

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, 2022 and 2021



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 Audit of the Financial Statements

Opinion

We have audited 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 the County of Santa Clara, California, as of and for the years ended June 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Commission as of June 30, 2022 and 2021, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America ("U.S. GAAS") and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Commission and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

2021 Financial Statements Restated

As discussed in Note 1 to the financial statements, the 2021 financial statements have been restated to correct prior period errors. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Commission's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with U.S. GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with U.S. GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Commission's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Commission's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 8 and Budgetary Comparison Information on page 29 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 Supplementary 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 Statement of Revenues and Expenditures is the responsibility of management and was derived from and relates 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 is 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 31, 2022, 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 31, 2022

FIRST 5
SANTA CLARA COUNTY
(A Component Unit of the County of Santa Clara, California)
MANAGEMENT’S DISCUSSION AND ANALYSIS
June 30, 2022

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 2021-2022:

- 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, 2022.

FIRST 5
SANTA CLARA COUNTY
(A Component Unit of the County of Santa Clara, California)
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2022

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 9 and 10 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 11 and 12 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 13 through 28 of this report.

FIRST 5
SANTA CLARA COUNTY
(A Component Unit of the County of Santa Clara, California)
MANAGEMENT’S DISCUSSION AND ANALYSIS
June 30, 2022

Restatement of Prior Year Financial Statements

FIRST 5 has restated its June 30, 2021 financial statement to correct for Foundation grants and other receivables that were overbilled or under billed as well as various other miscellaneous reconciliations included in cash and accounts payable. Management corrected this error as it resulted in change of staff and improper billing reconciliations. As a result of this correction, the June 30, 2021 financial statements were restated.

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 approximately \$37.5 million at the close of the most recent fiscal year. The most significant portion of FIRST 5’s current assets of \$43.9 million is its cash and investments balance of approximately \$35.9 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 Bank of the West accounts and in the County’s cash and investment commingled pool, where interest earned on FIRST 5’s balance is apportioned to FIRST 5. A source of current assets resides in FIRST 5’s receivables from Foundation grants and other receivables. These receivables of \$7.1 million represent foundation and other grants awarded by different organizations, but not received by FIRST 5 as of June 30, 2022. Another source of current assets resides in FIRST 5’s receivables due from the State Commission for Proposition 10 tax revenue. These receivables of \$0.95 million represent taxes remitted by the State, but not received by FIRST 5 as of June 30, 2022.

FIRST 5 also reports total liabilities of approximately \$9.6 million, of which accounts payable represents \$8.9 million, primarily representing payments due on grant service contracts that had not been disbursed at year-end.

FIRST 5’s net position of \$37.5 million decreased by approximately \$7.2 million, or 16.1%, from the prior fiscal year.

Condensed Statements of Net Position

	2022	2021
Assets:		<i>(Restated, Note 1)</i>
Current and other assets	\$ 43,932,136	\$ 54,663,134
Capital assets	3,078,406	3,301,931
Total assets	\$ 47,010,542	\$ 57,965,065
Liabilities	\$ 9,562,158	\$ 13,331,756
Net position:		
Invested in capital assets	3,078,406	3,301,931
Restricted	34,369,978	41,331,378
Total net position	37,448,384	44,633,309
Total liabilities and net position	\$ 47,010,542	\$ 57,965,065

FIRST 5
SANTA CLARA COUNTY
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MANAGEMENT’S DISCUSSION AND ANALYSIS
June 30, 2022

Condensed Statements of Activities

	2022	2021
		<i>(Restated, Note 1)</i>
Revenues	\$ 26,179,482	\$ 32,954,659
Expenses:		
Salaries, supplies, and depreciation	10,421,241	10,246,153
Grant expenses	22,943,166	29,087,165
Total expenses	33,364,407	39,333,318
Change in net position	\$ (7,184,925)	\$ (6,378,659)

Total revenue consisting of Proposition 10 funds, State Commission matching, foundation and other grants, rental and investment income, and other revenue decreased from approximately \$33 million to \$26 million for the fiscal year ended June 30, 2022. This decrease was primarily due to funding from Proposition 10, government grants, other state and foundation funding, and COVID-19 funding which decreased in 2022.

Salary, supplies, and depreciation expenditures decreased from \$39.3 million to \$33.4 million. Grant expenditures decreased from approximately \$29.1 million to approximately \$22.8 million.

