

**FIRST 5 SAN MATEO COUNTY
 FINANCE AND ADMINISTRATION COMMITTEE MEETING**

As authorized by Governor Newsom’s Executive Orders N-25-20 and N-29-20, dated March 12, 2020 and March 17, 2020 respectively, the meeting will be held via teleconferencing with members of the Commission attending from separate remote locations. The meeting will be held and live cast from the following location where members of the public shall have the right to observe and offer public comment:

DATE: Monday, October 19, 2020

TIME: 9:00 AM to 10:00 AM

Join Zoom Meeting

Online:

<https://smcgov.zoom.us/j/92167792852?pwd=bUp0dnU3K0dNVThkSWJMZlJ3aEVlQT09>

Phone: +1 669 900 6833

Meeting ID: 921 6779 2852, Password: 786131

This altered format is in observance of the recommendation by local officials that certain precautions be taken, including social distancing, to address the threat of COVID-19.

MEMBERS: Rosanne Foust, Alexis Becerra, Pam Frisella

STAFF: Kitty Lopez, Khanh Chau

AGENDA

1.	Approval of the Finance and Administration Committee Agenda	Foust
2.	Approval of the June 10, 2020 Finance and Administration Committee Meeting Minutes (See Attachment 2)	Foust
3.	Review and Recommend Approval of F5SMC’s FY19-20 Budget Close Out (See Attachments 3, 3A)	Lopez / Chau
4.	Review and Recommend Approval of First 5 San Mateo County (F5SMC)’s Basic Financial Statements for the Year Ending June 30, 2020 Audit Reports and Its Submission to First 5 California and to California State’s Controller Office (See Attachment 4, 4A)	Lopez/ Chau

Next Meeting: February 8, 2021

**FIRST 5 SAN MATEO COUNTY
FINANCE AND ADMINISTRATION COMMITTEE
MEETING MINUTES**

June 8, 2020

- Commission Member: Rosanne Foust, Pam Frisella, Alexis Becerra
- Staff: Kitty Lopez, Khanh Chau
- Minutes: Khanh Chau

1. Approval of the Finance and Administration Committee Meeting Agenda

A Motion for Approval of the June 8, 2020 Finance and Administration Committee Meeting Agenda was made by Commissioner Frisella, seconded by Commissioner Becerra. Unanimously approved.

2. Approval of the Finance and Administration Committee Meeting Minutes

A Motion for Approval of the May 11, 2020 Finance and Administration Committee Meeting Minutes was made by Commissioner Frisella, seconded by Commissioner Becerra. Unanimously approved.

3. New Tobacco Tax Revenue Projections May 2020

Kitty Lopez stated that we received new Tobacco Tax Revenue Projections on May 26, 2020, in which, F5SMC's Tobacco Tax Revenue projections are slightly higher than last year projections..

However, Lopez added that, per F5CA Association, said projections appear optimistic given current economic environment; the Tobacco Tax Projections are updated every year and are subject to change with new data and information. In addition, the F5CA Association is currently hiring an outside audit firm to audit the California Department of Tax and Fee Administration (CDTFA) on Tobacco Tax Revenue collections, projections, and tax admin fee calculation in order to obtain more factual and consistent information about tobacco tax disbursements and to allow counties to make more accurate projections of future revenue for their budgets.

Committee members suggested making references to the New Tobacco Tax Revenue Projections in the LTFP and omission of the New Tobacco Tax Revenue Projections May 2020 at the Commission meeting due to its accuracy concern.

4. Review and Recommend Approval of F5SMC's LTFP from FY 2019-20 through FY 2024-25 (FY19/20 Update)

Kitty Lopez briefly stated the F5SMC's LTFP from FY 2019-20 through FY 2024-25 (FY19/20 Update) that are presented in the LTFP memo (Attachment 4), LTFP Narrative (Attachment 4B), and LTFP spreadsheet (Attachment 4C)

Committee members reviewed the LTFP and asked questions for clarification regarding the Other Grant Revenues in FY2019-20 and FY 2020-23. Committee members suggested some edits to the LTFP Narrative to improve clarity.

A Motion for Recommend Approval of F5SMC's LTFP from FY 2019-20 through FY 2024-25 (FY19/20 Update) was made by Commissioner Frisella, seconded by Commissioner Becerra. Unanimously approved.

Commissioner Foust adjourned the meeting at 9:45 AM

DATE: October 19, 2020
TO: First 5 San Mateo County Finance and Administration Committee
FROM: Kitty Lopez, Executive Director
RE: Review and Recommend Approval of the FY 2019-20 Budget Close-Out

ACTION REQUESTED

Review and Recommend Approval of the FY 2019-20 Budget Close-Out as of June 30, 2020

BACKGROUND

- At the May 20, 2019 Commission Meeting, Commission approved F5SMC FY 2019-20 Budget.
- At the February 24, 2020 Commission Meeting, Commission approved F5SMC FY 2019-20 Revised Budget.
- At the May 25, 2020 and June 22, 2020 Commission Meetings, Commission approved SPIP FY18-20 Funding Carry Over and No-Cost Extension Agreements as the result of delayed program activities and grant executions due to COVID-19 Pandemic.

FY 2019-20 BUDGET CLOSE-OUT as of June 30, 2020 HIGHLIGHTS

- The FY 2019-20 Budget Close-Out as of June 30, 2020 is presented in detail in **Attachment 3A** and **Attachment 3B** with key highlights presented in the table below:

FY 2019-20 BUDGET CLOSE-OUT HIGHLIGHTS <i>(July 1, 2019 – June 30, 2020)</i>	
REVENUE	<ul style="list-style-type: none"> • Interest Revenue of \$217K produces a 118% positive variance or \$16K higher than the planned budget as a result of higher Interest earning rate in the County investment pool. • Tobacco Tax Revenue of \$5.758 M produces a net 10% positive variance or \$504K higher than the planned budget due to inclusion of \$1.327M Prop 56 Tax Revenue (the \$2 Tobacco Tax bill). • IMPACT Grant Revenue of \$598K is 4% higher than the planned grant budget due to its final year of grant execution. • Additional revenues totaling \$902K from various Non-Prop 10 grant awards that are recognized during the fiscal year. • Total Actual Revenue of \$7.491M is approximately 13% higher than the planned budget due to higher Tobacco Tax Revenue and Interest Revenue and Other New Grant funding.
EXPENDITURES	<ul style="list-style-type: none"> • Total Program Expenditures of \$6.942M produce a 24% positive variance or \$2.158M underspend. Major contributions to this positive variance are associated with delayed contracting and grant execution of various SPIP lines due to COVID-19. • Total Administrative Expenditures of \$662K produce a 9% positive variance or \$63K below the planned budget. Major contributions to this positive variance are associated with underspending in Professional Services, various administrative areas due to Shelter-In-Place Order and COVID-19.

	<ul style="list-style-type: none"> • Total Expenditures of \$7.604M represents a 23% positive variance or \$2.220M below the planned budget. Major contributions to this positive variance are underspending in various programs and grant execution and administrative areas due to COVID-19.
ENDING FUND BALANCE	<ul style="list-style-type: none"> • FY 2019-20 Ending Fund Balance of \$11.611M represents 36% positive variance or \$3.064M higher than the Ending Fund Balance of the planned budget. <p>Major contributions to this positive variance are associated with higher Interest revenue, inclusion of Prop 56 Tax Revenue, additional Non-Prop 10 Grant Revenues, and underspending in both Program and Administrative Appropriations due to COVID-19.</p>

FISCAL IMPACT

Admin Cost rate of 9% is within the Commission's approved Admin Cost Rate Policy (12%)

RECOMMENDATION

Review and Recommend Approval of the FY 2019-20 Budget Close-Out as of June 30, 2020.

	ORG/ACCT#	Revised Budget FY2019-20	FY2019-20 Budget Close-Out	FY2019-20 Budget Close-Out versus FY2019-20 Revised Budget (%)	Notes to FY2019-20 Budget Close-Out
REVENUE					
FUND BALANCE BEGINNING (BEGINNING RESERVES*)		11,723,535	11,723,535	100%	
Interest	19510-1521	201,458	217,244	108%	
Tobacco Tax Revenue	19510-1861	5,254,000	5,757,943	110%	Include Prop 10 and Prop 56 Tax Revenues
F5CA IMPACT Grant	19510-1861	575,000	597,654	104%	
F5SF IMPACT HUB TA FY19-20	19510-2643	39,000	35,874	92%	
David Lucile Packard Foundation - Help Me Grow Grant	19510-2643	100,000	150,000	150%	\$150K new Grant Award with grant execution in FY20-21, due to COVID 19
David Lucile Packard Foundation - Help Me Grow Grant	19510-2643		28,615		Recognized Revenue in FY19-20.
San Mateo County Health System - WMG Clinic Based Services Grant	19510-2643	362,765	353,158	97%	
San Mateo County Human Services Agency - Build Up Kids Facilities Grant	19510-2643	65,000	65,000	100%	Total \$130K Grant Award with grant execution in FY20-21, due to COVID 19
San Mateo County Human Services Agency - Build Up Kids Facilities Grant	19510-2643		65,000		
GILEAD - Build Up Kids Facilities Grant	19510-2643		50,000		Recognized Revenue in FY19-20.
Mental Health Services Act MHSA - Prop 63 Peninsula Healthcare District - Help Me Grow Call Center Grant FY19-20	19510-2643	50,000	115,296	231%	
	19510-2643		35,000		\$35K new Grant Award with grant execution in FY20-21, due to COVID 19
F5CA Association Mini Grant Census	19510-2643		4,000		
F5SMC Wellness Grant	19510-2658	0	777		Wellness grant FY19-20
Miscellaneous Reimbursements	19510-2647	0	15,447		Worker Comp and State Disability Insurance Refund
TOTAL REVENUES		6,647,223	7,491,009	113%	Positive variances due to higher Tobacco Tax Revenue, higher Interest Revenue, and Other new grant fundings.
TOTAL AVAILABLE FUNDS (TOTAL SOURCES*)		18,370,758	19,214,544	105%	

