



M. Green and Company LLP

CERTIFIED PUBLIC ACCOUNTANTS

September 16, 2020

To the Board of Commissioners and Management of
First 5 Tulare County
200 N Santa Fe St.
Visalia, CA 93292

We have audited the financial statements of the governmental activity and the general fund of First 5 Tulare County (the Commission) for the year ended June 30, 2020. Professional standards require that we provide you with information related to our audit and our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and Government Auditing Standards

As stated in our engagement letter dated February 11, 2020, our responsibility, as described by professional standards, was to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the Commission. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we also performed tests of the Commission's compliance with certain provisions of laws, regulations, contracts, and grants. However, providing an opinion on compliance with those provisions was not an objective of our audit.

Accounting principles generally accepted in the United States of America provide for certain required supplementary information (RSI) to supplement the basic financial statements. Our responsibility with respect to budgetary comparison information, which supplement the basic financial statements, was to apply certain limited procedures in accordance with auditing standards generally accepted in the United States of America. However, the RSI was not audited and, because the limited procedures did not provide us with sufficient evidence to express an opinion or provide any assurance, we did not express an opinion or provide any assurance on the RSI.

Planned Scope, Timing of the Audit, and Other

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit involved judgment about the number of transactions to be examined and the areas to be tested.

Hanford
Lindsay
Tulare
Visalia

Planned Scope, Timing of the Audit, and Other (continued)

Our audit included obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Material misstatements may result from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the entity or to acts by management or employees acting on behalf of the entity. We communicate significant findings at the conclusion of the audit. However, some matters could be communicated sooner, particularly if significant difficulties were encountered during the audit where assistance was needed to overcome the difficulties or if the difficulties led to a modified opinion. We communicated any internal control related matters that were required to be communicated under professional standards.

We conducted our audit at an agreed upon time and issued our report on September 16, 2020. Nicole A. Centofanti, CPA was the engagement partner and was responsible for supervising the engagement and signing the report or authorizing another individual to sign it.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Commission are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2020. We noted no transactions entered into by the Commission 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. There were no significant estimates affecting the Commission's financial statements.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

- The disclosure of fund balance in Note 10 to the financial statements. The disclosure of Fund Balance in Note 10 to the financial statements informs the users of the financial statements of the fund balance classifications that comprise a hierarchy based primarily on the specific purposes for which these balances can be spent.

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.

Significant Audit Matters (continued)

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely 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 Commission's 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 auditors' 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 16, 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 Commission's financial statements or a determination of the type of auditors' 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 the Commission'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

We applied certain limited procedures to the management's discussion and analysis and budgetary comparison information, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Board of Commissioners and Management of
First 5 Tulare County
September 16, 2020
Page 4

Restriction on Use

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

Very truly yours,

M. Green and Company LLP
M. GREEN AND COMPANY LLP
Certified Public Accountants

FIRST 5 TULARE COUNTY
A Component Unit of the County of Tulare
Audit Report
For the Year Ended June 30, 2020

First 5 Tulare County

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M. Green and Company LLP

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Board of Commissioners
of First 5 Tulare County
200 N. Santa Fe St.
Visalia, CA 93292

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activity and the general fund of First 5 Tulare County (the Commission), a component unit of the County of Tulare, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' 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 of material misstatement.

REBECCA AGREANO, C.P.A.

MARLA D. BORGES, C.P.A.

NICOLE A. CENTOFANTI, C.P.A.

ELAINE D. HOPPER, C.P.A., C.F.E.

KATHLEEN M. LAMPE, C.P.A.

R. IAN PARKER, C.P.A.

MARY L. QUILLIN, C.P.A.

GIUSEPPE SCALIA, C.P.A.

NATALIE H. SIEGEL, C.P.A.

ROSALIND WONG, C.P.A.

LARRY W. AYERS, C.P.A.

JAMES G. DWYER, C.P.A.

KEVIN M. GREEN, C.P.A.

GREG GROEN, C.P.A.

WM. KENT JENSEN, C.P.A.

LYNN M. LAMPE, C.P.A.

ALAN S. MOORE, C.P.A.

KENNETH B. NUNES, C.P.A.

KEITH M. SPRAGUE, C.P.A.

KENNETH W. WHITE, JR., C.P.A.

NORIKO A. AWBREY, C.P.A.

TYLER J. CODAY, C.P.A.

BRENDA A. DADDINO, C.P.A.

JASON A. FRY, C.P.A., M.S.A.

