

FIRST 5 YUBA
(A Component Unit of the County of Yuba)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2016

**FIRST 5 YUBA
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

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FIRST 5 YUBA
Commission Membership
As of June 30, 2016

<u>Name</u>	<u>Position</u>	<u>Date of Original Appt.</u>	<u>Current Term Expires</u>
Andy Vasquez	County Representative Board of Supervisors	5/2013	NA
Pam Morasch	County Representative Dept. Health & Human Services	09/2014	NA
Jim Arnold	County Representative Chief Probation Officer	08/2013	NA
Rice Homer	County Representative Dept. Health & Human Services	11/2015	NA
Josh Harris	County Representative Office of Education	10/2015	NA
Melinda Staples	Community Member	11/2015	04/2017
Sally Sokoloski	Community Member	11/2015	04/2018

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
First 5 Yuba
Marysville, California

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of First 5 Yuba (The Commission), a component unit of the County of Yuba, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also

includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the Commission, as of June 30, 2016, 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.

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 23 through 24 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 Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The other supplementary information listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplemental information as listed in the table of contents is

fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 17, 2016 on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of the 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



Jensen Smith
Certified Public Accountants, Inc.
Lincoln, California
October 17, 2016

FIRST FIVE YUBA COMMISSION

Management's Discussion and Analysis For the Year Ended June 30, 2016

First Five Yuba Commission was established in 1998 following the passage of Proposition 10 (Prop 10). The Commission is responsible for the management and investment of Prop 10 revenues in Yuba County. First Five Yuba's vision is "All Yuba County children are healthy and thriving in safe and nurturing family environments and ready to succeed in their educational experiences."

Proposition 10 was approved by California voters in 1998, and established the California Children and Families Commission, known as First 5 California. It authorized the establishment of county commissions in all fifty-eight California counties. Prop 10 generates approximately \$450 million annually from tax on cigarettes and other tobacco products. First 5 California uses 20 percent of the annual revenues for statewide parent education efforts and administration. The remaining 80 percent is divided among county commissions, with county birth rates used to determine annual funding allocations. All Prop 10 revenues must be spent only on promoting, supporting and improving the development of all children, from prenatal through age five.

The work and investments of First Five Yuba are guided by a seven member commission. Commissioners are appointed by the Yuba County Board of Supervisors in compliance with the California Children and Families Act. First Five Yuba is a public entity legally separate and apart from the County, and is considered a component unit of the County due to the operational relationship between First Five Yuba and the County. Commissioners represent the fields of education, health, mental health and local government. As a public entity, the Commission bases its decisions on community input. We observe The Brown Act Open Meetings for Local Legislative Bodies and public comment is always invited and welcome.

What happens from age 0 through 5 strongly influences how a child will function in school and later in life. A clear goal for First 5 Commissions across the state is for children to be socially, emotionally, physically and intellectually ready for school. Four long-range outcomes, or strategic results, have been identified to support this universal Prop 10 goal:

1. Improved Family Functioning: Strong Families
2. Improved Child Development: Children Learning
3. Improved Child Health: Healthy Children
4. Improved Infrastructure: Community Collaboration

Investment opportunities in early care and education benefit families, children, and the community. First Five Yuba's local investment of Prop 10 revenues connects early brain development to school readiness. Our vision, mission, goals and objectives aim to enhance the health and well-being of Yuba County's youngest residents, promoting optimal brain development today and powerful possibilities for the future.

By focusing investment on the 0 through 5 years of peak brain development, Prop 10 has a positive impact on public spending. Significant spending reductions in the areas of special education, welfare assistance and criminal justice will occur as children become better prepared for school and progress toward becoming contributing members of the workforce and society.

FIRST FIVE YUBA COMMISSION

Management's Discussion and Analysis For the Year Ended June 30, 2016

Overview of the Financial Statements

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

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

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

The *statement of activities* presents information showing how the Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave).

The government-wide financial statements can be found on pages 9-10 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. Fund financial statements report essentially the same functions as those reported in the government-wide financial statements. However, unlike the government-wide financial statements, 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.

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 Commission adopts an annual appropriated budget for its fund. A budgetary comparison statement has been provided for the fund to demonstrate compliance with the budget.

The fund financial statements can be found on pages 11-12 of this report.

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

Required Supplementary Information (RSI). RSI is presented concerning the Commission's General Fund budgetary schedule. The Commission adopts an annual appropriated budget for its General Fund. A budgetary comparison schedule has been provided for the General Fund to demonstrate compliance with this budget.