APPROPRIATIONS					
1. Program					
Family Engagement	19540-6125	1,712,067	1,664,024	97%	
Child Health & Development	19540-6156	1,808,041	1,435,680	79%	Underspending due to COVID 19 with No Cost Extension Agreements through 12/31/2020
Early Learning	19540-6263	1,721,000	1,382,566	80%	Underspending due to COVID 19 with No Cost Extension Agreements through 12/31/2020
Policy Advocacy, Communications & Systems Change	19540-6814	800,502	279,413	35%	Underspending due to COVID 19; will continue SPIP execution in FY20-21 per approved FY20-21 Budget
Other Communications - Sponsorship	19540-6814	0	7,500		
Emerging Projects	19540-6814	334,600	82,292	25%	Underspending due to COVID 19 with Funding carry over for continuing execution in FY20-21
Kit for New Parent KNP (KNP)	19540-6814	42,000	8,599	20%	
Regional Cost Sharing	19540-6814	45,000		0%	Underspending due to COVID 19 with Funding carry over for continuing execution in FY20-21
Program Salary & Benefits		607,381	568,378	94%	
Grant Management and Big Data	19540-6265	194,896	96,896	50%	Underspending due to COVID 19; will continue SPIP execution in FY20-21 per approved FY20-21 Budget
Other Evaluation Projects	19540-6265	79,000	1,281	2%	Underspending due to COVID 19; will continue SPIP execution in FY20-21 per approved FY20-21 Budget
Evaluation - Salaries & Benefits		173,784	165,299	95%	

	ORG/ACCT#	Revised Budget FY2019-20	FY2019-20 Budget Close-Out	FY2019-20 Budget Close-Out versus FY2019-20 Revised Budget (%)	Notes to FY2019-20 Budget Close-Out
David Lucile Packard Foundation grant - Help Me Grow Grant	19540-6131	100,000	8,727	9%	Delay new grant execution to FY20-21, due to COVID 19
San Mateo County Health System - Watch Me Grow Clinic Based Services Grant	19540-6131	362,765	353,158	97%	
Mental Health Services Act MHSA - Prop 63	19540-6131	50,000	426	1%	Delay new grant execution to FY20-21, due to COVID 19
GILEAD - Build Up Kids Facilities Grant	19540-6131	50,000	50,000	100%	
San Mateo County Human Services Agency - Build Up Kids Facilities Grant	19540-6131	130,000	0	0%	
F5SF IMPACT HUB TA FY19-20	19540-6126	35,000	31,195	89%	
F5CA IMPACT Grant	19540-6126	461,269	472,293	102%	
Program Operating Budget		197,800	142,335	72%	
Shared Admin Staff Time		194,712	192,050	99%	
Subtotal Program Appropriations		9,099,817	6,942,114	76%	Underspending due to COVID 19 with No-Cost Extension and Funding carry over for continuing execution in FY20-21
2. Administrative					
Admin Salaries and Benefits		526,442	519,248	99%	Schedule 2
Admin Operating Budget		197,800	142,335	72%	See Schedule 1
Subtotal Administrative Appropriations		724,242	661,583	91%	
Administrative Cost Rate %		7%	9%		
TOTAL APPROPRIATIONS (NET APPROPRIATIONS*)		9,824,059	7,603,697	77%	Underspending due to COVID 19 with No-Cost Extension and Funding carry over for continuing execution in FY20-21
ENDING FUND BALANCE (ENDING RESERVES*)		8,546,699	11,610,847	136%	Positive variances associated with higher Tobacco Tax Revenue and higher Interest Revenue, and delayed Program activities and Other Grant executions to FY20-21 due to COVID-19.

Color Coding

- Shared Budget/Shared Cost
- Revenue ; Fund Balance
- Appropriations
- Salaries & Benefits

Schedule 1- FY2019-20 Operating Budget Close-Out

	ORG / ACCT#	Revised Operating Budget FY19-20	FY2019-20 Operating Budget Close-Out	FY2019-20 Operating Budget Close-Out versus FY2019-20 Revised Operating Budget (%)	Notes of FY2019-20 Operating Budget Close- Out
I. Services and Supplies					
Outside Printing & Copy Svc	19510-5191	2,000	1,999	100%	
General Office Supplies	19510-5193	10,000	3,864	39%	
Photocopy Lease & Usage	19510-5196	4,000	2,301	58%	
Computer Supplies	19510-5211	18,000	7,604	42%	
County Memberships - (e.g. F5 Assn Dues)	19510-5331	15,000	13,645	91%	
Auto Allowance	19510-5712	11,000	10,925	99%	
Meetings & Conference Expense	19510-5721	16,000	12,356	77%	
Commissioners Meetings & Conference Exp	19510-5723	5,000	466	9%	
Other Business Travel Expense	19510-5724	9,000	901	10%	
Dept. Employee Training Expense	19510-5731	7,000	209	3%	
Wellness grant	19510-5856	0	811		
Other Professional Services	19510-5858	48,000	0	0%	
Sub Total - Services & Supplies		145,000	55,082	38%	Positive variances due to underspending in various Operating Budget lines due to Shelter-In-Place order and COVID-19.
II. Other Charges					
Telephone Service Charges	19510-6712	3,500	3,388	97%	
Automation Services - ISD	19510-6713	45,000	45,421	101%	
Annual Facilities Lease	19510-6716	95,000	90,189	95%	
General Liability Insurance	19510-6725	9,000	8,838	98%	
Official Bond Insurance	19510-6727	600	267	45%	
Human Resources Services	19510-6733	0	303		
Countywide Security Services	19510-6738	500	496	99%	
All Other Service Charges	19510-6739	50,000	35,117	70%	
A-87 Expense	19510-6821	47,000	45,569	97%	
Sub Total - Other Charges		250,600	229,589	92%	
Total Shared Operating Budget		395,600	284,671	72%	Positive variances due to underspending in various Operating Budget lines due to Shelter-In-Place order and COVID-19.
Allocated Program Operating Budget		197,800	142,335	72%	Allocation rate 50%
Allocated Admin Operating Budget		197,800	142,335.26	72%	Allocation rate 50%

Schedule 2 - FY2019-20 Salaries & Benefits Budget Close-Out

Program Staff & Shared Admin Staff		802,093	760,429	95%	27% Admin staff time allocated to Program
Evaluation Staff		173,784	165,299	95%	
Admin Staff		526,442	519,248	99%	
Total Salaries and Benefits		\$ 1,502,319	\$ 1,444,976	96%	

Date: October 19, 2020
To: First 5 San Mateo County Finance and Administration Committee
From: Kitty Lopez, Executive Director
Re: Review and Recommend Approval of First 5 San Mateo County (F5SMC)'s Basic Financial Statements for the Year Ending June 30, 2020 Audit Report and Its Submission to First 5 California and to California State's Controller Office

ACTION REQUESTED

Review and Recommend Approval of First 5 San Mateo County (F5SMC)'s Basic Financial Statements for the Year Ending June 30, 2020 Audit Report and Its Submission to First 5 California and to California State's Controller Office

BACKGROUND

In accordance with California Health & Safety Code Sections 130140 and 130150, First 5 County Commissions are required to conduct an audit of their financial operations for each fiscal year and present the audit at a public hearing prior to submitting the report to First 5 California.

Each First 5 County Commission's audit should be performed (1) in accordance with generally accepted auditing standards of Institute of Certified Public Accountants, and (2) generally accepted governmental auditing standards issued by the United States General Accounting Office for financial, and (3) compliance audits. In addition, effective FY2006-2007, all County Commission audits must be in accordance with the California State Controller's Standards and Procedures for Audits of California Counties Participating in the California Children and Families Program.

First 5 County Commission audits must be submitted to both First 5 California and the California State's Controller Office by November 1st of each year.

Continuing Implementation of Governmental Accounting Standards Board Statements (GASBs)

For the fiscal year ending June 30, 2018, County of San Mateo (and First 5 San Mateo County) is responsible to implement the following statements, wherever applicable:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which establishes new accounting and financial reporting for state and local governments by improving the accounting and financial reporting for OPEB plans and provides information obtained by state and local government employers about financial support for OPEB that is provided by other entities.
- GASB Statement No. 85, Omnibus 2017. This Statement addresses a variety of topics related to blended component units, goodwill, fair value measurement, and postemployment benefits.
- GASB 68 ushers to the reporting of pension assets and liabilities, requiring immediate recognition of the net long-term liability of future pension benefits in excess of accumulated plan assets.

INDEPENDENT AUDITORS' REPORTS - OUTCOMES

In accordance with the above compliance requirements, an audit of First 5 San Mateo County's Basic Financial Statements for the Year Ending June 30, 2020 was conducted by an independent auditor, R. J. Ricciardi, Inc., San Rafael, California (RJR).

Please see the F5SMC's Basis Financial Statements for the Year Ending June 30, 2020 Audit Report (**Attachments 4A**) and Communication Letter to the First 5 SMC Commissioner attached (**Attachment 4B**). Summary of Independent Auditors' Report Outcomes are as following:

- Independent Auditors' Report on the Financial Statements (pages 1-2): Unmodified opinion (clean opinion).
- Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards (pages 41-42): No deficiencies in internal control, no instances of noncompliance or other matters were identified (clean opinion)
- Independent Auditors' Report on State Compliance (pages 43-44): F5SMC complied in all material respects with the compliance requirements (clean opinion). There were no current year findings.

FISCAL IMPACTS

Impacts of GASB 68 implementation:

- No fiscal impacts to cash flow or to the fiscal budget.
- Consider GASB 68 implication to F5SMC's Ending Fund Balance Projection in the F5SMC's Long-Term Financial Plan (LTFP).

RECOMMENDATION

Review and Recommend Approval of First 5 San Mateo County (F5SMC)'s Basic Financial Statements for the Year Ending June 30, 2020 Audit Report and Its Submission to First 5 California and to California State's Controller Office.

**FIRST 5 SAN MATEO COUNTY
(A DISCRETELY PRESENTED COMPONENT
UNIT OF THE COUNTY OF SAN MATEO)**

SAN MATEO, CALIFORNIA

BASIC FINANCIAL STATEMENTS

JUNE 30, 2020

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
First 5 San Mateo County
San Mateo, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of First 5 San Mateo County, a discretely presented component unit of the County of San Mateo, California, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise First 5 San Mateo County'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 basic 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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 major fund of First 5 San Mateo County as of June 30, 2020, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6, the schedule of revenues, expenditures, and changes in fund balance - budget to actual, the schedule of proportionate share of the net pension liability, the schedule of First 5's contributions - pension plan, the schedule of proportionate share of the net OPEB liability, the schedule of First 5's contributions - OPEB, and the schedule of changes in the net OPEB liability and related ratios on pages 35 through 40, listed as required supplementary information 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, 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2020 on our consideration of First 5 San Mateo County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of First 5 San Mateo County'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 First 5 San Mateo County's internal control over financial reporting and compliance.

R.J. Ricciardi, Inc.

