

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

**INDEPENDENT AUDITORS' REPORT, MANAGEMENT'S
DISCUSSION AND ANALYSIS, BASIC FINANCIAL STATEMENTS,
AND REQUIRED SUPPLEMENTARY INFORMATION**
For the fiscal years ended June 30, 2019 and 2018



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

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners for
FIRST 5 Santa Clara County
San Jose, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of FIRST 5 Santa Clara County Children and Families Commission (the "Commission"), a component unit of the County of Santa Clara, California, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Commission as of June 30, 2019 and 2018, and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 7 and Schedule of Activities – Budget and Actual on page 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The Statement of Revenues and Expenditures is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Schedule of Expenditures of Federal Award is presented for purposes of additional analysis as required by Title 2 *U.S. Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The Statement of Revenues and Expenditures and the Schedule of Expenditures of Federal Award are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Statement of Revenues and Expenditures and the Schedule of Expenditures of Federal Award are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2019, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

BPM LLP

San Jose, California
October 9, 2019

**FIRST 5
SANTA CLARA COUNTY**

MANAGEMENT’S DISCUSSION AND ANALYSIS

June 30, 2019

FIRST 5 Santa Clara County (“FIRST 5” or the “Commission”) 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 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

On June 21, 2018, the Commission adopted a Strategic Plan for Fiscal Years 2018-2023. The Strategic Plan builds upon extensive research conducted by FIRST 5 and other early childhood experts over the last 20 years and reflects current needs and trends at the local, regional, state and national levels. Although much may have changed in two decades since FIRST 5 was established, one thing remains constant – investing in children’s health, early learning, and the well-being of their families and communities helps children succeed in school and later in life.

The Commission adopted a research-based Strategic Framework that guides FIRST 5’s investments and partnerships. The framework includes the following elements under which all investments were aligned for Fiscal Year 2018-2019:

- Children’s Health
- Community and Neighborhood Engagements
- Workforce Development
- Family Strengthening and Support
- Early Care and Education
- Communications and Public Awareness

These strategies provide for continued funding of county-wide programs designed to serve all children in the County, prenatal through age five, while demonstrating improved outcomes of children with high cumulative risk factors in targeted communities. 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, 2019.

**FIRST 5
SANTA CLARA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019

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 basic 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 a private sector business.

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

The Statements of Activities present information showing how FIRST 5's net position changed during the most recent fiscal years. All changes in net position 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 8 and 9 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 balances of spendable resources available at the end of the fiscal year.

The Governmental Fund Balance Sheets and the Governmental Fund Statements of Revenues, Expenditures, and Changes in Fund Balance provide a reconciliation to facilitate the comparison between governmental funds and government-wide statements. The governmental fund financial statements can be found on pages 10 and 11 of this report.

Notes to Basic 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 basic financial statements can be found on pages 12 through 25 of this report.

FIRST 5
SANTA CLARA COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019

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 position may serve over time as a useful indicator of a government's financial position. In the case of FIRST 5, assets exceeded liabilities by \$52.5 million at the close of the most recent fiscal year. The most significant portion of FIRST 5's current assets of \$56.1 million is its cash and investments balance of \$50.7 million. This mainly 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 Chandler Asset Management, 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 \$4.2 million represent taxes remitted by the State, but not received by FIRST 5 as of June 30, 2019.

FIRST 5 also reports total liabilities of \$7.2 million, of which accounts payable represents \$6.7 million, primarily representing payments due on grant service contracts that had not been disbursed at year-end.

FIRST 5 net position of \$52.5 million decreased by \$3.9 million or 6.8% from the prior fiscal year.

Condensed Statements of Net Position

	<u>2019</u>	<u>2018</u>
Assets:		
Current and other assets	\$ 56,052,216	\$ 60,541,964
Capital assets	3,705,969	3,922,521
Total assets	<u>\$ 59,758,185</u>	<u>\$ 64,464,485</u>
Liabilities	<u>\$ 7,210,913</u>	<u>\$ 8,053,628</u>
Net position:		
Invested in capital assets	3,705,969	3,922,521
Restricted	48,841,303	52,488,336
Total net position	<u>52,547,272</u>	<u>56,410,857</u>
Total liabilities and net position	<u>\$ 59,758,185</u>	<u>\$ 64,464,485</u>

**FIRST 5
SANTA CLARA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019

Condensed Statements of Activities

	2019	2018
Revenues	\$ 24,516,153	\$ 20,531,698
Expenses:		
Salaries, supplies, and depreciation	8,387,228	7,406,724
Grant expenses	19,992,510	17,770,104
Total expenses	28,379,738	25,176,828
Change in net position	\$ (3,863,585)	\$ (4,645,130)

Total revenue consisting of Proposition 10 funds, State Commission matching, foundation and other grants, rental and investment income, and other revenue increased from \$20.5 million to \$24.5 million for the fiscal year ending June 30, 2019. This increase was primarily due to funding from Proposition 10, government grants, and other backfill state funding and investment income.