FIRST FIVE YUBA COMMISSION

Management's Discussion and Analysis For the Year Ended June 30, 2016

Government-wide Financial Analysis

Net position may serve over time as a useful indicator of a government's financial position. In the case of the Commission, assets exceed liabilities by \$2,565,118 at the close of the most recent fiscal year. The Commission's net position decreased overall by \$337,142 during the 2015-2016 fiscal year. This decrease in net position is explained in the governmental activities analysis below and reflect pages 9 and 10 in the financial statements.

The most significant portion of the Commission's net position is its cash balance of \$2,657,344. Cash is maintained by the County Treasurer in the County's cash and investment pool where interest earned on the Commission's balance is apportioned to the Commission. Another source of resources also resides in the Commission's receivables due from the State Commission for Prop 10 taxes in the amount of \$153,223. These receivables represent taxes that were remitted by the State but had not been received by the Commission as of June 30, 2016.

The most significant portion of the Commission's liabilities are accounts payable of \$224,970 representing payments due for obligations incurred during the year, but not yet paid. The majority of these accounts payable are comprised of amounts owed to major grantees for the April through June 2016 quarter.

Statement of Net Position Comparison

	FY 2015-16	FY 2014-15	Difference
Total Assets	\$ 2,819,444	\$ 3,052,429	\$ (232,895)
Total Liabilities	254,326	150,169	104,157
Total Net Position	\$ 2,565,118	\$ 2,902,260	\$ (337,142)

Statement of Activities Comparison

	FY 2015-16	FY 2014-15	Difference
Total Revenues	\$ 876,727	\$ 845,047	\$ 31,680
Total Expenses	1,213,869	1,084,197	129,972
Net Change before Prior Period Adjustment	(337,142)	(239,150)	97,992
Prior Period Adjustment	0	27,440	(27,440)
Change in Net Position	\$ (337,142)	\$ (211,710)	\$ 125,432

FIRST FIVE YUBA COMMISSION

Management's Discussion and Analysis For the Year Ended June 30, 2016

Financial Analysis of the Commission's Governmental Fund

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

For the year-ended June 30, 2016, the Commission reported an ending fund balance of \$2,577,365, a decrease of \$334,534 or 11.5%, from the prior year. The decrease is a result of grants and contracts funded in 2015-2016.

Under GASB 54 regulations, the Commission has reserved \$2,577,365 or 100% of their funds in the Committed Fund Balance category.

Total revenue consisting of Prop 10 funds, interest income decreased from \$845,047 to \$876,727, a decrease of \$31,680, or 3.75%, from the prior fiscal year. This decrease was a result of the decreased Prop 10 Tobacco Tax revenue and other non-recurring revenues.

Total expenditures increased from \$1,084,197 to \$1,211,261, an increase of \$127,064, or 11.7%, from the prior fiscal year. This increase was primarily due to the increased expenditures for programs and salaries and benefits in 2015-16. The activity is noted below and on pages 11 and 12 in the financial statements.

Statement of Revenues, Expenditures and Changes in Fund Balance Comparison Statement

	FY 2015-16	FY 2014-15	Difference
Total Revenues	\$ 876,727	\$ 845,047	\$ 31,680
Expenditures			
Administration	261,088	248,771	12,317
Professional Services	950,173	835,426	114,747
Total Expenditures	1,211,261	1,084,197	127,064
Changes in Fund Balance	\$ (334,534)	\$ (239,150)	\$ (95,384)

Fund Budgetary Highlight

Total revenues were slightly over budget by \$88,933 or less than 10%, and total expenditures were under budget by \$150,422 or 13%. The total revenue increase was due to a slightly higher than expected Prop 10 Tobacco Tax revenue and Interest Income. Expenditures were under budget due to the portion of the remaining expenditure funds being committed for future expenditures on multi-year contracts.

FIRST FIVE YUBA COMMISSION

Management's Discussion and Analysis
For the Year Ended June 30, 2016

Capital Assets and Debt Administration

Capital Assets

The Commission's investment in capital assets for its governmental type activities as of June 30, 2016 is \$0 (net of accumulated depreciation). Additional information is located in Note 4 of this report.

Debt Administration

At the end of the current fiscal year, the Commission did not have any long-term obligations outstanding. Other long-term liabilities include compensated absences of \$12,247. Additional information on this liability is located in Note 5 of this report.

Economic Factors and Next Year's Budget

The Commission is committed to focusing Prop 10 funds on promoting, supporting and improving the development of all children, from prenatal through age five.

The following economic factors were considered in preparing the Commission's budget for fiscal year 2016-2017:

- Expected decrease in Prop 10 tobacco tax revenue due to new legislation
- Commitment to newly adopted desired results identified in the strategic plan
- Utilizing the fund balance to maintain program sustainability for the good of the public and other designated Commission initiatives based on community need.