MANNY GONZALEZ, C.P.A.

JASMAN S. KHOSA, C.P.A.

TRACY L. MCINTYRE, C.P.A.

KRYSTAL PARREIRA, C.P.A., M.S.A.

RACHEL L. SCHROEDER, C.P.A.

GINILU VANDERWALL, C.P.A.

KRISTI WEAVER, C.P.A.

*Hanford
Lindsay
Tulare
Visalia*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activity and the general fund of the Commission, as of June 30, 2020, and the respective changes in financial position 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 Budgetary Comparison Information on pages 4 through 8 and on page 23, 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 16, 2020, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

M. Green and Company LLP

Visalia, California
September 16, 2020

Management's Discussion and Analysis

FIRST 5 TULARE COUNTY
Management's Discussion and Analysis
June 30, 2020

As management of First 5 Tulare County (the Commission), we offer readers of the Commission's financial statements this narrative overview and analysis of the financial activities of the Commission for the fiscal year ended June 30, 2020. We encourage readers to consider the information presented here in conjunction with the Commission's financial statements, which immediately follow this section.

Financial Highlights

- During the fiscal year ended June 30, 2020, the Commission granted nearly \$4.2 million to local programs to support the healthy development of young children.
- The Commission reported an ending net position of \$5,218,931, an increase of \$577,137 in comparison with the prior year. The increase is primarily attributable to an increase in Proposition 10 revenue and other operating grants.
- The Commission's administrative expenses were approximately 9.47 percent of total expenses.
- Operating Grants increased by \$553,503 from the prior year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Commission's financial statements. The Commission's financial statements are comprised of:

- Government-wide financial statements
- Fund financial statements
- Notes to the financial statements

This report also contains other supplementary information in addition to the financial statements themselves.

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

The *statement of net position* presents information on all of the Commission's assets and liabilities. The difference between the two is reported as net position.

The *statement of activities* presents information showing how the Commission's net position changed during the 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 the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

The government-wide financial statements can be found on pages 9 and 10 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balance provide a reconciliation to facilitate the comparison between governmental funds and government-wide statements. The governmental fund financial statements can be found on pages 11 and 12.

The Commission adopts an annual budget for its fund. A budgetary comparison statement has been provided to demonstrate compliance with the budget. Budget to actual comparisons can be found on page 23.

Notes to the Financial Statements. The notes provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 13-22 of this report.

Financial Analysis. The differences between the Commission's government-wide financial statements and its fund financial statements are related to an accrual for compensated absences, and the capitalization of capital assets, the net of which is insignificant. Therefore, the financial analysis that follows is applicable to both sets of statements.

Net Position. Net position may serve over time as a useful indicator of a government's financial position. The following two tables summarize the overall financial position and results of operations of the Commission for the fiscal year ended June 30, 2020, as compared to the prior year:

	Governmental Activities		
	2020	2019	Change
Current and Other Assets	\$ 6,043,657	\$ 5,616,660	\$ 426,997
Capital Assets	-	1,552	(1,552)
Total Assets	<u>6,043,657</u>	<u>5,618,212</u>	<u>425,445</u>
Current and Other Liabilities	768,373	932,764	(164,391)
Long-term Liabilities	56,353	43,654	12,699
Total Liabilities	<u>824,726</u>	<u>976,418</u>	<u>(151,692)</u>
Net Position:			
Net Investment in Capital Assets	-	1,552	(1,552)
Unrestricted	5,218,931	4,640,242	578,689
Total Net Position	<u>\$ 5,218,931</u>	<u>\$ 4,641,794</u>	<u>\$ 577,137</u>

Although \$5,218,931 in net position is classified as unrestricted, \$3,644,302 has been committed to future provider contracts.

Net position increased \$577,137 from the prior year, which is discussed in the chart below:

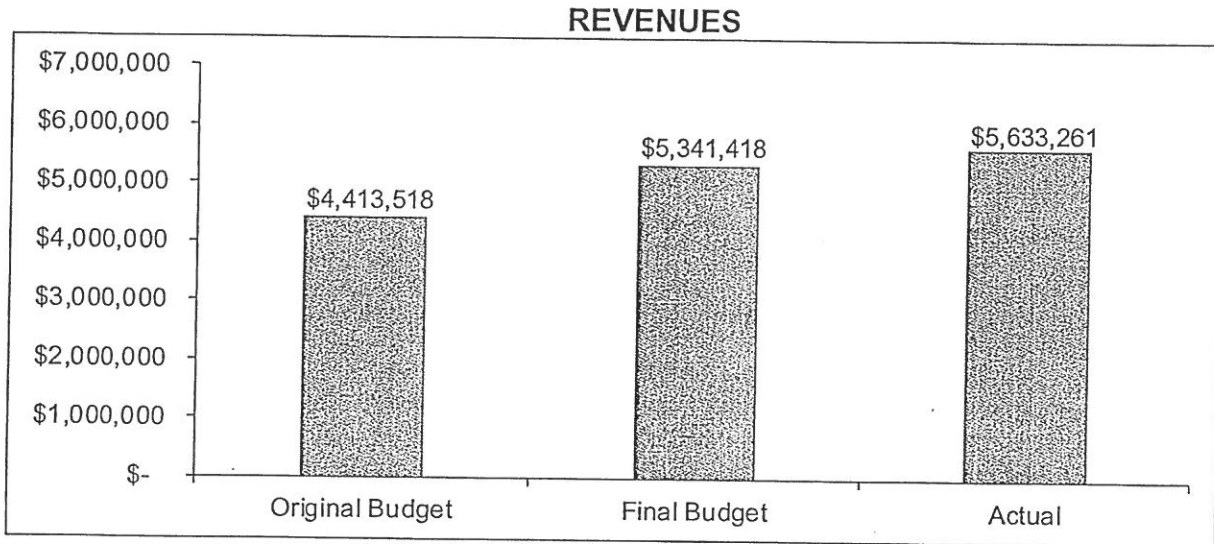
Changes in Net Position:

	Governmental Activities		
	2020	2019	Change
Revenues:			
Program Revenues:			
Operating Grants and Contributions	\$ 5,523,128	\$ 4,969,625	\$ 553,503
General Revenues:			
Unrestricted Investment Earnings	109,635	87,523	22,112
Miscellaneous	498	524	(26)
Total Revenues	<u>5,633,261</u>	<u>5,057,672</u>	<u>575,589</u>
Expenses:			
Child Development Expenses	5,056,124	4,825,027	231,097
Total Expenses	<u>5,056,124</u>	<u>4,825,027</u>	<u>231,097</u>
Increase in Net Position	577,137	232,645	344,492
Net Position - Beginning	4,641,794	4,409,149	232,645
Net Position - Ending	<u>\$ 5,218,931</u>	<u>\$ 4,641,794</u>	<u>\$ 577,137</u>

An increase in total revenue from the prior year of \$575,589 is primarily due to increases in Proposition 10 revenue and other operating grants.

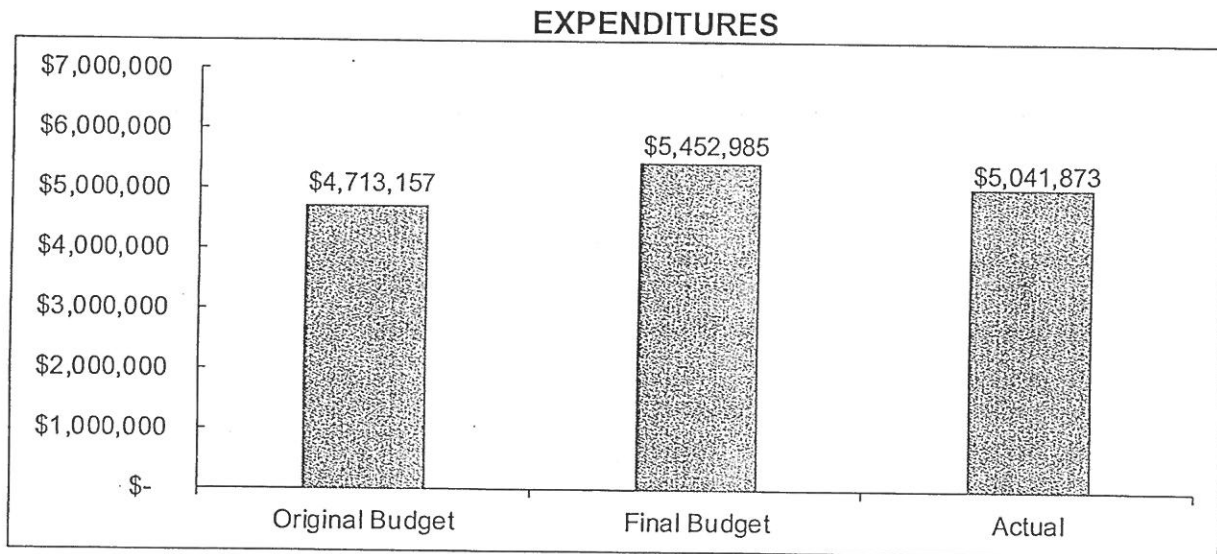
An increase in total expenses from the prior year of \$231,097 is primarily attributable to an increase in provider contract payments.