For the fiscal year ended June 30, 2022, FIRST 5 reported a decrease in net position of approximately \$7.2 million. This decrease represents the amount of expenditures in excess of revenues for the fiscal year ended June 30, 2022.

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 the fiscal year ended June 30, 2022, FIRST 5 reported an ending Governmental Fund balance of \$34.7 million. FIRST 5 has committed 100% of the \$34.7 million as shown below:

Fund Balance

Fiscal Year 2021/2022:

Nonspendable	\$ -
Restricted	250,000
Committed	22,606,810
Assigned	11,887,646
Total fund balance	\$ 34,744,456

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
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MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2022

Budgetary Highlights

Total revenues were \$0.7 million more than budget due largely to the Paycheck Protection Program loan forgiveness. Total expenditures were \$5.4 million less than budget due to under budget spending in salaries and benefits due to delays in hiring and under spending in grant expenditures due to slow down caused by COVID-19 pandemic.

Capital Assets, Net

FIRST 5's capital assets for its governmental activities as of June 30, 2022 totaled \$3.08 million (net of accumulated depreciation). Capital assets include building, building improvements, land, and 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, 2022, FIRST 5's long-term debt obligations decreased from \$1.1 million to \$0 related to the Paycheck Protection Program loan. The Small Business Association fully forgave the loan and any interest totaling \$1.1 million on August 14, 2021.

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
(A Component Unit of the County of Santa Clara, California)
STATEMENTS OF NET POSITION – GOVERNMENT-WIDE
As of June 30, 2022 and 2021

	2022	2021
ASSETS		<i>(Restated, Note 1)</i>
Assets:		
Cash and investments	\$ 35,860,154	\$ 47,096,139
Interest receivable	-	9,196
Foundation grants and other receivables	7,118,571	3,958,618
Due from the State - Proposition 10	953,411	3,505,468
Prepays and other assets	-	93,713
Capital assets, net of depreciation	3,078,406	3,301,931
Total assets	\$ 47,010,542	\$ 57,965,065
LIABILITIES AND NET POSITION		
Liabilities:		
Accounts payable	\$ 8,907,640	\$ 11,452,127
Accrued salaries and benefits	269,002	415,023
Accrued vacation payable	374,478	313,700
Note payable - Paycheck Protection Program	-	1,102,615
Other accrued liabilities	11,038	48,291
Total liabilities	9,562,158	13,331,756
Net position:		
Invested in capital assets	3,078,406	3,301,931
Restricted	34,369,978	41,331,378
Total net position	37,448,384	44,633,309
Total liabilities and net position	\$ 47,010,542	\$ 57,965,065

FIRST 5
SANTA CLARA COUNTY
(A Component Unit of the County of Santa Clara, California)
STATEMENTS OF ACTIVITIES – GOVERNMENT-WIDE
For the years ended June 30, 2022 and 2021

	2022	2021
Program expenses:		<i>(Restated, Note 1)</i>
Salaries and benefits	\$ 6,996,512	\$ 6,873,253
Supplies and services	3,201,204	3,150,536
Grant expenditures	22,943,166	29,087,165
Depreciation	223,525	222,364
Total program expenses	<u>33,364,407</u>	<u>39,333,318</u>
Program revenues:		
Operating grants and contributions:		
Proposition 10 taxes	14,561,801	15,212,975
Foundation and state matching grants	7,142,183	13,153,101
Government grant	2,205,797	2,362,943
Total program revenues	<u>23,909,781</u>	<u>30,729,019</u>
Net program expenses	<u>(9,454,626)</u>	<u>(8,604,299)</u>
General revenues:		
Investment income (loss)	(1,651,740)	104,832
Rental income	187,952	114,799
Medi-Cal administrative agreement reimbursement income	2,450,854	1,834,677
Gain on debt forgiveness - Paycheck Protection Program	1,102,615	-
Other income	180,020	171,332
Total general revenues	<u>2,269,701</u>	<u>2,225,640</u>
Change in net position	(7,184,925)	(6,378,659)
Net position, beginning of year	<u>44,633,309</u>	<u>51,011,968</u>
Net position, end of year	<u>\$ 37,448,384</u>	<u>\$ 44,633,309</u>

