FIRST 5 SONOMA COUNTY COMMISSION

ANNUAL REPORT

FOR THE FISCAL YEAR ENDED
JUNE 30, 2015

FIRST 5 SONOMA COUNTY COMMISSION
JUNE 30, 2015

TABLE OF CONTENTS

	Page
Roster of Commission Members	i
Financial Section	
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements	
Government-Wide Financial Statements:	
Statement of Net Position	7
Statement of Activities	8
Fund Financial Statements:	
Balance Sheet – Governmental Fund	9
Statement of Revenues, Expenditures, and Changes in Fund Balance – General Fund – Governmental Fund	10
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance – General Fund – Governmental Fund	11
Notes to Basic Financial Statements	12
Required Supplementary Information	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	25
Note to Required Supplementary Information	26
Schedule of First 5 Sonoma County Commission's Proportionate Share of the Net Pension Liability	28
Schedule of Contributions	29
Compliance Section	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*	30
Independent Auditor's Report on State Compliance	32
Current Year and Prior Year Schedule of Findings	34

FIRST 5 SONOMA COUNTY COMMISSION
ROSTER OF COMMISSION MEMBERS
JUNE 30, 2015

As of June 30, 2015, the Commission consisted of the following members:

- Chiara Bacigalupa, Chair
  Associate Professor, Sonoma State University

- Dr. Jeff Miller, Vice Chair
  Retired Pediatrician

- Cynthia Murray
  President and CEO, North Bay Leadership Council

- Loren Soukup
  Parent Representative

- Jerry Dunn
  Director, Sonoma County Human Services Department

- Socorro Shiels
  Superintendent, Santa Rosa City School District

- Juan Hernandez III
  Executive Director, La Luz Center

- Rita Scardaci
  Director, Sonoma County Department of Health Services

- Efren Carrillo
  Sonoma County Board of Supervisors

FINANCIAL SECTION

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

BAKERSFIELD OFFICE
(MAIN OFFICE)
4200 TRUXTUN AVENUE
SUITE 300
BAKERSFIELD, CA 93309
TEL 661.324.4971
FAX 661.324.4997
EMAIL info@bacpas.com

FRESNO OFFICE
7673 N. INGRAM AVENUE
SUITE 101
FRESNO, CA 93711
TEL 559.476.3592
FAX 559.476.3593

PASADENA OFFICE
260 S. LOS ROBLES AVENUE
SUITE 310
PASADENA, CA 91101
TEL 626.204.6542
FAX 626.204.6547

STOCKTON OFFICE
5250 CLAREMONT AVENUE
SUITE 237
STOCKTON, CA 95207
TEL 209.451.4833

BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
First 5 Sonoma County Commission

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and general fund of First 5 Sonoma County Commission (the Commission), a fund of the County of Sonoma, as of and for the year ended June 30, 2015, 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Commission'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 Commission'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 and general fund of the Commission, as of June 30, 2015, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 10 to the financial statements, the Commission adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, and GASB No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*, which have significant impact over the Commission's financial statements. Our opinion is not modified with respect to the matter.

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 3-6, budgetary comparison information on page 25, schedule of First 5 Sonoma County Commission's proportionate share of the net pension liability on page 28, and schedule of contributions 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 GASB, 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 Roster of Commission Members is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Roster of Commission Members has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2015, 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.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
October 20, 2015

In November 1998, voters passed a statewide ballot initiative, Proposition 10, 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. 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 or her brain develops. The goal of Proposition 10 is for all young children in California to reach age five healthy and ready to succeed in school.

All revenue generated from the excise tax is collected by the Board of Equalization and placed in the California Children and Families Trust Fund Account. Twenty percent of that revenue is distributed to First 5 California (the State Commission), and the remaining 80% is allocated among the 58 county Commissions based on the number of births recorded in the relevant county in proportion to the number of births recorded in California. Each county must establish a local Commission to oversee the use of these funds in accordance with its strategic plan. The governing body of First 5 Sonoma County Commission (the Commission) is the Board of Commissioners.

This Management Discussion and Analysis is intended to serve as a narrative overview and analysis of the financial activities of the Commission for the year ended June 30, 2015. The information presented should be read in conjunction with the information furnished in the financial statements and notes to the financial statements.

Financial Highlights

During the fiscal year ended June 30, 2015, the Commission's General Fund, under the direction of the Board of Commissioners, implemented the fourth year of programs outlined in its 2011-2021 Strategic Plan. Fiscal year 2014-15 was the Commission's fifteenth year of program implementation.

- During 2014-15, total Commission revenues from all sources were $4,253,365, a decrease of $874,876 from the prior year. Total expenditures were $6,844,946, a decrease of $5,523,904 from the prior year. The decrease is attributable to the Commission's execution of its One-Time Capital/Strategic Investments in the prior fiscal year. Any unexpended funds will roll over to fiscal year (FY) 2015-16. Revenues from the Proposition 10 tobacco tax were $3,535,398, a decrease of $6,648 from the prior year.

- The assets of the Commission exceeded its liabilities at the close of the most recent fiscal year by $17,426,773. Of this amount, $17,426,773 may be used to meet the Commission's ongoing obligations.

- The Commission's total fund balance decreased by $2,591,581. This decrease is primarily attributable to operating expenditures in excess of the revenues received.

Overview of the Financial Statements

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

***Government-Wide Financial Statements*.** The *government-wide financial statements* are designed to provide readers with a broad overview of the Commission's finances, in a manner similar to a private sector business.

The *statement of net position* presents information on all of the Commission's assets and liabilities, with the difference between the two reported as *net position.* Over time, increases or decreases in net position compared to the Commission's adopted financial model may serve as a useful indicator of the ability of the Commission to continue to serve as a resource to the Sonoma County community over time.

