accumulated sick leave upon termination.

The Commission accrues for all salary-related items in the government-wide financial statements for which they are liable to make a payment directly and incrementally associated with payments made for compensated absences on termination. The Commission includes its share of Social Security and Medicare payments made on behalf of the employees in its accrual for vacation.

Foundation Grants

Foundation grants include funds received from 501(c)(3) not-for-profit and community based organizations to promote the Commission's stated objectives.

**FIRST 5
SANTA CLARA COUNTY**

NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2010 and 2009

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**, continued

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Revenues from the Medical Administrative Activities program are based on the time spent by participating staff in medical administrative activities. The Commission is not able to reasonably estimate the amount of revenue at the time the service reports are submitted to the County. Therefore revenue from this program is recorded when the payment amount is communicated to the Commission from the County. The amount included in Other Revenue from this program is approximately \$724,000 and \$574,000 for the years ending June 30, 2010 and 2009 respectively.

Budget and Budgetary Reporting

The Commission is required to prepare a budget each year based on estimates of revenues and expected expenditures. The budget is adopted on a basis consistent with GAAP. Budgetary control is exercised at the major object level. All changes to the budget during the year require the approval of the Commission. All unencumbered annual appropriations lapse at the end of each fiscal year.

Fund Balance

Reservations of fund balance of the governmental fund indicate that there is a portion of fund equity that is not available for appropriation for expenditure or is legally segregated for a specific future use. Following is a description of the nature of certain reserves:

Reserve for Encumbrances - A reserve is set aside for certain contractual obligations that the Commission has with its sub-recipients in the operation of program activities. These obligations in the current year do not constitute expenditures or liabilities, but once the sub-recipient fulfills certain eligibility requirements, will represent expenditures or liabilities.

Reserve for Obligations - A reserve is established for situations where the Commission has explicitly authorized and directed staff to enter into an agreement with a specified agency, but the contract has not actually been executed.

Reserve for FIRST 5 California Initiatives - A reserve is established for the total future amounts the Commission will receive as part of a guaranteed county matching program. These initiatives were restructured so that they are now included as local initiatives; therefore, there is no amount reserved for FIRST 5 California Initiatives.

Designated for Local Initiatives and Program Sustainability - A reserve has been established for specific programs or projects in the current or future fiscal years which meet certain criteria and funds which are to be used for the long-term sustainability of the programs.

**FIRST 5
SANTA CLARA COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2010 and 2009**

2. CASH AND INVESTMENTS

The Commission had the following cash and investments at June 30, 2010 and 2009:

	2010	2009
Cash:		
Commercial banks	\$ 5,527,667	\$ 2,894,089
County commingled pool	11,614,954	18,212,658
	17,142,621	21,106,747
Investments:		
U.S. treasuries	7,888,447	10,847,632
U.S. agencies	32,061,052	31,433,781
Corporate bonds	18,465,623	18,043,203
Money funds	4,805,088	296,349
Accrued interest	683,486	834,978
	63,903,696	61,455,943
Total cash and investments	\$ 81,046,317	\$ 82,562,690

Cash and Investments in the County Commingled Pool

At June 30, 2010 and 2009, cash and investments of \$11,614,954 and \$18,212,658 are held in the County's commingled pool, which is managed by the County Treasurer. The County's Treasury Oversight Committee is responsible for the regulatory oversight of the commingled pool. The County reports all of its investments, including the investments of its commingled pool, at fair value. The County Treasurer determines the fair value of the pool on a monthly basis, based on quoted market prices. The value of the pooled shares that may be withdrawn is based upon amortized cost, which is different than the fair value. Realized and unrealized earnings and losses are allocated annually to commingled investment pool participants based on the participants' average daily cash balance relative to the entire pool. Information regarding the County's cash and investments, including custodial risk categories, collateral, and maturities, can be found in the Notes of the County's basic financial statements.

Cash in Commercial Banks

The Commission also maintains cash in separate bank accounts. The Commission maintains its cash and cash equivalents in commercial checking and money market accounts. The *California Government Code* requires California banks and savings and loan associations to secure the Commission's deposits by pledging government securities as collateral. The market value of pledged securities must equal 110% of an agency's deposits. At June 30, 2010 and 2009 the cash held by the financial institutions of \$5,527,667 and \$2,894,089, respectively was entirely insured and collateralized as described above.