FIRST 5
SANTA CLARA COUNTY
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BALANCE SHEETS – GOVERNMENTAL FUND

For the years ended June 30, 2022 and 2021

	2022	2021
ASSETS		<i>(Restated, Note 1)</i>
Assets:		
Cash and investments	\$ 35,860,154	\$ 47,096,139
Interest receivable	-	9,196
Foundation grants and other receivables	7,118,571	3,958,618
Due from the State - Proposition 10	953,411	3,505,468
Prepays and other assets	-	93,713
Total assets	\$ 43,932,136	\$ 54,663,134
LIABILITIES AND FUND BALANCE		
Liabilities:		
Accounts payable	\$ 8,907,640	\$ 11,452,127
Accrued salaries and benefits	269,002	415,023
Note payable - Paycheck Protection Program	-	1,102,615
Other accrued liabilities	11,038	48,291
Total liabilities	9,187,680	13,018,056
Fund balances:		
Nonspendable	-	93,038
Restricted	250,000	1,765,402
Committed	22,606,810	24,859,667
Assigned	11,887,646	14,926,971
Total fund balances	34,744,456	41,645,078
Total liabilities and fund balances	\$ 43,932,136	\$ 54,663,134

**RECONCILIATION OF THE BALANCE SHEETS – GOVERNMENTAL
FUND TO THE STATEMENTS OF NET POSITION**

Fund balances - from above	\$ 34,744,456	\$ 41,645,078
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	3,078,406	3,301,931
Accrued vacation payable is not due and payable with current financial resources and is not reported in the governmental funds	(374,478)	(313,700)
Total net position	\$ 37,448,384	\$ 44,633,309

FIRST 5
SANTA CLARA COUNTY
(A Component Unit of the County of Santa Clara, California)
STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – GOVERNMENTAL FUND
For the years ended June 30, 2022 and 2021

	2022	2021
Revenues:		<i>(Restated, Note 1)</i>
Proposition 10 taxes	\$ 14,561,801	\$ 15,212,975
Foundation and state matching grants	7,142,183	13,153,101
Government grant	2,205,797	2,362,943
Investment income (loss)	(1,651,740)	104,832
Rental income	187,952	114,799
Medi-Cal administrative agreement reimbursement income	2,450,854	1,834,677
Gain on debt forgiveness - Paycheck Protection Program	1,102,615	-
Other income	180,020	171,332
Total revenues	<u>26,179,482</u>	<u>32,954,659</u>
Expenditures:		
Salaries and benefits	6,935,734	6,847,211
Supplies and services	3,201,205	3,150,536
Grant expenditures	22,943,166	29,087,165
Capital outlay	-	34,878
Total expenditures	<u>33,080,105</u>	<u>39,119,790</u>
Change in fund balance	(6,900,623)	(6,165,131)
Fund balance, beginning of year	41,645,078	47,810,209
Fund balance, end of year	<u>\$ 34,744,455</u>	<u>\$ 41,645,078</u>

**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	\$ (6,900,623)	\$ (6,165,131)
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.		
Expenditures for general capital assets	-	34,878
Less: current year depreciation	(223,525)	(222,364)
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.	(60,777)	(26,042)
Change in net position	<u>\$ (7,184,925)</u>	<u>\$ (6,378,659)</u>

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

NOTES TO BASIC FINANCIAL STATEMENTS

For the years ended June 30, 2022 and 2021

1. Summary of Significant Accounting Policies

Reporting Entity

The Santa Clara County (“County”) Board of Supervisors created the FIRST 5 of Santa Clara County (“FIRST 5” or the “Commission”) 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
(A Component Unit of the County of Santa Clara, California)

NOTES TO BASIC FINANCIAL STATEMENTS

For the years ended June 30, 2022 and 2021

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 60% and 74% as of June 30, 2022 and 2021, 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.

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SANTA CLARA COUNTY
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NOTES TO BASIC FINANCIAL STATEMENTS

For the years ended June 30, 2022 and 2021

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 and Other Receivables

Foundation grants and other receivables include funds received from Section 501(c)(3) not-for-profits and community-based organizations to promote the Commission's stated objectives. These are recorded as revenue at the time the grants are received and conditions have been satisfied.

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For the years ended June 30, 2022 and 2021

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 fiscal 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.