Salary, supplies, and depreciation expenditures increased from \$7.4 million to \$8.4 million. Grant expenditures increased from \$17.8 million to \$20.0 million.

For the fiscal year ended June 30, 2019, FIRST 5 reported a decrease in net position of \$3.9 million. This decrease represents the amount of expenditures in excess of revenues for the fiscal year ended June 30, 2019.

Governmental Fund 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 fund activities.

Financial Analysis of FIRST 5's Governmental Fund

For fiscal year ended June 30, 2019, FIRST 5 reported an ending Governmental Fund balance of \$49.1 million. FIRST 5 has committed 100% of the \$49.1 million as shown below:

Fund Balance

Fiscal Year 2018/2019:

Nonspendable	\$ 167,191
Restricted	412,236
Committed	21,096,862
Assigned	27,430,834
Total fund balance	\$ 49,107,123

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

FIRST 5
SANTA CLARA COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2019

Budgetary Highlights

Total expenditures were \$4.1 million less than budget due to (1) lower than planned headcounts, (2) and lower Community Investment expenditures primarily associated with Santa Clara Health and Hospital System, Santa Clara County Office of Education, Roots Community Health Center, Catholic Charities, and Rebekah Children's Service.

Capital Assets, Net

FIRST 5's capital assets for its governmental activities as of June 30, 2019 totaled \$3.7 million (net of accumulated depreciation). Capital assets include building, building improvements, land, furniture and equipment. See Note 3 of the Notes to Basic Financial Statements for a more detailed analysis of changes in capital assets.

Debt Administration

As of June 30, 2019, 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 to interested parties. 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 POSITION – GOVERNMENT-WIDE
As of June 30, 2019 and 2018

	2019	2018
ASSETS		
Assets:		
Cash and investments	\$ 50,734,675	\$ 54,502,728
Interest receivable	38,957	19,820
Grant and other receivables	944,898	2,036,097
Due from the State - Proposition 10	4,165,520	3,931,188
Prepays and other assets	168,166	52,131
Capital assets, net of depreciation	3,705,969	3,922,521
Total assets	\$ 59,758,185	\$ 64,464,485
LIABILITIES AND NET POSITION		
Liabilities:		
Accounts payable	\$ 6,689,997	\$ 7,504,222
Accrued salaries and benefits	190,208	272,099
Accrued vacation payable	265,820	216,918
Other accrued liabilities	64,888	60,389
Total liabilities	7,210,913	8,053,628
Net position:		
Invested in capital assets	3,705,969	3,922,521
Restricted	48,841,303	52,488,336
Total net position	52,547,272	56,410,857
Total liabilities and net position	\$ 59,758,185	\$ 64,464,485

See accompanying notes to basic financial statements.

**FIRST 5
SANTA CLARA COUNTY**

STATEMENTS OF ACTIVITIES – GOVERNMENT-WIDE

For the years ended June 30, 2019 and 2018

	2019	2018
Program expenses:		
Salaries and benefits	\$ 5,656,230	\$ 5,064,860
Supplies and services	2,514,446	2,125,311
Grant expenditures	19,992,510	17,770,104
Depreciation	216,552	216,553
Total program expenses	28,379,738	25,176,828
Program revenues:		
Operating grants and contributions:		
Proposition 10 taxes	14,234,779	13,597,197
Foundation and state matching grants	3,117,630	2,948,680
Government grant	2,162,032	1,957,844
Total program revenues	19,514,441	18,503,721
Net program expenses	(8,865,297)	(6,673,107)
General revenues:		
Investment income	2,286,510	112,329
Rental income	175,062	143,051
Other income	2,540,140	1,772,597
Total general revenues	5,001,712	2,027,977
Change in net position	(3,863,585)	(4,645,130)
Net position, beginning of year	56,410,857	61,055,987
Net position, end of year	\$ 52,547,272	\$ 56,410,857

See accompanying notes to basic financial statements.

**FIRST 5
SANTA CLARA COUNTY**

BALANCE SHEETS – GOVERNMENTAL FUND

June 30, 2019 and 2018

	2019	2018
ASSETS		
Assets:		
Cash and investments	\$ 50,734,675	\$ 54,502,728
Interest receivable	38,957	19,820
Grant and other receivables	944,898	2,036,097
Due from the State - Proposition 10	4,165,520	3,931,188
Prepays and other assets	168,166	52,131
Total assets	\$ 56,052,216	\$ 60,541,964
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable	\$ 6,689,997	\$ 7,504,222
Accrued salaries and benefits	190,208	272,099
Other accrued liabilities	64,888	60,389
Total liabilities	6,945,093	7,836,710
Fund balances:		
Nonspendable	167,191	51,456
Restricted	412,236	1,813,440
Committed	21,096,862	20,240,797
Assigned	27,430,834	30,599,561
Total fund balance	49,107,123	52,705,254
Total liabilities and fund balances	\$ 56,052,216	\$ 60,541,964
RECONCILIATION OF THE BALANCE SHEETS – GOVERNMENTAL FUND TO THE STATEMENTS OF NET POSITION		
Fund balances - from above	\$ 49,107,123	\$ 52,705,254
Amount reported in the Statements of Net Position – Government-wide is different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the governmental funds	3,705,969	3,922,521
Accrued vacation payable is not due and payable with current financial resources and is not reported in the governmental funds	(265,820)	(216,918)
Total net position	\$ 52,547,272	\$ 56,410,857