Future year annual budgets will be adopted in accordance with regularly updated Long Range Financial Plans, and the updated Strategic Plan adopted by the First Five Yuba Commission in May, 2016.

Requests for Information

This financial report is designed to provide a general overview of the First Five Yuba Commission finances for all those interested. Questions concerning, any of the information provided in this report or requests for additional financial information should be addressed to First Five Yuba Commission, 1114 Yuba Street, Suite 201, Marysville, CA 95901.

Respectfully Submitted,

Cynthia Sodari
Executive Director

FIRST 5 YUBA
STATEMENT OF NET POSITION
JUNE 30, 2016

ASSETS

Cash in County Treasury	\$ 2,657,344
Due from First 5 CA	153,223
Contract Advances - Prepaid	2,957
Interest Receivable	<u>5,920</u>
Total Assets	<u>2,819,444</u>

LIABILITIES

Accounts Payable	224,970
Accrued Payroll	17,109
Long-term Liabilities:	
Compensated Absences Payable	<u>12,247</u>
Total Liabilities	<u>254,326</u>

NET POSITION

Restricted	<u>2,565,118</u>
Total Net Position	<u><u>\$ 2,565,118</u></u>

See Accompanying Notes to Financial Statements.

**FIRST 5 YUBA
STATEMENT OF ACTIVITIES
JUNE 30, 2016**

FIRST 5 PROGRAM EXPENSES

Salaries and Employee Benefits	\$ 195,905
Operating Expenses	
Insurance	3,310
Memberships	3,625
Office Expenses	8,689
Professional Fees	18,785
Advertising and Publications	161
Occupancy	9,670
Special Department Expense	7,366
Transportation and Travel	1,747
A-87 County Fees	33,223
Total Operating Expenses	86,576
Program Expenses	
Improved Systems of Care	57,120
Improved Family Functioning	577,766
Improved Child Development	98,165
Improved Child Health	149,161
Total Program Expenses	882,212
Evaluation	49,176
Total Expenses	1,213,869
 <u>PROGRAM REVENUES</u>	
Operating Grants and Contributions:	
Prop 10 Apportionment	851,978
Surplus Money Investment Funds	2,856
Total Program Revenues	854,834
Net Program Revenues (Expense)	(359,035)
 <u>GENERAL REVENUES</u>	
Interest Income	21,893
Change in Net Position	(337,142)
Net Position - Beginning of Year	2,902,260
Net Position - End of Year	\$ 2,565,118

See Accompanying Notes to Financial Statements.

**FIRST 5 YUBA
BALANCE SHEET
JUNE 30, 2016**

ASSETS

Cash in County Treasury	\$ 2,657,344
Accounts Receivable - State of California Prop. 10	153,223
Contract Advances - Prepaid	2,957
Interest Receivable	5,920
	5,920
Total Assets	\$ 2,819,444

LIABILITIES

Accounts Payable	\$ 224,970
Accrued Payroll	17,109
	17,109
Total Liabilities	242,079

FUND BALANCES

Fund Balances:	
Committed for:	
Program sustainability	1,734,904
First 5 programs	842,461
Unassigned	-
	-
Total Fund Balances	2,577,365
Total Liabilities and Fund Balances	\$ 2,819,444

**Reconciliation of the Governmental Fund Balance Sheet
to the Government - Wide Statement of Net Position - Governmental Activities
June 30, 2016**

Fund Balance - Total Governmental Fund (from above)	\$ 2,577,365
Amounts reported for governmental activities in the statement of net assets are different because:	
Long-term liabilities, including notes payable, are not due and payable in the current period, and therefore are not reported in the governmental fund.	
Compensated Absences	(12,247)
	(12,247)
Net Position of Governmental Activities	\$ 2,565,118

See Accompanying Notes to Financial Statements.

FIRST 5 YUBA
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2016

REVENUES

Operating Grants and contributions:	
Prop 10 Apportionment	\$ 851,978
SMIF and Other Revenues	2,856
Interest Income	21,893
Total Revenues	876,727

EXPENDITURES

Salaries and Employee Benefits	\$ 193,297
Operating Expenses	
Insurance	3,310
Memberships	3,625
Office Expenses	8,689
Professional Fees	18,785
Advertising and Publications	161
Occupancy	9,670
Special Department Expense	7,366
Transportation and Travel	1,747
A-87 County Fees	33,223
Total Operating Expenses	86,576
Program Expenses	
Improved Systems of Care	57,120
Improved Family Functioning	577,766
Improved Child Development	98,165
Improved Child Health	149,161
Total Program Expenses	882,212
Evaluation	49,176
Total Expenditures	1,211,261