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1. Summary of Significant Accounting Policies, continued

Adjustment to Prior Period Financial Statements

The Commission has adjusted its June 30, 2021 financial statement to correct for Foundation grants and other receivables that were overbilled or under billed, as well as various other miscellaneous reconciliations included in cash and accounts payable. Management corrected these error as it resulted in change of staff and improper billing reconciliations. As a result of these correction, the June 30, 2021 financial statements were restated as follows:

GOVERNMENT-WIDE			
Account	Balance as Previously Reported	Adjustment	Restated Balance
Cash and investments	\$ 47,119,753	(23,614)	\$ 47,096,139
Foundation grants and other receivables	4,585,088	(626,470)	3,958,618
Accounts payable	11,580,862	(128,735)	11,452,127
Restricted net position	41,852,727	(521,349)	41,331,378
Salaries and benefits	6,849,639	(23,614)	6,873,253
Grant expenditures	29,107,349	20,184	29,087,165
Foundation grants and state matching grants	13,314,594	(161,493)	13,153,101
Change in net position	(6,213,736)	(164,923)	(6,378,659)
Net position, beginning of year	51,368,394	(356,426)	51,011,968
Net position, end of year	45,154,658	(521,349)	44,633,309

GOVERNMENTAL FUND			
Account	Balance as Previously Reported	Adjustment	Restated Balance
Cash and investments	\$ 47,119,753	(23,614)	\$ 47,096,139
Foundation grants and other receivables	4,585,088	(626,470)	3,958,618
Accounts payable	11,580,862	(128,735)	11,452,127
Fund balance, assigned	15,448,320	(521,349)	14,926,971
Salaries and benefits	6,823,597	(23,614)	6,847,211
Grant expenditures	29,107,349	20,184	29,087,165
Foundation grants and state matching grants	13,314,594	(161,493)	13,153,101
Change in fund balance	(6,000,208)	(164,923)	(6,165,131)
Fund balance, beginning of year	48,166,635	(356,426)	47,810,209
Fund balance, end of year	42,166,427	(521,349)	41,645,078

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NOTES TO BASIC FINANCIAL STATEMENTS

For the years ended June 30, 2022 and 2021

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, 2022 and 2021, 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, 2022, 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	\$ -	\$ 5,017,469	\$ -	\$ 5,017,469
U.S. Treasuries	-	16,299,177	-	16,299,177
Corporate bonds	-	6,700,881	-	6,700,881
Collateralized mortgage obligation	-	1,945,743	-	1,945,743
Asset-backed securities	-	1,672,391	-	1,672,391
Money market funds	35,028	-	-	35,028
Total marketable securities	<u>\$ 35,028</u>	<u>\$ 31,635,661</u>	<u>\$ -</u>	<u>\$ 31,670,689</u>

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For the years ended June 30, 2022 and 2021

1. Summary of Significant Accounting Policies, continued

Fair Value Measurements, continued

As of June 30, 2021, 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	\$ -	\$ 10,732,277	\$ -	\$ 10,732,277
U.S. Treasuries	-	19,023,651	-	19,023,651
Corporate bonds	-	7,832,223	-	7,832,223
Collateralized mortgage obligation	-	2,893,826	-	2,893,826
Asset-backed securities	-	715,529	-	715,529
Money market funds	87,535	-	-	87,535
Total marketable securities	<u>\$ 87,535</u>	<u>\$ 41,197,506</u>	<u>\$ -</u>	<u>\$ 41,285,041</u>

Recent Accounting Pronouncement

The GASB issued GASB 87: *Leases in June 2017*. This standard became effective for fiscal years beginning after June 15, 2021. The standard requires a lessee to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. This standard provides between relevance and consistency of information regarding the leasing activities of an entity. The Commission did not have any lessees for which they would record a lease liability and a right-to-use assets as at implementation. In regards to lessor accounting the Commission is the lessor for various rental leases (Note 6). It was determined by management that the implementation of this standard to record the additional receivable at present value of lease payments expected to be received and the deferred inflow of resources was not material to the financial statements. The Commission will reevaluate each year for any additional lease arrangements for ongoing implementation.