General Fund Budgetary Highlights. The Commission is required to adopt a budget before the start of the fiscal year. During the year, the Commission may revise the budget at any scheduled meeting. The following two charts depict revenues and expenditures per the original and final budgets as well as actual results:



The \$927,900 increase in revenues between the original budget and the final budget is due to additional grant funding awarded mid-year.

Actual revenues were \$291,843 higher than the final budget. This difference is primarily due to higher than anticipated Proposition 10 revenue.



The \$739,828 increase in expenditures between the original budget and the final budget is primarily due to additional provider contracts being added mid-year.

The \$411,112 difference between actual expenditures and the final budget was due primarily to provider contracts not being fully expended.

Capital Assets

The Commission's investment in capital assets as of June 30, 2020, amounts to \$0 (net of accumulated depreciation). This investment in capital assets includes a computer server purchased in the fiscal year ended June 30, 2015.

Economic Factors and Next Year's Budget

The Commission's budget for the fiscal year 2020-2021 was adopted on June 25, 2020. Highlights and assumptions of this budget include:

- Total estimated revenues decreased \$876,490 from the prior year's final budget. The decrease is primarily due to a projected decrease in other grant revenue.
- Total appropriations decreased by \$787,129 from the prior year's final budget. Included in this decrease is a \$796,323 decrease to program, a \$17,668 increase to administrative, and a \$8,474 decrease to data evaluation appropriations.
- Net position is budgeted to decrease by \$89,361.

Requests for Information

The financial report is designed to provide a general overview of First 5 Tulare County finances for all interested persons. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

First 5 Tulare County, 200 N. Santa Fe Street, Visalia, CA 93292

Basic Financial Statements

**First 5 Tulare County
Statement of Net Position
June 30, 2020**

	<u>Governmental Activities</u>
Assets	
Cash and Cash Equivalents (Note 2)	\$ 5,192,713
Accounts Receivable (Note 3)	817,713
Advances (Note 4)	11,836
Prepaid Expenses	15,850
Deposits (Note 5)	5,545
Capital Assets net of Accumulated Depreciation (Note 6)	-
Total Assets	<u>6,043,657</u>
Liabilities	
Accounts Payable	764,741
Accrued Salaries and Benefits	3,632
Long-term Liabilities Due or Payable After One Year: Compensated Absences (Note 9)	<u>56,353</u>
Total Liabilities	<u>824,726</u>
Net Position	
Net Investment in Capital Assets	-
Unrestricted	<u>5,218,931</u>
Total Net Position	<u><u>\$ 5,218,931</u></u>

The notes to the basic financial statements are an integral part of this statement.

**First 5 Tulare County
Statement of Activities
For the Year Ended June 30, 2020**

<u>Programs</u>	<u>Expenses</u>	<u>Program Revenues Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Position Governmental Activities</u>
Governmental Activities:			
Child Development	\$ 5,056,124	\$ 5,523,128	\$ 467,004
Total Governmental Activities	<u>\$ 5,056,124</u>	<u>\$ 5,523,128</u>	<u>467,004</u>
General Revenues:			
Unrestricted Investment Earnings			109,635
Miscellaneous			498
Total General Revenues			<u>110,133</u>
Change in Net Position			<u>577,137</u>
Net Position - July 1, 2019			4,641,794
Net Position - June 30, 2020			<u>\$ 5,218,931</u>

The notes to the basic financial statements are an integral part of this statement.

