

FIRST 5 MENDOCINO
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
JUNE 30, 2017

**FIRST 5 MENDOCINO
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

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FIRST 5 MENDOCINO

Commission Membership

June 30, 2017

<u>Name</u>	<u>Position</u>	<u>Date of Original Appt.</u>	<u>Current Term Expires</u>
Paul Tichinin	Chairperson, General Representative	11/2002	01/2018
Lucresha Renteria	Vice Chairperson, General Representative	10/2004	01/2018
Bryan Lowery	Assistant Director for Health and Human Services Agency, Mendocino County Representative	07/2012	01/2018
Jeremy Mann, M.D.	General Representative	09/1999	01/2019
Dan Hamburg	Board of Supervisors Mendocino County Representative	01/2011	12/2017
John Passalacqua	General Representative	09/2013	01/2019
Ben Anderson	General Representative	03/2015	01/2018
Jim Flaherty, M.D.	General Representative	05/2015	01/2020
Tammy Moss Chandler	Director for Health and Human Services Agency, Mendocino County Representative	10/2016	01/2019

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INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
FIRST 5 Mendocino
Ukiah, California

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities, discretely presented component unit, and major fund of FIRST 5 Mendocino (The Commission) as of and for the year ended June 30, 2017, 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 major fund of the Commission, as of June 30, 2016, and the respective changes in financial position and 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 21 through 22 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, 2017 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, 2017



Managements Discussion and Analysis

On November 3, 1998, California voters approved Proposition 10 – the Children and Families FIRST Act (Act). The Act imposed additional excise tax on cigarettes and tobacco related products to fund programs that promote, support, and improve the early development of children from prenatal through age five. The intent is for all California children to be healthy, to live in a healthy and supportive family environment, and to enter school ready to learn.

The Mendocino County (County) Board of Supervisors created FIRST 5 Mendocino (The Commission) in 1999 under the provisions of the Act. The Commission consists of nine commissioners appointed by the County Board of Supervisors. The Commission is a public entity legally separate and apart from the County, and is not considered a component unit of the County.

As management of the Commission, we offer readers of our financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2017.

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) general 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 summary information on all of the Commission’s assets, liabilities, and fund balance with the difference between the two reported as *Net Position*.

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

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 Financial Statements.

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and general fund financial statements. The notes to the financial statements can be found on pages 13-20 of this report.

Government-wide Financial Analysis

The net position may serve over time as a useful indicator of a government's financial condition. In the case of the Commission, assets exceed liabilities by \$761,290 at the close of the most recent fiscal year. This represents resources received from the California State Commission from Proposition 10 taxes that have not been expended. Cash and investments are maintained in the County's cash and investment pool where interest earned on the Commission's balance is apportioned to the Commission. The net position includes significant assets such as the Commission's cash balances of \$454,162 and receivables of \$416,309. Accounts Receivable of \$64,610 represents tobacco taxes that were remitted by the State but had not been received by the Commission as of June 30, 2017. The Commission reported Accounts Payable of \$49,290 representing payments due on grant service contracts and other services provided that had not been expended at year-end.

The Commission's net position decreased overall by \$104,731 during the 2016-2017 fiscal year.

Governmental Activities

The Commission does not have business type activities and so the analysis presented above for the government fund financial statements represents an analysis of the Commission's governmental activities.

Financial Analysis of the Commission's Governmental Fund

As noted earlier, the Commission uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

For the year-ended June 30, 2017, as shown on page 11 and 12 the Commission reported an ending fund balance of \$624,196, a decrease of \$112,238 during the 2016-2017 fiscal year. This decrease represents the amount of expenditures over revenues for the year ended June 30, 2017.

The Commission has a nonspendable fund balance of \$739 and committed fund balance of \$623,457 for projects and contracts at June 30, 2017.