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NOTES TO BASIC FINANCIAL STATEMENTS

For the years ended June 30, 2022 and 2021

2. Cash and Investments

The Commission had the following cash and investments as of June 30, 2022 and 2021:

	2022	2021
Cash:		<i>(Restated, Note 1)</i>
Commercial banks	\$ 2,199,702	\$ 4,462,195
County commingled pool	1,889,126	1,184,187
	4,088,828	5,646,382
Investments:		
U.S. Agencies	5,017,469	10,732,277
U.S. Treasuries	16,299,177	19,023,651
Corporate bonds	6,700,881	7,832,223
Collateralized mortgage obligation	1,945,743	2,893,826
Asset-backed securities	1,672,391	715,529
Money market funds	35,028	87,535
Accrued interest	100,637	164,716
	31,771,326	41,449,757
Total cash and investments	\$ 35,860,154	\$ 47,096,139

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, 2022 and 2021, the cash held by the financial institutions totaling \$2,199,702 and \$4,462,195, respectively, was entirely insured and collateralized as described above.

Cash and Investments in the County Commingled Pool

As of June 30, 2022 and 2021, cash and investments of \$1,889,126 and \$1,184,187, respectively, were 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.

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NOTES TO BASIC FINANCIAL STATEMENTS

For the years ended June 30, 2022 and 2021

2. Cash and Investments, continued

Cash and Investments in the County Commingled Pool, continued

Investment income was as follows for the years ended June 30:

	2022	2021
Realized (loss) gain on matured/sold investments	\$ (58,484)	\$ 76,904
Unrealized loss in changes in fair value of investments	(2,267,501)	(823,900)
Net loss	(2,325,985)	(746,996)
Interest income	674,245	851,828
Total investment (loss) income	\$ (1,651,740)	\$ 104,832

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.

As of June 30, 2022, 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	\$ 5,017,469	\$ 798,501	\$ 4,218,968
U.S. Treasuries	16,299,177	799,714	15,499,463
Corporate bonds	6,700,881	393,145	6,307,736
Collateralized mortgage obligation	1,945,743	-	1,945,743
Asset-backed securities	1,672,391	-	1,672,391
Money market funds	35,028	35,028	-
Accrued interest	100,637	100,637	-
	\$ 31,771,326	\$ 2,127,025	\$ 29,644,301

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NOTES TO BASIC FINANCIAL STATEMENTS

For the years ended June 30, 2022 and 2021

2. Cash and Investments, continued

Risk Disclosures, continued

As of June 30, 2021, 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	\$ 10,732,277	\$ 3,735,509	\$ 6,996,768
U.S. Treasuries	19,023,651	-	19,023,651
Corporate bonds	7,832,223	1,255,561	6,576,662
Collateralized mortgage obligation	2,893,826	169,884	2,723,942
Asset-backed securities	715,529	-	715,529
Money market funds	87,535	87,535	-
Accrued interest	164,716	164,716	-
	<u>\$ 41,449,757</u>	<u>\$ 5,413,205</u>	<u>\$ 36,036,552</u>

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, 2022, the Commission’s credit risks, expressed on a percentage basis, were as follows:

Investment Type	Credit Quality Rating		Fair Value as of June 30, 2022	% of Investment
	Moody	S&P		
<u><i>U.S. Treasury:</i></u>				
U.S. Treasury Note	Aaa	AA+	\$ 16,299,177	51.3%
<u><i>U.S. Agency Bonds:</i></u>				
Federal National Mortgage Association (FNMA)	Aaa	AA+	1,218,929	3.8%
Federal Home Loan Mortgage Corporation (FHLMC)	Aaa	AA+	2,379,576	7.5%
Federal Home Loan Bank	Aaa	AA+	1,418,964	4.5%

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NOTES TO BASIC FINANCIAL STATEMENTS

