

FIRST FIVE YUBA COMMISSION

**(A Component Unit of the
County of Yuba, California)**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

JUNE 30, 2011

FIRST FIVE YUBA COMMISSION

Financial Statements
For the Year Ended June 30, 2011

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FIRST FIVE YUBA COMMISSION

Commission Membership

<u>Name</u>	<u>Representing</u>	<u>Date of Appointment</u>	<u>Current Term Expires</u>
Dr. Joseph Cassady	County Representative	12/1998	N/A
Matthew John Floe	Community Member	04/2007	04/2013
Mary Jane Griego	Board of Supervisors	01/2004	when replaced
Suzanne Nobles	County Representative	01/2003	N/A

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
First Five Yuba Commission
Marysville, California

We have audited the accompanying basic financial statements of First Five Yuba Commission (Commission), a component unit of the County of Yuba, as of and for the year ended June 30, 2011, 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 Commission as of June 30, 2011, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 24, 2011 on our consideration of the Commission's internal control over financial reporting and on 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.

Board of Commissioners
First Five Yuba Commission
Marysville, California

The Management's Discussion and Analysis and the Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual as listed in the table of contents 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.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the First Five Yuba Commission's basic financial statements. The accompanying supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Gallina LLP

Roseville, California
October 24, 2011

FIRST FIVE YUBA COMMISSION

Management's Discussion and Analysis For the Year Ended June 30, 2011

On November 3, 1998, California voters approved Proposition 10 – the Children and Families First Act. The Act imposed additional excise tax on cigarettes and tobacco related products to fund programs that promote, support, and improve the early development of children from prenatal through age five. The intent is for all California children to be healthy, to live in a healthy and supportive family environment, and to enter school ready to learn.

The Yuba County (County) Board of Supervisors created the First Five Yuba Commission (Commission) in 1998 under the provisions of the Act. The Commission consists of seven members appointed by the County Board of Supervisors. The Commission is a public entity legally separate and apart from the County.

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

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 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*.

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 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 9-10 of this report.

FIRST FIVE YUBA COMMISSION

Management's Discussion and Analysis For the Year Ended June 30, 2011

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 local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements report essentially the same functions as those reported in the government-wide financial statements. However, unlike the government-wide financial statements, fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented. 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 Commission adopts an annual appropriated budget for its fund. A budgetary comparison statement has been provided for the fund to demonstrate compliance with the budget.

The fund financial statements can be found on pages 11-13 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 14-23 of this report.

Required Supplementary Information (RSI). RSI is presented concerning the Commission's General Fund budgetary schedule. The Commission adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget.

Government-wide Financial Analysis

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the Commission, assets exceed liabilities by \$1,182,650 at the close of the most recent fiscal year. The most significant portion of the Commission's net assets is its cash balance of \$2,776,547. Cash is maintained by the County Treasurer in the County's cash and investment pool where interest earned on the Commission's balance is apportioned to the Commission. Another source of net assets also resides in the Commission's receivables due from the State Commission for Proposition 10 taxes in the amount of \$155,182. These receivables represent taxes that were remitted by the State but had not been received by the Commission as of June 30, 2011. The Commission also reports accounts payable of \$244,339 representing payments due for obligations incurred during the year, but not yet paid. The majority of this amount is comprised

FIRST FIVE YUBA COMMISSION

Management's Discussion and Analysis For the Year Ended June 30, 2011

of a payment in the amount of \$73,186 to the Yuba County Community Development Department for the POW/MIA Exerstations Project.

The Commission's net assets decreased overall by \$1,756,965 during the 2010-2011 fiscal year. This decrease in net assets is explained in the governmental fund analysis below.

First Five Yuba Commission

Statement of Net Assets Comparison

	<u>FY 2010-11</u>	<u>FY 2009-10</u>	<u>Difference</u>
Total Assets	\$ 2,943,197	\$ 3,319,892	\$ (376,695)
Total Liabilities	<u>1,760,547</u>	<u>380,277</u>	<u>(1,380,270)</u>
Total Net Assets	<u>\$ 1,182,650</u>	<u>\$ 2,939,615</u>	<u>\$ (1,756,965)</u>

Statement of Activities Comparison

	<u>FY 2010-11</u>	<u>FY 2009-10</u>	<u>Difference</u>
Total Revenues	\$ 972,795	\$ 1,171,057	\$ (198,262)
Total Expenses	<u>1,253,083</u>	<u>1,506,354</u>	<u>253,271</u>
Change in Net Assets Before Special Item	(280,288)	(335,297)	55,009
Less Special Item:			
State of California AB 99 expense	<u>(1,476,677)</u>	<u>--</u>	<u>(1,476,677)</u>
Change in Net Assets	<u>\$ (1,756,965)</u>	<u>\$ (335,297)</u>	<u>\$ (1,421,668)</u>

The special item is a result of legislation enacted by the Legislature and signed into law by the Governor in March of 2011 (AB 99) requires the Commission to send approximately \$1,500,000 of its fund balance to the State General Fund by June 30, 2012. And while the constitutionality of the legislation is currently being adjudicated, the Commission must conduct its financial affairs as if AB 99 is a legal action of the Legislature. Consequently, the amount to be sent to the State cannot be used as available resources to fund future budgets.