**First 5 Tulare County
Balance Sheet - Governmental Fund
June 30, 2020**

Assets

Cash and Cash Equivalents (Note 2)	\$ 5,192,713
Accounts Receivable (Note 3)	817,713
Advances (Note 4)	11,836
Prepaid Expenses	15,850
Deposits (Note 5)	5,545
Total Assets	\$ 6,043,657

Liabilities

Accounts Payable	\$ 764,741
Accrued Salaries and Benefits	3,632
Total Liabilities	768,373

Fund Balance (Note 10)

Nonspendable	21,395
Committed	3,644,302
Assigned	1,609,587
Total Fund Balance	5,275,284

Total Liabilities and Fund Balance	\$ 6,043,657
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**Reconciliation of the Governmental Fund Balance Sheet
to the Statement of Net Position:**

Total Fund Balance	\$ 5,275,284
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Compensated absences liability is not due and payable in the current period and, therefore, is not reported in the Governmental Fund Balance Sheet.	(56,353)
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Net Position of Governmental Activities	\$ 5,218,931
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The notes to the basic financial statements are an integral part of this statement.

First 5 Tulare County
Statement of Revenues, Expenditures and Changes in
Fund Balance - Governmental Fund
For the Year Ended June 30, 2020

Revenues	
State Proposition 10 Funds	\$ 4,765,667
Grants	757,461
Interest	109,635
Miscellaneous	498
Total Revenues	5,633,261
Expenditures	
Current, Child Development:	
Wages and Benefits	600,928
Operating Expenditures	4,440,945
Total Expenditures	5,041,873
Net Change in Fund Balance	591,388
Fund Balance - July 1, 2019	4,683,896
Fund Balance - June 30, 2020	\$ 5,275,284

**Reconciliation of the Change in Fund Balance to the Change in
Net Position in the Statement of Activities:**

Net Change in Fund Balance - Governmental Fund	\$ 591,388
Amounts reported for governmental activities in the Statement of Activities are different because:	
Depreciation expense on capital assets is reported in the government-wide statement as changes in net position, but it does not require the use of current financial resources.	(1,552)
Compensated absences expense reported in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as an expenditure in governmental funds. This amount represents the net change in the compensated absences liability.	(12,699)
Change in Net Position of Governmental Activities	\$ 577,137

The notes to the basic financial statements are an integral part of this statement.

Notes to the Basic Financial Statements

First 5 Tulare County
Notes to the Basic Financial Statements
For the Year Ended June 30, 2020

Note 1 - Summary of Significant Accounting Policies

The Reporting Entity

The California Children and Families Act of 1998 (Proposition 10) called for the formation of a State Commission, First 5 California, to oversee and support the funding of education, health and child care programs for children ages 0 to 5 and their families. The Act also allowed for 58 First 5 county commissions statewide to develop and fund programs for young children that are tailored to the needs of local communities.

First 5 California is funded by revenue generated by a state excise tax on cigarettes and other tobacco products. Eighty percent of the total revenues collected are allocated to the 58 county commissions according to live birth rates for the preceding year and are to be utilized to promote and support early childhood development for children prenatal to five years of age.

Pursuant to Proposition 10, the Tulare County Children and Families Commission (the Commission) was created by Tulare County Ordinance No. 3217, approved by the Tulare County Board of Supervisors on December 8, 1998. The Commission approved the Commission's change of name to First 5 Tulare County on October 24, 2002. The Commission consists of seven members appointed by the Board of Supervisors. The Commission has the responsibility to develop a local strategic plan and to implement and administer projects funded by Proposition 10.

The accompanying financial statements present only the First 5 Tulare County Fund, which is a component unit of the County of Tulare, and are not intended to present fairly the financial position and results of the County of Tulare in conformity with accounting principles generally accepted in the United States of America.

Government-wide and Fund Financial Statements

The government-wide financial statements consist of the statement of net position and the statement of activities. The statement of net position and the statement of activities display information about the primary government and include all the activities of the Commission.

The statement of activities presents a comparison between direct expenses and program revenues for the Commission's governmental activity. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of the function of the Commission. Investment earnings and other items not included among program revenues are reported as general revenues. Net position represents the

First 5 Tulare County
Notes to the Basic Financial Statements
For the Year Ended June 30, 2020

Note 1 - Summary of Significant Accounting Policies (continued)

resources that the Commission has available for use in providing services. Net position is composed of net investment in capital assets and unrestricted net position. At June 30, 2020, the Commission reported unrestricted net position of \$5,218,931. Tobacco tax allocations to county commissions are not automatically categorized as restricted fund balance because the purposes for which tobacco tax allocations may legally be used are no narrower than the purpose for which the commissions were created in Proposition 10 enabling legislation.

Separate financial statements are provided for governmental funds. The Commission operates with only one governmental fund, which is reported as a single column in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when related cash flows take place. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available to finance expenditures of the current period. 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. For this purpose, the Commission considers revenues to be available if they are collected within ninety days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, except for certain compensated absences which are recognized when payment is due.