For the years ended June 30, 2022 and 2021

2. Cash and Investments, continued

Risk Disclosures, continued

Investment Type	Credit Quality Rating		Fair Value as of June 30, 2022	% of Investment
	Moody	S&P		
<i>Corporate Bonds:</i>				
Amazon.com Inc Note	A1	AA	342,565	1.1%
Amazon.com Inc Callable Note	A1	AA	227,554	0.7%
American Honda Finance Note	A3	A-	581,496	1.8%
Apple Inc Note	Aaa	AA+	393,145	1.2%
Apple Inc Callable Note	Aaa	AA+	273,448	0.9%
Bank of America Corp Callable Note 1X	A2	A-	548,393	1.7%
Bank of NY Mellon Corp Note	A1	A	536,612	1.7%
Charles Schwab Corp Callable Note	A2	A	249,552	0.8%
Charles Schwab Corp Callable Note	A2	A	135,423	0.4%
Berkshire Hathaway Callable Note	Aa2	AA	406,746	1.3%
Salesforce.com Inc Callable Note	A2	A+	75,769	0.2%
State Street Bank Callable Note	A1	A	118,104	0.4%
Paccar Financial Corp Note	A1	A+	415,258	1.3%
Target Corp Callable Note	A2	A	199,721	0.6%
Royal Bank of Canada Note	A1	A	1,040,713	3.3%
Toronto Dominion Bank Note	A1	A	522,353	1.6%
Toyota Motor Credit Corp Note	A1	A+	434,042	1.4%
United Health Group Inc Callable Note	A3	A+	104,380	0.3%
Wal-Mart Stores Callable Note	Aa2	AA	95,607	0.3%
<i>Asset Backed Securities:</i>				
Honda Auto Receivables Trust 2021	Aaa	NR	219,653	0.7%
Honda Auto Receivables Trust 2021	Aaa	NR	114,448	0.4%
John Deere Owner Trust 2021	Aaa	NR	153,841	0.5%
John Deere Owner Trust 2021	Aaa	NR	161,319	0.5%
Mercedes-Benz Auto Lease Trust 2021-B A3	NR	AAA	212,987	0.7%
Honda Auto Receivables Trust 2021-1 A3	Aaa	AAA	188,773	0.6%
John Deere Owner Trust 2022	Aaa	NR	146,179	0.5%
BMW Vehicle Lease Trust 2021	Aaa	NR	121,337	0.4%
Toyota Auto Receivables Trust 2021	NR	AAA	109,575	0.3%
BMW Vehicle Lease Trust 2022	NR	AAA	115,859	0.4%
Toyota Auto Receivables OT 2022	Aaa	AAA	128,420	0.4%

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NOTES TO BASIC FINANCIAL STATEMENTS

For the years ended June 30, 2022 and 2021

2. Cash and Investments, continued

Risk Disclosures, continued

Investment Type	Credit Quality Rating		Fair Value as of June 30, 2022	% of Investment
	Moody	S&P		
<i>Collateralized Mortgage Obligation</i>				
Federal Home Loan Mortgage	Aaa	AAA	1,945,743	6.1%
<i>Other:</i>				
Money market funds	Aaa	AAA	35,028	0.1%
Accrued interest		Not Rated	100,637	0.3%
			\$ 31,771,326	

3. Capital Assets, Net

The following is a summary of changes in capital assets for the years ended June 30, 2022 and 2021:

	Balance June 30, 2021	Additions / Transfers	Retirements	Balance June 30, 2022
Furniture and equipment	\$ 311,773	\$ -	\$ -	\$ 311,773
Building improvements	1,330,171	-	-	1,330,171
Building	3,000,908	-	-	3,000,908
Land	2,357,856	-	-	2,357,856
Total	7,000,708	-	-	7,000,708
Less accumulated depreciation:				
Furniture and equipment	(282,677)	(6,968)	-	(289,645)
Building improvements	(1,040,342)	(66,509)	-	(1,106,851)
Building	(2,375,758)	(150,048)	-	(2,525,806)
Total accumulated depreciation	(3,698,777)	(223,525)	-	(3,922,302)
Total capital assets, net	\$ 3,301,931	\$ (223,525)	\$ -	\$ 3,078,406

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NOTES TO BASIC FINANCIAL STATEMENTS

For the years ended June 30, 2022 and 2021

3. Capital Assets, Net, continued

	Balance June 30, 2020	Additions / Transfers	Retirements	Balance June 30, 2021
Furniture and equipment	\$ 276,895	\$ 34,878	\$ -	\$ 311,773
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>34,878</u>	<u>-</u>	<u>7,000,708</u>
Less accumulated depreciation:				
Furniture and equipment	(276,865)	(5,812)	-	(282,677)
Building improvements	(973,838)	(66,504)	-	(1,040,342)
Building	(2,225,710)	(150,048)	-	(2,375,758)
Total accumulated depreciation	<u>(3,476,413)</u>	<u>(222,364)</u>	<u>-</u>	<u>(3,698,777)</u>
Total capital assets, net	<u>\$ 3,489,417</u>	<u>\$ (187,486)</u>	<u>\$ -</u>	<u>\$ 3,301,931</u>