FIRST FIVE YUBA COMMISSION

Management's Discussion and Analysis
For the Year Ended June 30, 2011

Financial Analysis of the Commission's Governmental Fund

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

For the year-ended June 30, 2011, the Commission reported an ending fund balance of \$1,201,748, a decrease of \$1,751,605 or 146%, from the prior year. The decrease is a result of the legislation (AB99) requiring the Commission to send approximately \$1,500,000 of its fund balance to the State General Fund by June 30, 2012.

Under GASB 54 regulations, the Commission has reserved \$1,201,748 or 100% of their funds in the Committed Fund Balance category.

First Five Yuba Commission
Statement of Revenues, Expenditures and Changes in Fund Balance
Comparison Statement

	FY 2010-11	FY 2009-10	Difference
Total Revenues	\$ 972,795	\$ 1,171,057	\$ (198,262)
Expenditures			
Administration	336,613	349,306	(12,693)
Professional Services	911,110	1,149,487	(238,377)
Total Expenditures	1,247,723	1,498,793	(251,070)
Less Special Item:			
State of California AB 99 expense	(1,476,677)	--	(1,476,677)
Change in Net Assets	\$ (1,751,605)	\$ (327,736)	\$ (1,423,869)

Total revenue (see above) consisting of Proposition 10 funds, interest income, and State Commission matching revenue decreased from \$1,171,057 to \$972,795, a decrease of \$198,262, or 17%, from the prior fiscal year. This decrease resulted from a decrease in Prop 10 revenue due to Federal Tobacco Tax Legislation, a decrease in interest income on the Commission Trust funds and State SMIF funds and a decrease in Health Access reimbursement due to a decline in the number of children enrolled in the Healthy Kids program.

FIRST FIVE YUBA COMMISSION

Management's Discussion and Analysis For the Year Ended June 30, 2011

Total expenditures decreased from \$1,498,793 to \$1,247,723, a decrease of \$251,070, or 17%, from the prior fiscal year. This decrease was due to a decline in professional services expenditures; in particular the School Readiness State Matching Funds program expenditures.

Fund Budgetary Highlight

Total revenues were slightly over budget by \$37,676 or 4%, and total expenditures were under budget by \$940,332, or 43%. The total revenue increase was due to slightly higher than budgeted State tobacco tax revenue, Health Access Reimbursement and Small County Augmentation Funds. The majority of the remaining expenditure funds are actually committed for future expenditures on multi-year contracts.

Capital Assets and Debt Administration

Capital Assets

The Commission's investment in capital assets for its governmental type activities as of June 30, 2011 is \$1,571 (net of accumulated depreciation). This investment in capital assets includes equipment with a life expectancy of 5 years. Additional information on capital assets are in Note 3 of this report.

Debt Administration

At the end of the current fiscal year, the Commission did not have any long-term obligations outstanding. Other long-term liabilities include compensated absences of \$4,189 and other post-employment benefits of \$16,480. Additional information on these liabilities are in Notes 4 and 8 of this report.

Economic Factors and Next Year's Budget

The Commission is committed to focusing Proposition 10 funds on the purposes for which it is intended, to promote and sustain comprehensive, integrated programs and services that will help to nurture children 0-5 years of age so that their young brains and bodies will develop appropriately.

The following economic factors were considered in preparing the Commission's budget for fiscal year 2011-2012:

- Expected decrease in Prop 10 revenue due to Federal Tobacco Tax Legislation and an increase in tobacco cessation
- Continued commitment to School Readiness Program and Early Childhood Education Quality Improvement Program

FIRST FIVE YUBA COMMISSION

Management's Discussion and Analysis For the Year Ended June 30, 2011

- Maintain and grow the fund balance designated for local initiatives and program sustainability
- Sustaining current multi-year projects
- AB 99 requires the Commission to send approximately \$1,500,000 of its fund balance to the State General Fund by June 30, 2012. A court suit to determine the constitutionality of AB 99 is underway. There is speculation that the losing party in the suit will appeal the trial court's decision. An appeal is expected to take up to 2 years before a final decision is rendered. While the court suit is active, the Commission cannot consider resources set aside for AB 99 to be resources available for use in Yuba County. Consequently, the Commission will have to wait and decide if/when to seek new proposals.

The Commission views Proposition 10 as a mechanism to establish and fund a sustainable system of results-oriented early childhood development and family support services for the 0-5 age population, not as just another funding source for programs. In that regard, in fiscal year 2011-2012 the Commission will continue to focus on evaluating all funded programs to determine what is working or has promise to impact the health and well being of children. This information will be used to help evaluate the overall impact of Proposition 10 in Yuba County. The result of these evaluation activities will help to inform the Commission as it plans for its fiscal year 2011-2012 expenditures.

Requests for Information

This financial report is designed to provide a general overview of the First Five Yuba Commission 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 Five Yuba Commission, 1114 Yuba Street, Suite 121, Marysville, CA 95901.

