FIRST 5 SONOMA COUNTY COMMISSION

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED
JUNE 30, 2020

FIRST 5 SONOMA COUNTY COMMISSION
JUNE 30, 2020

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FIRST 5 SONOMA COUNTY COMMISSION
ROSTER OF COMMISSION MEMBERS
JUNE 30, 2020

As of June 30, 2020, the Commission consisted of the following members:

- Oscar Chavez, Ex Officio, Chair
  Assistant Department Director of Sonoma County Human Services Department

- Michele Rogers, PhD, Vice Chair
  Representative of local organizations serving families and children
  Executive Director of Early Learning Institute

- Kelly Bass Seibel, Treasurer
  Parent Representative
  Director of Community Engagement for Sonoma County Tourism

- Supervisor Lynda Hopkins, Ex Officio
  Board of Supervisors Health & Social Services Liaison

- Nora Malonee-Brand, Ex Officio
  Health Program Manager at Sonoma County Department of Health Services

- Jose Morales, MD
  Representative of Healthcare System
  Pediatrician at Kaiser Permanente Santa Rosa

- Karissa Kruse
  Representative of Private Sector President of the Sonoma County Winegrowers

- Socorro Shiels
  Representative of K-12 Education System
  Superintendent of Sonoma Valley School District

- Jennielynn Holmes
  Representative of local organizations serving families and children
  Director of Shelter and Housing at Catholic Charities

FINANCIAL SECTION

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CERTIFIED
PUBLIC
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BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
First 5 Sonoma County Commission
Santa Rosa, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the General Fund of First 5 Sonoma County Commission (the Commission), as of and for the fiscal year ended June 30, 2020, 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 the General Fund of the Commission, as of June 30, 2020, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, as listed in the table of contents, 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 (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 22, 2020, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission's 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 22, 2020

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 fiscal year ended June 30, 2020. The information presented should be read in conjunction with the information furnished in the financial statements and notes to the financial statements.

Financial Highlights

- On March 12, 2019, the Board of Supervisors of the County of Sonoma (the County), amended ordinance No. 5142, establishing the Commission as a legal public entity separate from the County(effective July 1, 2019. As an independent legal public entity separate and apart from the County, the Commission is subject to the provisions of the Children and Families Act of 1998.

- Previous to the separation from the County, the Commission's eligible employees were active participants in the defined benefit Plan of the Sonoma County Employees Retirement Association (SCERA). Effective with the separation from the County, the First 5 Commission new employees were no longer members with SCERA. As of the date of this report, the Commission is in the process of establishing a retirement plan to offer to the Commission's current employees.

- Previous to the separation from the County, the Commission's eligible employees participated in the County's single employer OPEB Plan. Effective with the separation from the County, the First 5 Commission's new employees were no longer members of the OPEB Plan. As of the date of this report, the Commission does not offer any other post-employment benefits for its current employees.

- During the fiscal year ended June 30, 2020, the Commission's General Fund, under the direction of the Board of Commissioners, implemented the eighth year of programs outlined in its 2011-2021 Strategic Plan. Fiscal year 2019-20 was the Commission's nineteenth year of program implementation.

- During 2019-20, the Commission's total revenues were $4,549,392, a decrease of $687,824 from the prior year. Total expenses were $6,630,420, a decrease of $316,918 from the prior year. The decrease is attributable to reduced Proposition 10 revenue, reduced revenue for QRIS-related grants and a reduction in administrative costs due to the major change in organizational structure. Revenue from the Proposition 10 tobacco tax was $3,120,568, an increase of $123,674 from the prior year.

- At the end of the current fiscal year, the Commission's statement of net position reported an ending net position of $8,108,455, compared to last year's ending net position of $9,189,876, a decrease of $1,081,421. The majority of the decrease is attributed to the Commission's separation from the County and the removal of the Net Pension Liability (NPL) and Other Post-Employment Benefits (OPEB) Liability. Refer to Note 10 for additional information. Most of the Commission's reported net position was unrestricted.

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, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between them 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 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 balance 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 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 and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $8,108,455, at the close of the most recent fiscal year.