Net Change in Fund Balance	(334,534)
Fund Balance - Beginning of Year	2,911,899
Fund Balance - End of Year	\$ 2,577,365

Reconciliation of the Statement of Revenue, Expenditures and
Changes in Fund Balance of Governmental Fund to the
Government-Wide Statement of Activities - Governmental Activities
For the Year Ended June 30, 2016

Net Change to Fund Balance - Total Governmental Fund	\$ (334,534)
Total change in net assets for governmental activities in the statement of activities is different because:	
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund	
Change in Compensated Absences	(2,608)
Change in Net Position of Governmental Activities	\$ (337,142)

See Accompanying Notes to Financial Statements.

FIRST 5 YUBA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note 1: Nature of the Entity

First 5 Yuba (Commission) was established on December 15, 1998 pursuant to authority granted under the California Children and Families Act of 1998 by the County of Yuba's Board of Supervisors to operate as a separate and legal entity from the County of Yuba. The Commission is considered a component unit of the County of Yuba. The California Children and Families First Act of 1998 (Proposition 10), was adopted by the voters of the State of California on November 3, 1998. The Commission's programs are funded by taxes levied by the State of California on tobacco products.

The Commission's specific purpose is to promote, support and improve the early development of children from the prenatal stage to five (5) years of age, consistent with the goals and objectives of Proposition 10 within the County of Yuba. This purpose shall be accomplished through the establishment, institution, and coordination of appropriate standards, resources, and integrated and comprehensive programs emphasizing community awareness, education, nurturing, childcare, social services, health care and research.

The Commission is administered by a governing board of commissioners. The commissioners consist of one (1) member of the Board of Supervisors, the Chief Probation Officer of Yuba County, the Deputy Director of Health and Human Services, the Yuba County Public Health Administrator, the Yuba County Office of Education Superintendent and two members of the community who represent an area specific to the purpose of the Commission. Community Commissioners serve for three year terms and may renew for additional terms.

Note 2: Summary of Significant Accounting Policies

A. Basis of Presentation and Accounting

Government-Wide Statements

The statement of net position and statement of activities display information about the primary government (Commission). These statements include financial activities of the overall 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 specifically associated with the Commission. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of the Commission. Revenues that are not classified as program revenues, including investment income, are presented instead as general revenues.

**FIRST 5 YUBA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Note 2: Summary of Significant Accounting Policies (continued)

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when related cash flows take place. When both restricted and unrestricted resources are available, restricted resources are used only after the unrestricted resources are depleted.

Fund Financial Statements

Separate financial statements are provided for the governmental funds. The 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. Proposition 10 taxes investment income are accrued when their receipt occurs within ninety days after the end of the accounting period so as to be both measurable and available. All receivables are expected to be collected within the current year. Expenditures are generally recorded when a liability is incurred, as under accrual accounting.

Nonexchange transactions, in which the Commission gives (or receives) value without directly receiving (or giving) value in exchange, include sales taxes, grants, entitlements and donations. On a modified accrual basis, revenues from sales taxes are recognized when the underlying transactions take place and have met the availability criteria. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

The Commission reports one major governmental fund, the General Fund. The General Fund is the Commission's primary operating fund. It accounts for all financial resources of the general government.

B. Due from First 5 CA

This amount represents receivables from the State government. Management has determined the Commission's receivables are fully collectible. Accordingly, no allowance for doubtful accounts has been made.

C. Capital Assets

Capital assets are recorded at historical costs or at estimated historical cost if actual historical cost is not available. The Commission defines assets as assets with an initial, individual cost of more than \$1,000 for equipment/furniture and a useful life in excess of one year. Provision is made for depreciation by the straight-line method over estimated useful lives ranging from three to ten years for equipment.

FIRST 5 YUBA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note 2: Summary of Significant Accounting Policies (continued)

D. State Funds Receivable

This amount represents receivables from the State of California Children and Families Commission. Management has determined the Commission's receivables are fully collectible. Accordingly, no allowance for doubtful accounts has been made.

E. Compensated Absences Payable

The Commission accounts for compensated absences in accordance with Governmental Accounting Standards Board Statements No.16. Amounts of vested or accumulated vacation leave are not expected to be liquidated with expendable available financial resources are reported as a long-term liability in the government-wide financial statements. There is no payout of sick leave upon separation from the Commission.

F. Net Position/ Fund Balances

Net Position

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

Invested in Capital Assets, Net of Related Debt – consists of capital assets, net of accumulated depreciation, reduced by the outstanding borrowing used for the acquisition, construction, or improvement of those assets.