**BASIC FINANCIAL STATEMENTS –
GOVERNMENT-WIDE FINANCIAL STATEMENTS**

FIRST FIVE YUBA COMMISSION

Statement of Net Assets June 30, 2011

ASSETS

Cash in County treasury	\$ 2,776,547
Due from First 5 CA	155,182
Interest receivable	9,897
Capital assets:	
Depreciable, net	<u>1,571</u>
 Total Assets	 <u>2,943,197</u>

LIABILITIES

Accounts payable	244,339
Accrued payroll	18,862
Long-term liabilities:	
Compensated absences payable - due within one year	4,189
Other post-employment benefits liability	16,480
Due to the State of California per AB 99	<u>1,476,677</u>
 Total Liabilities	 <u>1,760,547</u>

NET ASSETS

Invested in capital assets, net of related debt	1,571
Unrestricted	<u>1,181,079</u>
 Total Net Assets	 <u>\$ 1,182,650</u>

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

FIRST FIVE YUBA COMMISSION

Statement of Activities For the Year Ended June 30, 2011

PROGRAM EXPENSES

Salaries and employee benefits	\$ 241,439
Services and supplies	60,589
Rent and utilities	11,984
Program evaluation	28,666
School readiness	108,039
Healthy kids	27,540
Mini grants	30,320
Major grants	743,763
Depreciation	743
	<hr/>
Total Program Expenses	1,253,083

PROGRAM REVENUES

Operating grants and contributions:	
Proposition 10 apportionment	855,949
Proposition 10 administration augmentation	68,580
Proposition 10 surplus money investment fund	456
Proposition 10 health access	2,200
Other revenue	240
	<hr/>
Total Program Revenues	927,425
	<hr/>
Net Program Revenues (Expenses)	(325,658)

GENERAL REVENUES

Interest revenue	45,370
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OTHER FINANCING USES

Special Item:	
State of California AB 99 expense	<hr/> (1,476,677)
Total General Revenues and Special Items	<hr/> (1,431,307)
Change in Net Assets	(1,756,965)
Net Assets, Beginning of Year	<hr/> 2,939,615
Net Assets, End of Year	<hr/> <u>\$ 1,182,650</u>

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

**BASIC FINANCIAL STATEMENTS –
FUND FINANCIAL STATEMENTS**

FIRST FIVE YUBA COMMISSION

Balance Sheet June 30, 2011

ASSETS

Cash in County treasury	\$ 2,776,547
Due from First 5 CA	155,182
Interest receivable	9,897
	<hr/>
Total Assets	<u>\$ 2,941,626</u>

LIABILITIES

Accounts payable	\$ 244,339
Accrued payroll	18,862
Due to the State of California per AB 99	1,476,677
	<hr/>
Total Liabilities	<u>1,739,878</u>

FUND BALANCE

Committed	<u>1,201,748</u>
	<hr/>
Total Fund Balance	<u>1,201,748</u>
	<hr/>
Total Liabilities and Fund Balance	<u>\$ 2,941,626</u>

Reconciliation of the Governmental Fund Balance Sheet to the Government-Wide Statement of Net Assets - Governmental Activities

Fund Balance - total governmental fund (from above) \$ 1,201,748

Amounts reported for governmental activities in the statement
of net assets are different because:

Capital assets used for governmental activities are not reported as assets
in the governmental fund. 1,571

Long-term liabilities, including compensated absences, are not due and payable
in the current period, and therefore are not reported in the governmental fund.

Balances as of June 30, 2010 are as follows:

Compensated absences	(4,189)
Other post employment benefits	<u>(16,480)</u>

Net assets of governmental activities (page 9) \$ 1,182,650

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

FIRST FIVE YUBA COMMISSION

Statement of Revenues, Expenditures and Changes in Fund Balance For the Year Ended June 30, 2011

REVENUES

Proposition 10 apportionment	\$ 855,949
Proposition 10 administration augmentation	68,580
Proposition 10 surplus money investment fund	456
Proposition 10 health access	2,200
Interest revenue	45,370
Other revenue	240
	<hr/>
Total Revenues	972,795

EXPENDITURES

Salaries and employee benefits	235,374
Services and supplies	60,589
Rent and utilities	11,984
Program evaluation	28,666
School readiness	108,039
Healthy kids	27,540
Mini grants	30,320
Major grants	743,763
Capital outlay	1,448
	<hr/>
Total Expenditures	1,247,723

Deficiency of Revenues over Expenditures	(274,928)
Other Financing Uses	
Special Item:	
State of California AB 99 expense	<hr/> (1,476,677)
Net Change in Fund Balance	(1,751,605)
Fund Balance, Beginning of Year	<hr/> 2,953,353
Fund Balance, End of Year	<hr/> <hr/> \$ 1,201,748

continued

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

FIRST FIVE YUBA COMMISSION

Statement of Revenues, Expenditures and
Changes in Fund Balance (continued)
For the Year Ended June 30, 2011

**Changes in Fund Balance of Governmental Fund to the
Government-Wide Statement of Activities - Governmental Activities**

Net change to fund balance - total governmental fund (from previous page) \$ (1,751,605)

Amounts reported for governmental activities in the
statement of activities are different because:

Governmental funds report capital outlay as expenditures. However, in the
statement of activities, the cost of those assets is allocated over their
estimated useful lives and reported as depreciation expense.