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, 2019 and 2018

	2019	2018
Revenues:		
Proposition 10 taxes	\$ 14,234,779	\$ 13,597,197
Foundation and state matching grants	3,117,630	2,948,680
Government grant	2,162,032	1,957,844
Investment income	2,286,510	112,329
Rental income	175,062	143,051
Other revenue	2,540,140	1,772,597
Total revenues	24,516,153	20,531,698
Expenditures:		
Salaries and benefits	5,607,328	5,049,313
Supplies and services	2,514,446	2,125,311
Grant expenditures	19,992,510	17,770,104
Total expenditures	28,114,284	24,944,728
Change in fund balance	(3,598,131)	(4,413,030)
Fund balance, beginning of year	52,705,254	57,118,284
Fund balance, end of year	\$ 49,107,123	\$ 52,705,254

**RECONCILIATION OF THE STATEMENTS OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE –
GOVERNMENTAL FUND TO THE STATEMENTS OF ACTIVITIES**

Net change in fund balance - from above	\$ (3,598,131)	\$ (4,413,030)
Amount reported in the Statements of Activities – Government-wide is different because:		
Governmental funds report capital outlay as expenditures; however, in the Statements of Activities – Government- wide, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Less current year depreciation	(216,552)	(216,553)
The change in accrued vacation payable reported in the Statements of Activities – Government-wide does not require the use of current financial resources and is not reported as an expense in governmental funds.	(48,902)	(15,547)
Change in net position	\$ (3,863,585)	\$ (4,645,130)

See accompanying notes to basic financial statements.

**FIRST 5
SANTA CLARA COUNTY**

NOTES TO BASIC FINANCIAL STATEMENTS

For the years ended June 30, 2019 and 2018

1. Summary of Significant Accounting Policies

Reporting Entity

The Santa Clara County (“County”) Board of Supervisors created FIRST 5 of Santa Clara County (“FIRST 5” or the “Commission”) the Commission on March 30, 1999, under the provisions of the California Children and Families Act of 1998 (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 that are 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 (“GASB”) statements. 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 and long-term liabilities. Accrual accounting 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 Position

The Statement of Net Position is designed to display the financial position of the government. The net position of the Commission is 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, 2019 and 2018

1. Summary of Significant Accounting Policies, continued

Governmental Accounting Standards Board Statements and Interpretation, continued

Statement of Activities, continued

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

Basis of Presentation and Accounting

Government-wide Financial Statements

The Statement of Net Position 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 giving (or receiving) 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.

Governmental 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, most of the accounts payable balance (approximately 77% and 88% at June 30, 2019 and 2018, 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 asset acquisitions are reported as expenditures in the governmental fund.

**FIRST 5
SANTA CLARA COUNTY**

NOTES TO BASIC FINANCIAL STATEMENTS

For the years ended June 30, 2019 and 2018

1. Summary of Significant Accounting Policies, continued

Investments

The Commission participates in the common investment pool of the County. In addition, the Commission had a specifically invested portfolio with Chandler Asset Management. Investments are recorded at fair 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 debts 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 Position. 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. 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 Section 501(c)(3) not-for-profits 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, 2019 and 2018

1. Summary of Significant Accounting Policies, continued

Use of Estimates

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

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 U.S. 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

The provisions of GASB Codification Section 1800.142 - 1800.154 (GASB Statement 54,) *Fund Balance Reporting and Governmental Fund Type Definitions*, require that the Commission reclassify the fund balance and footnote disclosures into the following definitions for fund balances. These definitions provide clearer fund balance classifications that can be more consistently applied by clarifying the existing governmental fund type definitions, as well as strengthen the constraints on how the funds can be spent.

Classifications of fund balance of the governmental fund indicate that there is a portion of fund equity that is non-spendable for appropriation for expenditures or is legally segregated for a specific future use. The classifications are based on the relative strength of the constraints that control how specific amounts can be spent. The following is a description of the nature of each classification:

- **Nonspendable** - includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- **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 Commissioners who have the highest level of decision making authority.
- **Assigned** - are intended to be used by the Commission for specific purposes but do not meet the criteria to be classified as restricted or committed, and are approved by the executive director.
- **Unassigned** - residual classification for the Commission’s fund and includes all spendable amounts not contained in the other classifications.

The committed funds are considered spent when expenditures for the purpose are incurred.

