Attachment 10A

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

SAN MATEO, CALIFORNIA

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2021

FIRST 5 SAN MATEO COUNTY
FOR THE YEAR ENDED JUNE 30, 2021

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FINANCIAL SECTION

BROWN
ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the 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 the First 5 San Mateo County (First 5), a discretely presented component unit of the County of San Mateo, California, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise First 5's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion 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 First 5'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 First 5'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.

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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 as of June 30, 2021, 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 and the Required Supplementary Information (RSI), as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, 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 RSI 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 October 1, 2021, on our consideration of First 5's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of First 5'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's internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
October 1, 2021

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, 2021. 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, 2021, First 5 contributed over $4.1 million in a wide variety of local programs and services for young children and their families.

Government-Wide Financial Analysis

- The assets and deferred outflows of resources of First 5 exceeded its liabilities and deferred inflows of resources as of June 30, 2021, by $12,073,008 *(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, 2021, was $12,577,997. Of this amount, $8,821,443 was committed for current executed grants and contracts and for contract amendments not yet executed (obligated); the remaining $3,756,554 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 decreased by $1,617,638 or 28.0% 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, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between them two reported as net position.

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 6 and 7 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 8 through 11 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 12 through 32 of this report.

Government-Wide Financial Analysis

As of June 30, 2021, First 5 assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $12,073,008.

Net Position	2021	2020 (As Restated)	Change	%
Total assets	$ 13,945,396	$ 13,480,916	$ 464,480	3.4%
Total deferred outflows of resources	972,465	801,047	171,418	21.4%
Total current liabilities	1,414,015	1,982,614	(568,599)	-28.7%
Total long-term liabilities	1,261,475	1,079,701	181,774	16.8%
Total deferred inflows of resources	169,363	140,227	29,136	20.8%
Net position	12,073,008	11,079,421	993,587	9.0%

Fiscal Year 2021 Compared to Fiscal Year 2020

- At the end of fiscal year 2021, total assets increased by $464,480 (3.4%) when compared to fiscal year 2020. The increase was primarily due to the decrease in grant and vendor payments made during the year.
- Total deferred outflows of resources increased by $171,418 (21.4%) due to a change in deferred pension and other postemployment benefits (OPEB) actuarial assumptions.
- Total liabilities decreased by $386,825 (12.6%). The decrease was mainly due to a decrease in vendor accruals and a decrease in unearned revenue.
- Total deferred inflows of resources increased by $29,136 (20.8%) due to a change in deferred pension and OPEB actuarial assumptions.
- Net position increased by $993,587 (9.0%). 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	2021	2020 (As Restated)	Change	%
Program revenues	$ 7,060,527	$ 6,943,317	$ 117,210	1.7%
General revenues (losses)	(36,386)	442,882	(479,268)	-108.2%
Program expenses	(6,030,554)	(7,627,729)	1,597,175	20.9%
Change in net position	993,587	(241,530)	1,235,117	-511.4%
Net position, beginning of year, as restated	11,079,421	11,320,951	(241,530)	-2.1%
Net position, end of year	$ 12,073,008	$ 11,079,421	$ 993,587	9.0%

Fiscal Year 2021 Compared to Fiscal Year 2020

- Program revenues increased by $117,210 (1.7%) and general revenues decreased by $479,268 (108.2%). The increase in program revenues was primarily due to increases in other grants. The decrease in general revenues was primarily due to lower investment earnings in 2021.
- Program expenses decreased by $1,597,175 (20.9%). The majority of the decrease was due to a decrease in contributions to local projects.

Fund Financial Analysis

First 5 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. As of June 30, 2021, First 5 reported a fund balance of $12,577,997, an increase of $1,040,969 (9.0%) from the prior year. The increase was mainly due to a decrease in expenditures of 21.3%. Of the total, $8,821,443 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.

Debt Administration

At the end of the current fiscal year, First 5's long-term obligations consisted of compensated absences in the amount of $136,503 and net pension and net OPEB liabilities of $1,155,541 and $16,047, respectively. Refer to Note 6 Long-Term Debt for additional information.

Budgetary Highlights

First 5 operating budget for fiscal year 2020-2021 expenditures totaled $8.7 million. The budget closeout revealed an estimated savings of $2.7 million, which is the excess of approved budgeted expenditures compared to actual expenditures. A key factor accounting for the $2.7 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 33 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.