R.J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
September 23, 2020

First 5 San Mateo County
(A Discretely Presented Component Unit of the County of San Mateo)
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2020

In November 1998, voters passed a statewide ballot initiative, Proposition 10, to fund programs that promote the physical, cognitive and emotional development of children ages 0-5. Proposition 10 funds are generated by a tax on tobacco products and are intended to facilitate the creation and implementation of an integrated and collaborative system of care for young children in the areas of health, family support and early learning. All revenue generated is collected in the California Children and Families (First 5 California) Trust Fund Account and allocations are made to each of the 58 counties in the State 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 First 5 Commission to oversee the use of these funds in accordance with their strategic plan.

This Management's Discussion and Analysis is intended to serve as a narrative overview and analysis of the financial activities of First 5 San Mateo County (First 5) for the 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

During the fiscal year ended June 30, 2020, First 5 contributed over \$5.9 million in a wide variety of local programs and services for young children and their families.

Government-wide Financial Analysis

- The assets of First 5 exceeded its liabilities as of June 30, 2020 by \$11,394,421 (*net position*). The remaining balance may be used to meet First 5's ongoing obligations to grantees and creditors.

Fund Financial Analysis

- Total fund balance as of June 30, 2020 was \$11,852,028. Of this amount, \$909,323 was committed for current executed grants and contracts and for contract amendments not yet executed (obligated); and the remaining \$10,942,705 was set aside for future programs, projects, and activities. All funding awards were in accordance with First 5's Strategic Plan and Long-Term Financial Plan.
- Contributions to local projects increased by \$115,716 or 2.0% from the previous fiscal year.

Overview of the Financial Statements

This discussion and analysis serves as an introduction to First 5's basic financial statements which include three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the basic financial statements

Government-wide financial statements provide readers with a broad overview of First 5's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of First 5's assets and liabilities, with the difference between the two reported as net position.

First 5 San Mateo County
(A Discretely Presented Component Unit of the County of San Mateo)
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2020

The *statement of activities* presents information showing how First 5'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 this statement for some items that will only result in cash flows in a future fiscal period (e.g. earned but unused vacation leave).

The *government-wide financial statements* can be found on pages 7 and 8 of this report.

Fund financial statements are groupings of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. Fund financial statements report essentially the same functions as those reported in the government-wide financial statements; however, they 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.

The *fund financial statements* can be found on pages 9 and 10 of this report.

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

The *notes* can be found on pages 11 through 34 of this report.

Government-wide Financial Analysis

As of June 30, 2020, First 5 assets exceeded liabilities by \$11,394,421.

Net Position	<u>2020</u>	<u>2019</u>	<u>2018</u>
Total assets	\$ 13,480,916	\$ 13,645,782	\$ 14,894,503
Total deferred outflows of resources	\$ 801,047	\$ 603,107	\$ 765,504
Total liabilities	\$ 2,747,315	\$ 2,737,555	\$ 3,573,356
Total deferred inflows of resources	\$ 140,227	\$ 190,383	\$ 343,739
Net position	\$ 11,394,421	\$ 11,320,951	\$ 11,742,912

Fiscal Year 2020 Compared to Fiscal Year 2019

- At the end of fiscal year 2020, total assets decreased by \$164,866 (33.7%) when compared to fiscal year 2019. The decrease was primarily due to the increase in grant and vendor payments made during the year.
- Total deferred outflows of resources increased by \$197,940 (32.8%) due to a change in deferred pension and OPEB actuarial assumptions.
- Total liabilities increased by \$9,760 (0.4%). The increase was mainly due to a change in the net OPEB liability.
- Total deferred inflows of resources decreased by \$50,156 (26.3%) due to a change in deferred pension and OPEB actuarial assumptions.
- Net position increased by \$73,470 (0.6%). Net position is money received that is set aside for programs, projects, and activities to be conducted in the future according to a documented plan, budget or financial forecast formally approved by First 5.

First 5 San Mateo County
(A Discretely Presented Component Unit of the County of San Mateo)
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2020

Fiscal Year 2019 Compared to Fiscal Year 2018

- At the end of fiscal year 2019, total assets decreased by \$1,248,721 (8.4%) when compared to fiscal year 2018. The decrease was primarily due to the decrease in cash and cash equivalents for grant and vendor payments made during the year.
- Total deferred outflows of resources decreased by \$162,397 (21.2%) due to a change in deferred pension and OPEB actuarial assumptions.
- Total liabilities decreased by \$835,801 (23.4%). The decrease was mainly due to more accounts payable being paid before year end and less deferred grant revenue held at year end.
- Total deferred inflows of resources decreased by \$153,356 (44.6%) due to a change in deferred pension and OPEB actuarial assumptions.
- Net position decreased by \$421,961 (3.6%). Net position is money received that is set aside for programs, projects, and activities to be conducted in the future according to a documented plan, budget or financial forecast formally approved by First 5.

Changes in Net Position	2020	2019	2018
Program revenues	\$ 7,258,317	\$ 6,573,412	\$ 5,953,533
General revenues	442,882	372,829	165,791
Program expenses	(7,627,729)	(7,368,202)	(8,770,872)
Change in net position	73,470	(421,961)	(2,651,548)
Net position, beginning of period (as restated)	11,320,951	11,742,912	14,394,460
Net position, end of period	\$ 11,394,421	\$ 11,320,951	\$ 11,742,912

Fiscal Year 2020 Compared to Fiscal Year 2019

- Program revenues increased by \$684,905 (10.4%) and general revenues increased by \$70,053 (18.8%). The increase in program revenue was primarily due to increases in tobacco tax and other grants. The increase in general revenue was primarily due to higher investment earnings in 2020.
- Program expenses increased by \$259,527 (3.5%). The majority of the increase was due to an increase in personnel costs and contributions to local projects.

Fiscal Year 2019 Compared to Fiscal Year 2018

- Program revenues increased by \$619,879 (10.4%) and general revenues increased by \$207,038 (124.9%). The increase in program revenue was primarily due to increases in tobacco tax and other grants. The increase in general revenue was primarily due to higher investment earnings in 2019.
- Program expenses decreased by \$1,402,670 (16.0%). The majority of the decrease was due to a decrease in contributions to local projects.

First 5 San Mateo County
(A Discretely Presented Component Unit of the County of San Mateo)
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2020

Fund Financial Analysis

First 5 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. As of June 30, 2020, First 5 reported a fund balance of \$11,852,028, an increase of \$97,503 (0.8%) from the prior year. The increase was mainly due to an increase in revenues of 10.9%. Of the total, \$909,323 of the fund balance was committed to grantees and contractors through contractual obligations in accordance with First 5's Strategic Plan and Long-Term Financial Plan. These plans are reviewed and approved by the First 5 Commission on an annual basis.

Budgetary Highlights

First 5 operating budget for FY19-20 totaled \$9.8 million. The budget closeout revealed an estimated savings of \$2.2 million, which is the excess of approved budgeted expenditures compared to actual expenditures. A key factor accounting for the \$2.2 million positive budget variance was contributions to local projects which were attributed to under spending in grantee's contracts.

The budgetary comparison information can be found on page 35 of this report.

Requests for Information

This financial report is designed to provide a general overview of First 5's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to Kitty Lopez, Executive Director, First 5 San Mateo County, 1700 S. El Camino Real, Suite 405, San Mateo, CA 94402-3050.

First 5 San Mateo County
(A Discretely Presented Component Unit of the County of San Mateo)

Exhibit A

STATEMENT OF NET POSITION

June 30, 2020

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 12,323,942
Intergovernmental receivable, net	1,108,293
Interest receivable, net	<u>48,681</u>
Total assets	<u>13,480,916</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Deferred outflows of resources - NPL	676,319
Deferred outflows of resources - OPEB	<u>124,728</u>
Total deferred outflows of resources	<u>801,047</u>
<u>LIABILITIES</u>	
Accounts payable	1,562,696
Salaries and benefits payable	66,192
Long-term liabilities:	
Net pension liability	835,370
Net OPEB liability	171,704
Compensated absences:	
Payable in less than one year	38,726
Payable in more than one year	<u>72,627</u>
Total liabilities	<u>2,747,315</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>	
Deferred inflows of resources - NPL	79,464
Deferred inflows of resources - OPEB	<u>60,763</u>
Total deferred inflows of resources	<u>140,227</u>
<u>NET POSITION</u>	
Unrestricted	<u>11,394,421</u>
Total net position	<u>\$ 11,394,421</u>

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

First 5 San Mateo County
(A Discretely Presented Component Unit of the County of San Mateo)
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2020

Exhibit B

	<u>Governmental Activities</u>
Program expenses:	
Salaries and wages	\$ 710,299
Employee benefits	249,409
Retirement benefits	509,299
General office supplies	29,831
Professional services	229,241
Other administrative expenses	25,669
Contributions to local projects	<u>5,873,981</u>
Total program expenses	<u>7,627,729</u>
 Program revenues:	
Operating grants and contributions:	
Tobacco tax	6,355,597
Other grants	<u>902,720</u>
Total program revenues	<u>7,258,317</u>
Net program revenues (expenses)	<u>(369,412)</u>
 General revenues:	
Investment earnings (losses)	427,434
Other revenue	<u>15,448</u>
Total general revenues	<u>442,882</u>
Change in net position	<u>73,470</u>
Net position, beginning of period, as restated	<u>11,320,951</u>
Net position, end of period	<u><u>\$ 11,394,421</u></u>

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

First 5 San Mateo County
(A Discretely Presented Component Unit of the County of San Mateo)
GOVERNMENTAL FUNDS BALANCE SHEET
June 30, 2020

Exhibit C

ASSETS

Cash and cash equivalents	\$	12,323,942
Intergovernmental receivable, net		1,108,293
Interest receivable, net		48,681
Total assets	\$	13,480,916

LIABILITIES AND FUND BALANCES

Liabilities:

Accounts payable	\$	1,562,696
Salaries and benefits payable		66,192
Total liabilities		1,628,888

Fund balances:

Committed		909,323
Assigned		10,942,705
Total fund balances		11,852,028
Total liabilities and fund balances	\$	13,480,916

Reconciliation of the Governmental Funds Balance Sheet with the Governmental Activities Statement of Net Position:

Total Governmental Funds Fund Balances	\$	11,852,028
Amounts reported in the Statement of Net Position are different because:		
Long-term assets are not available to pay for current period expenditures, and long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund:		
Deferred outflows of resources		801,047
Net pension liability		(835,370)
Net OPEB liability		(171,704)
Deferred inflows of resources		(140,227)
Compensated absences		(111,353)
Net Position of Governmental Activities	\$	11,394,421

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

(A Discretely Presented Component Unit of the County of San Mateo)

GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES

For the Year Ended June 30, 2020

Revenues:	
Tobacco tax	\$ 6,355,597
Investment earnings (losses)	427,434
Other grants	902,720
Other revenue	<u>15,448</u>
Total revenues	<u>7,701,199</u>
Expenditures:	
Salaries and benefits	1,444,974
Services and supplies	284,741
Contributions to local projects	<u>5,873,981</u>
Total expenditures	<u>7,603,696</u>
Excess of revenues over (under) expenditures	97,503
Fund balance, beginning of period	<u>11,754,525</u>
Fund balance, end of period	<u>\$ 11,852,028</u>

Reconciliation of the Net Change in Fund Balances with the Change in Net Position of Governmental Activities:

Net Change in Fund Balances	\$ 97,503
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Amounts reported in the Statement of Activities are different because:

Change in long-term portion of assets and liabilities do not provide or require the use of current financial resources and therefore are not reported in the governmental fund:

Change in deferred outflows of resources	197,940
Change in net pension liability	(228,951)
Change in OPEB liability	(26,086)
Change in deferred inflows of resources	50,156
Change in compensated absences	<u>(17,092)</u>
Change in Net Position of Governmental Activities	<u>\$ 73,470</u>

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

First 5 San Mateo County
(A Discretely Presented Component Unit of the County of San Mateo)
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE 1 - GENERAL

Under the authority of the California Children and Families First Act of 1998 and sections 130100, et seq. of the Health and Safety Code, the Children & Families First Commission of San Mateo County (Commission) was established in March 1999. The Commission set up the Children and Families First Trust Fund with the County of San Mateo (County) in March 1999 to account for the receipts and disbursements of California Children and Families Trust Fund allocations to the Commission. On January 7, 2003, the County Board of Supervisors passed an ordinance changing the Commission's name to First 5 San Mateo County (First 5).

The financial transactions of First 5 are accounted for in a special revenue fund, as monies received by it are legally restricted or committed to specific use. Moneys allocated and appropriated to First 5 can be expended only for purposes authorized by the California Children and Families First Act of 1998 (Proposition 10) and in accordance with the First 5 Strategic Plan and Long-Term Financial Plan approved by the First 5 Commission and approved through the County budget process.

The County Board of Supervisors appoints all the members of the First 5 Commission. Therefore, the financial activities of First 5 are included in the basic financial statements of the County as a discretely presented component unit.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Measurement Focus, Basis of Accounting, & Financial Statement Presentation

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) 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. Contributions to local grantee organizations are recognized as expenditures when criteria for grant payments are met by the grantee organizations. When both restricted and unrestricted net position is available, restricted resources are generally depleted first before the unrestricted resources are used.

The Statement of Net Position presents First 5's financial position in a net position approach. The Statement of Activities reports the change in net position in a net program cost format to demonstrate the degree to which the expenses of First 5 are offset by its program revenues - tobacco tax and private grants. First 5 has no business-type activities.

The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

First 5 San Mateo County
(A Discretely Presented Component Unit of the County of San Mateo)
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Measurement Focus, Basis of Accounting, & Financial Statement Presentation (concluded)

Governmental fund financial statements, presented after the government-wide financial statements, are reported using the *current financial resources measurement focus* and the *modified accrual* basis of accounting. With this measurement focus, only current assets and current liabilities are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in current assets. Revenues are recognized as soon as they are both measurable and available. “Measurable” means that the amount of the transaction can be determined. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Revenues from reimbursement type programs are considered to be *available* when they are collectible within six months of the end of the current fiscal period in order to properly match revenues with related expenditures. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable.

The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as non-major funds, regardless of their fund type. Major funds are those that have assets, liabilities, revenue or expenditures equal to at least ten percent of their fund-type total. The General Fund is always a major fund. First 5 may also select other funds it believes should be presented as major funds.

First 5 reports the following major governmental fund types: the General Fund is First 5’s primary operating fund. It is used to account for all activities, except those required to be accounted for in another fund.

B. Program Revenues

Program revenues in the financial statements include tobacco tax and other funding from First 5 California, other grants, and private grants.

C. Net Position

The government-wide financial statements utilize a net position presentation. Net position is categorized as invested in capital assets (net of related debt), restricted and unrestricted.

Invested in Capital Assets, Net of Related Debt - This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

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

Unrestricted Net Position - This category represents net position of First 5 not restricted for any project or other purpose.

First 5 San Mateo County
(A Discretely Presented Component Unit of the County of San Mateo)
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Deferred Outflows and 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*, First 5 recognizes deferred outflows and inflows of resources.

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period and will not be recognized as an outflow of resources (expense/expenditure) until then. First 5 has two such items which are reported in Note 7 and Note 8.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the government that is applicable to a future reporting period and will not be recognized as an inflow of resources (revenue) until then. First 5 has two such items which are reported in Note 7 and Note 8.

E. Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results based on subsequent events could differ from those estimates.

F. Budgetary Information

First 5 adopts an annual budget, which can be amended by First 5 throughout the year. The basis used to prepare the budget is the same as the basis used to reflect actual revenues and expenditures, except that liability for compensated absences, postemployment benefits other than pensions and unrealized gains and losses are not included in the budget.

G. Other Postemployment Benefits (OPEB)

First 5 employees participate in the defined benefit postemployment healthcare plan administered by the County. The County is not obligated to pay for unused sick leave if employees terminate employment prior to retirement, except for those individuals who are laid off. Upon retirement, unused sick leave can be converted to postemployment healthcare benefits. The amount and duration of the County-paid benefits vary, depending on the bargaining units to which the employee belongs. The public safety employees are eligible to retire after attaining age 50 with at least ten years of service or at any age with 20 years of service. Others can retire from the County on or after attaining age 50 with at least ten years of service.

First 5 San Mateo County
(A Discretely Presented Component Unit of the County of San Mateo)
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

H. Risk Management

First 5 is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The County of San Mateo, through its self-insurance program, provides First 5 with Worker's Compensation and Employer Liability Insurance. First 5 compensates the County for maintaining such insurance. The County Counsel provides legal representation for any claims or litigation for First 5.

Claims have not exceeded coverage in the past fiscal year and there has not been a significant reduction in coverage in the current fiscal year.

I. Economic Dependency

First 5 has a significant economic dependency on tobacco tax allocations from the State, as these allocations represent a substantial portion of First 5's revenue. During the year ended June 30, 2020, First 5 received \$6,355,597, which amounts to 83% of total revenue for the year. First 5's ability to continue operations depends primarily on the continuance of this funding source. Tobacco tax allocations from the State do not have a termination date but are vulnerable to changes in legislation.

J. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of First 5's pension plan and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by SamCERA. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents

First 5 considers short term and highly liquid investments to be cash and cash equivalents. Cash and cash equivalents are pooled with other funds in the San Mateo County Investment Pool (County Pool). The County Pool includes both voluntary and involuntary participants from external public entities. First 5 is a voluntary participant in the County Pool. Interest earned is received quarterly. Cash and cash equivalents in the County Pool are reported at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. The change in fair value for the year is recorded as unrealized gain or loss and reported as part of investment earnings. Fair value is based on information provided by the County Treasurer.

First 5 San Mateo County
(A Discretely Presented Component Unit of the County of San Mateo)
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE 3 - CASH AND CASH EQUIVALENTS (continued)

The County Pool is a governmental investment pool managed and directed by the elected San Mateo County Treasurer (Treasurer). The County Pool is not registered with the Securities and Exchange Commission as an investment company. California Government Code and the County's Investment Policy govern the County Pool activities. The objectives of this policy, in order of priority are: safety, liquidity, yield, and public trust. The pool attempts to match maturities with planned outlays and maximize the return on investment over various market cycles. Yield is considered only after safety and credit quality have been met, consistent with limiting risk and prudent investment principles. The County Board reviews the County's Investment Policy annually, and all amendments to the policy must be approved by the County Board.

The fair value of cash and cash equivalents of First 5's investment in the County Pool is reported in the accompanying financial statements at amounts based upon First 5's pro-rata share of the fair value provided by the Treasurer for the County Pool portfolio. First 5's cash and cash equivalents in the pool totaled \$12,323,942 as of June 30, 2020. The contractual withdrawal values (book values) were \$12,082,760 as of June 30, 2020.

Fair Value of Investments

First 5 categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. 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.

First 5 has the following recurring fair value measurements as of June 30, 2020:

San Mateo County Investment Pool (Level 2 inputs)	<u>\$ 12,323,942</u>
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First 5 San Mateo County
(A Discretely Presented Component Unit of the County of San Mateo)
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE 3 - CASH AND CASH EQUIVALENTS (continued)

Authorized Investments of the County Pool

The County's Investment Policy and the California Government Code allow the County Pool to invest in the following, provided the credit ratings of the issuers are acceptable to the County Pool. The following also identifies certain requirements of the County Pool and California Government Code that address interest rate risk, credit risk, and concentrations of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>	<u>Maximum % Allowed in Portfolio</u>	<u>Maximum % Investment in One Issuer</u>
U.S. Treasury obligations	7 years	N/A	100	100
Obligations of U.S. agencies or government sponsored enterprises	7 years	AA or A-1	100	40
U.S. agencies callables	7 years	AA	100	25
Commercial paper	270 days or less	A1/P-1/F1	40	5
Negotiable certificates of deposit	5 years	A1/P-1/F1	30	5
Bankers acceptances	180 days	A1/P-1/F1	15	5
Collateralized time deposits within the State of California	1 year	A1/P-1/F1	15	5
Mortgage backed securities/CMO's	5 years	AA	20	5
Asset backed securities	5 years	AAA	20	5
Corporate bonds, medium term notes and covered bonds	5 years	A	30	5
U.S. Instrumentalities	5 years	AA	30	N/A
CA Municipal Obligations	5 years	AA	30	5
Repurchase agreements secured by U.S. Treasury of agency obligation	92 days	A-1	100	See limitation for Treasuries and Agencies above
Local Agency Investment Fund (LAIF)	N/A	N/A	N/A	Up to the current state limit
Shares of beneficial interest	N/A	Money Market/AAA	20	10
Local Government Investment Pools (LGIPs)	N/A	N/A	20	10

First 5 San Mateo County
(A Discretely Presented Component Unit of the County of San Mateo)
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE 3 - CASH AND CASH EQUIVALENTS (continued)

At June 30, 2020, the County Pool was invested in the following securities:

<u>Investment Type</u>	<u>Interest Rate</u>	<u>Maturities</u>	<u>Weighted Average Maturity (Years)</u>	<u>Rating</u>
Certificates of deposit	0.60%-2.83%	7/10/20-12/2/22	0.95	A-1, A-1+, AA-, A, A+
Commercial paper	0.00%	7/17/20-2/2/21	0.21	A-1, A-1+
LAIF	0.48%-1.14%	7/1/20	0.08	AAA
U.S. Treasury bills	0.00%	7/21/00-5/20/21	0.37	AA+
U.S. Treasury notes	1.12%-2.88%	7/31/20-10/31/24	2.22	AA+
Federal agency floating rate securities	0.13%-0.29%	9/28/20-11/8/21	1.06	AA+
Federal agency securities	0.00%-5.25%	7/6/20-2/28/24	1.66	AA+
U.S. Instrumentalities	0.00%-2.00%	7/1/20-1/15/25	0.51	AAA
Floating rate securities	0.45%-2.33%	8/17/00-5/19/24	1.07	AA-, A-, A, A+, AA+
Corporate bonds	1.14%-4.35%	7/15/20-2/13/25	2.24	AA-, A-, A, AA, A+, AA+, BBB+
Money market funds	0.00%	7/1/20	0.08	AAA
Asset backed securities	1.66%-2.35%	12/15/22-12/16/24	3.81	AAA
Municipal bonds	2.00%-3.40%	8/1/23-8/1/24	2.50	AA-, AAA

County Pool: Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The County pool manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to three years or less in accordance with its investment policy. As of June 30, 2020, the County Pool had a weighted average maturity of 1.75 years and its investment in floating rate securities was \$216 million which are tied to the three-month London Interbank Offered Rate (LIBOR) index.