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

When both restricted and unrestricted resources are awarded, unrestricted resources are used only after restricted resources are depleted.

Fund Balances

The Government Accounting Standards Board (GASB) has issued Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54) This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

**FIRST 5 YUBA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Note 2: Summary of Significant Accounting Policies (continued)

Fund Balances (continued)

• **Nonspendable –**

This category includes elements of the fund balance that cannot be spent because of their form, or because they must be maintained intact. For example:

- Assets that will never convert to cash, such as prepaid items and inventories of supplies;
- Assets that will not convert to cash soon enough to affect the current period, such as non-financial assets held for resale; or
- Resources that must be held intact pursuant to legal or contractual requirements, such as revolving loan fund capital or the principal of an endowment.

• **Restricted –**

This category includes resources that are subject to constraints that are externally enforceable legal restrictions. Examples include:

- Funding from the State Commission or foundations that are legally restricted to specific uses. For example, funds advanced by First 5 CA under specific agreements for services, or matching funds for specific initiatives.
- Funds legally restricted by County, state, or federal legislature, or a government's charter or constitution.
- Amounts collected from non-spendable items, such as the long term portion of loan outstanding, if those amounts are also subject to legal constraints.
- Funding that has been designated for legally enforceable contracts but not yet spent. This includes multi-year contracts.

• **Committed –**

Two criteria determine the Agency's fund balance:

1. Use of funds is constrained by limits imposed by the government's highest level of decision making. The highest level of decision making for the District would be the Board of Directors.
2. Removal or modification of use of funds can be accomplished only by formal action of the authority (i.e., Board of Directors) that established the constraints.

**FIRST 5 YUBA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Note 2: Summary of Significant Accounting Policies (continued)

- **Committed (continued)**

Both commitments and modifications or removal must occur prior to the end of reporting period; that is, the fiscal year being reported upon. For First 5 organizations, resources in this category would include:

- Resources committed for a future initiative as long as commission action is also required to remove this commitment.
- Resources that have been committed by a commission for specific agreements that have not yet been executed, where commission action is also required to remove this commitment.
- Resources committed as the local match for a State Commission initiative.

- **Assigned –**

The assigned portion of the fund balance reflects a commission’s intended use of resources, which is established either by the county First 5 Commission, a body created by the commission, such as a commission finance committee, or an official designated by the commission (e.g., an Executive Director). The “assigned” component is similar to the “committed” component, with two essential differences, shown in the following table:

Key Differences Between Committed and Assigned Fund Balance		
	Committed	Assigned
A decision to use funds for a specific purpose requires action of First 5 Commission	Yes	No
Formal action of Commission is necessary to impose, remove or modify this constraint and formal action has taken place before end of reporting period)	Yes	No

Another key difference is that the purpose of the assignment must be narrower than the fund itself. Consequently, tobacco tax revenues would not automatically be placed in the “committed” component. Resources that fit into this category include:

- Appropriation of a portion of existing fund balance sufficient to eliminate a projected deficit in the subsequent year’s budget, where the Executive Director may decide whether to use the entire amount.
- Resources assigned to a specific program or project or organization for which the commission has approved a plan or budget
- Resources approved by a commission for a long range financial plan where formal approval is not required to modify the amount.

FIRST 5 YUBA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note 2: Summary of Significant Accounting Policies (continued)

- **Assigned (continued)**

First 5 Yuba can assign amounts under this category, and may also authorize the Executive Director to assign amounts under this category when that decision is consistent with the approved long term financial plan.

- **Unassigned –**

This category includes the fund balance that cannot be classified into any of the other categories.

If situations arise where there is a possibility of assignment into more than one category, the committed amount will be reduced first, followed by assigned amounts and then unassigned amounts.

D. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Note 3: Credit Risk, Carrying Value and Market Value of Investments

All cash at June 30, 2016 is pooled for investment purposes and held by the County of Yuba. The Yuba County Treasury is an external investment pool for the Commission and the Commission is considered an involuntary participant. The investments made by the Treasurer are regulated by the California Government Code and by the County's investment policy. The County established a treasury oversight committee to monitor and review the management of public funds maintained in the investment pool in accordance with Article 6 Section 27131 of the California Government Code. The oversight committee and the Board of Supervisors review and approve the investment policy annually. The County Treasury is accountable to the County Treasury Oversight Committee. The Commission's fair value portion in the pool is the same as the Commission's pool share.

The Commission deposits all funds in interest bearing accounts with Yuba County. The Commission does not own any specific identifiable investments in the pool. Information regarding categorization of cash and investments held in the County can be found in the County of Yuba's financial statements.