BASIC FINANCIAL STATEMENTS

FIRST 5 SAN MATEO COUNTY
STATEMENT OF NET POSITION
JUNE 30, 2021

	Governmental Activities
ASSETS	
Cash and cash equivalents	$ 13,158,713
Intergovernmental receivable, net	754,887
Interest receivable, net	31,796
Total assets	13,945,396
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources - Pension	832,233
Deferred outflows of resources - OPEB	140,232
Total deferred outflows of resources	972,465
LIABILITIES	
Accounts payable	1,224,634
Salaries and benefits payable	72,961
Unearned revenue	69,804
Current portion of long-term debt:	
Compensated absences	46,616
Long-term liabilities:	
Net pension liability	1,155,541
Net OPEB liability	16,047
Compensated absences	89,887
Total liabilities	2,675,490
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources - OPEB	169,363
Total deferred inflows of resources	169,363
NET POSITION	
Unrestricted	12,073,008
Total net position	$ 12,073,008

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

FIRST 5 SAN MATEO COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021

	Governmental Activities
Program expenses:	
Salaries and wages	$ 706,076
Employee benefits	253,160
Retirement benefits	592,662
General office supplies	21,995
Professional services	239,711
Other administrative expenses	50,607
Contributions to local projects	4,166,343
Total program expenses	6,030,554
Program revenues:	
Operating grants and contributions:	
Tobacco tax	6,316,687
Other grants	743,840
Total program revenues	7,060,527
Net program revenues	1,029,973
General revenues:	
Investment net earnings (losses)	(47,606)
Other revenue	11,220
Total general revenues	(36,386)
Change in net position	993,587
Net position, beginning of year, as restated	11,079,421
Net position, end of year	$ 12,073,008

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

FIRST 5 SAN MATEO COUNTY
BALANCE SHEET – GOVERNMENTAL FUND
JUNE 30, 2021

ASSETS	
Cash and cash equivalents	$ 13,158,713
Intergovernmental receivable, net	754,887
Interest receivable, net	31,796
Total assets	$ 13,945,396
LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	$ 1,224,634
Salaries and benefits payable	72,961
Unearned revenue	69,804
Total liabilities	1,367,399
Fund balance:	
Committed	8,821,443
Assigned	3,756,554
Total fund balance	12,577,997
Total liabilities and fund balance	$ 13,945,396

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

FIRST 5 SAN MATEO COUNTY
RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUND
TO THE STATEMENT OF NET POSITION
JUNE 30, 2021

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

Total Governmental Fund Fund Balance	$ 12,577,997
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	972,465
Net pension liability	(1,155,541)
Net OPEB liability	(16,047)
Deferred inflows of resources	(169,363)
Compensated absences	(136,503)
Net Position of Governmental Activities	$ 12,073,008

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

FIRST 5 SAN MATEO COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2021

Revenues:	
Tobacco tax	$ 6,316,687
Investment net earnings (losses)	(47,606)
Other grants	743,840
Other revenue	11,220
Total revenues	7,024,141
Expenditures:	
Salaries and benefits	1,504,516
Services and supplies	312,313
Contributions to local projects	4,166,343
Total expenditures	5,983,172
Net change in fund balance	1,040,969
Fund balance, beginning of year, as restated	11,537,028
Fund balance, end of year	$ 12,577,997

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

FIRST 5 SAN MATEO COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2021

Net Change in Fund Balance - Governmental Fund	$ 1,040,969
Amounts reported in the Statement of Activities are different because:	
Change in the 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	171,418
Change in net pension liability	(320,171)
Change in net OPEB liability	155,657
Change in deferred inflows of resources	(29,136)
Change in compensated absences	(25,150)
Change in Net Position of Governmental Activities	$ 993,587

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

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 and 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 general 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, and 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.

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.

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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. Unearned Revenue

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied.

D. Net Position

The government-wide financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

Net Investment in Capital Assets – 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 net position with external restrictions imposed on its use 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.

E. Deferred Outflows and Inflows of Resources

First 5 records deferred outflows of resources for the 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.

First 5 also records deferred inflows of resources for the 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.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. 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.

G. 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.

H. 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.

I. 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, 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. County Counsel provides legal representation for any claims or litigation for First 5.

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

J. 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, 2021, First 5 received $6,316,687, which amounts to 90.0% 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.

K. 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 plan's fiduciary net position have been determined on the same basis as they are reported by San Mateo County Employees Retirement Association (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 2 – <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u> (Continued)

L. 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 time, and holiday are cashed out upon separation.

NOTE 3 – <u>CASH AND CASH EQUIVALENTS</u>

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 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.

The County Pool is a governmental investment pool managed and directed by the elected County Treasurer (Treasurer). The County Pool is not registered with the Securities and Exchange Commission as an investment company. The 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 County 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 of Supervisors reviews the County's Investment Policy annually, and all amendments to the policy must be approved by the County Board of Supervisors.