**FIRST 5
SANTA CLARA COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2010 and 2009**

2. CASH AND INVESTMENTS, continued

Cash and investment income at June 30, 2010 and 2009 is as follows:

	2010	2009
Realized gain on matured/sold investments	\$ 483,756	\$ 330,339
Unrealized (loss) gain in changes in fair value of investments	(893,795)	236,602
Net (loss) gain	(410,039)	566,941
Interest income	3,087,913	3,597,282
Total investment income	<u>\$ 2,677,874</u>	<u>\$ 4,164,223</u>

Risk Disclosures:

Interest Rate Risk - The Commission utilizes Merrill Lynch to manage its investment portfolio of Government and Corporate bonds in accordance with the Commission's investment policy. The policy's three main objectives include: safeguarding of principal, meeting the liquidity needs of the Commission, and achieving a competitive rate of return. The Commission's policy indicates all eligible investments and requirements must comply with Government Code Section 53635.2.

As of June 30, 2010, the Commission had the following investments and maturities:

Investment Type	Fair Value	Matures in less than one year	Matures in one to five years
U.S. treasuries	\$ 7,888,447	\$ -	\$ 7,888,447
U.S. agencies	32,061,052	7,044,977	25,016,075
Corporate bonds	18,465,623	3,282,478	15,183,145
Money funds	4,805,088	4,805,088	-
Accrued interest	683,486	683,486	-
	<u>\$ 63,903,696</u>	<u>\$ 15,816,029</u>	<u>\$ 48,087,667</u>

As of June 30, 2009, the Commission had the following investments and maturities:

Investment Type	Fair Value	Matures in less than one year	Matures in one to five years
U.S. treasuries	\$ 10,847,632	\$ -	\$ 10,847,632
U.S. agencies	31,433,781	14,088,265	17,345,516
Corporate bonds	18,043,203	1,608,592	16,434,611
Money funds	296,349	296,349	-
Accrued interest	834,978	834,978	-
	<u>\$ 61,455,943</u>	<u>\$ 16,828,184</u>	<u>\$ 44,627,759</u>

**FIRST 5
SANTA CLARA COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2010 and 2009**

2. CASH AND INVESTMENTS, continued

Risk Disclosures, continued

Credit Risk - State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSRO's). At June 30, 2010, the Commission's credit risks, expressed on a percentage basis, are as follows:

Investment Type	Credit Quality Rating		Fair Value at June 30, 2010	% of Investment
	Moody	S&P		
<i>U.S. Treasury:</i>				
U.S. treasury notes	AAA	AAA	\$ 7,888,447	12.3%
<i>U.S. Agency Bond</i>				
Federal Home Loan Mortgage Corporation (FHLMC)	AAA	AAA	8,063,663	12.6%
Federal Home Loan Bank	AAA	AAA	3,530,626	5.6%
Federal National Mortgage Association (FNMA)	AAA	AAA	20,466,763	32.0%
<i>Corporate Bonds</i>				
United Parcel Service	AA3	AA-	1,891,120	3.0%
General Electric Company	AA2	AA+	1,876,630	2.9%
Citigroup Inc.	A3	A	1,536,255	2.4%
Target Corp	A2	A+	1,887,428	3.0%
Cisco Systems, Inc.	A1	A+	1,746,223	2.7%
Wells Fargo Company	AAA	AAA	1,808,765	2.8%
Verizon Communications	A3	A	1,370,175	2.1%
Goldman Sachs Group	A1	A	1,570,560	2.5%
Bank of New York Mellon	AA2	AA-	1,718,448	2.7%
AT&T Inc.	A2	A	1,192,541	1.9%
JP Morgan Chase & Co.	A1	A	1,867,478	2.9%
Money funds	Not Rated		4,805,088	7.5%
Accrued interest	Not Rated		683,486	1.1%
			<u>\$ 63,903,696</u>	

**FIRST 5
SANTA CLARA COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2010 and 2009**

3. CAPITAL ASSETS

The following is a summary of changes in the capital assets for the year ended June 30, 2010 and 2009:

	Balance June 30, 2009	Additions	Retirements	Balance June 30, 2010
Furniture and equipment	\$ 265,001	\$ 5,710	\$ -	\$ 270,711
Building improvements	1,264,865	-	-	1,264,865
Building	3,000,908	-	-	3,000,908
Land	2,357,856	-	-	2,357,856
Total	<u>6,888,630</u>	<u>5,710</u>	<u>-</u>	<u>6,894,340</u>
Less accumulated depreciation:				
Furniture and equipment	249,001	(16,072)	-	232,929
Building improvements	258,614	(63,240)	-	195,374
Building	575,182	(150,048)	-	425,134
Total accumulated depreciation	<u>1,082,797</u>	<u>(229,360)</u>	<u>-</u>	<u>853,437</u>
Total capital assets, net	<u>\$ 5,805,833</u>	<u>\$ 235,070</u>	<u>\$ -</u>	<u>\$ 6,040,903</u>