County Pool: Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. State law and the County's investment policy limit the County's investments in commercial paper to the rating of A-1 or better by Standard & Poor's, or P-1 or better by Moody's Investors Service; and corporate bonds to the rating of A or higher by both Standard & Poor's and Moody's Investors Service. No limits are placed on the U.S. government agency securities and U.S. Treasuries. The County's Investment pool was unrated.

County Pool: Custodial Credit Risk for Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the County will not be able to recover its deposits or collateral securities that are in the possession of an outside party. The County's investment policy requires that deposits in banks must meet the requirements of California Government Code. Under this code, any deposits of more than \$0.25 million must be collateralized at 110% to 150% of the value of the deposit to guarantee the safety of the public funds. The first \$0.25 million of the County's deposits are insured by the Federal Deposit Insurance Corporation (FDIC). Deposits more than the \$0.25 million insured amount are fully collateralized by Union Bank by pledging identifiable U.S. Government securities at 110% or more.

First 5 San Mateo County
(A Discretely Presented Component Unit of the County of San Mateo)
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE 3 - CASH AND CASH EQUIVALENTS (concluded)

County Pool: Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the County Pool's investment in a single issuer of securities. For each authorized investment type, State law and County Investment Policy restricts the maximum percentages allowed in the portfolio and per issuer. As of June 30, 2020, the investment pool has five percent or more of its total investments with the following issuers: 42% in United States Treasury Notes, 16% in Federal Agency Securities, 14% in Corporate Bonds, 7% in Local Agency Investment Fund, 6% in US Instrumentalities, and 6% in Certificates of Deposit.

County Pool: Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair values of an investment or deposit. The County investment policy does not include specific provisions to address foreign currency risk because the County's investment pool does not invest in foreign securities.

NOTE 4 - INTERGOVERNMENTAL RECEIVABLE

Intergovernmental receivable represents revenues that were received after the fiscal year June 30, 2020:

Proposition 10 allocation - May	\$ 282,105
Proposition 10 allocation - June	400,806
Surplus Money Investment Fund (SMIF)	19,897
Impact Grant	369,611
Impact Hub Grant	<u>35,874</u>
Total	<u>\$ 1,108,293</u>

NOTE 5 - ACCOUNTS PAYABLE

Accounts payable is comprised of funding due to grantees and amounts due to vendors for services and supplies at the fiscal year ended June 30, 2020:

Funding due to grantees	\$ 1,542,232
Services and supplies	<u>20,464</u>
Total	<u>\$ 1,562,696</u>

First 5 San Mateo County
(A Discretely Presented Component Unit of the County of San Mateo)
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE 6 - COMPENSATED ABSENCES

First 5 accrues for compensated absences in the government-wide financial statements to pay its employees for unused vacation, compensatory time, and holiday. The accrual for compensated absences includes First 5's share of Social Security and Medicare contributions payable on behalf of the employees. Unused vacation, compensatory, and holiday time are cashed out upon separation.

The changes in the compensated absences balance for the fiscal year ended June 30, 2020 were as follows:

Balance – beginning of year	\$	94,261
Additions		49,714
Retirements		<u>(32,622)</u>
Balance – end of year	\$	<u>111,353</u>
Due within a year	\$	<u>38,726</u>

NOTE 7 - EMPLOYEES' RETIREMENT PLAN

Plan Description

General. The San Mateo County Employees' Retirement Association (SamCERA) is a cost-sharing multiple-employer, defined benefit pension plan that provides benefits for substantially all permanent employees of the County, First 5, the San Mateo County Libraries, the Superior Courts of the County of San Mateo, and the San Mateo County Mosquito and Vector Control District. SamCERA was founded in 1944 under the authority granted by Article XVI of the Constitution of the State of California and the County Employees' Retirement Law of 1937 (the 1937 Act), and is not subject to the provisions of the Employee Retirement Income Security Act of 1974. SamCERA is a Pension Trust Fund of the participating employers.

Management of SamCERA is vested in the Board of Retirement consisting of nine members. SamCERA is governed by the California Constitution, the 1937 Act and the by-laws, procedures, and policies adopted by the Board of Retirement. Pursuant to the County Employees Retirement Law of 1937, board members include the County Treasurer, two general members of SamCERA elected by their peers, four members appointed by the County Board, one member from SamCERA's safety members, and one member from the retired membership.

The Board of Retirement undertakes the administrative and fiduciary responsibility over the pension plan. SamCERA issues a publicly available financial report that can be obtained by writing to the San Mateo County Employees' Retirement Association, 100 Marine Parkway, Suite 125, Redwood Shores, California 94065.

First 5 San Mateo County
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NOTE 7 - EMPLOYEES' RETIREMENT PLAN (continued)

Benefit Provisions. SamCERA provides service retirement, disability, and death benefits to plan members and beneficiaries based on defined benefit formulas using final average compensation, years of service, and age factors to calculate benefits payable. SamCERA has seven tiers that cover members classified as general, safety, or probation, and provides annual cost-of-living adjustments upon retirement to members of Tiers 1, 2, 4, 5, 6, and 7. The benefits of Tier 3 are reduced by a portion of Social Security benefits received by the member. The 1937 Act vests the County Board with the authority to initiate benefits, while Government Code Section 31592.2 empowers the Board of Retirement to provide certain ad hoc benefits when the Section 31592 reserve exceeds 1% of assets.

SamCERA has seven tiers covering members classified as general, safety or probation. Members in Tiers 1, 2, 4, 5, and 6 with 10 years of continuous service (permanent part-time employees need equivalent of 5 years of full-time service and 10 years of membership) may retire at age 50. Members in Tier 3 with 10 years of continuous service may retire at age 55. Members in Tier 7 with 5 years of service may retire at age 52.

General members in Tiers 1, 2, 4, 5, and 6 may retire at any age after 30 years of service. Safety members and Probation members may retire at any age after 20 years of service. A member who leaves County service may withdraw his or her contributions, plus any accumulated interest. Members with five years of service, permanent part-time employees with five years of full-time service, or non-contributory members (Tier 3) with 10 years of service, may elect a deferred retirement when terminating their employment with the County.

In addition to the basic member and the cost sharing contributions, certain plan members (except those in Tier 3) are required to make contributions to fund the Cost of Living Adjustments (COLA). Certain members in Tiers 1, 2 and 4 contribute a specific percentage of the retirement COLA cost. All members in Tiers 5 and 6 contribute 50% of the COLA. Members in Tier 7 contribute 50% of the aggregate normal cost rate for their plan.

Contributions. The 1937 Act established the basic obligations for employers and members to make contributions to the pension trust fund. The employer and member contribution rates are based on recommendations made by an independent actuary and adopted by the Board of Retirement. The participating employers are required by statutes to contribute the amounts necessary to fund the estimated benefits accruing to SamCERA members not otherwise funded by member contributions or expected investment earnings. Employer contribution rates for each tier are determined pursuant to Government Code Section 31453 of the 1937 Act. Contribution rates are actuarially determined using the entry age normal method and consist of an amount for normal cost (the estimated amount necessary to finance benefits earned by members during the year) and an amount required to amortize the unfunded actuarial accrued liability. Contributions to the plan from First 5 were \$235,766 for the year ended June 30, 2020.

For the fiscal year ended June 30, 2020, the contributions recognized as part of pension expense for the plan were as follows:

Contributions – employer	\$ 235,766
Contributions – employee	95,910

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NOTE 7 - EMPLOYEES' RETIREMENT PLAN (continued)

Net Pension Liability, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2020, First 5 reported \$835,370 of net pension liability for its proportionate share of the net pension liability. The net pension liability of the plan is measured as of June 30, 2019, and the total pension liability for the plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019. First 5's proportion of the net pension liability was based on statutory contributions. First 5's proportionate share of the net pension liability was 0.12% as of June 30, 2019, which was an increase of 0.01% from its share measured as of June 30, 2018.

For the year ended June 30, 2020, First 5 recognized pension expense of \$290,161. At June 30, 2020, First 5 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
Pension contributions subsequent to measurement date	\$ 235,766	\$ -
Changes in pension-related assumptions	242,906	-
Change in proportionate share of net pension liability	301	-
Difference in actual and proportionate share of pension contributions	3,049	160
Differences between expected and actual pension experience	112,188	-
Differences between projected and actual earnings on pension investments	<u>82,109</u>	<u>79,304</u>
Total	<u>\$ 676,319</u>	<u>\$ 79,464</u>

First 5 reported \$235,766 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Fiscal Year Ended</u>	
6/30/21	\$ 142,688
6/30/22	71,335
6/30/23	77,063
6/30/24	70,003
Thereafter	-

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NOTE 7 - EMPLOYEES' RETIREMENT PLAN (continued)

The total pension liabilities in the June 30, 2019 actuarial valuation were determined using the information below.

Actuarial Methods and Assumptions:

Valuation Date	June 30, 2019
Actuarial Cost Method	Entry Age Normal
Actuarial Experience Study	July 1, 2014 to April 30, 2017
Amortization Method	Level Percentage of Projected Payroll
Amortization Period	UAAL as of June 30, 2008, is amortized over a closed 15-year period ending June 30, 2023. Subsequent changes in the UAAL are amortized over separate closed 15-year layers that are determined annually.
Asset Valuation Method	5-year smoothed recognition of asset gains and losses (determined as the difference of the actual fair value to the expected fair value), which cannot vary more than 20% from the fair value.