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 $13,158,713 as of June 30, 2021. The contractual withdrawal values (book values) were $13,110,428 as of June 30, 2021.

Fair Value of Investments

First 5 categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

As of June 30, 2021, First 5 held no individual investments. All funds are invested in the County Pool. First 5's proportionate share of investments in the County Pool at June 30, 2021, of $12,158,713 is an uncategorized input not defined as a Level 1, Level 2, or Level 3 input.

The County's financial statements may be obtained by contacting the Office of the Controller, 555 County Center, 4th Floor, Redwood City, CA 94063.

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.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum % Allowed in Portfolio	Maximum % Investment in One Issuer
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

At June 30, 2021, the County Pool was invested in the following securities:

Investment Type	Interest Rate	Maturities	Weighted Average Maturity (Years)	Rating
Certificates of deposit	0.29%-2.04%	02/04/22-03/17/23	1.1	A-1, A-1+, AA-, A+
LAIF	0.05%-0.22%	07/01/21	0.1	AAA, NR
U.S. Treasury notes	0.12%-2.88%	07/31/21-05/31/26	0.3	AA+
Federal agency floating rate securities	0.08%-0.19%	08/09/21-11/08/21	0.1	AA+
Federal agency securities	0.00%-5.25%	07/02/21-11/07/25	0.4	AA+
U.S. Instrumentalities	0.18%-2.75%	07/20/21-10/28/25	0.2	AAA
Floating rate securities	0.54%-1.49%	11/16/21-09/16/24	0.5	A-, A+, AA+
Corporate bonds	0.35%-4.00%	08/20/21-08/15/25	0.6	AA-, A-, A, AA, A+, AA+, BBB+
Money market funds	0.00%	07/01/21	0.0	AAA
Asset backed securities	0.37%-2.60%	12/15/22-08/15/25	1.3	AAA, NR
Municipal bonds	0.67%-3.40%	08/01/23-08/01/25	0.6	AA-, AA, AA+, AAA

NOTE 3 – CASH AND CASH EQUIVALENTS (Continued)

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, 2021, the County Pool had a weighted average maturity of 1.81 years and its investment in floating rate securities was $60.0 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 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.

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 restrict the maximum percentages allowed in the portfolio and per issuer. As of June 30, 2021, the County Pool has five percent or more of its total investments with the following issuers: 47.4% in United States Treasury Notes, 17.7% in Federal Agency Securities, 9.1% in Corporate Bonds, 14.2% in US Instrumentalities, and 4.2% 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 Pool does not invest in foreign securities.

NOTE 4 – INTERGOVERNMENTAL RECEIVABLE

Intergovernmental receivable represents revenues that were received after the year June 30, 2021:

Proposition 10 allocation - June	$	364,784
Surplus Money Investment Fund (SMIF)		3,600
Impact Grant		239,076
Impact Hub Grant		34,301
Sequoia Healthcare Grant		106,692
ACES Aware Grant		6,434
Total	$	754,887

NOTE 5 – ACCOUNTS PAYABLE

Accounts payable is comprised of funding due to grantees and amounts due to vendors for services and supplies at the year ended June 30, 2021:

Funding due to grantees	$ 1,162,993
Services and supplies	61,641
Total	$ 1,224,634

NOTE 6 – LONG-TERM DEBT

The following is a summary of First 5's long-term liabilities as of June 30, 2021:

	Balance June 30, 2020	Additions	Retirements	Balance June 30, 2021	Due Within One Year
Long-Term Debt					
Compensated absences	$ 111,353	$ 51,950	$ (26,800)	$ 136,503	$ 46,616
Other Long-Term Debt					
Net pension liability	835,370	320,171	-	1,155,541	-
Net OPEB liability	171,704	-	(155,657)	16,047	-
Total Other Long-Term Debt	1,007,074	320,171	(155,657)	1,171,588	-
Total	$ 1,118,427	$ 372,121	$ (182,457)	$ 1,308,091	$ 46,616

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 1937 Act, board members include the County Treasurer, two general members of SamCERA elected by their peers, four members appointed by the County Board of Supervisors, 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.

NOTE 7 – EMPLOYEES' RETIREMENT PLAN (Continued)

Plan Description (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 (COLAs) 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 of Supervisors 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 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 $268,432 for the year ended June 30, 2021.

For the year ended June 30, 2021, the contributions recognized as part of pension expense for the plan were as follows:

Contributions – employer	$	268,432
Contributions – employee		102,218

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

As of June 30, 2021, First 5 reported $1,155,541 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, 2020, 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, 2020. 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, 2020, which was no change from its share measured as of June 30, 2019.