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

4. Notes Payable, Paycheck Protection Program

On May 11, 2020, the Commission successfully secured a \$1,102,615 Small Business Association ("SBA") loan under the Paycheck Protection Program ("PPP") through Bank of the West to secure payroll expenses for otherwise furloughed employees impacted by government-imposed shelter in place orders. Per the terms of the loan, the full amount will be forgiven as long as loan proceeds are used to cover payroll costs and other specified non-payroll costs (provided any non-payroll costs do not exceed 25% of the forgiven amount) over an 8-week period after the loan is made; and employee and compensation levels are maintained. The Commission fully intends to comply with the above terms in order to qualify for loan forgiveness. In the event, the Commission is required to repay the loan, all payments are deferred for six months with accrued interest over this period. Amounts outstanding under the loan will bear a fixed interest rate of 1.00% per annum with a maturity date of May 11, 2022 or two years from the commencement date. During the year ended June 30, 2022, the Commission applied for loan forgiveness and, on August 14, 2021, the SBA fully forgave the loan and any interest totaling \$1,102,615, as of June 30, 2022, the Commission recorded the gain on debt forgiveness.

5. Post-Employment Benefits

Deferred Compensation Plan

The Commission offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 (the "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.

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NOTES TO BASIC FINANCIAL STATEMENTS

For the years ended June 30, 2022 and 2021

5. Post-Employment Benefits, continued

Retirement Plan

In November 2001, the Commission's Board approved the implementation of an Internal Revenue Code Section 401(a) Retirement Plan (the "Plan") effective January 1, 2002 for all Commission employees. The Plan is a defined contribution plan administered by the Unified Trust Company. The Plan is open to all employees, excluding employees who work less than 20 hours per week. Currently, 51 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 \$363,162 and \$339,252 for the years ended June 30, 2022 and 2021, 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 \$144,826 and \$197,954 for the years ended June 30, 2022 and 2021, 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.

6. Tenant Facility Leases

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 July 2022 through September 30, 2024. As of June 30, 2022, minimum lease payments to be received for each of the next three years are as follows:

Year Ending June 30,

2023	\$	109,946
2024		43,628
2025		6,711
	\$	<u>160,285</u>

Total rental income amounted to \$187,952 and \$114,799 for the years ended June 30, 2022 and 2021, respectively.

7. 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.

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For the years ended June 30, 2022 and 2021

8. Committed Fund Balances

Committed fund balances were as follows as of June 30:

	2022	2021
Children’s Health	\$ 5,188,993	\$ 5,862,866
Community and Neighborhood Engagements	1,287,916	1,287,979
Workforce Development	1,016,986	2,319,609
Family Strengthening and Support	10,589,117	11,045,279
Early Care and Education	4,204,048	3,950,184
Communications and Public Awareness	319,750	393,750
	\$ 22,606,810	\$ 24,859,667

9. Significant Grantees

The Commission has eight grantees who obtained approximately 55% of total grant expenditures for the year ended June 30, 2022. Seven of these grantees also makes up approximately 52% of accounts payable as of June 30, 2022. The Commission has eight grantees who obtained approximately 42% of total grant expenditures for the year ended June 30, 2021. Seven of these grantees also makes up approximately 20% of accounts payable as of June 30, 2021.

10. 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 were involved for the years ended June 30:

	2022	2021
Approved grant award	\$ 4,744,265	\$ 11,664,242
Grant expense	\$ 2,519,929	\$ 10,546,419
Grant payable (included in accounts payable)	\$ 1,740,457	\$ 3,707,616

11. Program Evaluations

The Commission spent approximately \$607,000 and \$192,000 on program evaluations for the years ended June 30, 2022 and 2021, respectively.

FIRST 5
SANTA CLARA COUNTY
(A Component Unit of the County of Santa Clara, California)
NOTES TO BASIC FINANCIAL STATEMENTS
For the years ended June 30, 2022 and 2021

12. COVID-19 Pandemic

In March 2020, the World Health Organization declared the novel coronavirus (“COVID-19”) a global pandemic and recommended containment and mitigation measures worldwide. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, have adversely affected workforces, customers, economies, and financial markets globally, potentially leading to an economic downturn. It is not possible for the Commission to predict the duration or magnitude of the adverse results of the pandemic and its disruptive effects on the Commission’s operations and financial results at this time.