Statement of Net Position
As of June 30:

	2020	2019	Change
Current and other assets	$ 9,445,148	$ 11,441,239	$ (1,996,091)
Total assets	9,445,148	11,441,239	(1,996,091)
Deferred outflows of resources *			
Deferred pensions/OPEB	-	390,515	(390,515)
Current and other liabilities	1,336,693	1,251,756	84,937
Long-term liabilities	-	1,209,211	(1,209,211)
Total liabilities	1,336,693	2,460,967	(1,124,274)
Deferred inflows of resources *			
Deferred pensions/OPEB	-	180,911	(180,911)
Net position			
Restricted	26,000	-	26,000
Unrestricted	8,082,455	9,189,876	(1,107,421)
Total net position	$ 8,108,455	$ 9,189,876	$ (1,081,421)

* With the Commission's separation from the County the NPL, OPEB liability and related items were removed in 2020 as the Commission became independent. The removal of the Net Pension Liability (NPL), Other Post-Employment Benefits (OPEB) and related items item did not impact current operations. This is reported as a special item after revenues and expenses. Refer to Note 10 for additional information.

The Commission's net position decreased by $1,081,421 during the current fiscal year. The decrease in the Commission's net position is primarily attributable to the Commission's separation from the County and the removal of the NPL and OPEB Liability. Refer to Note 10 for additional information.

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 Fiscal Year Ended June 30:

	2020	2019	Change
Revenues:			
Program revenues:			
Operating grants and contributions	$ 4,430,906	$ 4,874,270	$ (443,364)
General revenues			
Interest earnings	118,486	362,946	(244,460)
Total revenues	4,549,392	5,237,216	(687,824)
Expenses:			
General government	6,630,420	6,947,338	(316,918)
Total expenses	6,630,420	6,947,338	(316,918)
Change in net position before special item	(2,081,028)	(1,710,122)	(370,906)
Special item:			
Elimination of pension and OPEB plan (Note 10)	999,607	-	999,607
Change in Net Position	(1,081,421)	(1,710,122)	628,701
Net position, beginning of the year	9,189,876	10,899,998	(1,710,122)
Net position, end of year	$ 8,108,455	$ 9,189,876	$ (1,081,421)

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.

- At the end of the current fiscal year, the Commission's General Fund reported an ending fund balance of $8,131,976, compared to the prior fiscal year ending fund balance of $10,199,582. The Commission's fund balance decrease is attributed to planned expenditures of the fund balance to support the Commission's strategic investments as well as additional costs due to the major change in organizational structure. The assets of the Commission exceeded its liabilities at the close of the most recent fiscal year by $8,131,976.

There was a $2,421 non-spendable fund balance at the end of the fiscal year. Committed fund balance of $5,394,859 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. Assigned fund balance of $2,734,696 are resources allocated to the strategic plan of the Commission.

General Fund Budgetary Highlights

There was an increase of $322,619 in expenditures from the original budget to the final amended budget. The increase was due to increase in the cost of services and supplies related to consulting costs and technology tools.

Long-Term Debt

At June 30, 2020, the Commission's long-term debt consisted of compensated absences with a balance of $23,521. Refer to Note 4 – Compensated Absences for details.

Economic Factors and Next Year's Budgets and Rates

- Proposition 10 annual revenues increased by 4% from the prior year. The long-term projection is for a 2% to 3% decrease in tax revenue (or approximately $80,000) per year for future years.
- Interest earnings are expected to average 1.2% in fiscal year 2020-21. 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, 2021.

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 government'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, 5340 Skylane Blvd, Santa Rosa, California 95403.

BASIC FINANCIAL STATEMENTS

FIRST 5 SONOMA COUNTY COMMISSION
STATEMENT OF NET POSITION
JUNE 30, 2020

ASSETS	
Cash and investments	$ 9,003,890
Due from other governments	438,837
Prepaid expense	2,421
TOTAL ASSETS	9,445,148
LIABILITIES	
Current liabilities:	
Accounts payable	839,001
Accrued expenses	460,723
Unearned revenue	13,448
Long-term liabilities:	
Due within one year:	
Compensated absences	23,521
TOTAL LIABILITIES	1,336,693
NET POSITION	
Restricted	26,000
Unrestricted	8,082,455
TOTAL NET POSITION	$ 8,108,455