**FIRST 5 YUBA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Note 3: Credit Risk, Carrying Value and Market Value of Investments (continued)

The fair value of cash was the same as the carrying value; therefore no adjustment was made for GASB 31 compliance.

	Carrying Amount
Pooled Investments:	
Yuba County	\$2,657,344

Note 4: Capital Assets

There were no changes in capital assets for the year ended June 30, 2016:

	Balance July 1, 2015	Additions	Retirements	Balance June 30, 2016
Equipment	\$ 4,797	\$ --	\$ --	\$ 4,797
Less accumulated depreciation	(4,797)	--	--	(4,797)
Capital Assets, Net	\$ --	\$ --	\$ --	\$ --

Note 5: Compensated Absences Payable

Commission employees have accumulated unpaid benefits for compensatory time-off and vacation earned. The Commission also has accumulated unpaid benefits for sick leave. Sick leave is payable at 25% when the employee retires. The accumulated benefits will be liquidated in future years as employees elect to use them or payable upon retirement. In the normal course of business, all payments of these accumulated benefits will be funded from appropriations of the year in which they are to be paid; therefore, the total liability is recorded as long-term. The total at June 30, 2016 was \$12,247.

Note 6: Related Party Transactions

During the fiscal year ended June 30, 2016, the Commission paid the County of Yuba, a related party, \$18,785 for accounting and administrative services.

Note 7: Operating Leases

The commission leases office space under an operating lease agreement that expired in June 2015 and was renewed for one more year. The minimum monthly rental is subject to adjustment as of the anniversary date (June 1) each year based upon the Consumer Price Index. Total rent charged to operations for the year ended June 30, 2016 was \$9,670.

**FIRST 5 YUBA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Note 8: Defined Benefit Pension Plan

The Commission contracts with the County of Yuba for personnel. As such, the employees are the employees of the County and not the Commission directly. All full-time employees of the Commission participate as County employees in which the County contributes to the California Public Employees' Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participation public entities within the State of California. Benefit provisions and all other requirements are established by state statute. Copies of PERS' annual financial reports may be obtained from their Executive Office located at 400 P Street, Sacramento, California 95814.

Funding Policy -

County employees are required by state statute to contribute 7.0% for miscellaneous employees of their annual covered salary. The County is required to contribute remaining amounts necessary to fund the benefits for the actuarial members, using the actuarial basis recommended by CalPERS actuaries and actuarial consultants and adopted by CalPERS Board of Administration. For the fiscal year ended June 30, 2016, the employer contribution rate was 16.71% for the miscellaneous plan. The County makes the contributions required of County employees on their behalf and for their account. All of the Commission's employees are classified as members of the County's miscellaneous plan.

Annual Pension Cost

The Commission reimbursed the County for the employee contributions of \$10,791 in FY 2015-2016 or 7.0% of annual covered payroll and the employer's contribution of \$24,598 or 15.956% of annual covered payroll.

Three-Year Trend Information for PERS

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
06/30/12	\$17,927	100%	--
06/30/13	\$16,012	100%	--
06/30/14	\$23,212	100%	--
06/30/15	\$24,598	100%	--
06/30/16	\$22,405	100%	--

**FIRST 5 YUBA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Note 9: Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions, injuries to employees, employee’s health; and natural disasters. The Commission has insurance policies with a private insurance company with the following policies:

- General Liability
- Crime Bond
- Property Insurance

The County of Yuba is a member of the California State Association of Counties Excess Insurance Authority (CSAC EIA). CSAC EIA is a member-directed risk sharing pool counties and public entities committed to providing risk coverage programs and risk management services. The Commission is covered under the policy of the County of Yuba. The County of Yuba has the following coverage through the risk pool - Excess and Primary Workers’ Compensation

Management believes such coverage is sufficient to preclude any significant uninsured losses to the Commission.

Note 10: Program Evaluation and Cost Allocation

The Commission spent \$93,150 on program evaluation during the fiscal year ended June 30, 2016. \$43,974 was used for salaries and benefits and overhead, and \$49,176 was paid to a vendor.

The Commission separates costs into functional categories; Program, Administrative, and Evaluation. Direct expenses to the programs, administration and evaluation are classified accordingly. Personnel costs are allocated to the functions based upon functional timesheets. Indirect costs are allocated to functions based upon the weighted average of direct personnel costs. The allocated costs were as follows:

	General Fund
Program	\$ 989,187
Administrative	128,924
Evaluation	<u>93,150</u>
TOTAL	<u>\$ 1,211,261</u>

FIRST 5 YUBA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note 11: Section 30131.4 of the California Tax & Revenue Code Certification

The Commission has certified that the supplant requirement stated in Section 30131.4 of the California Tax & Revenue Code has been met.