Actuarial Assumptions:

General Wage Increases	3.00%
Investment Rate of Return	6.50%
Growth in Active Membership	0.00%
Inflation Rate (CPI)	2.50%
Salary Increases Due to Service	The total expected increase in salary represents the increase due to promotions and longevity, adjusted for an assumed 3.00% per annum increase in the general wage. The total result is compounded rather than additive.
Mortality	Rates are primarily based on RP-2014 Healthy Annuitant Mortality Table for respective genders with MP-2014 Ultimate Projection Scale. See the valuation report as of June 30, 2019, for details.

First 5 San Mateo County
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NOTE 7 - EMPLOYEES' RETIREMENT PLAN (continued)

The long-term expected rate of return on pension plan investments was determined using a building-block approach in which a median (or expected) geometric rate of return is developed for each major asset class. The median rates are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and estimates of the median geometric rates of return for each major asset class are shown in the table below. The asset class return assumptions are presented on a nominal basis, and all assumptions include a base inflation rate assumption of 2.50%.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Rate of Return</u>
Public Equity	41%	4.9%
Fixed Income	21%	2.1%
Alternatives	12%	5.3%
Risk Parity	8%	5.1%
Inflation Hedge	<u>18%</u>	4.3%
Total	<u><u>100%</u></u>	

Discount Rate

The investment rate of return assumption used to measure the total pension liability was 6.50% as of June 30, 2020, reduced in comparison to 6.75% from the prior fiscal year. The projection of cash flows used to determine the discount rate assumed that employer and member contributions will be made at the funding requirements under SamCERA's funding policy and the legal requirements under the County Employees Retirement Law of 1937. In addition, San Mateo County intends to contribute additional amounts over the next 10 years to accelerate the elimination of the unfunded actuarial accrued liability. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return, gross of administrative expenses.

Sensitivity of the Proportionate Share of Net Pension Liability to Changes in the Discount Rate

The following presents First 5's proportionate share of the net pension liability of SamCERA, calculated using the discount rate for SamCERA, as well as what First 5's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	<u>1% Decrease: 5.50%</u>	<u>Current Discount Rate 6.50%</u>	<u>1% Increase: 7.50%</u>
Total pension liability	\$ 8,292,895	\$ 7,239,370	\$ 6,383,263
Fiduciary net position	6,404,000	6,404,000	6,404,000
Net pension liability	1,888,895	835,370	(20,736)

First 5 San Mateo County
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NOTE 7 - EMPLOYEES' RETIREMENT PLAN (concluded)

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued SamCERA financial report.

Payable to the Pension Plan

At June 30, 2020, First 5 has paid all contributions to the pension plan required for the year ended June 30, 2020.

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

Plan Description

General. The County administers a postemployment benefit (OPEB) sick leave conversion Retiree Health Plan (a single-employer defined benefit plan), in which First 5 participates. This plan provides healthcare benefits to members who retire from the County and are eligible to receive a pension from SamCERA. Eligible retirees may elect to continue healthcare coverage in the County health plan and convert their sick leave at retirement to a County-paid monthly benefit that will partially fund their retiree health premiums.

Benefits provisions are established and may be amended through negotiations between the County and the bargaining units during each bargaining period. The plan does not issue a separate financial report.

The County funds its OPEB plan through the California Employers' Retiree Benefits Trust (CERBT), an irrevocable trust fund that allows public employers to prefund the future cost of their retiree health insurance benefits and other postemployment benefits for their covered employees or retirees. The CERBT's administrator, the California Public Employees' Retirement System (CalPERS), issues a publicly available financial report consisting of financial statements and required supplementary information for CERBT in aggregate. The report may be obtained by writing to CalPERS, Lincoln Plaza North, 400 Q Street, Sacramento, CA 95811.

Benefit Provisions. The County contracts with Kaiser and Blue Shield Health Plans to provide health coverage to its active members and pre-Medicare retirees (under age 65 and not covered by Medicare). The insurers charge the same premium for actives and retirees without Medicare; therefore, an implicit County subsidy of retiree premium exists. The implicit subsidy is determined by the difference between the true costs of the benefits and the actual premiums paid. Retiree health premiums would be significantly higher if premiums were determined without regard to active claims experience because health claim costs generally increase with age.

The County contracts with Kaiser, Secure Horizons, and Blue Shield to provide supplemental coverage for retirees enrolled in Medicare. Medical premiums for retirees enrolled in Medicare are not based on blended active experience; therefore, implicit subsidy does not exist in premiums for retirees enrolled in Medicare and receiving supplemental health coverage.

The duration and amount of the County-paid benefits varies based on the amount of sick leave at retirement, the date of hire, the date of retirement, and the bargaining group to which the retiree belongs. After County-paid benefits expire, the retirees may continue coverage in the County health plans at their own expense.

First 5 San Mateo County
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NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

For the majority bargaining units, hired prior to January 1, 2011. For each eight hours of unused sick leave at the time of retirement, the County contributes a set amount of the total premiums. For employees who retire with 20 or more years of service, the sick leave balance will be deducted at 6 hours per month instead of 8 hours.

Retirees who exhaust their sick leave will be credited with additional sick leave hours based on the years of service as follows: 10 year of service will be credited 96 hours, 15 year of service will be credited 192 hours, and 20 year of service will be credited 288 hours.

For the majority bargaining units, hired on or after January 1, 2011. For each eight hours of unused sick leave at the time of retirement, \$400 of the total premiums will be contributed. Retirees can choose to cover spouses and dependents. Retirees can choose a higher level for the County portion, but will need to convert more sick leave hours each month for those higher amounts.

Future increases in retiree sick leave conversion benefits vary among various bargaining groups under the County's latest bargaining agreements. Demographic assumptions regarding retirement, disability, and turnover are based on statistics from the June 30, 2019 pension valuation for SamCERA.

Contributions. First 5's contribution is an amount equal to the actuarially determined contribution (ADC) every fiscal year. The amount of the ADC above the implicit rate subsidy is the cash contribution First 5 needs to make to CERBT in order to have total contributions equal to the ADC.

First 5's ADC was calculated based on the service cost plus amortization of the net OPEB liability on a closed basis over 30 years, beginning July 1, 2005. The amortization is calculated as a level percentage of payroll based on the payroll growth assumption. Contribution requirements or amendments for members and the County are established through negotiations with individual bargaining units.

The employer contributions for fiscal year ended June 30, 2020 were \$107,097.

Employees Covered by Benefit Terms

At June 30, 2020 (census date), the benefit terms covered the following employees:

Inactive employees or beneficiaries currently receiving benefit payments	1
Active employees or beneficiaries currently receiving benefit payments	8
Inactive employees entitled to but not yet receiving benefit payment	<u>0</u>
Active plan members	<u><u>9</u></u>

Net OPEB Liability OPEB Expenses, and Deferred Outflows/Inflows of Resources Related to OPEB

As of June 30, 2020, First 5 reported \$171,704 of net OPEB liability for its proportionate share of the net OPEB liability. The net OPEB liability of the plan is measured as of June 30, 2019, and the total OPEB liability for the plan used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2019. First 5's proportion of the net OPEB liability was based on statutory contributions. First 5's proportionate share of the net OPEB liability was 0.38% as of June 30, 2019, which was an increase of 0.24% from its share measured as of June 30, 2018.

First 5 San Mateo County
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NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

For the year ended June 30, 2020, First 5 recognized OPEB expense of \$59,078. At June 30, 2020, First 5 reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions made subsequent to measurement date	\$ 107,097	\$ -
Changes of OPEB-related assumptions	11,537	43,397
Differences between expected and actual OPEB experience	4,342	13,998
Difference between projected and actual earnings on OPEB investments	1,752	3,368
Total	\$ 124,728	\$ 60,763

First 5 reported \$107,097 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

<u>Fiscal Year Ended</u>			
6/30/21		\$	(10,763)
6/30/22			(10,762)
6/30/23			(10,359)
6/30/24			(10,944)
6/30/25			(1,060)
Thereafter			756

First 5 San Mateo County
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NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

The total OPEB liabilities in the June 30, 2020 actuarial valuation were determined using the information below:

Actuarial Methods and Assumptions:

Valuation Date	June 30, 2020
Actuarial Cost Method	Entry Age Normal
Actuarial Experience Study	July 1, 2017 to April 30, 2020
Actuarial Assumptions:	
Discount Rate	6.25%
Long-term Expected Rate of Return	6.25%, net of investment expense
Inflation	2.50%
Payroll Growth Rate	3.00%
Mortality	Rates are primarily based on RP-2014 mortality tables.
Healthcare Cost Trend	Adjusted to reflect the expected costs due to ACA
	2020-21 4.30%
	2021-22 5.20%
	2022-23 5.10%
	2023-24 5.00%
	2024-25 5.00%
	2025-26 4.90%
	2026-27 4.90%
	2027-28 4.80%
	2028-29 4.80%
	2029-30 4.80%
	2031-40 4.90%
	2041-50 5.00%
	2051-60 4.80%
	2061-73 4.30%
	After 2074 4.00%
Dental Cost Trend	4.00%
Vision Cost Trend	4.00%

The H.R. 1865 Further Consolidated Appropriations Act, 2020 became law on December 20, 2019. This act repeals the excise tax for high cost or “Cadillac” health plans completely and removes the Health Insurer Fee permanently beginning in 2021. Accordingly, the excise tax is not reflected.

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NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (continued)

The OPEB plan assets are expected to be invested using a strategy to achieve the long-term rate of return. The County selected CERBT Fund Strategy 2 for its asset allocation as follows:

<u>Asset Class</u>	<u>Target Allocation</u>
Global Equity	40%
U.S. Fixed Income	43%
Treasury Inflation-Protected Securities (TIPS)	5%
Real Estate Investment Trusts (REITs)	8%
Commodities	<u>4%</u>
Total	<u><u>100%</u></u>

Discount Rate

The investment rate of return assumption used to measure the total OPEB liability was 6.25% as of June 30, 2020, which was the same as the prior fiscal year. The projection of benefit payments made in future periods and expected level of cash flows and investment were used to determine the discount rate and assumed that employer contributions will be made at the funding requirements. Based on those assumptions, the plan's fiduciary net position was projected to be sufficient to pay projected benefit payments in all future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total OPEB liability and net OPEB liability is equal to the long-term assumed rate of return, gross of administrative expenses.