NOTE 7 – EMPLOYEES' RETIREMENT PLAN (Continued)

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

For the year ended June 30, 2021, First 5 recognized pension expense of $352,989. At June 30, 2021, 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	$ 268,432	$ -
Changes in pension-related assumptions	164,107	-
Change in proportionate share of net pension liability	191	-
Difference in actual and proportionate share of pension contributions	2,107	-
Differences between expected and actual pension experience	153,349	-
Net difference between projected and actual earnings on pension investments	244,047	-
Total	$ 832,233	$ -

First 5 reported $268,432 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, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending June 30,	Principal
2022	$ 157,674
2023	163,397
2024	156,336
2025	86,394
Total	$ 563,801

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

NOTE 7 – EMPLOYEES' RETIREMENT PLAN (Continued)

Actuarial Methods and Assumptions

Measurement Date	June 30, 2020
Valuation Date	June 30, 2020
Actuarial Cost Method	Individual Entry Age Normal
Actuarial Experience Study	July 1, 2017 to April 30, 2020
Amortization Method	Level Percentage of Projected Payroll
Amortization Period	Unfunded actuarial accrued liability (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 (1)	6.67%
Growth in Active Membership	0.00%
Inflation Rate (Consumer Price Index (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 PubG-2010 Mortality Table for respective genders projected with MP-2014 Ultimate Projection Scale. See the valuation report as of June 30, 2020, for details.

(1) Differs from the actuarial valuation for funding purposes due to addition of administrative load of 0.17%.

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%.

Asset Class	Target Allocation	Long-Term Expected Rate of Return
Public Equity	40%	4.7%
Fixed Income	26%	0.6%
Alternatives	12%	5.0%
Risk Parity	4%	4.9%
Inflation Hedge	17%	4.6%
Liquidity	1%	-0.1%
Total	100%	

NOTE 7 – EMPLOYEES' RETIREMENT PLAN (Continued)

Discount Rate

The investment rate of return assumption used to measure the total pension liability was 6.67% as of June 30, 2021, an increase in comparison to 6.50% from the prior 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 1937 Act. In addition, the County intends to contribute additional amounts over the next 10 years to accelerate the elimination of the UAAL. 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:

	1% Decrease 5.67%	Current Discount Rate 6.67%	1% Increase 7.67%
Total pension liability	$ 8,496,194	$ 7,434,355	$ 6,569,737
Fiduciary net position	6,278,814	6,278,814	6,278,814
Net pension liability	2,217,380	1,155,541	290,923

Pension Plan Fiduciary Net Position

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

Payable to the Pension Plan

At June 30, 2021, First 5 has paid all contributions to the pension plan required for the year ended June 30, 2021.

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.

NOTE 8 – <u>OTHER POSTEMPLOYMENT BENEFITS (OPEB)</u> (Continued)

<u>Plan Description</u> (Continued)

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.

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 years of service will be credited 96 hours, 15 years of service will be credited 192 hours, and 20 years 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, 2020 pension valuation for SamCERA.

Contributions. First 5's contribution is an amount equal to the actuarially determined contribution (ADC) every 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 the year ended June 30, 2021, were $115,537.

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Employees Covered by Benefit Terms

At June 30, 2021 (using a June 1, 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 payments	-
Total active plan members	9

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

As of June 30, 2021, First 5 reported $16,047 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, 2020, 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, 2020. 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 0.40% as of June 30, 2020, which was an increase of 0.38% from its share measured as of June 30, 2019.

For the year ended June 30, 2021, First 5 recognized OPEB expense of $52,976. At June 30, 2021, 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	$ 115,537	$ -
Changes of OPEB-related assumptions	9,372	153,528
Differences between expected and actual OPEB experience	3,507	15,835
Net difference between projected and actual earnings on OPEB investments	11,816	-
Total	$ 140,232	$ 169,363

First 5 reported $115,537 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, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized as OPEB expense as follows:

Year Ending June 30,	Principal
2022	$ (24,918)
2023	(24,515)
2024	(25,100)
2025	(15,216)
2026	(16,679)
Thereafter	(38,240)
Total	$ (144,668)

The total OPEB liability in the June 30, 2020 actuarial valuation was determined using the information below.

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Actuarial Methods and Assumptions

Measurement Date	June 30, 2020
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 Ultimate Projection Scale.
Healthcare Cost Trend	Adjusted to reflect the expected costs due to ACA
	2021-22 5.10%
	2022-23 5.10%
	2023-24 5.10%
	2024-25 5.00%
	2025-26 5.00%
	2026-27 4.90%
	2027-28 4.90%
	2028-29 4.80%
	2029-30 4.80%
	2031-40 4.80%
	2041-50 4.90%
	2051-60 4.90%
	2061-73 4.20%
	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.