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

FIRST 5 SONOMA COUNTY COMMISSION
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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	$ 6,630,420	$ 4,430,906	$ (2,199,514)
	General Revenues:		
	Investment earnings		118,486
	Total General Revenues		118,486
	Change in Net Position before Special Item		(2,081,028)
	Special Item- elimination of pension and OPEB plan (Note 10)		999,607
	Change in Net Position		(1,081,421)
	Net Position - Beginning of Year		9,189,876
	Net Position - End of Year		$ 8,108,455

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

FIRST 5 SONOMA COUNTY COMMISSION
BALANCE SHEET – GENERAL FUND
GOVERNMENTAL FUND
JUNE 30, 2020

	General Fund
ASSETS	
Cash and investments	$ 9,003,890
Due from other governments	438,837
Prepaid expense	2,421
TOTAL ASSETS	$ 9,445,148
LIABILITIES AND FUND BALANCE	
LIABILITIES:	
Accounts payable	$ 839,001
Accrued expenses	460,723
TOTAL LIABILITIES	1,299,724
DEFERRED INFLOWS OF RESOURCES:	
Deferred for Senate Bill (SB) 90 Mandates and Infant Toddler	13,448
FUND BALANCE:	
Nonspendable	2,421
Committed	5,394,859
Assigned	2,734,696
TOTAL FUND BALANCE	8,131,976
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	$ 9,445,148

RECONCILIATION OF BALANCE SHEET - GENERAL FUND TO STATEMENT OF NET POSITION

Fund balance - general fund - governmental fund	$ 8,131,976
Amounts reported for governmental activities in the statement of net position are different because:	
Long-term liabilities are not due and payable in the current period and, therefore, are not reported on the balance sheet:	
Compensated absences	(23,521)
Net position of governmental activities	$ 8,108,455

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

FIRST 5 SONOMA COUNTY COMMISSION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE – GENERAL FUND
GOVERNMENTAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	General Fund
REVENUES	
Tobacco Tax	$ 3,120,568
State grant	1,207,716
Investment income	118,486
Miscellaneous revenue	116,070
Total revenues	4,562,840
EXPENDITURES	
Current:	
Salaries and benefits	594,757
Services and supplies	286,727
Contract expenditures	5,733,217
Other expenditures	15,745
Total expenditures	6,630,446
Change in fund balance	(2,067,606)
Fund balance, beginning of the year	10,199,582
Fund balance, end of the year	$ 8,131,976

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

FIRST 5 SONOMA COUNTY COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE – GENERAL FUND – GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

Net Change in Fund Balance - General Fund - Governmental Fund	$ (2,067,606)
Amounts reported for governmental activities in the statement of activities are different because:	
Certain expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.	
Change in compensated absences	26
Certain amounts are recognized as revenues in the governmental fund but were recognized as revenues in the statement of activities in prior year.	(13,448)
Change in net position of governmental activities	$ (2,081,028)

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.
- On March 12, 2019, the Board of Supervisors amended ordinance No. 5142, establishing the Commission as a legal public entity separate from the County of Sonoma (the County), effective July 1, 2019.

The First 5 Sonoma County Commission shall be composed of nine members to be appointed by the Sonoma County Board of Supervisors consistent with Ordinance No. 6257.

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.

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 the governmental fund.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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. Revenues are recognized when their receipt occurs within 60 days after the end of the accounting period to be both measureable 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 Fund Balance

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*, and GASB Statement No. 72, *Fair Value Measurement and Application*, 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 fiscal year in which the change occurred. In accordance with GASB Statement No. 31 and GASB Statement No. 72, the Commission has stated certain investments at fair value.

2. Due from 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 that are received within 60 days after the end of the accounting period.

3. Compensated Absences

Commission 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 fund.

4. Unearned Revenue

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Position or Fund Balance (Continued)

5. Deferred Inflows and Outflows 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 Commission recognizes deferred inflows of resources in the governmental fund financial statements. These items are an acquisition of net assets by the Commission that is applicable to a future reporting period.