Capital outlays	1,448
Depreciation expense	(743)

Some expenses reported in the statement of activities do not require the use of current
financial resources and, therefore, are not reported as expenditures in governmental fund.

Change in compensated absences	(930)
Change in other post-employment benefit liability	<u>(5,135)</u>

Change in net assets of governmental activities (page 10) \$ (1,756,965)

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

FIRST FIVE YUBA COMMISSION

Notes to Financial Statements
June 30, 2011

Note 1: **Summary of Significant Accounting Policies**

A. Reporting Entity

First Five Yuba Commission (Commission) was established on December 15, 1998 pursuant to authority granted under the California Children and Families First Act of 1998 by the County of Yuba's Board of Supervisors to operate as a separate and legal entity from the County of Yuba. The California Children and Families First Act of 1998 (Proposition 10), was adopted by the voters of the State of California on November 3, 1998. The Commission's programs are funded by taxes levied by the State of California on tobacco products.

The Commission's specific purpose is to promote, support and improve the early development of children from the prenatal stage to five (5) years of age, consistent with the goals and objectives of Proposition 10 within the County of Yuba. This purpose shall be accomplished through the establishment, institution, and coordination of appropriate standards, resources, and integrated and comprehensive programs emphasizing community awareness, education, nurturing, childcare, social services, health care and research.

The Commission is administered by a governing board of commissioners. The commissioners consist of one (1) member of the Board of Supervisors, the Health Officer of Yuba County, the Director of Health and Human Services, and four members of the community who represent an area specific to the purpose of the Commission. Community Commissioners serve for three year terms and may renew for additional terms.

B. Basis of Presentation and Accounting

Government-Wide 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 Commission.

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 instead as general revenues.

FIRST FIVE YUBA COMMISSION

Notes to Financial Statements
June 30, 2011

Note 1: **Summary of Significant Accounting Policies** (continued)

B. **Basis of Presentation and Accounting** (continued)

Government-Wide Statements (continued)

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.

Fund Financial Statements

Separate financial statements are provided for the governmental funds. 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 taxes 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, as under accrual accounting.

Nonexchange transactions, in which the Commission gives (or receives) value without directly receiving (or giving) value in exchange, include sales taxes, grants, entitlements and donations. On a modified accrual basis, revenues from sales taxes are recognized when the underlying transactions take place and have met the availability criteria. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

The Commission reports one major governmental fund, the General Fund. The General Fund is the Commission's primary operating fund. It accounts for all financial resources of the general government.

C. **Due from Other Agencies**

This amount represents receivables from the State government. Management has determined the Commission's receivables are fully collectible. Accordingly, no allowance for doubtful accounts has been made.

FIRST FIVE YUBA COMMISSION

Notes to Financial Statements
June 30, 2011

Note 1: **Summary of Significant Accounting Policies** (continued)

D. Capital Assets

Capital assets are recorded at historical costs or at estimated historical cost if actual historical cost is not available. The Commission defines capital assets as assets with an initial, individual cost of more than \$1,000 for equipment/furniture and an estimated useful life in excess of one year. Provision is made for depreciation by the straight-line method over estimated useful lives ranging from three to ten years for equipment.

E. Compensated Absences

The Commission accounts for compensated absences in accordance with Governmental Accounting Standards Board Statement No. 16. Unused vacation benefits may be accrued up to a specified maximum.

Amounts of vested or accumulated vacation leave are not expected to be liquidated with expendable available financial resources is reported as a long-term liability in the government-wide financial statements. There is no payout of sick leave upon separation from the Commission.

F. Net Assets/Fund Balances

Net Assets

The government-wide activities fund financial statements utilize a net assets presentation. Net assets are categorized as invested capital assets (net of related debt), restricted and unrestricted. The Commission has invested in capital assets, (net of related debt) and restricted funds.

Invested in Capital Assets, Net of Related Debt – consists of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any outstanding borrowing used for the acquisition, construction, or improvement of those assets.

Restricted Net Assets – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

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

FIRST FIVE YUBA COMMISSION

Notes to Financial Statements
June 30, 2011

Note 1: **Summary of Significant Accounting Policies** (continued)

F. **Net Assets/Fund Balances** (continued)

Fund Balances

To be in conformance with GASB Statement No. 54, fund balance is reported in classifications based primarily on the extent to which the Commission is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of June 30, 2011, the Commission's fund balance was all committed as defined below:

Committed Fund Balance includes amounts that are constrained by limits imposed by the government's highest level of decision making (for First 5 county commissions, this is the local commission). Removal or modification of use of funds can be accomplished only by formal action of the authority (i.e. local commission) that established the constraints.