Sensitivity of the Proportionate Share of Net OPEB Liability to Changes in the Discount Rate

The following presents First 5's proportionate share of the net OPEB liability of the County, calculated using the discount rate of 6.25%, as well as what First 5's proportionate share of the net OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	<u>1% Decrease: 5.25%</u>	<u>Current Discount Rate 6.25%</u>	<u>1% Increase: 7.25%</u>
Total OPEB liability	\$ 835,201	\$ 762,261	\$ 698,057
Fiduciary net position	590,557	590,557	590,557
Net OPEB liability	284,666	171,704	72,271

First 5 San Mateo County
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NOTES TO BASIC FINANCIAL STATEMENTS
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NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (concluded)

Sensitivity of the Proportionate Share of Net OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents First 5's proportionate share of the net OPEB liability of the County, calculated using the current health care cost trend rates, as well as what First 5's proportionate share of the net OPEB liability would be if it were calculated using trend rates that is 1 percentage point lower or 1 percentage point higher than the current rate:

	<u>1% Decrease:</u>	<u>Current Trend Rates</u>	<u>1% Increase:</u>
Total OPEB liability	\$ 690,276	\$ 762,261	\$ 846,516
Fiduciary net position	590,557	590,557	590,557
Net OPEB liability	59,768	171,704	299,917

OPEB Plan Fiduciary Net Position

The Plan Fiduciary Net Position and total OPEB liability were determined as of the measurement date. The components of the net OPEB liability as of June 30, 2019 were presented below. First 5's proportionate share was 0.38%.

	<u>Increase/(Decrease)</u>		
	<u>Total OPEB Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net OPEB Liability</u>
Balance at June 30, 2018	<u>\$ 572,919</u>	<u>\$ 427,301</u>	<u>\$ 145,618</u>
Changes for the year:			
Service cost	59,957	-	59,957
Interest of total OPEB liability	103,589	-	103,589
Effect of economic/demographic gains or losses	(753)	-	(753)
Effect of assumptions changes or inputs	2,007	-	2,007
Benefit payments	(84,336)	(84,336)	-
Employer contributions	-	110,715	(110,715)
Net investment income	-	80,395	(80,395)
Administrative expenses	-	(563)	563
Change in employer's proportionate share	<u>108,878</u>	<u>57,045</u>	<u>51,833</u>
Net changes	<u>189,342</u>	<u>163,256</u>	<u>26,086</u>
Balance at June 30, 2019	<u>\$ 762,261</u>	<u>\$ 590,557</u>	<u>\$ 171,704</u>

Payable to the OPEB Plan

At June 30, 2020, First 5 has paid all contributions to the OPEB plan required for the year ended June 30, 2020.

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NOTE 9 - FUND BALANCE

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which First 5 is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. First 5's fund balances were comprised of the following:

Restricted Fund Balance - includes amounts that can be spent only for specific purposes stipulated by external resources providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of the resource provider.

Committed Fund Balance - includes amounts that can only be used for specific purposes determined by a formal action of First 5's highest level decision-making authority, the First 5 Commission. Commitments may be changed or lifted only by First 5 taking the same formal action that originally imposed the constraint.

Assigned Fund Balance - comprises amounts intended to be used by First 5 for specific purposes that are neither restricted nor committed. Intent is expressed by (1) First 5's Commission or (2) a body (for example: a budget or finance committee) or official to which First 5's Commission has delegated the authority to assign amounts to be used for specific purposes.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed and assigned.

At fiscal year-end, fund balance reported on the Statement of Revenues, Expenditures and Changes in Fund Balance includes:

Committed

Contracts and amendments to executed contracts:

Grantees	\$ 813,545
Others	95,778

Assigned

Total fund balance	<u>10,942,705</u> <u>\$ 11,852,028</u>
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NOTE 10 - REVENUES

Tobacco Tax and Other Funding

First 5 receives a proportionate share of Proposition 10 money from First 5 California (formerly California Children and Families Commission) based on the number of live births in the county in comparison to the number of live births statewide. Proposition 10 money received by First 5 also includes Surplus Money Investment Fund allocations and Proposition 56 funds.

The Surplus Money Investment Fund allocations represent distributions of interest accrued on statewide Proposition 10 money.

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NOTE 10 - REVENUES (concluded)

The Impact Grant is awarded through a grant competitive application. This is not a regular allocation. The Impact Grant is a 5-year grant.

Tobacco tax and other revenues are comprised of:

Proposition 10:	
Monthly allocations	\$ 4,410,407
Surplus Money Investment Fund	19,897
Impact Grant	597,654
Proposition 56	<u>1,327,639</u>
Total	<u>\$ 6,355,597</u>

Other Grants

Other grants are comprised of:

Help Me Grow Grant	\$ 178,615
Impact HUB Grant	35,874
Help Me Grow Call Center Grant	35,000
Build-Up Kids Grant	180,000
Watch Me Grow - Clinic Based Services Grant	353,158
Mental Health Services Act – Proposition 63	115,296
First 5 of California Association Mini Grant Census	4,000
Wellness Grant	<u>777</u>
Total	<u>\$ 902,720</u>

Investment Earnings (Losses)

Investment earnings of \$427,434 for the year ended June 30, 2020, comprise of quarterly interest received from the County Treasurer on investments made by First 5 in the County Pool and the change in fair value of the investments. Interest is recorded in the year earned and is available to pay current liabilities.

Interest on investments	\$ 217,244
Change in fair value of investments	<u>210,190</u>
Total	<u>\$ 427,434</u>

NOTE 11 - RETIREMENT BENEFITS

Retirement benefits are comprised of:

County retirement contribution	\$ 235,766
Pension expense (changes in net pension liability)	290,161
OPEB expense (changes in net OPEB liability)	59,078
OPEB adjustment	(78,945)
Other retirement benefits	<u>3,239</u>
Total	<u>\$ 509,299</u>

First 5 San Mateo County
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NOTE 12 - CONTRIBUTIONS TO LOCAL PROJECTS

Starting in FY 2009-10, First 5 awarded \$20,167,000 in Cycle One funding to local projects. Cycle One has a three-year term from FY 2009-10 to FY 2011-12. First 5 awarded \$26,188,072 in Cycle Two funding to local projects. Cycle Two has a three-year term from FY 2011-12 to FY 2013-14 and has been extended through December 31, 2015. First 5 awarded \$30,791,717 in Cycle Three funding to local projects. Cycle Three has a five-year term from FY 2015-16 to FY 2019-20 and has been extended through December 31, 2021.

Grant contributions for the year ended June 30, 2020 include:

Cycle Three Funding:

Child Care Coordinating Council (IMPACT)	\$ 51,150
Community Gatepath (Help Me Grow Centralized Access Point and Family/Community Outreach)	218,008
Community Gatepath (Watch Me Grow)	802,110
Community Gatepath (Watch Me Grow - Clinic Based Services)	353,158
Family Connections (Thriving Families)	193,208
Lucile Salter Packard Children's Hospital at Stanford (Help Me Grow Child Healthcare Provider Liaison)	55,341
Peninsula Family Services (Therapeutic Child Development Centers)	224,200
Puente de la Costa Sur (Suenos Unidos Parent Participatory Preschool)	53,277
Ravenswood Family Health Center - South (Oral Health Services)	245,900
Redwood City (Socios for Success)	28,458
San Mateo County Office of Education (EQ+IP)	1,382,455
San Mateo County Office of Education (IMPACT)	391,144
San Mateo County Office of Education (IMPACT HUB 2)	31,195
San Mateo County Office of Education (Family Eng. Prof Development)	204,072
Silicon Valley Community Foundation (Build Up for SMC's Children - Facilities/Capital Projects)	50,000
Silicon Valley Community Foundation (Child Care Provider Support - COVID 19)	20,000
Silicon Valley Community Foundation (Connecting Child Care to Early Education-Child Care Portal Project)	5,000
Silicon Valley Community Foundation (Minry Parent Story Projects: School Readiness)	1,444
Silicon Valley Community Foundation (PreK-3 rd Grade Articulation and Alignment)	71,349
Star Vista (Early Childhood Services - Healthy Homes)	989,684
Contractors:	
Cheryl Oku (Help Me Grow Consultation Services)	85,043
Circle Communications (Mental Health System)	12,500
Miriam Abrams (Special Needs ITN Consultation)	10,000
Moonlight (Collateral Materials and Kit for New Parents)	8,106
Persimmony International (Online Grant Mgt and Client Data Collection)	96,896
Runyon Saltzman (Communications Consultation Services)	141,591
Sarah Kinahan Consulting (Build Up for SMC's Kids Facilities Consultation)	22,188

First 5 San Mateo County
(A Discretely Presented Component Unit of the County of San Mateo)
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE 12 - CONTRIBUTIONS TO LOCAL PROJECTS (concluded)

The Regents of the University of California (San Mateo County Early Childhood Workforce Study)	11,315
Trauma Stewardship, LLC (Trauma and Resiliency Informed System Initiative Convening)	11,265
Viva Strategy + Communications (Quality Care and Education ITN Consultation)	50,000
Other	53,924
Total	<u>\$ 5,873,981</u>

NOTE 13 - GRANT COMMITMENTS

First 5's commitments to grantees as of June 30, 2020 were as follows:

Cycle Three Funding	<u>\$ 909,323</u>
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NOTE 14 - PROGRAM EVALUATION

First 5 spent \$263,253 on program evaluation during the fiscal year ended June 30, 2020.

NOTE 15 - LEASE OBLIGATIONS

First 5 leases office facilities and other equipment categorized as noncancelable operating leases expiring on October 31, 2021. Total costs for such leases were \$87,154 for the year ended June 30, 2020. The future minimum lease payments for the office facilities lease are as follows:

Fiscal year ending June 30, 2021	\$ 92,408
Fiscal year ending June 30, 2022 (through October 31, 2021)	<u>31,105</u>
Total	<u>\$ 123,513</u>

NOTE 16 - BUDGETARY ACCOUNTING AND ENCUMBRANCES

First 5 adopts an annual operating budget, which can be amended by First 5 throughout the year. The basis used to prepare the budget is the same as the basis used to reflect actual revenues and expenditures, except the budget excludes unrealized gains and losses and changes to the liabilities for compensated absences and postemployment benefits other than pensions (OPEB). The financial statements record unrealized gains and losses, compensated absences, and OPEB as required by generally accepted accounting principles (GAAP).

First 5 uses an encumbrance system in the County's general ledger system, OFAS, to assist in controlling expenditures. Purchase orders, contracts, and other commitments for the expenditures of monies are recorded under this system in order to reserve applicable appropriations. Any encumbrances outstanding at year-end are included in committed fund balance as they do not constitute expenditures or liabilities.