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:

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

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

Discount Rate

The investment rate of return assumption used to measure the total OPEB liability was 6.25% as of June 30, 2021, which was the same as the prior 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 5.75%, 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:

	1% Decrease 5.25%	Current Discount Rate 6.25%	1% Increase 7.25%
Total OPEB liability	$ 120,885	$ 110,328	$ 101,035
Fiduciary net position	94,281	94,281	94,281
Net OPEB liability	26,604	16,047	6,754

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:

	1% Decrease	Current Trend Rates	1% Increase
Total OPEB liability	$ 99,909	$ 110,328	$ 122,523
Fiduciary net position	94,281	94,281	94,281
Net OPEB liability	5,628	16,047	28,242

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, 2020, are presented below. First 5's proportionate share was 0.40%.

NOTE 8 – OTHER POSTEMPLOYMENT BENEFITS (OPEB) (Continued)

OPEB Plan Fiduciary Net Position (Continued)

	Increase/(Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2019	$ 762,261	$ 590,557	$ 171,704
Changes for the year:			
Service cost	4,480	-	4,480
Interest of total OPEB liability	7,505	-	7,505
Effect of economic/demographic gains or losses	(386)	-	(386)
Effect of assumptions changes or inputs	(9,187)	-	(9,187)
Benefit payments	(6,036)	(6,036)	-
Employer contributions	-	7,622	(7,622)
Net investment income	-	4,456	(4,456)
Administrative expenses	-	(44)	44
Change in employer's proportionate share	(648,309)	(502,274)	(146,035)
Net changes	(651,933)	(496,276)	(155,657)
Balance at June 30, 2020	$ 110,328	$ 94,281	$ 16,047

Payable to the OPEB Plan

At June 30, 2021, First 5 has paid all contributions to the OPEB plan required for the year ended June 30, 2021.

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 Board of Commissioners. 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 Board of Commissioners or (2) a body (for example, a budget or finance committee) or official to which First 5's Board of Commissioners 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.

NOTE 9 – FUND BALANCE (Continued)

At 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	$ 8,154,528
Others	666,915
Assigned	3,756,554
Total	$ 12,577,997

NOTE 10 – REVENUES

Tobacco Tax and Other Funding

First 5 receives a proportionate share of Proposition 10 money from First 5 California 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.

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	$ 4,579,191
Surplus Money Investment Fund	3,600
Proposition 56	1,376,667
Impact Grant	357,229
Total	$ 6,316,687

Other Grants

Other grants are comprised of:

Help Me Grow Grant	$ 130,196
Help Me Grow Call Center Grant	35,000
Build-Up Kids Grant	130,000
Impact HUB Grant	34,301
ACES Aware Grant	35,423
Special Needs Grant	263,028
Mental Health Services Act – Proposition 63	78,296
Mental Health Grant	35,542
Equity Grant	1,000
Wellness Grant	1,054
Total	$ 743,840

NOTE 10 – REVENUES (Continued)

Investment Earnings (Losses)

Investment losses of $47,606 for the year ended June 30, 2021, are comprised 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	$	145,291
Change in fair value of investments		(192,897)
Total	$	(47,606)

NOTE 11 – RETIREMENT BENEFITS

Retirement benefits are comprised of:

First 5 retirement contribution	$	268,432
Pension expense (changes in net pension liability)		352,989
OPEB expense (changes in net OPEB liability)		52,976
OPEB adjustment		(87,537)
Other retirement benefits		5,802
Total	$	592,662

NOTE 12 – CONTRIBUTIONS TO LOCAL PROJECTS

Starting in fiscal year 2009-2010, First 5 awarded $20,167,000 in Cycle One funding to local projects. Cycle One had a three-year term from fiscal year 2009-2010 to fiscal year 2011-2012. First 5 awarded $26,188,072 in Cycle Two funding to local projects. Cycle Two had a three-year term from fiscal year 2011-2012 to fiscal year 2013-2014 and had been extended through December 31, 2015. First 5 awarded $30,791,717 in Cycle Three funding to local projects. Cycle Three had a five-year term from fiscal year 2015-2016 to fiscal year 2019-2020 and has been extended through December 31, 2021.

First 5 allocated $18,900,000 in funding for Cycle Four investments, as per First 5's 2020-2025 Strategic plan. Cycle Four funding comprises two funding periods, fiscal year 2020-2023 and fiscal year 2023-2025. First 5 awarded $9,948,853 in fiscal year 2020-2023 of Cycle Four funding to local projects. Due to delayed local project executions as the impacts of the pandemic, during fiscal year 2020-2021, First 5 extended Cycle Three funding projects and implemented Cycle Four projects simultaneously.