FIRST 5 MENDOCINO

Balance Sheet Comparison (in thousands)

	FY 2016-2017	FY 2015-2016	Difference
Total Assets	\$ 739	\$ 907	\$ (168)
Total Liabilities	115	171	(56)
Fund Balance	<u>\$ 624</u>	<u>\$ 736</u>	<u>\$ (112)</u>

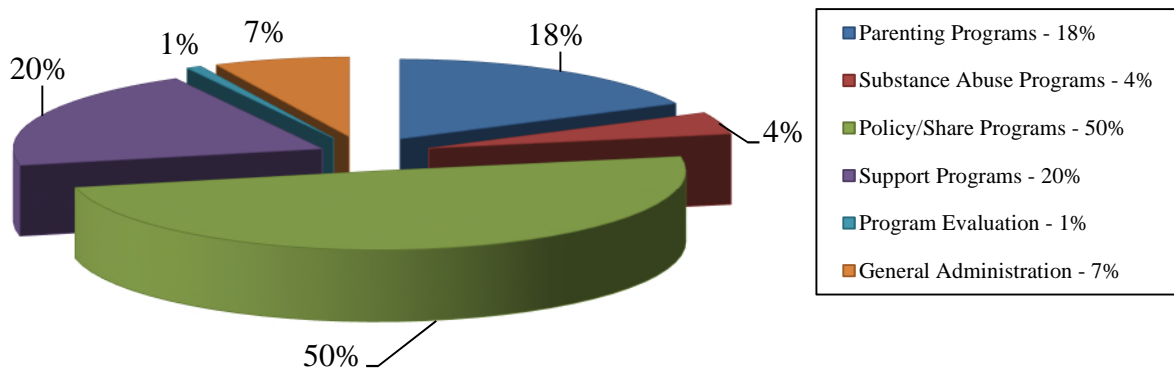
Revenue and Expense Comparison (in thousands)

	FY 2016-2017	FY 2015-2016	Difference
Total Revenues	\$ 1,736	\$ 1,190	\$ 546
Total Expenditures	1,848	1,337	510
Net Change in Fund Balance	<u>\$ (112)</u>	<u>\$ (147)</u>	<u>\$ 35</u>

Total revenue (see above) consisting of Proposition 10 funds, grant income, interest income, and State Commission matching revenue increased from \$1,190 thousand to \$1,736 thousand for the year ended June 30, 2017. This increase was due primarily to the increases in local funding and contracts, including the income from Raise & Shine for reimbursement of staffing costs.

Total expenditures increased to \$1,847 thousand, an increase of \$510 thousand from the prior fiscal year. This increase was due to the increase in grants spent and the staffing costs related to Raise & Shine.

Percentages of expenditures per program area are represented as follows.



Fund Budgetary Highlight

Total revenues were over the final budget by 9.5% or \$149,951. Expenditures were over the final budget by 10.3% or \$172,680. The expenditures are still within the three year plan. The budget to actual comparison is on page 21 of this report.

Capital Assets and Debt Administration

Capital Assets: As of June 30, 2017, the Commission had total capital assets of \$30,819, accumulated depreciation of \$8,022, leaving net Capital Assets of \$22,797. Capital assets are capitalized at cost when the cost exceeds its capital asset threshold of \$5,000. More detailed information about the Commission’s capital assets is presented in Note 3 of the basic financial statements on page 19 of this report.

Debt Administration: The commission’s long-term debt consists of compensated absences payable totaling \$17,331.

Economic Factors and Next Year’s Budget

The Commission is committed to focusing Proposition 10 funds on the purposes for which it is intended: To promote and sustain comprehensive, integrated programs and services that will help to nurture children ages 0-5 so that their young brains and bodies will develop appropriately. The Commission’s emphasis is on improved parenting and reduced substance abuse among families with young children

Although Mendocino County unemployment is officially at about 6%, over 25% of Mendocino County children are still living in poverty.

In 2017-2018, the Commission will:

- Award grants pursuant to the Strategic Plan 2017-2020.