The accounts of the Commission are organized into a fund. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds is maintained consistent with legal and managerial requirements.

First 5 Tulare County
Notes to the Basic Financial Statements
For the Year Ended June 30, 2020

Note 1 - Summary of Significant Accounting Policies (continued)

The Commission reports the following major governmental fund:

The **General Fund** is the government's primary operating fund. It accounts for all financial resources and activities of the Commission.

When more than one classification of fund balance is available for a particular purpose, it is the Commission's policy to use restricted resources first, then committed, then assigned, and finally unassigned.

Cash and Investments

The Commission maintains substantially all of its cash in the Tulare County Treasury. The County pools these funds with those of other participants in the County and invests the cash. Interest earned is deposited quarterly into the participating funds. The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis, which approximates fair value.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Receivables

The Commission accrues revenues when they are both measurable and available. The Commission has no allowance for uncollectable accounts as all receivables are deemed to be collectible.

Capital Assets

Capital assets, which consist of a computer server, are reported in the government-wide financial statements. Capital assets are defined by the Commission as assets with an initial, individual cost of more than \$5,000. The Commission depreciates capital assets using the straight-line method over an estimated useful life of five years for computer equipment.

First 5 Tulare County
Notes to the Basic Financial Statements
For the Year Ended June 30, 2020

Note 1 - Summary of Significant Accounting Policies (continued)

Compensated Absences

It is the Commission's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay is accrued when incurred in the government-wide financial statements. No liability is accrued for unpaid accumulated sick leave since the Commission does not have a policy to pay any amounts when employees separate from service with the Commission.

Fund Balance

The fund balance for governmental funds is reported in classifications that comprise a hierarchy based primarily on the specific purposes for which amounts can be spent. Three classifications are reported on the balance sheet; Nonspendable, Committed, and Assigned. Nonspendable fund balance represents amounts that are not in spendable form (deposits and prepaid expenses). Committed fund balance represents amounts that have been committed by formal action of the Commission for legally enforceable contracts that have not yet been spent. The Commission is the government's highest level of decision-making authority and can create a commitment through a majority vote at a publicly held meeting. The same action is required to modify or remove a commitment. Assigned fund balance represents the Commission's intended use of resources per the Commission's long-range financial plan, for future contracts that have not yet been executed. The Commission, Technical Advisory Committee, or the Executive Director have the authority to assign fund balance. Modification of the Commission's intent would not require formal action.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. The legal level of budgetary control is at the fund and object level. For the fiscal year ended June 30, 2020, there were no instances in which expenditures exceeded appropriations.

**First 5 Tulare County
Notes to the Basic Financial Statements
For the Year Ended June 30, 2020**

Note 2 - Cash and Cash Equivalents

Cash as of June 30, 2020 consisted of the following:

<u>Cash Balances</u>	<u>Amount</u>
Cash in County Treasury	\$ 4,321,875
Cash in Suncrest Bank	870,588
Petty Cash	250
	<u>\$ 5,192,713</u>

Custodial Credit Risk

Custodial credit risk for deposits is the risk that a government will not be able to recover deposits or will not be able to recover collateral securities that are in possession of an outside party. The California Government Code and the Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure governmental agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The risk is mitigated by the fact that the Commission's bank deposits are entirely insured or collateralized and the collateral is held by the pledging financial institution's trust department or its agent. The first \$250,000 deposited into the Suncrest Bank account is insured by the Federal Deposit Insurance Corporation (FDIC). All money deposited in excess of \$250,000 is collateralized by pledged securities. The bank balance in the Suncrest Bank account at June 30, 2020 was \$907,899, of which \$250,000 is insured by the FDIC, and \$657,899 was collateralized by pledged securities.

The custodial credit risk for investments is the risk that, in the event of failure of the counterparty, a government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to the Commission's indirect investment in securities through the use of mutual funds or government investment pools.

First 5 Tulare County
Notes to the Basic Financial Statements
For the Year Ended June 30, 2020

Note 2 - Cash and Cash Equivalents (continued)

Interest Rate Risk

This is the risk that fluctuations in interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in the market interest rates. The Commission held no investments at June 30, 2020.

Credit Risk and Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Concentration of credit risk is the risk of loss attributed to the magnitude of an investment with a single user. The Commission held no investments at June 30, 2020.