6. Net Position

Net position is classified on the statement of net position in three components: 1) net investment in capital assets, 2) restricted, and 3) 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 amounts with 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, the governmental fund reports fund balance using the classifications listed in GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. As of June 30, 2020, fund balance for the governmental fund consists of the following classifications:

a. Nonspendable- Includes amounts that cannot be spent because they are either (a) not in spendable form assets that will never convert to cash such as prepaid expenses or inventory or (b) legally or contractually required to be maintained intact such as resources that must be held intact pursuant to legal or contractual requirements, such as revolving loan fund capital or principal of an endowment.
b. Restricted – Includes amounts that include resources that are subject to constraints for which there are externally enforceable legal restrictions such as funding from the State Commission or foundations that are legally restricted to specific uses.
c. *Committed Fund Balance* – The portion of fund balance that represents resources whose use is subject to formal action of the Commission’s highest level of 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.
d. *Assigned Fund Balance* – Amounts or limitations that are constrained by the Commission’s intent to be used for a specific purpose Resources allocated to this category requires formal action of the Commission’s highest level of decision making authority (the Board of Commissioners, unless formal authority is delegated).
e. *Unassigned Fund Balance*- The residual classification for fund balance, which include all amounts that are not classified in nonspendable, restricted, committed, or assigned. Unassigned amounts are available for any 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Position or Fund Balance (Continued)

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 2 – CASH AND INVESTMENTS

Cash and investments are classified in the governmental activities and governmental fund financial statements as follows:

	June 30, 2020
Cash and investments in the County Treasury	$ 2,287,998
Cash in the Banks	6,715,892
Total Cash and Investments	$ 9,003,890

The Commission's carrying value of deposits with bank was $6,715,982 at June 30, 2020. The corresponding bank balance was $6,632,698. Bank balance up to $250,000 are covered by the Federal Deposit Insurance Corporation. Any remaining uninsured balance is covered by a written collateral agreement with the financial institution whereby any uninsured deposits will be collateralized with eligible securities having a value of at least 110% of the amount of the deposit.

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, including interest rate risk, credit risk, concentration of credit risk, and custodial credit risk 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 2 – CASH AND INVESTMENTS (Continued)

Fair Value Measurements

The Commission categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Commission has the following recurring fair value measurements as of June 30, 2020:

- County Treasury Pool is valued using significant other observable inputs (Level 2).

In the current year, interest earnings on investments held by the Commission within the County pool amounted to $173,349. Unrealized gains, based on changes in fair value of investments held in the County Pool, amounted to $13,154, for a total net investment income of $186,503.

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, 2020, were as follows:

Due from Other Governments:	
Proposition 10 Revenue May/June 2020	$ 369,454
Surplus Money Investment Fund (SMIF) Allocation	10,764
Prevent Child Abuse California	18,701
SB 90 Mandates	13,448
Federal FEMA Disaster Funding	25,593
State Funding	877
Total Due from Other Governments	$ 438,837

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, 2020, is summarized as follows:

	Balance June 30, 2019	Increases	Decreases	Balance June 30, 2020	Amount Due Within One Year
Compensated absences	$ 23,547	$ 36,801	$ (36,827)	$ 23,521	$ 23,521

NOTE 5 – DEFERRED INFLOWS OF RESOURCES IN THE GENERAL FUND

Deferred inflows of resources represent a receivable for SB 90 Mandate (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) costs reimbursement claims and Infant/Toddler Quality Rating Improvement System (QRIS) Block Grant Services 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 inflows of resources activity for the fiscal year ended June 30, 2020, were as follows:

The Commission's deferred inflows of resources is from SB 90 Mandate costs reimbursement claims of $13,448.

Unavailable revenue activity for the fiscal year ended June 30, 2020, was as follows:

	Balance July 1, 2019	Increases	Decreases	Balance June 30, 2020
Deferred inflows of resources (SB 90 Mandates and QRIS)	$ 13,448	$ -	$ -	$ 13,448

NOTE 6 – FUND BALANCE

General Fund

Fund balance is presented in the following categories; nonspendable, restricted, committed, assigned, and unassigned (Refer to Note 1 for a description of these categories). A detailed schedule of fund balance at June 30, 2020 was as follows:

Description	Amount
Nonspendable	$ 2,421
Committed	
Unspent amounts on current contract through June 30, 2021	5,394,859
Assigned	2,734,696
Total Fund Balance	$ 8,131,976

NOTE 7 – RISK MANAGEMENT

The Commission is exposed to various levels of loss related to torts, theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. Insurance for the Commission is secured through InterWest Insurance Services, LLC as follows: $1,000,000 per occurrence for workers' compensation claims, $1,000,000 per occurrence for automobile and general liability claims and $2,000,000 aggregate limit for professional liability.