Note 12: Contingent Liabilities

The Commission receives funding from the State of California Proposition 10, the Children and Families First Act, to fund programs that promote, support, and improve the early development of children from prenatal through age five. These programs must be in compliance with applicable laws and may be subject to financial and compliance audits by the State. The amount, if any, of expenditures which may be disallowed by the State cannot be determined at this time, although the County's management does not expect such amounts, if any, to be material.

Note 13: Subsequent Events

Events subsequent to June 30, 2016 have been evaluated through October 17, 2016, the date at which the Commission's audited financial statements were available to be issued. No events requiring disclosure have occurred through this date.

REQUIRED SUPPLEMENTARY INFORMATION

**FIRST 5 YUBA
BUDGETARY COMPARISON SCHEDULE
BUDGET AND ACTUAL - NON-GAAP BASIS
FOR THE YEAR ENDED JUNE 30, 2016**

	Original Budget	Final Budget	Actual Amount	Variance With Final Budget
<u>Resources (Inflows)</u>				
Operating Grants, Support and Contributions:				
Prop 10 Apportionment	\$ 805,385	\$ 783,594	\$ 851,978	\$ 68,384
SMIF and Other Revenues	200	200	2,856	2,656
Interest Income	5,500	4,000	21,893	17,893
Total revenues	<u>811,085</u>	<u>787,794</u>	<u>876,727</u>	<u>88,933</u>
<u>Charges to Appropriations (Outflows)</u>				
Salaries and Employee Benefits	244,762	250,506	193,297	(57,209)
Operating Expenses				
Insurance	3,310	3,310	3,310	-
Memberships	2,900	3,900	3,625	(275)
Office Expenses	5,000	8,000	8,689	689
Professional Fees	16,000	22,300	18,785	(3,515)
Advertising and Publications	2,000	500	161	(339)
Occupancy	9,250	9,700	9,670	(30)
Special Department Expense	2,974	7,000	7,366	366
Transportation and Travel	1,000	2,000	1,747	(253)
A-87 County Fees	33,223	33,223	33,223	-
Total Operating Expenses	<u>75,657</u>	<u>89,933</u>	<u>86,576</u>	<u>(3,357)</u>
Program Expenses				
Contracts and Grants	818,200	921,407	831,551	(89,856)
Evaluation	30,000	49,176	49,176	-
Total Expenditures	<u>1,168,619</u>	<u>1,311,022</u>	<u>1,160,600</u>	<u>(150,422)</u>
Deficiency (Excess) of Revenues over Expenditures	<u>\$ (357,534)</u>	<u>\$ (523,228)</u>	<u>\$ (283,873)</u>	<u>\$ (239,355)</u>

Reconciliation to GAAP Basis

Budget Basis	\$(283,873)
Change in Contract Advances	<u>(50,661)</u>
GAAP Basis	<u><u>\$ (334,534)</u></u>

See Accompanying Auditor's Report

FIRST 5 YUBA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016

BUDGET AND BUDGETARY ACCOUNTING

The Commission prepares and legally adopts a final budget on or before August 30th of each fiscal year. The Commission's operations, commencing July 1st, is governed by the proposed budget, adopted by the Board of Commissioners in June of the prior fiscal year.

After the budget is approved, the appropriations can be added to, subtracted from or changed only at a formal public meeting. All such changes must be within the revenues and reserves estimated as available in the final budget or within revised estimates as approved by the Commission.

An operating budget is adopted each fiscal year using the cash basis of accounting. Additionally, encumbrance accounting is utilized to assure effective budgetary control. Encumbrances outstanding at year-end represent the estimated amount of the expenditures ultimately to result if the unperformed contracts in process at year-end are completed or purchase commitments satisfied.

The budget is adopted on the cash basis of accounting which is an other comprehensive basis of accounting. A reconciliation between the cash basis budget and the fund financial statements prepared on the modified consistent with generally accepted accounting principles.

OTHER SUPPLEMENTARY INFORMATION

FIRST 5 YUBA
SCHEDULE OF EXPENDITURES BY FUND SOURCE AND
NET POSITION OF CALIFORNIA CHILDREN AND FAMILIES COMMISSION
FUNDS FOR FIRST 5 PROGRAMS AND ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

		Revenue		Expenditures	Change in	Net Position	Net Position
		CCFC			Net	Beginning	End of Year
		Funds			Position	of Year	
CARES Plus	CCFC Funds **	\$	--	\$	--	\$	--
	Local Match			18,699			

** The CARES Plus program is administered directly through the County of Yuba's Office of Education. The local Commission, First 5 Yuba, provides the matching funds for the CARES Plus program as reported above.