Note 3 - Accounts Receivable

Accounts receivable at June 30, 2020 consist of the following:

Proposition 10 funds due from the State of California	\$ 567,183
Other Grants Receivable	234,005
Interest due from the Surplus Money Investment Fund (SMIF)	16,525
	<u>\$ 817,713</u>

Note 4 – Advances

Provider payments are made in accordance with contract terms. Payments in excess of the amount earned by the providers are classified as advances and totaled \$11,836 at June 30, 2020.

Note 5 - Deposits

Deposits consist of a security deposit in the amount of \$5,545 for the lease of office space located at 200 N. Santa Fe St, Visalia, CA.

First 5 Tulare County
Notes to the Basic Financial Statements
For the Year Ended June 30, 2020

Note 6 - Capital Assets

The capital asset activity for the year ended June 30, 2020, was as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets, being depreciated:				
Computer Server	\$ 15,516	\$ -	\$ -	\$ 15,516
Less Accumulated Depreciation	<u>(13,964)</u>	<u>(1,552)</u>	<u>-</u>	<u>(15,516)</u>
Total Capital Assets, being depreciated, net	<u>\$ 1,552</u>	<u>\$ (1,552)</u>	<u>\$ -</u>	<u>\$ -</u>

Total depreciation expense for the year ended June 30, 2020, was \$1,552, and is included in the Government-wide Financial Statements.

Note 7 – Commitments and Contingencies

The Commission has entered into funding commitments of \$3,644,302 with various local children’s organizations contingent on future state funding.

On March 11, 2020, the World Health Organization declared the outbreak of a coronavirus (COVID-19) a pandemic. As a result, economic uncertainties have arisen which are likely to negatively impact change in fund balance/net position. Other financial impact could occur though such potential impact is unknown at this time.

Note 8 - Lease Obligations – Operating Leases

The Commission entered into a five-year lease commencing September 1, 2013, for a monthly amount of \$4,545. Effective September 1, 2018, the Commission initiated an option to extend the original lease for an additional five year term. The Commission has one additional option to renew the lease for an additional five year term. The following is a schedule of future minimum rental payments as of June 30, 2020:

<u>For the year ending</u>	<u>Amount</u>
June 30, 2021	\$ 54,540
June 30, 2022	54,540
June 30, 2023	54,540
June 30, 2024	9,090
Total minimum payments required	<u>\$ 172,710</u>

The total rental expenditure/expense for the year ended June 30, 2020, was \$54,540.

First 5 Tulare County
Notes to the Basic Financial Statements
For the Year Ended June 30, 2020

Note 9 - Long-term Liabilities

Long-term liability activity for the year ended June 30, 2020, was as follows:

	<u>Beginning</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending</u>	<u>Due Within One Year</u>
Compensated Absences	\$ 43,654	\$ 18,236	\$ 5,537	\$ 56,353	\$ -

Because of the nature of compensated absences and uncertainty over when benefits will be taken, a statement of debt service requirements to maturity has not been presented for compensated absences.

Note 10 - Fund Balance

Fund balance is reported using the classifications listed in GASB Statement No. 54 Fund Balance Reporting and Governmental Fund Type Definitions. Nonspendable fund balance includes prepaid expenses and deposits. Committed fund balance represents amounts that have been committed by formal action of the Commission for legally enforceable contracts that have not yet been spent. The Commission is the government's highest level of decision-making authority and can create a commitment through a majority vote at a publicly held meeting. The same action is required to modify or remove a commitment. Assigned fund balance represents the Commission's intended use of resources per the Commission's long-range financial plan, for future contracts that have not yet been executed. The Commission, Technical Advisory Committee, or the Executive Director have the authority to assign fund balance. Modification of the Commission's intent would not require formal action.

Fund balance classifications at June 30, 2020, are as follows:

<u>Description</u>	<u>Amount</u>
Nonspendable:	
Prepaid Expenses	\$ 15,850
Deposits	5,545
Total Nonspendable Fund Balance	<u>21,395</u>
Committed:	
Provider Contracts Approved by Commission	3,644,302
Total Committed Fund Balance	<u>3,644,302</u>
Assigned:	
Assigned for Future Projects	1,609,587
Total Assigned Fund Balance	<u>1,609,587</u>
Total Fund Balance	<u>\$ 5,275,284</u>

First 5 Tulare County
Notes to the Basic Financial Statements
For the Year Ended June 30, 2020

Note 11 - Related Party Transactions

The required composition of the Board of Commissioners includes members from the County of Tulare and the Tulare County Office of Education. These organizations receive funding from First 5 Tulare County. Commissioners with a conflict of interest abstain from voting on issues directly related to their respective organizations.