First 5 San Mateo County
(A Discretely Presented Component Unit of the County of San Mateo)
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2020

NOTE 16 - BUDGETARY ACCOUNTING AND ENCUMBRANCES (concluded)

The net change in fund balance under budgetary basis on page 35 is reconciled to the net change in fund balance under GAAP basis on page 10 as follows:

Deficiency of revenues over expenditures/net change in fund balance – budgetary basis	\$ (112,688)
Changes in unrealized (gain)/loss on cash equivalents	<u>210,191</u>
Deficiency of revenues over expenditures/net change in fund balance – GAAP basis	<u>\$ 97,503</u>

NOTE 17 - CORONAVIRUS PANDEMIC

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) began to spread among various countries, including the United States. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S., including California, have declared a state of emergency and issued shelter-in-place orders in response to the outbreak. The immediate impact to First 5's operations includes restrictions on employees' and grantees and community based organizations' ability to work, and it is anticipated that the impacts from this pandemic will continue for some time. As of the report date, the financial impact of the coronavirus outbreak cannot be measured.

(A Discretely Presented Component Unit of the County of San Mateo)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)SCHEDULE OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCESBudget and Actual
For the Year Ended June 30, 2020

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget
Revenues:				
Tobacco tax	\$ 5,829,000	\$ 5,829,000	\$ 6,355,597	\$ 526,597
Investment earnings (losses)	156,458	201,458	217,243	15,785
Other grants	527,765	616,765	902,720	285,955
Other revenue	-	-	15,448	15,448
Total revenues	<u>6,513,223</u>	<u>6,647,223</u>	<u>7,491,008</u>	<u>843,785</u>
Expenditures:				
Salaries and benefits	1,502,319	1,502,319	1,444,974	57,345
Services and supplies	395,600	395,600	284,741	110,859
Contributions to local projects	<u>7,817,140</u>	<u>7,926,140</u>	<u>5,873,981</u>	<u>2,052,159</u>
Total expenditures	<u>9,715,059</u>	<u>9,824,059</u>	<u>7,603,696</u>	<u>2,220,363</u>
Excess of revenues over (under) expenditures	<u>\$ (3,201,836)</u>	<u>\$ (3,176,836)</u>	(112,688)	<u>\$ 3,064,148</u>
Fund balance, beginning of period			<u>11,723,535</u>	
Fund balance, end of period			<u>\$ 11,610,847</u>	

First 5 San Mateo County

Schedule 2

(A Discretely Presented Component Unit of the County of San Mateo)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

For the Year Ended June 30, 2020

	2020	2019	2018	2017	2016	2015
First 5's proportion of the collective net pension liability	0.12%	0.12%	0.11%	0.11%	0.11%	0.10%
First 5's proportionate share of the collective net pension liability	\$ 835,370	\$ 606,419	\$ 663,743	\$ 770,981	\$ 516,749	\$ 409,823
First 5's covered-employee payroll*	\$ 866,146	\$ 806,833	\$ 808,645	\$ 756,154	\$ 598,404	\$ 623,983
First 5's proportionate share of the collective net pension liability as a percentage of covered payroll	96.45%	75.16%	82.08%	101.96%	86.35%	65.68%
Plan fiduciary net position as a percentage of the total pension liability	88.46%	89.96%	87.49%	83.25%	87.53%	88.88%

The schedules present information to illustrate changes in First 5's proportionate share of the net pension liability over a ten year period when the information is available.

*In accordance with Statement No. 82 of the GASB, Covered Employee Payroll is the payroll on which contributions are based. Thus, these amounts may be different than shown in fiscal year ended 2016 and earlier reports.

First 5 San Mateo County

Schedule 3

(A Discretely Presented Component Unit of the County of San Mateo)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

SCHEDULE OF FIRST 5'S CONTRIBUTIONS - PENSION PLAN

For the Year Ended June 30, 2020

	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 235,766	\$ 228,829	\$ 198,644	\$ 176,870	\$ 182,614	\$ 170,517	\$ 204,061
Contributions in relation to the contractually required contribution	<u>235,766</u>	<u>228,829</u>	<u>198,644</u>	<u>176,870</u>	<u>182,614</u>	<u>170,517</u>	<u>204,061</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll*	\$ 928,408	\$ 866,146	\$ 806,833	\$ 808,645	\$ 756,154	\$ 598,404	\$ 623,983
Contributions as a percentage of covered payroll	25.39%	26.42%	24.62%	21.87%	24.15%	28.50%	32.70%

The schedules present information to illustrate changes in First 5's contributions over a ten year period when the information is available.

*In accordance with Statement No. 82 of the GASB, Covered Employee Payroll is the payroll on which contributions are based. Thus, these amounts may be different than shown in fiscal year ended 2016 and earlier reports.

First 5 San Mateo County

Schedule 4

(A Discretely Presented Component Unit of the County of San Mateo)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)
SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY

For the Year Ended June 30, 2020

	<u>2020</u>		<u>2019</u>		<u>2018</u>
First 5's proportion of the collective net OPEB liability	37.97%		14.34%		14.30%
First 5's proportionate share of the collective net OPEB liability	\$ 171,704	\$	145,618	\$	126,906
First 5's covered-employee payroll	\$ 866,146	\$	806,833	\$	808,645
First 5's proportionate share of the collective net OPEB liability as a percentage of covered payroll	19.82%		18.05%		15.69%
Plan fiduciary net position as a percentage of the total OPEB liability	77.47%		74.59%		75.76%

The schedules present information to illustrate changes in First 5's proportionate share of the net OPEB liability over a ten year period when the information is available.

First 5 San Mateo County

Schedule 5

(A Discretely Presented Component Unit of the County of San Mateo)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

SCHEDULE OF FIRST 5'S CONTRIBUTIONS - OPEB

For the Year Ended June 30, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Actuarially determined contribution	\$ 107,097	\$ 41,808	\$ 42,808
Contributions in relation to the actuarially determined contribution	<u>107,097</u>	<u>41,808</u>	<u>42,808</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 928,408	\$ 866,146	\$ 806,833
Contributions as a percentage of covered-employee payroll	11.54%	4.83%	5.31%

The schedules present information to illustrate changes in First 5's contributions over a ten year period when the information is available.

(A Discretely Presented Component Unit of the County of San Mateo)

REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)**SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS**

For the Year Ended June 30, 2020

	2020	2019	2018
Total OPEB Liability			
Service cost	\$ 59,957	\$ 22,343	\$ 23,857
Interest on total OPEB liability	103,589	36,012	40,073
Effect of economic/demographic gains or losses	(753)	6,033	(22,665)
Effect of assumptions changes or inputs	2,007	13,628	(73,676)
Benefit payments	(84,336)	(28,646)	(30,731)
Change in employers' proportionate share	108,878	-	-
Net change in total OPEB liability	189,342	49,370	(63,142)
Total OPEB liability, beginning	572,920	523,550	586,692
Total OPEB liability, ending (a)	<u>\$ 762,262</u>	<u>\$ 572,920</u>	<u>\$ 523,550</u>
Plan Fiduciary Net Position			
Employer contributions	\$ 110,715	\$ 35,360	\$ 42,808
Net investment income	80,395	24,148	26,522
Benefit payments	(84,336)	(28,646)	(30,731)
Administrative expenses	(563)	(204)	(178)
Change in employers' proportionate share	57,045	-	-
Net change in plan fiduciary net position	163,256	30,658	38,421
Plan fiduciary net position, beginning	427,302	396,644	358,223
Plan fiduciary net position, ending (b)	<u>\$ 590,558</u>	<u>\$ 427,302</u>	<u>\$ 396,644</u>
Net OPEB liability, ending (a)-(b)	<u>\$ 171,704</u>	<u>\$ 145,618</u>	<u>\$ 126,906</u>
Plan fiduciary net position as a percentage of the total OPEB liability	77.47%	74.58%	75.76%
Covered-employee payroll	\$ 866,146	\$ 806,833	\$ 808,645
Net OPEB liability as a percentage of covered-employee payroll	19.82%	18.05%	15.69%

The schedules present information to illustrate changes in First 5's changes in the net OPEB liability over a ten year period when the information is available.

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

Board of Commissioners
First 5 San Mateo County
San Mateo, 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 major fund of First 5 San Mateo County, a discretely presented component unit of the County of San Mateo, California, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise First 5 San Mateo County's basic financial statements as listed in the table of contents, and have issued our report thereon dated September 23, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered First 5 San Mateo County'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of First 5 San Mateo County's internal control. Accordingly, we do not express an opinion on the effectiveness of First 5 San Mateo County'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 First 5 San Mateo County'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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

R.J. Ricciardi, Inc.

R.J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
September 23, 2020

INDEPENDENT AUDITORS' REPORT ON
 STATE COMPLIANCE

Board of Commissioners
 First 5 San Mateo County
 San Mateo, California

Compliance

We have audited First 5 San Mateo County's compliance with the requirements specified in the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, issued by the State Controller's Office, applicable to First 5 San Mateo County's statutory requirements identified below for the 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 First 5 San Mateo County's compliance with the requirements referred to above based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, issued by the State Controller's Office. Those standards and the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the requirements referred to above that could have a direct and material effect on the statutory requirements listed below occurred. An audit includes examining, on a test basis, evidence about First 5 San Mateo County'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 First 5 San Mateo County's compliance with those requirements. In connection with the audit referred to above, we selected and tested transactions and records to determine First 5 San Mateo County's compliance with the state laws and regulations applicable to the following items:

<u>Description</u>	<u>Audit Guide Procedures</u>	<u>Procedures Performed</u>
Contracting and Procurement	6	Yes
Administrative Costs	3	Yes
Conflict-of-Interest	3	Yes
County Ordinance	4	Yes
Long-range Financial Plans	2	Yes
Financial Condition of the Commission	1	Yes
Program Evaluation	3	Yes
Salaries and Benefit Policies	2	Yes

Opinion

In our opinion, First 5 San Mateo County 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, 2020.

R.J. Ricciardi, Inc.

R.J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
September 23, 2020

September 23, 2020

Board of Commissioners
First 5 San Mateo County
San Mateo, California

We have audited the financial statements of the governmental activities and the major fund of First 5 San Mateo County for the year ended June 30, 2020. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated July 13, 2020. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by First 5 San Mateo County are described in Note 2 to the financial statements.

We noted no transactions entered into by First 5 San Mateo County during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We evaluated the key factors and assumptions used to develop the accounting estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 23, 2020.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to First 5 San Mateo County’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as First 5 San Mateo County’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Commissioners and management of First 5 San Mateo County and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

R.J. Ricciardi, Inc.

R.J. Ricciardi, Inc.
Certified Public Accountants