G. **Use of Estimates**

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

Note 2: **Cash and Investments**

Cash and investments at June 30, 2011 consisted of the following:

Cash in County treasury	<u>\$2,776,547</u>
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The Commission maintains all of its cash and investments with the Yuba County Treasurer in an investment pool. On a quarterly basis the Treasurer allocates interest to participants based upon their average daily balances. Required disclosure information regarding categorization of investments and other deposit and investment risk disclosures can be found in the County's financial statements. The County of Yuba's financial statements may be obtained by contacting the County of Yuba's Auditor-Controller's office at 915 8th Street, Suite 105, Marysville, California 95901.

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Notes to Financial Statements
June 30, 2011

Note 2: **Cash and Investments** (continued)

Required disclosures for the Commission's deposit and investment risks at June 30, 2011, were as follows:

Credit risk	Not rated
Custodial risk	Not applicable
Concentration of credit risk	Not applicable
Interest rate risk	Not available

Investments held in the County's investment pool are available on demand and are stated at cost plus accrued interest, which approximates fair value.

Note 3: **Capital Assets**

A summary of changes in capital assets for the year ended June 30, 2011, is as follows:

	Balance July 1, 2010	Additions	Retirements	Balance June 30, 2011
Equipment	\$ 4,410	\$ 1,448	\$ --	\$ 5,858
Less accumulated depreciation	(3,544)	(743)	--	(4,287)
Capital Assets, Net	\$ 866	\$ 705	\$ --	\$ 1,571

Depreciation expense for the fiscal year ended June 30, 2011 amounted to \$743.

Note 4: **Long-Term Liabilities**

The following is a summary of long-term liabilities as of June 30, 2011:

	Balance July 1, 2010	Additions	Retirements	Balance June 30, 2011
Compensated absences	\$ 3,259	\$ 8,822	\$ (7,892)	\$ 4,189
Other post employment benefits	11,345	5,854	(719)	16,480
Total Long-Term Liabilities	\$ 14,604	\$14,676	\$ (8,611)	\$ 20,669

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Notes to Financial Statements
June 30, 2011

Note 5: **Related Party Transactions**

During the fiscal year ended June 30, 2011, the Commission paid the County of Yuba, a related party, \$2,012 for A-87 costs which includes accounting and administrative services.

Note 6: **Operating Leases**

The Commission leases office space under a 60 month operating lease agreement that expires in June 2013. The minimum monthly rental is subject to adjustment as of the anniversary date (June 1) every year based upon the Consumer Price Index. The Commission also leases a copier under a 60 month operating lease agreement that expires in December 2011. Total rent charged to operations for the year ended June 30, 2011 was \$11,984.

Minimum required future rental payments under these leases are as follows:

Year Ended	
<u>June 30</u>	
2012	\$ 13,339
2013	<u>11,959</u>
Total	<u>\$ 25,298</u>

Note 7: **Defined Benefit Pension Plan**

The Commission contributes to the County of Yuba's retirement plan as a cost-sharing participant. All full-time employees of the Commission participate as County employees in which the County contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute. Copies of PERS' annual financial reports may be obtained from their Executive Office located at 400 P Street, Sacramento, California 95814.

FIRST FIVE YUBA COMMISSION

Notes to Financial Statements
June 30, 2011

Note 7: **Defined Benefit Pension Plan** (continued)

Funding Policy

County employees are required by state statute to contribute 7.0% for miscellaneous employees and 9.0% for safety employees of their annual covered salary. The County is required to contribute remaining amounts necessary to fund the benefits for the actuarial members, using the actuarial basis recommended by CalPERS actuaries and actuarial consultants and adopted by CalPERS Board of Administration. For the fiscal year ended June 30, 2011, the employer contribution rate was 12.8% for the miscellaneous plan and 16.0% for the safety plan. The County makes the contributions required of County employees on their behalf and for their account. All of the Commission's employees are classified as members of the County's miscellaneous plan.

Annual Pension Cost

The Commission's employee contributions in FY 2010-11 were \$11,924 or 7.0% of annual covered payroll and the employer's contribution was \$21,715 or 12.8% of annual covered payroll.

Three-Year Trend Information for PERS

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
06/30/09	\$ 22,670	100%	\$ --
06/30/10	22,670	100%	--
06/30/11	21,715	100%	--

Note 8: **Other Post-Employment Benefits (OPEB)**

As a discretely presented component unit of the county of Yuba, the Commission was required to implement Governmental Accounting Standards Board Statements No. 45 and 50 beginning with the fiscal year ended June 30, 2009. The County of Yuba's annual OPEB cost for the fiscal year ended June 30, 2011, is approximately \$1,286,000, of which the Commission's share is \$5,854. Amounts unpaid are recorded as a liability on the Statement of Net Assets.