The following is a summary of revenues and expenditures and the related receivables and payables at June 30, 2020, for each related party:

<u>Related Party</u>	<u>Revenue</u>	<u>Expenditure</u>	<u>Receivable</u>	<u>Payable</u>
County of Tulare	\$ 747,774	\$ 125,093	\$ 224,318	\$ 54,503
Total	<u>\$ 747,774</u>	<u>\$ 125,093</u>	<u>\$ 224,318</u>	<u>\$ 54,503</u>

In addition, the Commission had \$1,526 in expenditures and \$760 in outstanding payables for accounting and other services provided by the County of Tulare for the year ended June 30, 2020.

Note 12 - Retirement

Defined Contribution Pension Plan: First 5 Tulare County contributes to the ICMA Retirement Corporation 401(a) plan, a defined contribution plan, for all full-time employees who have completed one year of employment. The plan is administered by First 5 Tulare County. Benefit terms are established and may be amended by the Commission. First 5 Tulare County is required to contribute 8 percent of gross wages for all full-time employees, upon completion of one year of employment. Employees do not contribute to this plan. Employees are fully vested in employer contributions. For the year ended June 30, 2020, employer contributions totaled \$38,270. First 5 Tulare County had no outstanding liabilities to the plan at June 30, 2020.

Deferred Compensation Plan: On September 24, 2002, the Commission established a deferred compensation plan with ICMA Retirement Corporation in accordance with Internal Revenue Code (IRC) Section 457. The plan covers full-time employees who wish to enroll after they have worked 90 days. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency. Total employee contributions for the year ended June 30, 2020, were \$26,460.

First 5 Tulare County
Notes to the Basic Financial Statements
For the Year Ended June 30, 2020

Note 13 - Program Evaluation and Data Management

During the year ended June 30, 2020, a total of \$202,344 was spent on Program Evaluation and Data Management. The total includes \$95,894 for wages and benefits paid to First 5 Tulare County employees and \$106,450 to outside contractors.

Note 14 - Concentrations of Risk

The Commission is economically dependent on Proposition 10 revenue from First 5 California, as substantially all of the Commission's revenue comes from this single source.

Required Supplementary Information

First 5 Tulare County
Governmental Fund
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2020

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
State Proposition 10 Funds	\$ 4,360,768	\$ 4,360,768	\$ 4,765,667	\$ 404,899
Grants	-	927,900	757,461	(170,439)
Interest	52,750	52,750	109,635	56,885
Miscellaneous	-	-	498	498
Total Revenues	<u>4,413,518</u>	<u>5,341,418</u>	<u>5,633,261</u>	<u>291,843</u>
Expenditures				
Current, Child Development:				
Wages and Benefits	620,875	620,875	600,928	19,947
Operating Expenditures	4,092,282	4,832,110	4,440,945	391,165
Total Expenditures	<u>4,713,157</u>	<u>5,452,985</u>	<u>5,041,873</u>	<u>411,112</u>
Net Change in Fund Balance	(299,639)	(111,567)	591,388	(702,955)
Fund Balance - July 1, 2019	4,683,896	4,683,896	4,683,896	-
Fund Balance - June 30, 2020	<u>\$ 4,384,257</u>	<u>\$ 4,572,329</u>	<u>\$ 5,275,284</u>	<u>\$ (702,955)</u>



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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

Independent Auditors' Report

To the Board of Commissioners
of First 5 Tulare County
200 N. Santa Fe St.
Visalia, CA 93292

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 activity and the general fund of First 5 Tulare County (the Commission), a component unit of the County of Tulare, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated September 16, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) 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 the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 the Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Visalia, California
September 16, 2020

M. Green and Company CP



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INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

To the Board of Commissioners
of First 5 Tulare County
200 N. Santa Fe St.
Visalia, CA 93292

Compliance

We have audited First 5 Tulare County's (the Commission, a component unit of the County of Tulare), compliance with the requirements specified in the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, issued by the State Controller's Office, applicable to the Commission's statutory requirements identified below for the year ended June 30, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the Commission's compliance with the requirements referred to above based on our audit.

We conducted our 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

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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 the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

<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

Opinions

In our opinion, First 5 Tulare 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.

M. Green and Company LLP

Visalia, California
September 16, 2020