The *statement of activities* presents information showing how the Commission's net position changed during the most recent fiscal year. 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., uncollected revenues, unpaid expenses, and contingent liabilities).

***Fund Financial Statements*.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commission, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Commission's General Fund is used to account for its activities, which include Proposition 10 funding for the implementation of programs to ensure the healthy development of children, the empowerment of families, and the strengthening of communities for all Sonoma County children ages 0-5. The Commission adopts an annual appropriated budget for its funds. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget.

***Notes to the Financial Statements*.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the Commission, assets exceeded liabilities by $17,157,867 at the close of the most recent fiscal year.

By far, the largest portion of the Commission's net position is in cash.

Net Position

	2015	2014	Change
Current and other assets	$ 19,001,688	$ 20,778,135	$ (1,776,447)
Total assets	19,001,688	20,778,135	(1,776,447)
Deferred outflows of resources			
Deferred pensions	142,549	96,467	46,082
Current and other liabilities	1,562,426	812,978	749,448
Long-term liabilities	350,280	340,560	9,720
Total liabilities	1,912,706	1,153,538	(759,168)
Deferred inflows of resources			
Deferred pensions	73,664	-	73,664
Net position:			
Unrestricted	17,157,867	19,721,064	(2,563,197)
Total net position	$ 17,157,867	$ 19,721,064	$ (2,563,197)

The Commission's net position decreased by $2,563,197 during the current fiscal year. The decrease in the Commission's net position is primarily attributable to the operating expenditures in excess of the revenue brought in.

At the end of the current fiscal year, the Commission is able to report a positive balance in net position for the government as a whole. The same held true for the prior fiscal year.

Governmental Activities
For the Year Ended June 30:

	2015	2014	Change
Revenues:			
Program revenues:			
Operating grants and contributions	$ 4,297,550	$ 4,487,393	$ (189,843)
General revenues:			
Interest earnings (loss)	(626)	640,848	(641,474)
Total revenues	4,296,924	5,128,241	(831,317)
Expenses:			
General government	6,860,121	12,428,782	(5,568,661)
Total expenses	6,860,121	12,428,782	(5,568,661)
Change in net position	(2,563,197)	(7,300,541)	4,737,344
Net position, beginning of the year	19,721,064	27,442,850	(7,721,786)
Prior period adjustment	-	(421,245)	421,245
Net position, end of year, as restated	$ 17,157,867	$ 19,721,064	$ (2,563,197)

Financial Analysis of the Commission's Funds

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

Governmental Funds. The focus of the Commission's governmental fund financial statements is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Commission's financing requirements. In particular, fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Commission's governmental funds reported ending fund balances of $17,426,773, a decrease of $2,591,581 in comparison with the prior year.

Committed fund balance of $11,584,527 is not available for spending at the Commission's discretion as these funds have already been committed to liquidate contracts and purchase orders of the prior period and to satisfy other contractual agreements and obligations approved by the Commission. The assigned fund balance is $5,842,246, of which $3,726,621 is assigned for strategic priorities as allocated in the long-term funding plan, and $2,115,625 is assigned by the Commission approved allocation schedule for future spending.

General Fund Budgetary Highlights

There was a decrease of $3,671,469 in total expenditures from the original budget to the final amended budget. The decrease was due in majority to the dedicated and operating fund consolidation in FY 2014-15. This consolidation removed the need for budgeted transfers from the dedicated fund to the operating fund in the amount of $3,808,021.

The expenditures were less than budgeted by $2,072,661, partly due to initiatives in the strategic plan that were allocated but not launched in FY 2014-15 and are still in the planning process.

Economic Factors and Next Year's Budgets and Rates

- Proposition 10 annual revenues decreased by 1% from the prior year. The long-term projection is for only a 2% to 3% decrease in tax revenue (or approximately $100,000) per year for future years.
- The Commission's financial models have been revised to reflect the latest estimates of future revenue from First 5 California.
- Interest earnings are expected to average 0.75% in fiscal year 2015-16. This will be reflected in the Commission's financial model.
- All of the above factors were considered in preparing the Commission's budget for the fiscal year ending June 30, 2015.

Request for Information

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in the Commission's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the First 5 Sonoma County Commission, 490 Mendocino Avenue, Suite 203, Santa Rosa, California 95401.

BASIC FINANCIAL STATEMENTS

FIRST 5 SONOMA COUNTY COMMISSION
STATEMENT OF NET POSITION
JUNE 30, 2015

ASSETS	
Cash and investments	$ 18,111,568
Due from other governments	890,120
Total assets	19,001,688
DEFERRED OUTFLOWS OF RESOURCES	
Deferred pensions	142,549
LIABILITIES	
Current liabilities:	
Accounts payable	1,045,611
Compensated absences	56,489
Unearned revenue	460,326
Long-term liabilities	
Net pension liability	350,280
Total liabilities	1,912,706
DEFERRED INFLOWS OF RESOURCES	
Deferred pensions	73,664
NET POSITION	
Unrestricted	17,157,867
Total net position	$ 17,157,867

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

FIRST 5 SONOMA COUNTY COMMISSION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015

Functions/Programs	Expenses	Program Revenues: Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position: Governmental Activities
Primary government			
Governmental activities:			
Early childhood development	$ 6,860,121	$ 4,297,550	$ (2,562,571)
	General revenues:		
	Investment earnings		(626)
	Total general revenues		(626)
	Change in net position		(2,563,197)
	Net position - beginning, as restated		19,721,064
	Net position - ending		$ 17,157,867

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

FIRST 5 SONOMA COUNTY COMMISSION
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2015