FIRST FIVE YUBA COMMISSION

Notes to Financial Statements
June 30, 2011

Note 8: **Other Post-Employment Benefits (OPEB)** (continued)

The Commission’s net OPEB obligation for the years ended June 30, 2011, 2010, and 2009 is as follows:

<u>Fiscal Year</u> <u>Ended</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Contributed</u>	<u>Net</u> <u>Pension</u> <u>Obligation</u>
06/30/11	\$ 5,854	12.3%	\$ 16,480
06/30/10	6,410	9.6%	11,345
06/30/09	6,160	9.9%	5,547

Additional information can be obtained from the County’s Audited Financial Statements, available from the Auditor-Controller Department.

Note 9: **Risk Management**

The Commission is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions, injuries to employees, employee’s health; and natural disasters. The Commission has insurance policies with a private insurance company with the following policies:

- General Liability
- Crime Bond
- Property Insurance

The County of Yuba is a member of the California State Association of Counties Excess Insurance Authority (CSAC EIA). CSAC EIA is a member-directed risk sharing pool of counties and public entities committed to providing risk coverage programs and risk management services. The Commission is covered under the policy of the County of Yuba. The County of Yuba has the following coverage through the risk pool.

Excess and Primary Workers’ Compensation

Management believes such coverage is sufficient to preclude any significant uninsured losses to the Commission.

Note 10: **Program Evaluation**

The Commission spent \$75,825 on program evaluation during the fiscal year ended June 30, 2011. \$37,193 was used for salaries and benefits, \$9,966 was used for overhead, and \$28,666 was paid to a vendor.

FIRST FIVE YUBA COMMISSION

Notes to Financial Statements
June 30, 2011

Note 11: **Section 30131.4 of the California Tax & Revenue Code Certification**

The Commission has certified that the supplant requirement stated in Section 30131.4 of the California Tax & Revenue Code has been met.

Note 12: **Contingent Liabilities**

The Commission receives funding from the State of California Proposition 10, the Children and Families First Act, to fund programs that promote, support, and improves the early development of children from prenatal through age five. These programs must be in compliance with applicable laws and may be subject to financial and compliance audits by the State. The amount, if any, of expenditures which may be disallowed by the State cannot be determined at this time, although the County's management does not expect such amounts, if any, to be material.

In March 2011, the State passed AB99 which requires the First 5 County Commissions to return 50% of their fund balance as of June 30, 2010 to the State by June 30, 2012. Using this formula, the First Five Yuba Commission will be required to pay the State \$1,476,677. Currently, there are several First 5 commissions that are challenging the legality of AB99 on the grounds that it unlawfully amends the California Children and Families Act of 1998 (Proposition 10). The outcome of this lawsuit is unknown at this time.

Note 13: **Special Item – State of California – AB99**

On March 24, 2011, the Governor of the State of California approved and filed with the Secretary of State Assembly Bill No. 99, an act to add Sections 130156, 130157, and 130158 to the Health and Safety Code, relating to health and human services, and declaring the urgency thereof, to take effect immediately. This bill established the Children and Families Health and Human Services fund, which required specified amounts of State and Local Children and Families Commission funds to be deposited in the fund during 2011-2012 fiscal year, as specified. The State Children and Families Commission was to deposit a total of \$50,000,000 into the Children and Families Health and Human Services fund, while \$950,000,000 was to be deposited from the combined balances of all the County Children and Families Trust funds, including reserve funds.

The share of the amount required of each County commission was 50 percent of its County commission funding, which includes total reserved, total unreserved-designated, and total unreserved-undesignated local Children and Families Trust Funds as of June 30, 2010. Any County Commission that received less than \$600,000 in Children and Families Trust Fund revenues in the 2009-10 fiscal year is exempt and is not required to deposit funds into the Children and Families Health and Human Services Fund.

FIRST FIVE YUBA COMMISSION

Notes to Financial Statements
June 30, 2011

Note 13: **Special Item – State of California – AB99** (continued)

In addition, County Commission payments for deposit shall not cause any Commission's fund balance to fail below the amount received by the County Commission from the California Children and Families Trust Fund in the 2009-10 fiscal year. Full payments shall be made within the 2011-12 fiscal year, otherwise no 2012-13 allocation shall occur until the full payment is made.

The shared amount required of the First Five Yuba Commission to be paid prior to the end of the 2011-12 fiscal year, based on the requirements of the bill, is \$1,476,677. This item was booked as a special item expense as of June 30, 2011, and is still payable to the State of California in full, as of June 30, 2011.

REQUIRED SUPPLEMENTARY INFORMATION

FIRST FIVE YUBA COMMISSION

Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual For the Year Ended June 30, 2011