Grant contributions for the year ended June 30, 2021, include:

Cycle Three Funding:		
ABILITYPATH (Watch Me Grow)	$	78,485
Child Care Coordinating Council (Build Up Kids for San Mateo County)		229,584
Ravenswood Family Health Center - South (Oral Health Services)		4,100
San Mateo County Office of Education (EQ+IP)		307,638
San Mateo County Office of Education (Family Eng. Prof Development)		15,667
Silicon Valley Community Foundation (Pre-K to 3rd Grade Articulation and Alignment)		37,859
Star Vista (Early Childhood Services - Healthy Homes)		3,975
Contractors:		
Cheryl Oku (Help Me Grow Consultation Services)		29,070

NOTE 12 – CONTRIBUTIONS TO LOCAL PROJECTS (Continued)

Cycle Three Funding (Continued):		
Hamai Consulting (Focus Group)		28,050
Learning for Action (Trauma Resiliency - Informed Systems Initiatives)		12,201
Silicon Valley Community Foundation (Mini Parent Story Projects: School Readiness)		24,479
Cycle Three Funding Total	$	771,108
Cycle Four Funding:		
4Cs (Parents at The Table)	$	5,121
ABILITYPATH (Integrated Systems for Children with Special Needs)		872,755
CORA (The Family Resilience Project)		163,329
Family Connections (Thriving Families Project)		200,001
Institute for Human & Social Development, Inc. (Family Engagement Unity Project)		43,166
Peninsula Family Services (Therapeutic Child Development Centers)		160,000
Puente de la Costa Sur (Suenos Unidos Parent Participatory Preschool)		100,000
Ravenswood Family Health Center - South (Oral Health Services)		19,134
San Mateo County Office of Education (EQ+IP)		745,417
San Mateo County Office of Education (Family Eng. System Support)		60,695
San Mateo County Office of Education (IMPACT)		310,196
San Mateo County Office of Education (IMPACT HUB 4)		31,086
Star Vista (Early Childhood Services - Healthy Homes)		196,225
Contractors:		
Cheryl Oku (Help Me Grow Consultation Services)		66,700
Children Now (Improve Access to Oral Health)		2,396
Easy Bay Agency for Children (Trauma & Resiliency - Informed Systems Initiatives)		11,760
First 5 Santa Clara (F5 Bay Area Avenue to Sustainability)		9,261
Hamai Consulting (Trauma & Resiliency - Informed Systems Initiatives)		57,196
Persimmony International (Online Grant Mgt System)		87,287
Viva Social Impact (ACS AWARE)		22,723
Viva Social Impact (Community Consultation)		157,169
Viva Social Impact (Decals - Early Childhood Education Teacher Appreciation)		13,821
Viva Social Impact (F5SMC Communications Web)		50,000
Other		9,797
Cycle Four Funding Total	$	3,395,235
Total	$	4,166,343

NOTE 13 – GRANT COMMITMENTS

First 5's commitments to grantees as of June 30, 2021, were as follows:

Cycle Three Funding	$	24,040
Cycle Four Funding		8,797,403
Total	$	8,821,443

NOTE 14 – PROGRAM EVALUATION

First 5 spent $248,428 on program evaluation during the year ended June 30, 2021.

NOTE 15 – LEASE OBLIGATIONS

First 5 leases office facilities and other equipment categorized as noncancelable operating leases expiring on October 31, 2021. First 5 signed a new Lease Amendment for the next 4-year lease term, which will expire on October 31, 2025. Total costs for such leases were $93,308 for the year ended June 30, 2021. The future minimum lease payments for the office facilities lease are as follows:

Year Ending June 30,		
2022	$	64,189
2023		96,252
2024		96,252
2025		96,252
2026 (through October 31, 2025)		33,084
Total	$	386,029

NOTE 16 – RELATED PARTY TRANSACTIONS

The required composition of the Board of Commissioners includes members from the County and other local governments, the San Mateo County Superintendent of Schools, and community based organizations which serve children ages 0-5.

First 5 and San Mateo County Behavioral Health and Recovery Services Department have jointly funded the Trauma & Resiliency Informed System Initiatives program through Proposition 63 Mental Health Services Act Prevention and First 5's strategic plan.

Expenditures of leverage funding grant awards from County of San Mateo Departments to First 5 for the year ended June 30, 2021, were as follows:

San Mateo County Behavioral Health and Recovery Services Department	$	78,297
Total	$	78,297

NOTE 17 – PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2021, First 5 restated Net Position and Fund Balance as follows:

Net Position		
Beginning net position, as previously reported	$	11,394,421
Correction of an error in other grants revenue		(315,000)
Beginning net position, as restated	$	11,079,421
Fund Balance		
Beginning fund balance, as previously reported	$	11,852,028
Correction of an error in unearned grant revenue		(315,000)
Beginning fund balance, as restated	$	11,537,028

(1) To reduce other grants incorrectly recognized as revenues in fiscal year 2019-2020 that were earned in fiscal year 2020-2021.