		General Fund
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Cash and investments	$	18,111,568
Due from other governments		890,120
Total assets and deferred outflows of resources	$	19,001,688
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE		
Liabilities:		
Accounts payable	$	1,019,433
Due to other governments		26,178
Unearned revenue		460,326
Total liabilities		1,505,937
Deferred inflows of resources:		
Deferred for Senate Bill (SB) 90 Mandates and Medi-cal Administrative Activities (MAA)		68,978
Fund balance:		
Committed		11,584,527
Assigned		5,842,246
Total fund balance		17,426,773
Total liabilities, deferred inflow of resources, and fund balance	$	19,001,688
RECONCILIATION OF BALANCE SHEET TO STATEMENT OF NET POSITION		
Fund balances - total governmental fund	$	17,426,773
Amounts reported for governmental activities in the statement of net position are different because:		
Deferred outflows of resources for pensions		142,549
Deferred inflows of resources for pensions		(73,664)
Long-term liabilities are not due and payable in the current period and therefore are not reported on the balance sheet:		
Compensated absences		(56,489)
Net pension liability		(350,280)
SB 90 Mandates and MAA are not collectable within the prescribed period of availability and, therefore, are not reported on the government-wide statements.		68,978
Net position of governmental activities	$	17,157,867

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

FIRST 5 SONOMA COUNTY COMMISSION
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – GENERAL FUND
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

	General Fund
REVENUES	
Tobacco tax	$ 3,535,398
Investment earnings	(626)
Child Signature Program/Kids' Plates	137,199
CARES Program	175,999
State Interest Surplus Money Investment Fund	505
Medi-Cal Administrative Activities (MAA)	(37,654)
Federal grant	33,469
Miscellaneous revenue	(27,343)
Local government revenue	129,184
SB 90 Mandates	2,234
County of Sonoma	305,000
Total revenues	4,253,365
EXPENDITURES	
Current:	
Salaries and benefits	820,035
Services and supplies	959,151
Contract expenditures	5,065,760
Total expenditures	6,844,946
Change in fund balance	(2,591,581)
Fund balance, July 1, as restated	20,018,354
Fund balance, June 30	$ 17,426,773

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

FIRST 5 SONOMA COUNTY COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – GENERAL FUND
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

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

Net change in fund balance - total governmental fund	$	(2,591,581)
Certain expenses reported in the statement of activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in the governmental fund.		
Change in compensated absences		22,127
Change in pension expense		(37,302)
Certain amounts are not available to pay current period expenditures and, therefore, are deferred inflows of resources in the governmental fund.		43,559
Change in net position of governmental activities	$	(2,563,197)

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Sonoma County Children and Families Commission (the Commission) was established by the Sonoma County Board of Supervisors (the Board) through adoption of Ordinance No. 5142 on December 15, 1998, pursuant to Proposition 10, the California Children and Families First Act of 1998. Subsequently, the ordinance has been modified by the Board as follows:

- On June 6, 2000, Ordinance No. 5236 changed the Commission's name to the Sonoma County Children and Families Commission and increased the number of Commissioners from five (5) to seven (7).
- On October 14, 2008, Ordinance No. 5807 increased the number of Commissioners from seven (7) to nine (9), established three-year terms, and limited Commissioners' term of office to three consecutive terms.
- On March 16, 2010, Ordinance No. 5881 officially changed the name of the Commission to the First 5 Sonoma County Commission.

The purpose of the Commission is to promote, support, and improve the early development of children from the prenatal stage through five years of age. The Commission uses the brand name First 5 Sonoma County for the purpose of communicating its dedication to improving the lives of children in the first five years and its common purpose with other First 5 commissions across the state.

The Commission is funded by a tax of fifty (50) cents per pack of cigarettes and by a similar tax on other tobacco products. The Department of Health Services acts as administrative agent to the Commission.

Because the Board appoints all First 5 Commissioners, the Commission's financial statements have been included as a fund in the County of Sonoma's (the County) annual financial statements.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. Governmental activities are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include grants and contributions that are restricted to meeting operational or capital requirements of a particular function or segment.

Separate financial statements are provided for governmental funds.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Amounts recorded as program revenues include operating grants and contributions. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes. The Commission reports the General Fund as its major fund. It accounts for all activities of the Commission and its sole function of early childhood development.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Taxes, interest, and charges for services are accrued when receipt occurs within 365 days of the end of the accounting period so as to be both measurable and available. Expenditures are generally recorded when a liability is incurred, as under the accrual basis of accounting.

D. Assets, Liabilities, and Net Position or Equity

1. Cash and Investments

The Commission applies the provisions of Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, in accordance with accounting principles generally accepted in the United States of America, which require governmental entities, including governmental external investment pools, to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB Statement No. 31, the Commission has stated certain investments at fair value.

2. Due from/Due to Other Governments

Due from other governments represents receivables due to the Commission from the First 5 California (the State Commission) for revenues related to Proposition 10, and receivables from other governmental agencies. Due to other governments represents payables due to the State for payback of Medi-Cal Administrative Activities (MAA) adjustments.

3. Compensated Absences

County employees are entitled to certain compensated absences based on their length of employment and position held. Vacation pay is subject to certain maximum accumulations and is payable upon termination. Because vacation and other compensated absence balances do not require the use of current financial resources, no liability is recorded within the governmental funds.

4. Unearned Revenue

Under modified accrual and accrual basis of accounting, revenue may be recognized only when earned. Therefore, governmental funds report revenue from grantors and third parties in connection with resources that have been received, but not yet earned as a liability.

5. Deferred Inflows of Resources

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, the County recognized deferred inflows of resources in the governmental funds financial statements. These items are an acquisition of net position by the County that is applicable to a future reporting period by the State.

NOTE 1 – <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u> (Continued)

D. <u>Assets, Liabilities, and Net Position or Equity</u> (Continued)

6. Net Position

Net position is classified on the Statement of Net Position in two components: 1) net investment in capital assets and 2) unrestricted. These classifications are defined as follows:

a. Net investment in capital assets – This component of net position consists of capital assets, net of accumulated depreciation, and is reduced by outstanding debt related to financing the acquisition of capital assets.
b. Restricted – This component of net position consists of constraints placed on net position use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislations.
c. Unrestricted – This component of net position consists of net position that does not meet the definitions of "restricted" or "net investment in capital assets."