**FIRST 5
SANTA CLARA COUNTY**

NOTES TO BASIC FINANCIAL STATEMENTS

For the years ended June 30, 2019 and 2018

1. Summary of Significant Accounting Policies, continued

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the exit price) in an orderly transaction between market participants at the measurement date. In determining fair value, the Commission uses various valuation approaches. A hierarchy has been established for inputs used in measuring fair value that maximize the use of observable inputs and minimizes the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Commission. Unobservable inputs are inputs that reflect the Commission's assumptions about what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The hierarchy is broken down into three levels based on the observability of inputs as follows:

Level 1 - quote prices in active markets for identical investments. Investments in Level 1 include listed equities held in the name of the Commission, and exclude listed equities and other securities held indirectly through commingled funds.

Level 2 - pricing inputs, including broker quotes, other than exchange quoted prices in active markets, that are either directly or indirectly observable as of the reporting date for which the fair value for the investment is determined through the use of models or other valuation methodologies.

Level 3 - pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investments and may require a high level of judgment to determine the fair value.

The categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. As of June 30, 2019 and 2018, the Commission did not have any Level 3 assets or liabilities. The Commission determines the valuation policies utilizing information provided by the investment advisors.

As of June 30, 2019, the Commission's fair value hierarchy for its financial assets was as follows:

	Level 1	Level 2	Level 3	Total
Marketable securities:				
U.S. Agencies	\$ -	\$ 14,485,370	\$ -	\$ 14,485,370
U.S. Treasuries	-	13,031,054	-	13,031,054
Corporate bonds	-	11,655,617	-	11,655,617
Collateralized Mortgage Obligation	-	3,258,847	-	3,258,847
Asset-backed securities	-	2,409,660	-	2,409,660
Money market funds	1,531,147	-	-	1,531,147
Total marketable securities	<u>\$ 1,531,147</u>	<u>\$ 44,840,548</u>	<u>\$ -</u>	<u>\$ 46,371,695</u>

**FIRST 5
SANTA CLARA COUNTY**

NOTES TO BASIC FINANCIAL STATEMENTS

For the years ended June 30, 2019 and 2018

1. Summary of Significant Accounting Policies, continued

Fair Value Measurements, continued

As of June 30, 2018, the Commission's fair value hierarchy for its financial assets was as follows:

	Level 1	Level 2	Level 3	Total
Marketable securities:				
U.S. Agencies	\$ -	\$ 16,972,574	\$ -	\$ 16,972,574
Corporate bonds	-	13,474,041	-	13,474,041
U.S. Treasuries	-	12,896,580	-	12,896,580
Commercial paper	-	890,878	-	890,878
Asset-backed securities	-	2,984,385	-	2,984,385
Money market funds	-	1,835,000	-	1,835,000
Total marketable securities	88,918	-	-	88,918
	<u>\$ 88,918</u>	<u>\$ 49,053,458</u>	<u>\$ -</u>	<u>\$ 49,142,376</u>

2. Cash and Investments

The Commission had the following cash and investments as of June 30, 2019 and 2018:

	2019	2018
Cash:		
Commercial banks	\$ 3,063,004	\$ 4,931,559
County commingled pool	1,082,363	190,275
	<u>4,145,367</u>	<u>5,121,834</u>
Investments:		
U.S. Agencies	14,485,370	16,972,574
U.S. Treasuries	13,031,054	12,896,580
Corporate bonds	11,655,617	13,474,041
Collateralized Mortgage Obligation	3,258,847	890,878
Asset-backed securities	2,409,660	2,984,385
Negotiable Certificate of Deposit	-	1,835,000
Money market funds	1,531,147	88,918
Accrued interest	217,613	238,518
	<u>46,589,308</u>	<u>49,380,894</u>
Total cash and investments	<u>\$ 50,734,675</u>	<u>\$ 54,502,728</u>

Cash in Commercial Banks

The Commission maintains cash in separate commercial bank accounts. The Commission maintains its cash and cash equivalents in commercial checking and money market accounts. The California Government Code requires California banks, 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 deposit. As of June 30, 2019 and 2018, the cash held by the financial institutions totaling \$3,063,004 and \$4,931,559, 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, 2019 and 2018

2. Cash and Investments, continued

Cash and Investments in the County Commingled Pool

As of June 30, 2019 and 2018, cash and investments of \$1,082,363 and \$190,275, respectively, are held in the Santa Clara County's commingled pool, which is managed by the Santa Clara 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.

Investment income for the years ended June 30, 2019 and 2018 is as follows:

	2019	2018
Realized loss on matured/sold investments	\$ (25,156)	\$ (6,544)
Unrealized gain (loss) in changes in fair value of investments	1,264,624	(704,178)
Net gain (loss)	1,239,468	(710,722)
Interest income	1,047,042	823,051
Total investment income	\$ 2,286,510	\$ 112,329

Risk Disclosures

Interest Rate Risk - The Commission utilized Chandler Asset Management 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.