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget
Budgetary Fund Balances, July 1	\$ 2,953,353	\$ 2,953,353	\$ 2,953,353	\$ --
<u>Resources (Inflows):</u>				
Proposition 10 apportionment	920,060	828,054	855,949	27,895
Proposition 10 administration augmentation	65,106	65,106	68,580	3,474
Proposition 10 health access	2,000	1,778	2,200	422
Proposition 10 surplus money investment fund	7,500	1,500	456	(1,044)
Interest revenue	22,339	38,681	45,370	6,689
Other revenues	--	--	240	240
	<u>1,017,005</u>	<u>935,119</u>	<u>972,795</u>	<u>37,676</u>
<u>Amounts Available for Appropriation</u>				
<u>Charges to Appropriations (Outflows):</u>				
Salaries and employee benefits	229,394	238,970	235,374	3,596
Services and supplies	115,812	108,105	60,589	47,516
Rent and utilities	12,500	12,500	11,984	516
Program evaluation	83,450	68,792	28,666	40,126
School readiness	211,253	220,903	108,039	112,864
Healthy kids	75,000	74,862	27,540	47,322
Mini grants	42,346	140,217	30,320	109,897
Major grants	1,444,379	1,277,329	743,763	533,566
Capital outlay	2,500	2,500	1,448	1,052
Appropriation for contingency	54,377	43,877	--	43,877
	<u>2,271,011</u>	<u>2,188,055</u>	<u>1,247,723</u>	<u>940,332</u>
<u>Total Charges to Appropriations</u>				
Deficiency of Revenues over Expenditures	(1,254,006)	(1,252,936)	(274,928)	(902,656)
<u>Other Financing Uses</u>				
Special Item:				
State of California AB 99 expense	--	--	(1,476,677)	1,476,677
	<u>(1,254,006)</u>	<u>(1,252,936)</u>	<u>(1,751,605)</u>	<u>(498,669)</u>
<u>Net Change in Fund Balances</u>				
Fund Balances, End of Year	<u>\$ 1,699,347</u>	<u>\$ 1,700,417</u>	<u>\$ 1,201,748</u>	<u>\$ (498,669)</u>

YUBA COUNTY CHILDREN AND FAMILIES COMMISSION

Notes to the Required Supplementary Information
For the Year Ended June 30, 2011

BUDGET AND BUDGETARY ACCOUNTING

The Commission prepares and legally adopts a final budget on or before August 30th of each fiscal year. The Commission operation, commencing July 1st, is governed by the proposed budget, adopted by the Board of Commissioners in June of the prior year.

After the budget is approved, the appropriations can be added to, subtracted from or changed only by Commission resolution. All such changes must be within the revenues and reserves estimated as available in the final budget or within revised revenue estimates as approved by the Commission.

An operating budget is adopted each fiscal year on the modified accrual basis. Additionally, encumbrance accounting is utilized to assure effective budgetary control. Encumbrances outstanding at year-end represent the estimated amount of the expenditures ultimately to result if the unperformed contracts in process at year-end are completed or purchase commitments satisfied. Such year-end encumbrances are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent years and included in the subsequent years' budgets. Unencumbered appropriations lapse at year-end.

The legal level of budgetary control (the level on which expenditures may not legally exceed appropriations) is at the object level. Object levels of expenditures include: salaries and benefits, services and supplies, rent and utilities, and program expenditures.

The budget is adopted on a basis consistent with generally accepted accounting principles.

SUPPLEMENTARY INFORMATION

FIRST FIVE YUBA COMMISSION

Schedule of Expenditures by Fund Source and
Net Assets of CCFC Funds for First 5 Programs and Activities
For the Year Ended June 30, 2011

		Revenue CCFC Funds	Expenditures	Change in Net Assets	Net Assets Beginning of Year	Net Assets End of Year
School Readiness Program	County, Local Funds	\$ 108,039	\$ 108,039	--	--	--
Health Access Program	CCFC Program Funds	2,200	2,200	--	--	--
	County, Local Funds	25,340	25,340			
Administration Augmentation	CCFC Funds	68,580	68,580	--	--	--
Total CCFC Funds	CCFC Funds	\$ 204,159	\$ 204,159	\$ --	\$ --	\$ --

OTHER REPORTS



**INDEPENDENT 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***

Board of Commissioners
First Five Yuba Commission
Marysville, California

We have audited the financial statements of the First Five Yuba Commission (Commission) as of and for the year ended June 30, 2011, and have issued our report thereon dated October 24, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the County’s financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2011-1 to be a material weakness.

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. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

Board of Commissioners
First Five Yuba Commission
Marysville, California

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the First Five Yuba Commission 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*.

The First Five Yuba Commission's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the First Five Yuba Commission's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Yuba County Board of Supervisors, First Five Yuba Commission, management, others within the entity, the State Commission, the State Controller's Office, federal agencies and pass-through agencies 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.

Gallina LLP

Roseville, California
October 24, 2011



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Commissioners
First Five Yuba Commission
Marysville, California

We have audited the basic financial statements of the First Five Yuba Commission (the Commission), a component unit of the County of Yuba, as of and for the year ended June 30, 2011 and have issued our report thereon dated *October 24, 2011*. 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. We have also audited the Commission's compliance with the requirements specified in the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, issued by the State Controller's Office, applicable to the Commission's statutory requirements identified below for the year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of the Commission's management. Our responsibility is to express an opinion on the Commission's compliance based on our audit.

We conducted our compliance audit 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 Local Entities Administering the California Children and Families Act*, issued by the State Controller's Office. Those standards and the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the statutory requirements listed below occurred. An audit includes examining on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Commission's compliance with those requirements.