7. Fund Balance

In the fund financial statements, governmental funds report fund balance using the classifications listed in GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. As of June 30, 2015, fund balance for the governmental fund consists of the following classifications:

a. *Nonspendable Fund Balance* – Amounts that cannot be spent because they are either (a) nonspendable in form or (b) legally or contractually required to be maintained intact.
b. *Committed Fund Balance* – The portion of fund balance that represents resources whose use is subject to formal action of the Commission's highest level decision making authority (the Board of Commissioners). These commitments remain binding unless changed or removed by the same formal action of the Commission as the formal authority that imposed the constraint. The underlying action that imposed, modified, or removed the limitation would need to occur no later than the close of the reporting period. Consists of executed contracts approved by the Board of Commissioners as of June 30, 2015.
c. *Assigned Fund Balance* – Amounts or limitations that are constrained by the Commission's intent to be used for a specific purpose.

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, followed by committed, assigned, and unassigned resources as they are needed.

8. Contract Expenditures

Contract expenditures consist of expenditures incurred by the Commission to meet the following program result areas:

a. Improved Family Functioning
b. Improved Child Development
c. Improved Health
d. Improved Systems of Care

9. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 1 – <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u> (Continued)

D. <u>Assets, Liabilities, and Net Position or Equity</u> (Continued)

10. Pensions

In the Commission's financial statements, the retirement plans (pensions) are required to be recognized and disclosed using the accrual basis of accounting. In general, the Commission recognizes a net pension liability, which represents the Commission's proportionate share of the County's proportionate share of the excess of total pension liability over the fiduciary net position of the pension reflected in the actuarial report provided by Sonoma County Employees Retirement Association (SCERA). The net pension liability is measured as of the County's prior fiscal year-end. Changes in the net pension liability are recorded, in the period incurred, as pension expense or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change. The changes in net pension liability that are recorded as deferred inflows of resources or deferred outflow of resources (that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience) are amortized over the weighted average remaining service life of all participants in the respective pension plan and are recorded as a component of pension expense beginning with the period in which they are incurred.

For purposes of measuring the net pension liability, deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the County's pension plans with SCERA and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by SCERA. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Projected earnings on pension investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred. Each subsequent year will incorporate an additional closed basis five-year period of recognition.

NOTE 2 – <u>CASH AND INVESTMENTS</u>

Cash and investments are classified in the Governmental Activities and Governmental Fund financial statements as follows:

	June 30, 2015
Cash and investments in the County Treasury	$ 18,111,568
	$ 18,111,568

The Commission's cash is pooled with the County Treasury Pool, which acts as a disbursing agent for the Commission. The fair value of the Commission's investment in this pool is reported in the accompanying financial statements at amounts based upon the Commission's pro-rata share of the fair value provided by the Treasury Pool for the entire Treasury Pool portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on accounting records maintained by the Treasury Pool, which are recorded on an amortized cost basis. Interest earned on investments pooled with the County is allocated quarterly to the appropriate fund based on its respective average daily balance for that quarter. The Treasury Oversight Committee has regulatory oversight for all monies deposited into the Treasury Pool. Required disclosure information regarding the categorization of investments and other deposit and investment risk disclosures can be found in the County's Comprehensive Annual Financial Report (CAFR). The County's financial statements may be obtained by contacting the County of Sonoma's Auditor-Controller-Treasurer-Tax Collector's office at 585 Fiscal Drive-Room 100, Santa Rosa, California 95403.

NOTE 3 – DUE FROM OTHER GOVERNMENTS

The due from other governments amount represents amounts due to the Commission from the State Commission for Proposition 10 related revenues and revenues from other governmental agencies. The amounts due to the Commission at June 30, 2015, were as follows:

Due from Other Governments:		
Proposition 10 Revenue May/June 2015	$	598,762
Surplus Money Investment Fund Allocation (SMIF)		669
CARES Program		145,342
Child Signature Program (CSP)		74,135
Senate Bill (SB) 90 Mandate meetings		45,793
SB 90 Mandates (Unavailable Revenue)		25,419
Total Due from Other Governments	$	890,120

NOTE 4 – COMPENSATED ABSENCES

Compensated absences represent a liability for unpaid vacation leave and other compensated absences with similar characteristics. The compensated absence liability for the fiscal year ended June 30, 2015, is summarized as follows:

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015	Amount Due Within One Year
Compensated absences	$ 78,616	$ -	$ (22,127)	$ 56,489	$ 56,489

NOTE 5 – DEFERRED INFLOW OF RESOURCES

Deferred inflow of resources represents a receivable for SB 90 Mandate costs reimbursement claims which have been earned but not yet reimbursed by the State. The Commission does not expect to receive these funds before the end of the next fiscal year. Deferred inflow of resources activity for the fiscal year ended June 30, 2015, was as follows:

Deferred inflow of resources represents a receivable for SB 90 Mandate costs reimbursement claims and Medi-Cal Administrative Services reimbursements which have been earned but not yet reimbursed by the State. The Commission does not expect to receive these funds before the end of the next fiscal year. The largest portion of the Commission's deferred inflows of resources are from Medi-Cal Administrative Activities (pursuant to Welfare and Institutions (W&I) Code §14132.47, Local Governmental Agencies (LGAs) participating in the County-Based MAA program are eligible to receive federal reimbursement for the cost of performing administrative activities that directly support efforts to identify and enroll potential eligible individuals into Medi-Cal) of $43,559 and the remaining $25,419 are from SB 90 Mandates (SB 90 is California Senate Bill 90 of 1972 which established a requirement that the State reimburse local government agencies for the costs of new programs or increased levels of service on programs mandated). Unavailable revenue activity for the fiscal year ended June 30, 2015, was as follows:

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
Deferred inflow of resources (SB 90 Mandates and MAA)	$ 25,419	$ 43,559	$ -	$ 68,978

NOTE 6 – FUND BALANCE

General Fund:

Nonspendable fund balance of $0.