NOTE 8 – PROGRAM EVALUATION

The Commission spent $192,283 in program evaluation during the fiscal year.

NOTE 9– LEASES

Operating Lease

The Commission leases its office facilities under a long term operating lease agreement with the Sonoma County Office of Education. The lease agreement commenced on July 1, 2019 and has a term of 4 years ending June 30, 2023. The initial monthly obligation was $2,516 for the first year, subject to an annual rent increase adjusted upwards by the prior year cost of living increase (COLA), effective July 1, 2020 and July 1, 2022 as set forth by the School Services of California Dartboard. The lease expenditure for this lease was $30,192 for the year ended June 30, 2020. Future payments for years 2021, 2022 and 2023 are $30,092 per year.

NOTE 10 – SEPARATION FROM THE COUNTY

On March 12, 2019, the Board of Supervisors of the County of Sonoma (the County), amended ordinance No. 5142, establishing the Commission as a legal public entity separate from the County effective July 1, 2019. Previous to the separation from the County, the Commission's eligible employees were active participants in the defined benefit Plan of the Sonoma County Employees Retirement Association (SCERA).The County allocated a portion of the Net Pension Liability (NPL) to the Commission, for its proportionate share of the NPL, which as of June 30, 2019 had a balance of $714,764.

Also, previous to the separation from the County, the Commission's eligible employees were active participants in the County's single employer OPEB Plan. The County allocated a portion of the Net OPEB liability (NOL) to the Commission, for its proportionate share of the NOL, which as of June 30, 2019 had a balance of $494,447.

Effective with the separation from the County, the First 5 Commission new employees were no longer members of SCERA or of the OPEB Plan.

The effect of the elimination of the NPL and OPEB and related items from the Commission's financial statements and reported as special item, is as follows:

Special Item:	Amount
NPL	$ 714,764
Deferred ouflows- pensions	(287,374)
Deferred inflows-pensions	25,840
OPEB	494,447
Deferred ouflows- OPEB	(103,141)
Deferred inflows- OPEB	155,071
Total effect of elimination of NPL and OPEB reported as Special Item	$ 999,607

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

During the fiscal year ending June 30, 2020, the Commission implemented the following standards:

GASB Statement No. 95 – *Postponement of the Effective Dates of Certain Authoritative Guidance.* This statement provides temporary relief to governments and stakeholders in light of the COVID-19 pandemic. The requirements of this statement are effective immediately. The effective dates for GASB Statements Nos. 84, 88, 89, 90, 91, 92, and 93 were postponed by one year for the Commission. The effective date for GASB Statement No. 87 was postponed by 18 months for the Commission.

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

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. 84 – *Fiduciary Activities.* The requirements of this statement are effective for fiscal years beginning after December 15, 2019. The Commission does not expect this standard to have an impact upon implementation as the Commission does not have fiduciary activities.

GASB Statement No. 87 – *Leases.* The requirements of this statement are effective for fiscal years beginning after June 15, 2021. The Commission has not fully judged the impact of implementation of this standard as of the date of the financial statements.

GASB Statement No. 89 – *Accounting for Interest Cost Incurred Before the End of a Construction Period.* The requirements of this statement are effective for fiscal years beginning after December 15, 2020. The Commission does not expect this standard to have an impact on the basic financial statements as the Commission does not engage in these type of activities.

GASB Statement No. 90 – *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61.* The requirements of statement are effective for fiscal years beginning after December 15, 2019. The Commission has not fully judged the impact of implementation of this standard on the basic financial statements.

GASB Statement No. 91 – *Conduit Debt Obligations.* The requirements of this statement are effective for fiscal years beginning after December 15, 2021. The Commission has not fully judged the impact of implementation of this standard on the basic financial statements.