Board of Commissioners
First Five Yuba Commission
Marysville, California

In connection with the audit referred to above, we selected and tested transactions and records to determine the Commission's compliance with the state 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 Cost	3	Yes
Conflict-of-Interest	3	Yes
County Ordinance	4	Yes
Long-Range Financial Plans	2	Yes
Financial Condition of the Commission	1	Yes
Program Evaluation	3	Yes
Salaries and Benefit Policies	2	Yes

In our opinion, the First Five Yuba Commission complied, in all material respects, with the compliance requirements referred to above that are applicable to the statutory requirements listed above for the year ended June 30, 2011.

This report is intended solely for the information and use of the Yuba County Board of Supervisors, First Five Yuba Commission, management, others within the entity, the State Commission, the State Controller's Office, federal agencies and pass-through agencies 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.

Gallina LLP

Roseville, California
October 24, 2011

FIRST FIVE YUBA COMMISSION

Schedule of Findings and Responses As of June 30, 2011

2011-1: CONTROLS OVER FINANCIAL REPORTING

Criteria

The Statement on Auditing Standard No. 115, *Communicating Internal Control Related Matters Identified in a Audit* (SAS 115), was issued in 2008 and is effective for all audits with periods ending after December 15, 2009. The standard provides guidance in that if an entity is unable to draft its own financial statements, there may be a material weakness or significant deficiency. External auditors cannot be part of the Commission's internal controls, including controls over the preparation of the financial statements, and are prohibited from auditing their own work as doing so impairs their independence.

The Commission should have the capacity to prepare full disclosure financial statements in accordance with generally accepted accounting principles. To carry out this responsibility, the Commission must have proper internal controls over financial reporting in place. Proper internal controls over financial reporting include, but are not limited to, internal controls that identify misstatements in the financial records, retaining staff competent in financial reporting and related oversight roles, and adequate design of internal control over the preparation of the financial statements.

Condition

Currently, the Commission relies on the external auditors to ensure its financial statements are in accordance with generally accepted accounting principles (GAAP). This is a repeat finding from the prior year.

Cause

The Commission does not employ staff or contract with outside resources that would provide the Commission with the competencies needed to prepare GAAP compliant financial statements.

Effect or Potential Effect

The risk of misstatement in the financial statements increases when management is not able to apply GAAP in recording the entity's financial transactions or preparing its financial statements, including the related notes. Also, by relying on the external auditors to ensure its financial statements are in accordance with GAAP, the Commission is considering the external auditors a part of its internal controls over the preparation of the financial statements.

FIRST FIVE YUBA COMMISSION

Schedule of Findings and Responses As of June 30, 2011

Recommendation

The Commission may consider the following possible actions:

- Provide training opportunities for its accounting staff that would enable them to become more familiar with the general disclosure requirements. This training should include, but is not limited to, the usage of a disclosure checklist, which provides guidance to the financial statement's content and whether a necessary disclosure has been overlooked.
- Hire an external Certified Public Accountant to confirm that the financial statements and related disclosures are in accordance with GAAP.
- Take no action. The Commission may find that the costs outweigh the benefits to adhere to this standard. No action will result in a significant deficiency in the Commission's internal controls over the preparation of the financial statements.

Management Response

The Commission has determined that the costs outweigh the benefits to adhere to this standard and elects to take no specific action at this time. This deficiency has occurred in past years and the Commission determined the cost of providing training to staff or hiring an external Certified Public Accountant (CPA) to confirm the financial statements and related disclosures are in accordance with GAAP are *not* cost effective.

The Commission staff will continue to reconcile internal records against the Yuba County Auditor-Controller's financial statements for compliance with GAAP and GASB standards. The Commission will continue to review and discuss this repeat audit finding at their annual audit public meetings. Specific Commission agendas and minutes of these public meetings will be provided within two weeks to the State Controller's Office as required by Health and Safety Code section 130151(d).

The above response is consistent with the GFOA's (Government Finance Officers Association) Recommended Practice – Mitigating the Negative Effects of Statement on Auditing Standards No. 115 (2007)(CAAFR): “The GFOA does not recommend that governments engage the services of a second accounting firm to assist in preparing its financial statements solely to avoid having a significant deficiency or material weakness reported.”

FIRST FIVE YUBA COMMISSION

Status of Prior Year Finding
As of June 30, 2011

Status

CONTROLS OVER FINANCIAL REPORTING

Condition

The Commission relies on the external auditors to ensure its financial statements are in accordance with generally accepted accounting principles (GAAP).

Recommendation

Not
Implemented

The Commission may consider the following possible actions:

- Provide training opportunities for its accounting staff that would enable them to become more familiar with the general disclosure requirements. This training should include, but is not limited to, the usage of a disclosure checklist, which provide guidance to the financial statement's content and whether a necessary disclosure has been overlooked.
- Hire an external Certified Public Accounting to confirm that the financial statements and related disclosures are in accordance with GAAP.

The Commission may find that the costs outweigh the benefits to adhere to this standard. No action will result in a significant deficiency in the Commission's internal controls over the preparation of the financial statements.