Committed fund balance of $11,584,527 represents executed contracts approved by the Board of Commissioners.

Assigned fund balance of $5,842,246 consists of $3,726,621 of funds assigned based on strategic priorities as outlined in the long-term funding plan, and $2,115,625 consists of remaining fund balance as allocated to future spending by the Commission.

NOTE 7 – RELATED PARTY TRANSACTIONS

Board of Commissioners board membership includes members of the County and local community-based organizations which serve children in Sonoma County. At times, programs funded through the Commission may be operated by organizations that are represented by members of the Commission's Board of Commissioners. Those Board of Commissioners members abstain from voting on issues involving their respective organizations. For the year ended June 30, 2015, the related party expenditures were $1,604,663.

NOTE 8 – RISK MANAGEMENT

The Commission participates in the County's risk management program. The County is self insured as follows: $300,000 per occurrence for workers' compensation claims; $1,000,000 per occurrence for automobile and general liability claims. The County is entirely self-insured for unemployment claims and for long-term disability occurring prior to August 1, 1999.

The County participates in the CSAC Excess Insurance Authority excess liability insurance program. The County is covered under this program for $1,000,000 to $25,000,000 per occurrence for liability claims. Amounts in excess of $300,000 per occurrence for workers' compensation claims within statutory limits are maintained through participation in the CSAC Excess Insurance Authority-Excess Workers' Compensation Program.

The County participates in the medical malpractice program through the CSAC Excess Insurance Authority; the County is covered under this program for $1,500,000 to $20,000,000 per event with a deductible of $5,000.

The County pays an annual basic premium for excess coverage and is assessed an annual risk premium based on an actuarial review that estimates each of the program's participant's ultimate liabilities. Settled claims have not exceeded the commercial coverage in any of the past three fiscal years.

NOTE 9 – PROGRAM EVALUATION

The Commission spent $321,740 in program evaluation during the fiscal year.

NOTE 10 – PENSION PLANS

A. General Information about the Pension Plans

Plan Descriptions

SCERA was established by the County Board on January 1, 1946. SCERA is administered by the Board of Retirement and governed by the County Employees' Retirement Law of 1937 (California Government Code Section 31450 et. seq.) SCERA is a cost-sharing multiple-employer public employee retirement system whose main function is to provide service retirement, disability, death, and survivor benefits to the General members employed by the County. Members include employees in a permanent position of at least half time in the County. Plan members are classified as General. Membership becomes effective on the first day of entrance into eligible service. SCERA provides member benefits as defined by law upon retirement, death, or disability. Management of the retirement system is vested in the SCERA Board of Retirement, with an Administrator serving at the discretion of the Board of Retirement. The Board of Retirement consists of nine voting trustees and one alternate trustee. Four trustees are appointed by the County's Board, five trustees (including the one alternate) are elected by the members of SCERA. General members elect two trustees, Safety members elect one trustee, and retired members elect one trustee and one alternate trustee. The County Treasurer is an ex-officio trustee. Board of Retirement trustees serve three year terms, with the exception of the County Treasurer, who serves during his tenure in office.

Refer to the County's CAFR for a summary of the County's pension plans and eligible participants.

SCERA issues a stand alone financial report that was audited by Brown Armstrong Accountancy Corporation. The report is available by writing to Sonoma County Employees' Retirement Association at 433 Aviation Boulevard, Suite 100, Santa Rosa, CA 95403 or by calling (707) 565-8100.

Benefits Provided

Vesting

Upon completing five years of creditable service, employees have non-revocable rights to receive benefits attributable to employer's contributions, provided employee contributions have not been withdrawn. Plan A members are eligible to retire at age 50 with ten years of service from the date of membership or thirty years of service regardless of age. Plan B General members are eligible to retire at age 52 with five years of service. Members in all plans are eligible to retire at age 70, regardless of years of service.

Basis of Benefit Payments

Benefits are based upon a combination of age, years of service, final compensation, and the benefit payment option selected by the member. For Plan A members, final compensation is defined as the highest 12 consecutive months of compensation earnable. The maximum benefit payable to a member or beneficiary is 100% of the final compensation. For Plan B members, final compensation is based on the highest 36 months of pensionable compensation. Additionally, Plan B members are limited in the amount of compensation used to calculate a benefit to 100% of the Social Security taxable wage base limit.

Cost of Living Benefits

SCERA has approved, on an ad hoc basis, several one-time, post-retirement cost of living increases (COLAs). These COLAs have been fully funded by transfers from the Undistributed Earnings Reserve, Cost of Living Future Reserve, or Interest Fluctuation Reserve into the Cost of Living Current Reserve account.

NOTE 10 – PENSION PLANS (Continued)

A. General Information about the Pension Plans (Continued)

Benefits Provided (Continued)

Disability Benefit

Members with 5 years of service, regardless of age, are eligible for non-service connected disability. The benefit for Plan A members is 1.8% of final compensation for each year of service, and the benefit for Plan B members is 1.5% of final compensation for each year of service. The maximum benefit for both plans is 1/3 of final compensation. All employees, regardless of years of service, are eligible for service connected disability. The benefit of a service connected disability is the greater of 50% of final compensation or service retirement benefit.

Death Benefit – Prior to Retirement

In addition to the return of contributions, a death benefit is payable to the member's beneficiary or estate equal to one month's salary for each completed year of service under the retirement system (based on the final compensation preceding the member's death), but not to exceed 6 months of salary. If a member dies while eligible for service retirement or non-service connected disability, his or her spouse/domestic partner receives 60% of the allowance that the member would have received for retirement on the day of his or her death. If a member dies in the performance of duty, the spouse/domestic partner will receive a lifetime benefit equal to 50% of the member's final average compensation or a service retirement benefit, whichever is higher.