- Dedicate significant funds to the Family Resource Centers and the Network as efficient methods to serve and support families throughout Mendocino County
- Award Special Funding Requests with particular emphasis on emergent needs that align with improved parenting and reduced substance abuse among families with young children
- Continue to provide administrative support services, per the memorandum of understanding, to the non-profit organization Raise & Shine Mendocino and the Sandbox Preschool which opened under the non-profit umbrella in April 2016.
- Continue our contract with a financial services expert to increase our internal controls and improve our fiscal reporting and accountability through implementation of the GFOA guidelines
- Continue to have staff on the coast per the memorandum of understanding with Mendocino Coast Children's Fund.
- 3.79% decline in State Proposition 10 revenues is projected while locally we expect a 3.19% decrease in Proposition 10 revenues (due to Mendocino County birthrate holding steady, but decreasing as a percentage of California births); the Commission will draw on reserves to lessen the impact of that 3.19% decrease
- 0.6% interest on the local Children and Families Trust Fund is Projected

Requests for Information

This financial report is designed to provide a general overview of FIRST 5 Mendocino 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 the Executive Director, FIRST 5 Mendocino, 166 East Gobbi Street, Ukiah, CA 95482.

FIRST 5 MENDOCINO
STATEMENT OF NET POSITION
JUNE 30, 2017

<u>ASSETS</u>	<u>Total</u> <u>Primary Government</u> <u>Governmental Activities</u>	<u>Raise & Shine</u> <u>Component</u> <u>Unit</u>
Cash in County Treasury	\$ 364,902	\$ 190,594
Cash - Payroll Account	89,260	-
Accounts Receivable - State of California Prop. 10	64,610	-
Grants and Contracts Receivable	282,097	28,638
Note Receivable	69,602	-
Deposits	739	2,140
Capital Assets, net of accumulated depreciation	22,797	-
Total Assets	894,007	221,372
 <u>LIABILITIES</u>		
Accounts Payable	49,290	1,708
Credit Cards Payable	4,953	-
Accrued Payroll	61,143	66,043
Long-term Liabilities:		
Loan from Related Party	-	69,602
Compensated Absences Payable	17,331	-
Total Liabilities	132,717	137,353
 <u>NET POSITION</u>		
Restricted	738,493	35,093
Unrestricted	-	48,926
Invested in Capital Assets, net of accumulated depreciation	22,797	-
Total Net Position	\$ 761,290	\$ 84,019

See Accompanying Notes to Financial Statements.

**FIRST 5 MENDOCINO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017**

	Total	Raise & Shine
FIRST 5 PROGRAM EXPENSES	Primary Government Governmental Activities	Component Unit
Salaries and Employee Benefits	\$ 782,360	\$ 268,143
Outside Services	266,548	3,848
Professional Fees	23,313	-
Occupancy	75,259	27,003
Meeting Expenses	4,406	-
Office Expenses	19,415	2,523
Postage and Delivery	2,799	-
Printing and Reproduction	11,933	-
Advertising	7,798	-
Outreach	44,669	-
Training	7,439	964
Travel	40,316	-
Memberships	6,456	-
Insurance	6,368	2,524
Bank Charges and Fees	30	-
Depreciation	192	-
Miscellaneous	5,043	385
VISTA Program Expenses	6,049	-
AmeriCorps	16,879	-
Program Expenses	157,498	93,481
Sub-Recipients	350,483	-
Total Program Expenses	1,835,253	398,871
<u>PROGRAM REVENUES</u>		
Operating Grants and Contributions:		
Prop 10 Apportionment	654,925	-
Surplus Money Investment Funds	533	-
Grant Revenues and Contributions	741,046	182,284
Other Revenue	334,018	296,370
Total Program Revenues	1,730,522	478,654
Net Program Revenues (Expense)	(104,731)	79,783
<u>GENERAL REVENUES</u>		
Interest income	2,539	4
Change in Net Position	(102,192)	79,787
Net Position - Beginning of Year	863,482	4,232
Net Position - End of Year	\$ 761,290	\$ 84,019

See Accompanying Notes to Financial Statements.