13. Subsequent Events

The Commission evaluated all events occurring subsequent to June 30, 2022 through October 31, 2022 and noted that, other than listed in Note 4, nothing has occurred outside the normal course of business operations that require recognition or disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

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

BUDGETARY COMPARISON INFORMATION

For the year ended June 30, 2022

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Revenues:				
Proposition 10 taxes	\$ 14,265,041	\$ 14,265,041	\$ 14,561,801	\$ 296,760
Federal, foundation and state matching grants	8,536,634	8,536,634	9,347,980	811,346
Investment income (loss)	748,791	748,791	(1,651,740)	(2,400,531)
Other revenue	1,927,095	1,927,095	3,921,441	1,994,346
Total revenues	<u>25,477,561</u>	<u>25,477,561</u>	<u>26,179,482</u>	<u>701,921</u>
Expenditures:				
Salaries and benefits	8,134,911	8,303,458	6,996,512	(1,306,946)
Supplies and depreciation	3,499,434	3,826,563	3,424,729	(401,834)
Grant expenditures	25,052,347	26,678,942	22,943,166	(3,735,776)
Total expenses	<u>36,686,692</u>	<u>38,808,963</u>	<u>33,364,407</u>	<u>(5,444,556)</u>
Change in net position	<u>\$ (11,209,131)</u>	<u>\$ (13,331,402)</u>	(7,184,925)	<u>\$ 6,146,477</u>
Net position, beginning of year			<u>44,633,309</u>	
Net position, end of year			<u>\$ 37,448,384</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 revenues were \$0.7 million more than budget due to receipt of Prop 10 taxes in excess of budget by \$0.3 million and the receipt of grant awards exceeding budget by \$0.8 million, largely related to COVID-19 emergency funding. The investment portfolio experienced an unrealized loss due to increasing interest rates. The Paycheck Protection loan was forgiven by the SBA for \$1.1 million. Other revenue exceeded budget by \$1.9 million mainly due Medicare Administration of \$1 million. Total expenditures were \$5.4 million less than budget due to under budget spending in salaries and benefits due to delays in hiring and under spending in grant expenditures due to slow down caused by COVID-19 pandemic and lower spending in program supplies due to COVID-19 conditions.

OTHER SUPPLEMENTARY INFORMATION

FIRST 5
SANTA CLARA COUNTY
(A Component Unit of the County of Santa Clara, California)
STATEMENT OF REVENUES AND EXPENDITURES
For the year ended June 30, 2022

	IMPACT	
	FIRST 5	County/Local
Revenues	\$ 1,845,588	\$ -
Expenditures	(1,845,588)	-
	\$ -	\$ -

Basis of Presentation:

The accompanying Statement of Revenue and Expenditures presents funds received and expensed for IMPACT (Improve and Maximize Programs so All Children Thrive) 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.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

INDEPENDENT AUDITORS' REPORT

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, 2022, and the related notes to the financial statements, and have issued our report thereon dated October 31, 2022.

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 31, 2022

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

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

Report on Compliance

Opinion

We have audited FIRST 5 Santa Clara County Children and Families Commission's (the "Commission"), a component unit of Santa Clara County, California, 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, 2022.

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, 2022.

Basis for Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America ("U.S. GAAS"), 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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Commission and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit does not provide a legal determination of the Commission's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above, and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the California Children and Families Program.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether the material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Commission's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with U.S. GAAS, *Government Auditing Standards*, and the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement

resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Commission’s compliance with the requirements of the California Children and Families Program as a whole.

In performing an audit in accordance with U.S. GAAS, *Government Auditing Standards*, and the Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Commission’s compliance with the compliance requirements referred to above and performing such other procedures as we consider necessary in the circumstances;
- Obtain an understanding of the Commission’s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the State of California’s *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, but not for the purpose of expressing an opinion on the effectiveness of the Commission’s internal controls over compliance. Accordingly, we express no such opinion; and
- Select and test 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 Costs	3	Yes
Conflict-of-Interest	3	Yes
County Ordinance	4	Yes
Long-range Financial Plans	2	Yes
Financial Condition of the Commission	1	Yes
Program Evaluation	3	Yes
Salaries and Benefits Policies	2	Yes

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identify during the audit.

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 on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a compliance requirement 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 that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention from those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditors’ Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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 State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*. Accordingly, this report is not suitable for any other purpose.

BPM LLP

San Jose, California
October 31, 2022