	Balance June 30, 2008	Additions	Retirements	Balance June 30, 2009
Furniture and equipment	\$ 265,001	\$ -	\$ -	\$ 265,001
Building improvements	1,264,865	-	-	1,264,865
Building	3,000,908	-	-	3,000,908
Land	2,357,856	-	-	2,357,856
Total	<u>6,888,630</u>	<u>-</u>	<u>-</u>	<u>6,888,630</u>
Less accumulated depreciation:				
Furniture and equipment	231,085	(17,916)	-	213,169
Building improvements	195,374	(63,240)	-	132,134
Building	425,134	(150,048)	-	275,086
Total accumulated depreciation	<u>851,593</u>	<u>(231,204)</u>	<u>-</u>	<u>620,389</u>
Total capital assets, net	<u>\$ 6,037,037</u>	<u>\$ 231,204</u>	<u>\$ -</u>	<u>\$ 6,268,241</u>

Depreciation is allocated in total to the Commission's program expense.

4. POST EMPLOYMENT BENEFITS

Deferred Compensation Plan

The Commission offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 (“457 Plan”). The 457 Plan is available to all employees excluding part-time employees who work less than 20 hours a week and permits them to defer a portion of their salary until future years. The 457 Plan is administered by the Unified Trust Company. The Commission has no administrative involvement and does not perform the investing function.

**FIRST 5
SANTA CLARA COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2010 and 2009**

4. POST EMPLOYMENT BENEFITS, continued

Retirement Plan

In November 2001, the Commission's board approved the implementation of an Internal Revenue Code Section 401(a) Retirement Plan (the "Plan") effective January 1, 2002 for all Commission employees. The Plan is a defined contribution plan administered by the Unified Trust Company. The Plan is open to all employees, excluding temporary employees who work less than 20 hours per week. Currently, 43 employees are enrolled in the Plan. The Plan provides retirement benefits based on the employee's salary and years of service.

Effective January 1, 2008 the Plan had three different types of employer contributions which vest 100% after three years of employment service. The Plan requires employer contributions of 7% of employees' compensation. The employer's contributions under this requirement were \$207,056 and \$201,303 for the years ended June 30, 2010 and 2009, respectively. The employer also contributes a dollar for dollar match on the elective deferrals noted in the deferred compensation plan to a maximum of 5% of each employee's annual compensation. The employer's contributions were \$129,193 and \$140,620 for the years ended June 30, 2010 and 2009, respectively. Additional supplemental contributions may be made by the employer based on a compensation arrangement between employee and the employer. The contribution requirements of Plan members and the Commission are established by and may be amended by the Unified Trust Company.

5. OPERATING LEASES

The Commission leases equipment under non-cancelable operating leases with terms of month-to-month up to forty-eight months. Future minimum rental payments under operating leases with initial or remaining non-cancelable lease terms greater than one year are as follows:

Year Ending June 30,

2011	\$	15,900
2012		498
	<u>\$</u>	<u>16,398</u>

Rental expenditures for the year ended June 30, 2010 and 2009 totaled \$20,471 and \$21,874, respectively.

The Commission leases a portion of its San Jose facility to third parties and other County organizations under non-cancelable lease agreements which extend into the future. Minimum lease payments to be received as of June 30, 2010 for each of the next three years are as follows:

Year Ending June 30,

2011	\$	132,402
2012		69,528
2013		37,598
	<u>\$</u>	<u>239,528</u>

Total rental income for the year ended June 30, 2010 and 2009 totaled \$142,813 and \$145,708, respectively.

**FIRST 5
SANTA CLARA COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS
For the Years Ended June 30, 2010 and 2009**

6. RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; theft of, or damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; unemployment; and health benefits to employees. The Commission has purchased insurance to cover general liability up to \$5 million, criminal bond up to \$10 million, workers compensation up to \$5 million, property insurance up to \$25 million, auto liability up to \$1 million and employment practice up to \$2 million.

7. RESERVED FOR ENCUMBRANCES

At June 30, 2010 and 2009, the Commission's remaining commitments are as follows:

	Remaining Commitment at June 30, 2010	Remaining Commitment at June 30, 2009
Projects:		
Evaluation contract	\$ 382,043	\$ -
Summer nutrition program	205,194	-
Early childhood institute	-	609,348
Health programs	-	605,153
Miscellaneous contracts	26,300	2,650
Total	<u>\$ 613,537</u>	<u>\$ 1,217,151</u>

8. SIGNIFICANT GRANTEE

The Commission has two grantees who obtained approximately 44% and 46% of total grant expenditures for the year ended June 30, 2010 and 2009, respectively. These grantees also make up approximately 53% and 47% of accounts payable at June 30, 2010 and 2009 respectively.