NOTE 18 – SUBSEQUENT EVENTS

First 5 has evaluated subsequent events through October 1, 2021, the date which the financial statements were available to be issued. There were no subsequent events to disclose.

NOTE 19 – 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, declared a state of emergency and issued shelter-in-place orders in response to the outbreak. The impacts to First 5's operations included 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. At the beginning of the fiscal year 2020-2021, First 5 granted no-cost extensions through December 31, 2020, for its Cycle Three funding projects. Many service delivery programs shifted from in-person to virtual supports for families, providers, and children. In some cases, pre-schools were open, however, comprehensive services were delayed or shifted. Although COVID-19 happened, First 5 was able to fully implement the procurement processes and implementation of the new strategic plan 2020-2025. These new projects of Cycle Four funding began their work starting July 2020.

REQUIRED SUPPLEMENTARY INFORMATION

FIRST 5 SAN MATEO COUNTY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2021

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget
Revenues:				
Tobacco tax	$ 5,464,000	$ 5,464,000	$ 6,316,687	$ 852,687
Investment interest	85,467	145,467	145,291	(176)
Other grants	803,000	893,605	743,840	(149,765)
Other revenue	-	-	11,220	11,220
Total revenues	6,352,467	6,503,072	7,217,038	713,966
Expenditures:				
Salaries and benefits	1,602,022	1,602,022	1,504,516	97,506
Services and supplies	388,500	388,500	312,313	76,187
Contributions to local projects	5,633,000	6,698,773	4,166,343	2,532,430
Total expenditures	7,623,522	8,689,295	5,983,172	2,706,123
Net change in fund balance	$ (1,271,055)	$ (2,186,223)	1,233,866	$ 3,420,089
Fund balance, beginning of year			11,610,847	
Fund balance, end of year			$ 12,844,713	

Budget to GAAP reconciliation:

Actual revenue on a budgetary basis	$ 7,217,038
Differences - budget to GAAP	
For budgetary purposes, investment earnings do not include unrealized gains/(losses) on investments	(192,897)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance	$ 7,024,141

FIRST 5 SAN MATEO COUNTY
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2021

	2021	2020	2019	2018	2017	2016	2015
First 5's proportion of the collective net pension liability	0.12%	0.12%	0.12%	0.11%	0.11%	0.11%	0.10%
First 5's proportionate share of the collective net pension liability	$ 1,155,541	$ 835,370	$ 606,419	$ 663,743	$ 770,981	$ 516,749	$ 409,823
First 5's covered payroll*	928,408	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	124.46%	96.45%	75.16%	82.08%	101.96%	86.35%	65.68%
Plan fiduciary net position as a percentage of the total pension liability	84.46%	88.46%	89.96%	87.49%	83.25%	87.53%	88.88%

The schedule presents 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 GASB Statement No. 82, covered 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 OF FIRST 5'S CONTRIBUTIONS – PENSION PLAN
FOR THE YEAR ENDED JUNE 30, 2021

	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	$ 268,432	$ 235,766	$ 228,829	$ 198,644	$ 176,870	$ 182,614	$ 170,517	$ 204,061
Contributions in relation to the contractually required contribution	268,432	235,766	228,829	198,644	176,870	182,614	170,517	204,061
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll*	$ 949,122	$ 928,408	$ 866,146	$ 806,833	$ 808,645	$ 756,154	$ 598,404	$ 623,983
Contributions as a percentage of covered payroll	28.28%	25.39%	26.42%	24.62%	21.87%	24.15%	28.50%	32.70%

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

*In accordance with GASB Statement No. 82, covered payroll is the payroll on which contributions are based for the fiscal year in which the expenditure was incurred. Thus, these amounts may be different than shown in fiscal year ended 2016 and earlier reports.

FIRST 5 SAN MATEO COUNTY
SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
FOR THE YEAR ENDED JUNE 30, 2021

	2021	2020	2019	2018
First 5's proportion of the collective net OPEB liability	0.40%	0.38%	0.14%	0.14%
First 5's proportionate share of the collective net OPEB liability	$ 16,047	$ 171,704	$ 145,618	$ 126,906
First 5's covered payroll	928,408	866,146	806,833	808,645
First 5's proportionate share of the collective net OPEB liability as a percentage of covered payroll	1.73%	19.82%	18.05%	15.69%
Plan fiduciary net position as a percentage of the total OPEB liability	85.46%	77.47%	74.59%	75.76%

The schedule presents information to illustrate changes in First 5's proportionate share of the net other postemployment benefits (OPEB) liability over a ten year period when the information is available.