**FIRST 5
SANTA CLARA COUNTY**

NOTES TO BASIC FINANCIAL STATEMENTS

For the years ended June 30, 2019 and 2018

2. Cash and Investments, continued

Risk Disclosures, continued

As of June 30, 2019, 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. Agencies	\$ 14,485,370	\$ 1,886,017	\$ 12,599,353
U.S. Treasuries	13,031,054	1,737,362	11,293,692
Corporate bonds	11,655,617	1,652,168	10,003,449
Collateralized mortgage obligation	3,258,847	-	3,258,847
Asset-backed securities	2,409,660	1,165	2,408,495
Money market funds	1,531,147	1,531,147	-
Accrued interest	217,613	217,613	-
	<u>\$ 46,589,308</u>	<u>\$ 7,025,472</u>	<u>\$ 39,563,836</u>

As of June 30, 2018, 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. Agencies	\$ 16,972,574	\$ 549,165	\$ 16,423,409
Corporate bonds	13,474,041	3,696,313	9,777,728
U.S. Treasuries	12,896,580	1,208,851	11,687,729
Collateralized mortgage obligation	890,878	-	890,878
Asset-backed securities	2,984,385	38,063	2,946,322
Negotiable certificate of deposit	1,835,000	1,835,000	-
Money market funds	88,918	88,918	-
Accrued interest	238,518	238,518	-
	<u>\$ 49,380,894</u>	<u>\$ 7,654,828</u>	<u>\$ 41,726,066</u>

**FIRST 5
SANTA CLARA COUNTY**

NOTES TO BASIC FINANCIAL STATEMENTS

For the years ended June 30, 2019 and 2018

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”). As of June 30, 2019, the Commission’s credit risks, expressed on a percentage basis, are as follows:

Investment Type	Credit Quality Rating		Fair Value as of June 30, 2019	% of Investment
	Moody	S&P		
<u><i>U.S. Treasury:</i></u>				
U.S. Treasury Note	Aaa	AA+	\$ 13,031,054	28.0%
<u><i>U.S. Agency Bonds:</i></u>				
Federal National Mortgage Association (FNMA)	Aaa	AA+	7,701,436	16.5%
Federal Home Loan Mortgage Corporation (FHLMC)	Aaa	AA+	3,098,786	6.7%
Federal Home Loan Bank	Aaa	AA+	3,685,148	7.9%
<u><i>Corporate Bonds:</i></u>				
American Honda Finance Note	A2	A	608,794	1.3%
John Deere Capital Corp	A2	A	601,390	1.3%
PNC Bank Callable Note	A2	A	596,094	1.3%
Exxon Mobil Corp Callable Note	Aaa	AA+	571,579	1.2%
Bank of America Corp Callable Note	A2	A-	570,173	1.2%
Bank of New York	A1	A	557,889	1.2%
Toronto Dominion Bank Note	Aa3	A	543,487	1.2%
General Dynamics	A2	A+	538,582	1.2%
Oracle Corp Callable Note	A1	AA-	532,292	1.1%
Chubb INA Holdings Inc.	A3	A	530,227	1.1%
Wells Fargo Company	A2	A-	529,502	1.1%
Royal Bank of Canada	Aa2	AA-	527,230	1.1%
Toyota Motor Credit Corp Note	Aa3	AA-	520,388	1.1%
Qualcomm Inc.	A2	A-	499,837	1.1%
IBM Corp	A1	A	498,763	1.1%
JP Morgan Chase & Co	A2	A-	456,531	1.0%
Paccar Financial Corp Note	A1	A+	429,396	0.9%

**FIRST 5
SANTA CLARA COUNTY**

NOTES TO BASIC FINANCIAL STATEMENTS

For the years ended June 30, 2019 and 2018

2. Cash and Investments, continued

Risk Disclosures, continued

Investment Type	Credit Quality Rating		Fair Value as of June 30, 2019	% of Investment
	Moody	S&P		
<u><i>Corporate Bonds (continued):</i></u>				
Apple Inc.	Aa1	AA+	398,911	0.9%
Microsoft Callable Note	Aaa	AAA	386,680	0.8%
Boeing Company Callable Note	A2	A	368,106	0.8%
Costco Wholesale	Aa3	A+	338,670	0.7%
State Street Bank Note	A1	A	289,244	0.6%
US Bancorp	A1	A+	262,779	0.6%
Home Depot Note	A2	A	219,236	0.5%
Microsoft Callable Note	Aaa	AAA	214,914	0.5%
Berkshire Hathaway Note	Aa2	AA	64,923	0.1%
<u><i>Asset Backed Securities:</i></u>				
American Express Credit 2017-1	Aaa	NR	680,605	1.5%
John Deere Owner Trust 2018-B A3	Aaa	NR	435,796	0.9%
Honda Auto Receivables Owner 2018-3 A3	Aaa	NR	369,564	0.8%
Nissan Auto Receivables 2017-A A3	AAA	NR	313,650	0.7%
Honda Auto Receivables 2017-2 A3	Aaa	AAA	176,773	0.4%
Toyota Auto Receivables Owner 2018-A2A	Aaa	AAA	176,627	0.4%
John Deere Owner Trust 2016-B A4	Aaa	NR	140,641	0.3%
John Deere Owner Trust 2017-B A3	Aaa	NR	68,717	0.1%
Toyota Auto Receivable 2017-C A2A	Aaa	AAA	46,120	0.1%
Honda Auto Receivables 2016-2 A3	Aaa	NR	1,167	0.0%
<u><i>Collateralized Mortgage Obligation</i></u>				
Federal Home Loan Mortgage	Aaa	AA+	3,258,847	7.0%
<u><i>Other:</i></u>				
Money market funds	Aaa	AAA	1,531,147	3.3%
Accrued interest		Not Rated	217,613	0.5%
			\$ 46,589,308	