Death Benefit – After Retirement

As part of the retirement process, members are required to select among several options for benefits continuation upon the member's death. For married / registered retirees, the most common retirement option is the unmodified option, which pays the retiree's eligible spouse or domestic partner a lifetime benefit equal to 60% of the benefit the retiree was receiving.

Return of Contributions

If a member should resign or die before becoming eligible for retirement, his or her contribution plus interest may be refunded. In lieu of receiving a return of contributions, a member may elect to leave his or her contributions on deposit. Members with at least five years of service may choose to receive a deferred vested benefit when eligible for retirement.

Contributions

Contribution rates for the employer and its covered employees are established and may be amended by the SCERA Board of Retirement (and then shall be adopted by the County Board). The contribution rates are determined based on the benefit structure established by the employer. Plan A members are required to contribute between approximately 7% and 15% of their annual covered salary, and the member's particular rate is based upon age at entry into SCERA. Plan B members are required to contribute a flat rate as calculated by the actuary. SCERA's funding policy for employer contributions are actuarially determined rates that, expressed as a percentage of annual covered payroll, are required to accumulate sufficient assets to pay benefits when due. Level percentage of payroll employer contribution rates are determined using the entry age actuarial cost method. SCERA also used the level entry age normal cost method with an Unfunded Actuarial Accrued Liability (UAAL) to amortize the unfunded liability. In order to allow the County to more accurately budget for pension contributions (in accordance with the Board's funding policy), the contribution rates determined in each valuation will be assumed to take effect at the beginning of the fiscal year starting at least twelve months after the beginning of the Valuation Year, except when significant benefit or actuarial assumption changes occur.

NOTE 10 – PENSION PLANS (Continued)

A. General Information about the Pension Plans (Continued)

Contributions (Continued)

	General	
Valuation Date	December 31, 2014	December 31, 2013
Member Contribution Rates:		
Plan A:		
Entry Age - 25	7.49%	7.39%
Entry Age - 35	8.81%	8.81%
Entry Age - 45	10.42%	10.42%
Plan B	7.37%	7.39%
Employer Contribution Rates:		
Plan A:	17.81%	19.39%
Plan B:	12.86%	14.45%

For the year ended June 30, 2015, the contributions recognized as part of pension expense for the plans was as follows:

	General
Contributions - Employer	$ 96,467
Contributions - Employee	59,436

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2015, the Commission reported net pension liabilities for its proportionate share of the net pension liability of each plan as follows:

	Proportionate Share of Net Pension Liability
General	$ 350,280
Total Net Pension Liability	$ 350,280

The Commission's net pension liability is measured as the proportionate share of the net pension liability. The net pension liability of the plans is measured as of December 31, 2014, and the total pension liability for the plans used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2013, rolled forward to December 31, 2014, using standard update procedures. The County's proportion of the net pension liability was based on a projection of the County's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined. The Commission's proportion of the County's proportionate share of the County's net pension liability was based on the Commission's actual payroll to the pension plans during the year ended June 30, 2015. At June 30, 2014, the Commission's proportion of the County's proportion was 0.18%.

	General
Proportion - June 30, 2014	0.18%
Proportion - June 30, 2015	0.20%
Change - Increase (Decrease)	0.02%

NOTE 10 – PENSION PLANS (Continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

For the year ended June 30, 2015, the Commission recognized a pension expense of $84,533. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions, or method and plan benefits.

At June 30, 2015, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Actual and Expected Experience	$ -	$ 73,664
Commission contributions subsequent to the measurement date	47,230	
Change in Employer's Proportion and Differences between the Employer's Contributions and the Employer's Proportionate Share of Contributions	38,864	-
Net Differences between Projected and Actual Earnings on Plan Investments	56,455	-
Total	$ 142,549	$ 73,664

Deferred outflow of resources and deferred inflows of resources above represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic and rational manner. The Commission's contribution of $47,230 made subsequent to the measurement date are reported as deferred outflows of resources for the fiscal year ending June 30, 2015, and will be recognized as a reduction of net pension liability in the fiscal year ending June 30, 2016.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ended June 30	
2016	$ 1,730
2017	1,730
2018	4,081
2019	14,114
2020	-
Thereafter	-
Total	$ 21,655

NOTE 10 – PENSION PLANS (Continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Actuarial Assumptions – The total pension liabilities in the January 1, 2014 actuarial valuations were determined using the following actuarial assumptions:

	General
Valuation Date	December 31, 2014
Measurement Date	December 31, 2014
Actuarial Cost Method	
Actuarial Assumptions:	
Inflation	3.25
Projected Salary Increase	4.50% - 10.00%
Investment Rate of Return	7.50%

Discount Rate – The discount rate used to measure the total pension liability was 7.50% as of December 31, 2014. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits of current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plans' plan net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Large Cap U.S. Equity	30.70%	6.15%
Small Cap U.S. Equity	6.30%	6.87%
Developed International Equity	25.00%	6.70%
U.S. Core Fixed Income	17.00%	0.98%
Unconstrained Bonds	3.00%	3.56%
Bank Loans	3.00%	2.55%
Real Estate	15.00%	4.88%
Total	100.00%	

NOTE 10 – PENSION PLANS (Continued)

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Commission's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what the Commission's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

	1% Decrease 6.50%	Discount Rate 7.50%	1% Increase 8.50%
Commission's proportionate share of the County's proportionate share of the net pension liability	$ 803,719	$ 350,280	$ (30,860)

Pension Plan Fiduciary Net Position – Detailed information about each pension plan's fiduciary net position is available in the separately issued SCERA financial reports.