**FIRST 5 YUBA
SCHEDULE OF THE STATUS OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2016**

09-01 and 15-01 Reliance upon Auditor for Reporting and Footnote Disclosures.

Condition: Currently, the Commission relies on the external auditors to ensure its financial statements are in accordance with generally accepted accounting principles (GAAP). This is a repeat finding from the prior year.

Recommendation: The Commission may consider the following possible actions:

- Provide training opportunities for its accounting staff that would enable them to become more familiar with the general disclosure requirements. This training should include, but is not limited to, the usage of a disclosure checklist, which provides guidance to the financial statement's content and whether a necessary disclosure has been overlooked.
- Hire an external Certified Public Accountant to confirm that the financial statements and related disclosures are in accordance with GAAP.
- Take no action. The Commission may find that the costs outweigh the benefits to adhere to this standard. No action will result in a significant deficiency in the Commission's internal controls over the preparation of the financial statements.

Response: The Commission has determined that the costs outweigh the benefits to adhere to this standard and elects to take no specific action at this time. This deficiency has occurred in past years and the Commission determined the cost of providing training to staff or hiring external Certified Public Accountant (CPA) to confirm the financial statements and related disclosures are in accordance with GAAP are *not* cost effective.

The Commission staff will continue to reconcile internal records against the Yuba County Auditor-Controller's financial statements for compliance with GAAP and GASB standards. The Commission will continue to review and discuss this repeat audit finding at their annual audit public meetings. Specific Commission agendas and minutes of these public meetings will be provided within two weeks to the State Controller's Office as required by Health and Safety Code section 130151(d).

The above response is consistent with the GFOA's (Government Finance Officers Association) Recommended Practice: "The GFOA does not recommend that governments engage the services of a second accounting firm to assist in preparing its financial statements solely to avoid having a significant deficiency or material weakness reported."

Criteria: Auditing standards require that when an entity cannot draft its own financial statements; there may be a material weakness or significant deficiency. External auditors cannot be part of the Commission's internal controls, including controls over the preparation of the financial statements, and are prohibited from auditing their own work as doing so impairs their independence.

The Commission should have the capacity to prepare full disclosure financial statements in accordance with generally accepted accounting standards.

Status: Corrected

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Fax (916) 434-1090

**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***

Board of Commissioners
First 5 Yuba
Marysville, 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 each major fund of First 5 Yuba (Commission) as of and for the year ended June 30, 2016 and the related notes to the financial statements which collectively comprise the Commission's basis financial statements and have issued our report thereon dated October 17, 2016.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting 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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Jensen Smith
Certified Public Accountants, Inc.
Lincoln, California
October 17, 2016

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Fax (916) 434-1090

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Commissioners
First 5 Yuba
Marysville, California

Compliance

We have audited the First 5 Yuba's (Commission) compliance with the requirements specified in the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, issued by the State Controller's Office, applicable to the Commission's statutory requirements identified below for the year ended June 30, 2016.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on the Commission's compliance with the requirements referred to above, based on our audit. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, issued by the State Controller's Office. Those standards and the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the requirements referred to above that could have a direct and material effect on the statutory requirements listed below occurred. An audit includes examining on a test basis, evidence about 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

Opinion

In our opinion, First 5 Yuba 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, 2016.



Jensen Smith
Certified Public Accountants, Inc.
Lincoln, California
October 17, 2016

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Lincoln, CA 95648
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October 17, 2016

Board of Commissioners
First 5 Yuba
Marysville, California

Dear Ladies and Gentlemen,

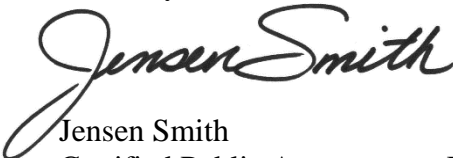
Thank you for your confidence in choosing us for your auditing needs.

In planning and performing our audit of the financial statements of First 5 Yuba (the Commission) for the year ended June 30, 2016, we considered the Commission's internal control in order to determine our auditing procedures for the purpose of expressing an opinion 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 separate report dated October 17, 2016 contains our report on the Commission's internal control. This letter does not affect our report dated October 17, 2016, on the financial statements of the Commission.

We wish to thank your Director and staff for their assistance in completing the audit and researching our questions. We appreciated how well organized your staff is and how quickly they responded to our inquiries. It was a pleasure to work with you and we look forward to working with you again next year. We wish you success for the fiscal year 2016-2017.

Sincerely,


Jensen Smith

Certified Public Accountants, Inc.