**FIRST 5
SANTA CLARA COUNTY**

NOTES TO BASIC FINANCIAL STATEMENTS

For the years ended June 30, 2019 and 2018

3. Capital Assets, Net

The following is a summary of changes in capital assets for the years ended June 30, 2019 and 2018:

	Balance June 30, 2018	Additions / Transfers	Retirements	Balance June 30, 2019
Furniture and equipment	\$ 276,895	\$ -	\$ -	\$ 276,895
Building improvements	1,330,171	-	-	1,330,171
Building	3,000,908	-	-	3,000,908
Land	2,357,856	-	-	2,357,856
Total	<u>6,965,830</u>	<u>-</u>	<u>-</u>	<u>6,965,830</u>
Less accumulated depreciation:				
Furniture and equipment	(276,865)	-	-	(276,865)
Building improvements	(840,831)	(66,504)	-	(907,335)
Building	(1,925,614)	(150,048)	-	(2,075,662)
Total accumulated depreciation	<u>(3,043,310)</u>	<u>(216,552)</u>	<u>-</u>	<u>(3,259,862)</u>
Total capital assets, net	<u>\$ 3,922,521</u>	<u>\$ (216,552)</u>	<u>\$ -</u>	<u>\$ 3,705,969</u>
	Balance June 30, 2017	Additions / Transfers	Retirements	Balance June 30, 2018
Furniture and equipment	\$ 276,895	\$ -	\$ -	\$ 276,895
Building improvements	1,330,171	-	-	1,330,171
Building	3,000,908	-	-	3,000,908
Land	2,357,856	-	-	2,357,856
Total	<u>6,965,830</u>	<u>-</u>	<u>-</u>	<u>6,965,830</u>
Less accumulated depreciation:				
Furniture and equipment	(276,865)	-	-	(276,865)
Building improvements	(774,326)	(66,505)	-	(840,831)
Building	(1,775,566)	(150,048)	-	(1,925,614)
Total accumulated depreciation	<u>(2,826,757)</u>	<u>(216,553)</u>	<u>-</u>	<u>(3,043,310)</u>
Total capital assets, net	<u>\$ 4,139,073</u>	<u>\$ (216,553)</u>	<u>\$ -</u>	<u>\$ 3,922,521</u>

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

**FIRST 5
SANTA CLARA COUNTY**

NOTES TO BASIC FINANCIAL STATEMENTS

For the years ended June 30, 2019 and 2018

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 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. The 457 Plan assets are not included in the Commission’s financial statements.

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 employees who work less than 20 hours per week. Currently, 53 participants 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 employee’s compensation. The Commission’s contributions under this requirement were \$296,453 and \$219,967 for the years ended June 30, 2019 and 2018, respectively. The Commission 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 Commission’s contributions were \$185,060 and \$164,506 for the years ended June 30, 2019 and 2018, respectively. Additional supplemental contributions may be made by the Commission based on a compensation arrangement between employee and the Commission. 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 up to thirty-six months, expiring in June 2021. Future minimum rental payments under operating leases is as follows as of June 30, 2019:

Year Ending June 30,

2020	\$	28,074
2021		28,074
	\$	<u>56,148</u>

Rental expenditures totaled \$39,266 and \$35,786 for the years ended June 30, 2019 and 2018, respectively.

**FIRST 5
SANTA CLARA COUNTY**

NOTES TO BASIC FINANCIAL STATEMENTS

For the years ended June 30, 2019 and 2018

5. Operating Leases, continued

The Commission leases a portion of its San Jose facility to third parties under non-cancelable lease agreements, which extend into the future. In total, the Commission has six leases that expire October 1, 2019 through August 31, 2022. As of June 30, 2019, minimum lease payments to be received for each of the next four years are as follows:

<u>Year Ending June 30,</u>		
2020	\$	64,481
2021		30,024
2022		16,218
2023		1,936
	<u>\$</u>	<u>112,659</u>

Total rental income totaled \$175,062 and \$143,051 for the years ended June 30, 2019 and 2018, respectively.