NOTE 11 – EFFECT OF NEW GOVERNMENTAL ACCOUNTING STANDARDS (GASB) PRONOUNCEMENTS

During the fiscal year ending June 30, 2015, the Commission implemented the following standards:

GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. The provisions of GASB Statement No. 68 are effective for financial statements beginning after June 15, 2014. The implementation of this statement has significant impact over the Commission's financial statements.

GASB Statement No. 69 – *Government Combinations and Disposals of Government Operations*. The provisions of GASB Statement No. 69 are effective for financial statements beginning after December 15, 2013. There was no effect on the Commission's accounting or financial reporting as a result of implementing this standard.

GASB Statement No. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. The provisions of this statement were applied simultaneously with the provisions of GASB Statement No. 68. The implementation of this statement has significant impact over the Commission's financial statements.

Future Pronouncements

The Commission is currently analyzing its accounting and financial reporting practices to determine the potential impact on the financial statements of the following GASB Statements:

GASB Statement No. 72 – *Fair Value Measurement and Application.* The provisions of this statement are effective for financial statements for reporting periods beginning after June 15, 2015. The Commission has not fully judged the effect of the implementation of GASB Statement No. 72 as of the date of the basic financial statements.

GASB Statement No. 73 – *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68.* The provisions of this statement are effective for fiscal years beginning after June 15, 2015 – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for fiscal years beginning after June 15, 2016. The Commission has not fully judged the effect of the implementation of GASB Statement No. 73 as of the date of the basic financial statements.

NOTE 11 – EFFECT OF NEW GOVERNMENTAL ACCOUNTING STANDARDS (GASB) PRONOUNCEMENTS (Continued)

Future Pronouncements (Continued)

GASB Statement No. 74 – *Financial Reporting for Postemployment Benefits Other than Pension Plans.* The provisions of this statement are effective for fiscal years beginning after June 15, 2016. The Commission has not fully judged the effect of the implementation of GASB Statement No. 74 as of the date of the basic financial statements.

GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other than Pension Plans.* The provisions of this statement are effective for fiscal years beginning after June 15, 2017. The Commission has not fully judged the effect of the implementation of GASB Statement No. 75 as of the date of the basic financial statements.

GASB Statement No. 76 – *Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* The provisions of this statement are effective for fiscal years beginning after June 15, 2015. The Commission has not fully judged the effect of the implementation of GASB Statement No. 76 as of the date of the basic financial statements.

GASB Statement No. 77 – *Tax Abatement Disclosures.* The requirements of this statement are effective for reporting periods beginning after December 15, 2015. The Commission has not fully judged the effect of the implementation of GASB Statement No. 77 as of the date of the basic financial statements.

NOTE 12 – PRIOR PERIOD ADJUSTMENTS

A prior period adjustment of $177,152 was made to decrease the governmental activities' beginning net position as well as the beginning fund balance. The adjustment was made to reverse GASB Statement No. 31 adjustments from fiscal year 2013, which was reversed twice in fiscal year 2014.

A prior period adjustment of $244,093 was made to decrease the governmental activities' beginning net position. The adjustment was made because of the implementation of GASB Statement No. 68.

The restatement of beginning net position of governmental activities is summarized as follows:

Net position at July 1, 2014, as previously stated	$ 20,142,309
GASB Statement No. 31 adjustment	(177,152)
GASB Statement No. 68 adjustment	(244,093)
Net position at July 1, 2014, as restated	$ 19,721,064

The restatement of beginning fund balance for governmental fund is summarized as follows:

Fund balance at July 1, 2014 as previously stated	$ 20,195,506
GASB Statement No. 31 adjustment	(177,152)
Fund balance at July 1, 2014 as restated	$ 20,018,354

NOTE 13 – SUBSEQUENT EVENTS

In compliance with accounting standards generally accepted in the United States of America, management has evaluated events that have occurred after year-end to determine if these events are required to be disclosed in these basic financial statements. Management has determined that no events require disclosure in accordance with accounting standards. These subsequent events have been evaluated through October 20, 2015, which is the date the basic financial statements were issued.

REQUIRED SUPPLEMENTARY INFORMATION

FIRST 5 SONOMA COUNTY COMMISSION
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with
	Original	Final	(Budgetary Basis)	Final Budget
Revenues				
Use of money and property	$ 162,589	$ 142,125	$ (626)	$ (142,751)
Intergovernmental	7,735,674	3,924,103	4,281,334	357,231
Other revenue	-	305,000	(27,343)	(332,343)
Total Revenues	7,898,263	4,371,228	4,253,365	(117,863)
Expenditures				
Current:				
Salaries and benefits	921,949	921,949	820,035	101,914
Services and supplies	1,283,612	1,209,172	959,151	250,021
Other charges - contract expenditures	6,937,480	6,927,700	5,065,760	1,861,940
Transfers	3,808,021	-	-	-
Reimbursements	(361,986)	(141,214)	-	(141,214)
Total Expenditures	12,589,076	8,917,607	6,844,946	2,072,661
Excess (deficiency) of revenues over (under) expenditures	(4,690,813)	(4,546,379)	(2,591,581)	1,954,798
Net change in fund balances	$ (4,690,813)	$ (4,546,379)	(2,591,581)	$ 1,954,798
Budgetary Adjustments:				
Basis adjustments:				
Encumbrances			-	
Net change in fund balance, GAAP basis			$ (2,591,581)	

NOTE 1 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Budgetary revenue estimates represent original estimates modified for any authorized adjustment which was contingent upon new or additional revenue sources. Budgetary expenditure amounts represent original appropriations adjusted by budget transfers and authorized appropriation adjustments made during the year. All budgets are adopted on a non-accounting principles generally accepted in the United States of America basis. Annual appropriations that have not been encumbered lapse at year-end. Annual budgets are adopted on a basis which differs from accounting principles generally accepted in the United States of America in that encumbrances are treated as budgeted expenditures in the year of incurrence of the commitment to purchase for the purpose of a budgetary presentation. Actual accounting principles generally accepted in the United States of America expenditures have been adjusted to exclude current year encumbrances and to include expenditures against prior year encumbrances. This allows a comparison of a fiscal year's expenditures and commitments with related appropriations.