GASB Statement No. 92 – *Omnibus 2020.* The requirements of this statement related to intra-entity transfers of assets and those related to the applicability of GASB Statements No. 73 and No. 74, application of GASB Statement No. 84 to post employment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities, and the measurement of liabilities (and assets, if any) associated with asset retirement obligations in a government acquisition are effective for fiscal years beginning after June 15, 2021. The Commission has not fully judged the impact of implementation of this standard on the basic financial statements.

GASB Statement No. 93 – *Replacement of Interbank Offered Rates.* The requirements of this statement, except for paragraphs 11b, 13, and 14 are effective for fiscal years beginning after June 15, 2020. The requirement in paragraph 11b is effective for fiscal years ending after December 31, 2021. The requirements in paragraphs 13 and 14 are effective for fiscal years beginning after June 15, 2021. The Commission has not fully judged the impact of implementation of this standard on the basic financial statements.

GASB Statement No. 94 – *Public-Private and Public-Public Partnerships and Availability Payment Arrangements.* The requirements of this statement are effective for fiscal years beginning after June 15, 2022. The Commission has not fully judged the impact of implementation of this standard on the basic financial statements.

GASB Statement No. 96 – *Subscription-Based Information Technology Arrangements.* The requirements of this statement are effective for fiscal years beginning after June 15, 2022. The Commission has not fully judged the impact of implementation of this standard on the basic financial statements

GASB Statement No. 97 – *Certain Component Units Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment to GASB Statement No. 14 and 84 and a supersession of GASB Statement No. 32.* The requirements in paragraph 4 as it applies to defined contribution plans, defined contribution OPEB plans, and other employee benefit plans, and paragraph 5 are effective immediately. All other requirements are applicable for fiscal years beginning after June 15, 2020. The Commission has not fully judged the impact of implementation of this standard on the basic financial statements.

NOTE 12 – 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 22, 2020, 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 FISCAL YEAR ENDED JUNE 30, 2020

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Revenues				
Intergovernmental	$ 4,552,946	$ 4,264,421	$ 4,328,284	$ 63,863
Investment earnings	-	56,000	118,486	62,486
Other revenue	262,370	262,370	116,070	(146,300)
Total Revenues	4,815,316	4,582,791	4,562,840	(19,951)
Expenditures				
Current:				
Salaries and benefits	683,497	653,999	594,757	59,242
Services and supplies	243,630	242,539	286,727	(44,188)
Contract expenditures	5,252,900	5,475,530	5,733,217	(257,687)
Other expenditures	118,000	248,578	15,745	232,833
Total Expenditures	6,298,027	6,620,646	6,630,446	(9,800)
Net change in fund balance	$ (1,482,711)	$ (2,037,855)	$ (2,067,606)	$ (29,751)

See accompanying note to required supplementary information.

NOTE 1 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

The First 5 Sonoma County Commission (the Commission) adopts an annual budget which covers the governmental fund. All appropriations lapse at fiscal year-end and then are re-budgeted for in the following fiscal year. The budget is prepared on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America.

A Mid-year budget review is performed and the budget is amended by passage of a resolution. Additional appropriations not included in the amended budget resolution must be approved by the Board of Commissioners.

B. Appropriations over Expenditures

The following expenditure categories exceeded the final budget amounts at June 30, 2020:

Appropriations Category	Governmental Fund Expenditure
Services and supplies	$ 44,188
Contract expenditures	257,687

COMPLIANCE SECTION

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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*

To the Board of Commissioners
First 5 Sonoma County Commission
Santa Rosa, 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 the General Fund of First 5 Sonoma County Commission (the Commission), as of and for the fiscal year ended June 30, 2020, 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 22, 2020.

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.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
October 22, 2020

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BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

To the Board of Commissioners
First 5 Sonoma County Commission
Santa Rosa, California

Compliance

We have audited the First 5 Sonoma County Commission's (the Commission), 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 fiscal year ended June 30, 2020.

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 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 on compliance. However, our audit does not provide a legal determination of the Commission's compliance with those requirements. In connection with the audit referred to above, we selected and tested transactions and records to determine the Commission's compliance with the state laws and regulations applicable to the following items:

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 fiscal year ended June 30, 2020.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
October 22, 2020

Current Year Finding

None.

Prior Year Finding

None.