6. Risk Management

The Commission is exposed to various risks of loss related to torts: theft, damage, and/or 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. Committed Fund Balances

Committed fund balances as of June 30, 2019 and 2018 are as follows:

	<u>2019</u>	<u>2018</u>
Children's Health	\$ 6,496,226	\$ 6,590,729
Community and Neighborhood Engagements	980,770	1,007,780
Workforce Development	1,395,826	759,744
Family Strengthening and Support	8,027,469	6,763,110
Early Care and Education	4,032,821	4,970,684
Communications and Public Awareness	163,750	148,750
	<u>\$ 21,096,862</u>	<u>\$ 20,240,797</u>

**FIRST 5
SANTA CLARA COUNTY**

NOTES TO BASIC FINANCIAL STATEMENTS

For the years ended June 30, 2019 and 2018

8. Significant Grantees

The Commission has four grantees who obtained approximately 22% of total grant expenditures for the year ended June 30, 2019. Three of these grantees also make up approximately 32% of accounts payable at June 30, 2019. The Commission has five grantees who obtained approximately 21% of total grant expenditures for the year ended June 30, 2018. Four of these grantees also make up approximately 30% of accounts payable as of June 30, 2018.

9. Related Party Transactions

Throughout the year, the Commission also provides grants to organizations in which the Commissioners are involved. The Commissioners involved in the grantee organization abstain from voting on any grant related matters, including the approval process of the grant. The following is a summary of the approved grants, actual grant expenses, and outstanding accounts payable with grants in which Commissioners are involved for the years ended June 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Approved grant award	<u>\$ 6,517,202</u>	<u>\$ 10,076,534</u>
Grant expense	<u>\$ 4,980,901</u>	<u>\$ 6,502,738</u>
Grant payable (included in accounts payable)	<u>\$ 869,077</u>	<u>\$ 2,140,625</u>

10. Program Evaluations

The Commission has spent approximately \$490,000 and \$442,000 on program evaluations for the years ended June 30, 2019 and 2018, respectively.

11. Subsequent Events

The Commission evaluated all events occurring subsequent to June 30, 2019 through October 9, 2019 and noted that nothing has occurred outside the normal course of business operations that requires recognition or disclosure in the financial statements.

SUPPLEMENTARY INFORMATION

FIRST 5
SANTA CLARA COUNTY
STATEMENT OF ACTIVITIES –
BUDGET AND ACTUAL
For the year ended June 30, 2019

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Revenues:				
Proposition 10 taxes	\$ 14,851,015	\$ 14,851,015	\$ 14,234,779	\$ (616,236)
Federal, foundation and state matching grants	6,334,856	7,259,503	5,279,662	(1,979,841)
Investment income	713,718	713,718	2,286,510	1,572,792
Other revenue	578,656	578,656	2,715,202	2,136,546
Total revenues	<u>22,478,245</u>	<u>23,402,892</u>	<u>24,516,153</u>	<u>1,113,261</u>
Expenditures:				
Salaries and benefits	6,223,617	6,223,617	5,656,230	567,387
Supplies and depreciation	3,256,420	3,256,420	2,730,998	525,422
Grant expenditures	20,240,797	23,024,508	19,992,510	3,031,998
Total expenses	<u>29,720,834</u>	<u>32,504,545</u>	<u>28,379,738</u>	<u>4,124,807</u>
Change in net position	<u>\$ (7,242,589)</u>	<u>\$ (9,101,653)</u>	<u>(3,863,585)</u>	<u>\$ 5,238,068</u>
Net position, beginning of year			<u>56,410,857</u>	
Net position, end of year			<u>\$ 52,547,272</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 expenditures were \$4.1 million less than budget due to (1) lower than planned headcounts, (2) lower Community Investment expenditures primarily associated with Santa Clara Health and Hospital System, Santa Clara County Office of Education, Roots Community Health Center, Catholic Charities, and Rebekah Children's Service.

**FIRST 5
SANTA CLARA COUNTY**

STATEMENT OF REVENUES AND EXPENDITURES

For the year ended June 30, 2019

	CARES		CSP	
	FIRST 5	County/Local	FIRST 5	County/Local
Revenues	\$ -	\$ -	\$ -	\$ -
(Expenses)	-	-	-	-
	\$ -	-	\$ -	-

Basis of Presentation:

The accompanying Statement of Revenue and Expenditures presents funds received and expensed for CARES and CSP 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. For the year ended June 30, 2019, there was no activity under the CARES and CSP programs.

**FIRST 5
SANTA CLARA COUNTY**

SCHEDULE OF EXPENDITURES OF FEDERAL AWARD

For the year ended June 30, 2019

Federal Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Grant No. / Pass-Through Entity Identifying Number	Federal Expenditures	Expenditures to Subrecipients
<i>U.S. Department of Health and Human Services</i>				
Child Care and Development Fund (CCDF) Cluster				
Passed through California Department of Education				
Infant/Toddler Quality Rating and Improvement System Block Grant	93.575	14092	\$ 482,886	\$ 459,060
Quality Counts California (QCC) Quality Rating and Improvement System Block Grant	93.575	14092/14872	533,865	494,237
California State Preschool Program (CSPP) Quality Rating and Improvement System Block Grant	93.575	14130/25276	916,580	916,580
California State Preschool Program (CSPP) Quality Rating and Improvement System Block Grant	93.575	14130/25276	<u>1,270,422</u>	<u>1,168,409</u>
Subtotal CCDF			<u>3,203,753</u>	<u>3,038,286</u>
<i>U.S. Department of Health and Human Services</i>				
Superior Courts of California, County of Santa Clara				
Substance Abuse and Mental Health Services Administration (SAMHSA)	93.243	1H79TI080290-01	98,965	-
Total expenditures of federal award			<u>\$ 3,302,718</u>	<u>\$ 3,038,286</u>

**FIRST 5
SANTA CLARA COUNTY**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARD

For the year ended June 30, 2019

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Award includes the federal grant activity of FIRST 5 Santa Clara County (the “Commission”), a component unit of Santa Clara County, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in these schedules may differ from amounts presented in, or used in the preparation of, the basic financial statements.

2. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting, adjusted for the requirements described in Note 1. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Commission has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.



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*

To the Board of Commissioners for
FIRST 5 Santa Clara County
San Jose, California

We have audited, in accordance with the 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, the financial statements of the governmental activities and each major fund of FIRST 5 Santa Clara County Children and Families Commission (the "Commission"), a component unit of Santa Clara County, California, as of and for the year ended June 30, 2019, and the related notes to the financial statements, and have issued our report thereon dated October 9, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

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 a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BPM LLP

San Jose, California
October 9, 2019



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

To the Board of Commissioners for
FIRST 5 Santa Clara County
San Jose, California

Compliance

We have audited FIRST 5 Santa Clara County Children and Families Commission (the "Commission"), a component unit of Santa Clara County, California'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, 2019.

Management's Responsibility

Management is responsible for compliance with the requirements of the laws and regulations applicable to the California Children and Families Act.

Auditors' Responsibility

Our responsibility is to express an opinion on the Commission's compliance with the requirements referred to above, based on our audit. We conducted our audit of compliance 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 requirements referred to above that could have a direct and material effect on the statutory requirements listed below. 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 on compliance. However, our audit does not provide a legal determination of the Commission's compliance with those requirements. 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:

Table with 3 columns: Description, Audit Guide Procedures, Procedures Performed. Rows include Contracting and Procurement, Administrative Costs, Conflict-of-Interest, County Ordinance, Long-range Financial Plans, Financial Condition of the Commission, Program Evaluation, Salaries and Benefits Policies.

Opinion

In our opinion, the Commission complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the California Children and Families Program for the year ended June 30, 2019.

BPM LLP

San Jose, California
October 9, 2019



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY *THE UNIFORM GUIDANCE***

To the Board of Commissioners for
FIRST 5 Santa Clara County
San Jose, California

Report on Compliance for Each Major Federal Program

We have audited FIRST 5 Santa Clara County Children and Families Commission (the "Commission"), a component unit of Santa Clara County, California's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Commission's major federal program for the year ended June 30, 2019. The Commission's major federal program is identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance of the Commission's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance 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 audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program 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 on compliance for its major federal program. However, our audit does not provide a legal determination of the Commission's compliance.

Opinion on Each Major Federal Program

In our opinion, the Commission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2019.

Report on Internal Control over Compliance

Management of the Commission, is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Commission's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

BPM LLP

San Jose, California
October 9, 2019

FIRST 5
SANTA CLARA COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2019

Section I: Summary of Auditors' Results

Financial Statements

- | | |
|--|---------------|
| 1. Type of auditors' report issued: | Unmodified |
| 2. Internal control over financial reporting: | |
| • Material weaknesses identified: | No |
| • Significant deficiencies identified that are not considered to be material weaknesses: | None reported |
| 3. Noncompliance material to financial statements noted? | No |

Federal Award

- | | | | | | |
|---|--|---------------------|--------|--|--|
| 4. Internal control over major programs: | | | | | |
| • Material weaknesses identified: | No | | | | |
| • Significant deficiencies identified that are not considered to be material weaknesses: | None reported | | | | |
| 5. Type of auditors' report issued on compliance for major programs: | Unmodified | | | | |
| 6. Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a) | No | | | | |
| 7. Identification of major programs: | | | | | |
| <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 40%;"><u>CFDA Number</u></td> <td style="width: 60%;"><u>Program Name</u></td> </tr> <tr> <td>93.575</td> <td>Child Care and Development Fund (CCDF) Cluster</td> </tr> </table> | <u>CFDA Number</u> | <u>Program Name</u> | 93.575 | Child Care and Development Fund (CCDF) Cluster | |
| <u>CFDA Number</u> | <u>Program Name</u> | | | | |
| 93.575 | Child Care and Development Fund (CCDF) Cluster | | | | |
| 8. Dollar threshold used to distinguish between Type A and Type B programs: | \$750,000 | | | | |
| 9. Auditee qualified as low-risk auditee: | No | | | | |

FIRST 5
SANTA CLARA COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended June 30, 2019

Section II: Financial Statement Findings

No matters were reported.

Section III: Federal Award Findings and Questioned Costs

No matters were reported.

Section IV: Status of Prior Year Findings

No matters were reported.