B. Encumbrances

The Commission has unexpended encumbrances of $371,823 and $911,515 for the fiscal years ending June 30, 2015 and 2014, respectively. These encumbrances represent commitments made for services related to fulfilling the Commission's mission. Encumbrances are included as part of committed fund balance.

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

- The proportion (percentage) of the collective net pension liability (similar to the note disclosure).
- The proportionate share (amount) of the collective net pension liability.
- The employer's covered-employee payroll.
- The proportionate share (amount) of the collective net pension liability as a percentage of the employer's covered-employee payroll.
- The pension plan's fiduciary net position as a percentage of the total pension liability.

SCHEDULE OF CONTRIBUTIONS

- If an employer's contributions to the plan are actuarially determined or based on statutory or contractual requirements: the employer's actuarially determined contribution to the pension plan (or, if applicable, its statutorily or contractually required contribution), the employer's actual contributions, the difference between the actual and actuarially determined contributions (or statutorily or contractually required), and a ratio of the actual contributions divided by covered-employee payroll.

FIRST 5 SONOMA COUNTY COMMISSION
SCHEDULE OF FIRST 5 SONOMA COUNTY COMMISSION'S
PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
AS OF JUNE 30, 2015
LAST 10 YEARS*

	2015	2014
Proportion of the Net Pension Liability	0.16%	0.14%
Proportionate Share of the Net Position Liability	$ 350,280	$ 340,560
Covered-Employee Payroll	$ 525,270	$ 450,494
Proportionate Share of the Net Pension Liability as a Percentage of Covered-Employee Payroll	66.69%	75.60%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	90.88%	89.76%

* Amounts were determined as of 6/30. Additional years will be presented as they become available.

Notes to Schedule:

1. The information presented relates solely to the First 5 Sonoma County Commission and not the County of Sonoma or Sonoma County Employees Retirement Association as a whole.

FIRST 5 SONOMA COUNTY COMMISSION
SCHEDULE OF CONTRIBUTIONS
AS OF JUNE 30, 2015
LAST 10 YEARS*

	2015
Contractually Required Contribution (Actuarially Determined)	$ 143,771
Contributions in Relation to the Actuarially Determined Contributions	143,771
Contribution Deficiency (Excess)	$ -
Covered-Employee Payroll	$ 704,589
Contributions as a Percentage of Covered-Employee Payroll	20.40%

* Amounts were determined as of June 30. Additional years will be presented as they become available.

Notes to Schedule:

1. The information presented relates solely to the First 5 Sonoma County Commission and not the County of Sonoma or Sonoma County Employees Retirement Association as a whole.

COMPLIANCE SECTION

BROWN
ARMSTRONG

CERTIFIED
PUBLIC
ACCOUNTANTS

BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

BAKERSFIELD OFFICE (MAIN OFFICE)
4200 TRUXTUN AVENUE
SUITE 300
BAKERSFIELD, CA 93309
TEL 661.324.4971
FAX 661.324.4997
EMAIL info@bacpas.com

FRESNO OFFICE
7673 N. INGRAM AVENUE
SUITE 101
FRESNO, CA 93711
TEL 559.476.3592
FAX 559.476.3593

PASADENA OFFICE
260 S. LOS ROBLES AVENUE
SUITE 310
PASADENA, CA 91101
TEL 626.204.6542
FAX 626.204.6547

STOCKTON OFFICE
5250 CLAREMONT AVENUE
SUITE 237
STOCKTON, CA 95207
TEL 209.451.4833

To the Board of Commissioners
First 5 Sonoma County Commission

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 general fund of First 5 Sonoma County Commission (the Commission), a fund of the County of Sonoma, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated October 20, 2015.

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 entity'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.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
October 20, 2015

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

BAKERSFIELD OFFICE (MAIN OFFICE)
4200 TRUXTUN AVENUE
SUITE 300
BAKERSFIELD, CA 93309
TEL 661.324.4971
FAX 661.324.4997
EMAIL info@bacpas.com

FRESNO OFFICE
7673 N. INGRAM AVENUE
SUITE 101
FRESNO, CA 93711
TEL 559.476.3592
FAX 559.476.3593

PASADENA OFFICE
260 S. LOS ROBLES AVENUE
SUITE 310
PASADENA, CA 91101
TEL 626.204.6542
FAX 626.204.6547

STOCKTON OFFICE
5250 CLAREMONT AVENUE
SUITE 237
STOCKTON, CA 95207
TEL 209.451.4833

BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

To the Board of Commissioners
First 5 Sonoma County Commission

Compliance

We have audited the First 5 Sonoma County Commission's (the Commission), a fund of the County of Sonoma, 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, 2015.

Management's Responsibility

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

Auditor's 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 compliance audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, issued by the State Controller's Office. Those standards and the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above 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. 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:

Description	Audit Guide Procedures	Procedures Performed
Contracting and Procurement	6	Yes
Administrative Costs	3	Yes
Conflict-of-Interest	3	Yes
County Ordinance	4	Yes

Description	Audit Guide Procedures	Procedures Performed
Long-Range Financial Plans	2	Yes
Financial Condition of the Commission	1	Yes
Program Evaluation	3	Yes
Salaries and Benefit Policies	2	Yes

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, 2015.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
October 20, 2015

FIRST 5 SONOMA COUNTY COMMISSION
CURRENT YEAR AND PRIOR YEAR SCHEDULE OF FINDINGS
JUNE 30, 2015

Current Year Finding

None.

Prior Year Finding

None.