9. PROGRAM EVALUATIONS

The Commission has spent approximately \$677,000 and \$798,000 on program evaluation for the years ended June 30, 2010 and 2009, respectively.

10. SUBSEQUENT EVENTS

The Commission has evaluated all events occurring subsequent to June 30, 2010 through October 27, 2010 and noted that nothing has occurred outside the normal course of business operations.

SUPPLEMENTARY INFORMATION

FIRST 5
SANTA CLARA COUNTY
STATEMENT OF ACTIVITIES
BUDGET AND ACTUAL
For the Year Ended June 30, 2010

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Revenues				
Proposition 10 taxes	\$ 19,070,200	\$ 19,070,200	\$ 18,544,567	\$ (525,633)
Foundation and state matching grants	2,370,300	2,370,300	3,669,895	1,299,595
Investment income	2,714,000	2,714,000	2,677,874	(36,126)
Other revenue	450,000	450,000	940,655	490,655
Total revenues	<u>24,604,500</u>	<u>24,604,500</u>	<u>25,832,991</u>	<u>1,228,491</u>
Expenditures				
Salaries and benefits	4,485,900	4,485,900	4,146,489	(339,411)
Supplies and services	2,114,100	2,114,100	1,878,968	(235,132)
Grant expenditures	29,673,000	29,673,000	20,667,171	(9,005,829)
Total expenses	<u>36,273,000</u>	<u>36,273,000</u>	<u>26,692,628</u>	<u>(9,580,372)</u>
Change in net assets	<u>\$ (11,668,500)</u>	<u>\$ (11,668,500)</u>	<u>(859,637)</u>	<u>\$ 10,808,863</u>
Net assets, beginning of year			<u>83,861,210</u>	
Net assets, end of year			<u>\$ 83,001,573</u>	

- 1) The above budgetary information was prepared using the same methodologies as the preparation of the government wide financial statements which include a provision for depreciation and accrued vacation expense.
- 2) Total actual revenue in the current year was greater than budget due to an unanticipated increase in Foundation and State matching grants.
- 3) Total actual expenditures in the current year were less than budget due to a reduction in the grant expenditure category. This reduction was due to total encumbered and committed grant amounts not fully realized during the contract term.

See accompanying notes to basic financial statements.

**FIRST 5
SANTA CLARA COUNTY**

STATEMENT OF REVENUES AND EXPENDITURES
For the Year Ended June 30, 2010

	School Readiness	Retention Incentives
Revenues	\$ 2,503,676	\$ 362,519
(Expenses)	(2,492,395)	(629,982)
	\$ 11,281	\$ (267,463)

Basis of Presentation:

The accompanying Statement of Revenue and Expenditures presents funds received and expensed for Retention Incentives and School Readiness programs. The presentation is a required schedule in accordance with fiscal audit guidelines issued by the State of California Children’s and Families Commission. Under this presentation, revenues are recognized when all eligibility requirements are met which coincides with State apportionments and revenues to the Commission and expenses are recorded when incurred.

See accompanying notes to supplemental schedule.



Building your future

**INDEPENDENT AUDITORS' 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**

Board of Commissions
FIRST 5 Santa Clara County
San Jose, California

We have audited the financial statements of FIRST 5 Santa Clara County ("Commission"), a component unit of Santa Clara County as of and for the year ended June 30, 2010 and have issued our report thereon dated October 27, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

Member of The Leading Edge Alliance

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 or other matters that are required to be reported under *Government Auditing Standards*.

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

Burr, Pitzer & Mayer

San Jose, California
October 27, 2010



Building your future

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Commissions
FIRST 5 Santa Clara County
San Jose, California

We have audited the basic financial statements of the FIRST 5 Santa Clara County ("Commission"), a component unit of Santa Clara County, as of and for the year ended June 30, 2010 and have issued our report thereon dated October 27, 2010.

Our audit was conducted in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State of California's *Standards and Procedures for Audits of California Counties Participating in the 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 Benefits Policies	2	Yes

Member of The Leading Edge Alliance

Based on our audit we found that, for the items tested, the First 5 Santa Clara County 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.

Burr, Puzer & Maye

San Jose, California
October 27, 2010