FIRST 5 SAN MATEO COUNTY
SCHEDULE OF FIRST 5'S CONTRIBUTIONS – OPEB
FOR THE YEAR ENDED JUNE 30, 2021

	2021	2020	2019	2018
Actuarially determined contribution	$ 115,537	$ 107,097	$ 41,808	$ 42,808
Contributions in relation to the actuarially determined contribution	115,537	107,097	41,808	42,808
Contribution deficiency (excess)	$ -	$ -	$ -	$ -
Covered payroll*	$ 949,122	$ 928,408	$ 866,146	$ 806,833
Contributions as a percentage of covered payroll	12.17%	11.54%	4.83%	5.31%

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

*Covered payroll is the payroll on which contributions are based for the fiscal year in which the expenditure was incurred.

FIRST 5 SAN MATEO COUNTY
SCHEDULE OF CHANGES IN THE NET OPEB LIABILITY AND RELATED RATIOS
FOR THE YEAR ENDED JUNE 30, 2021

	2021	2020	2019	2018
Total OPEB Liability				
Service cost	$ 4,480	$ 59,957	$ 22,343	$ 23,857
Interest on total OPEB liability	7,505	103,589	36,012	40,073
Effect of economic/demographic gains or losses	(386)	(753)	6,033	(22,665)
Effect of assumptions changes or inputs	(9,187)	2,007	13,628	(73,676)
Benefit payments	(6,036)	(84,336)	(28,646)	(30,731)
Change in employers' proportionate share	(648,309)	108,877	-	-
Net change in total OPEB liability	(651,933)	189,341	49,370	(63,142)
Total OPEB liability, beginning	762,261	572,920	523,550	586,692
Total OPEB liability, ending (a)	$ 110,328	$ 762,261	$ 572,920	$ 523,550
Plan Fiduciary Net Position				
Employer contributions	$ 7,622	$ 110,715	$ 35,360	$ 42,808
Net investment income	4,456	80,395	24,148	26,522
Benefit payments	(6,036)	(84,336)	(28,646)	(30,731)
Administrative expenses	(44)	(563)	(204)	(178)
Change in employers' proportionate share	(502,274)	57,044	-	-
Net change in plan fiduciary net position	(496,276)	163,255	30,658	38,421
Plan fiduciary net position, beginning	590,557	427,302	396,644	358,223
Plan fiduciary net position, ending (b)	$ 94,281	$ 590,557	$ 427,302	$ 396,644
Net OPEB liability (a)-(b)	$ 16,047	$ 171,704	$ 145,618	$ 126,906
Plan fiduciary net position as a percentage of the total OPEB liability	85.46%	77.47%	74.58%	75.76%
Covered payroll	$ 928,408	$ 866,146	$ 806,833	$ 808,645
Net OPEB liability as a percentage of covered payroll	1.73%	19.82%	18.05%	15.69%

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

COMPLIANCE SECTION

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

To the 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 the First 5 San Mateo County (First 5), a discretely presented component unit of the County of San Mateo, California, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise First 5's basic financial statements, and have issued our report thereon dated October 1, 2021.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered First 5's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of First 5's internal control. Accordingly, we do not express an opinion on the effectiveness of First 5'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 First 5'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.

BAKERSFIELD
4200 Truxtun Avenue, Suite 300
Bakersfield, CA 93309
661-324-4971

FRESNO
10 River Park Place East, Suite 208
Fresno, CA 93720
559-476-3592

STOCKTON
2423 West March Lane, Suite 202
Stockton, CA 95219
209-451-4833

Compliance and Other Matters

As part of obtaining reasonable assurance about whether First 5'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 financial statements. 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 First 5's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering First 5's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
October 1, 2021

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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

Compliance

We have audited the First 5 San Mateo County's (First 5) 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's statutory requirements identified below for the year ended June 30, 2021.

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'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 compliance requirements referred to above has a direct and material effect on the statutory requirements listed below. An audit includes examining, on a test basis, evidence about First 5'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's compliance with those requirements. In connection with the audit referred to above, we selected and tested transactions and records to determine First 5's compliance with the state laws and regulations applicable to the following items:

BAKERSFIELD
4200 Truxtun Avenue, Suite 300
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STOCKTON
2423 West March Lane, Suite 202
Stockton, CA 95219
209-451-4833

Description	Audit Guide Procedures	Procedures Performed
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 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, 2021.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
October 1, 2021