**FIRST 5 MENDOCINO
GOVERNMENTAL FUNDS BALANCE SHEET
JUNE 30, 2017**

ASSETS

Cash in County Treasury	\$	364,902
Cash - Payroll Account		89,260
Accounts Receivable - State of California Prop. 10		64,610
Grants and Contracts Receivable		220,071
Deposits		739
Total Assets	\$	739,582

LIABILITIES

Accounts Payable	\$	49,290
Credit Card Payable		4,953
Accrued Payroll		61,143
Total Liabilities		115,386

FUND BALANCES

Fund Balances:		
Nonspendable		739
Committed		623,457
Total Fund Balances		624,196
Total Liabilities and Fund Balances	\$	739,582

**Reconciliation of the Governmental Fund Balance Sheet
to the (Government - Wide) Statement of Net Position
June 30, 2017**

Fund Balance - Total Governmental Fund (from above)	\$	624,196
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Revenues received more than ninety days after the fiscal year end are not considered currently available resources and therefore are not reported as revenues in the governmental funds activities.		62,026
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is capitalized as fixed assets and depreciated.		22,797
Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds.		69,602
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		(17,331)
Net Position of Governmental Activities	\$	761,290

See Accompanying Notes to Financial Statements.

**FIRST 5 MENDOCINO
STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2017**

REVENUES

Operating Grants and contributions:	
Prop 10 Apportionment	\$ 654,925
Surplus Money Investment Fund	533
Grant Revenues	743,707
Interest Income	2,539
Other Revenue	334,018
Total Revenues	1,735,722

EXPENDITURES

Administrative Costs	
General Administration	130,902
Program Costs	
Parenting Programs	325,817
Substance Abuse Programs	82,700
Policy/Shared Programs	915,741
Support Programs	378,423
Program Evaluation	14,377
Total Expenditures	1,847,960

Deficiency of Revenues over Expenditures	(112,238)
Fund Balance - Beginning of Year	736,434
Fund Balance - End of Year	\$ 624,196

**Reconciliation of the Statement of Revenue, Expenditures and
Changes in Fund Balance to the Government-Wide Statement of Activities
For the Year Ended June 30, 2017**

Net Change to Fund Balance - Total Governmental Fund	\$ (112,238)
Total change in net position for governmental activities in the statement of activities is different because:	
Revenues received more than ninety days after the fiscal year end are not considered currently available resources and therefore are not reported as revenues in the governmental funds activities.	(2,661)
Loan transactions are not considered expenditures for the Government-wide financial statements - Note Receivable	(15,000)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is capitalized as fixed assets.	22,989
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	
Depreciation Expense	(192)
Change in Compensated Absences	4,910
Change in Net Position of Governmental Activities	\$ (102,192)

See Accompanying Notes to Financial Statements.

**FIRST 5 MENDOCINO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

Note 1: Nature of the Entity

Reporting Entity

FIRST 5 Mendocino (Commission), originally known as the Mendocino County Children and Families Commission, was established on January 5, 1999 pursuant to Health and Safety Code 130140. The Commission was also established in accordance with the provisions of the California Children and Families First Act of 1998 and by Mendocino County Ordinance No. 4027 and 4049. The nine members of the Commission are appointed by the Mendocino County Board of Supervisors.

The Commission is responsible for the creation and implementation of a comprehensive, collaborative, and integrated system of information and services to enhance early childhood development. The Commission includes all activities (operations of its administrative staff and Commission officers) considered to be part of the Commission. The accounting methods and procedures adopted by the Commission conform to generally accepted accounting principles as applied to governmental entities. These financial statements present the government and its component units.

Reporting for component units on the Commission's financial statements can be blended or discretely presented. Component units, although legally separate entities, are in substance part of the government's operations. Blended component units are an extension of the Commission and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are presented in a separate column in the combined financial statements to emphasize they are legally separate from the Commission. The Commission has determined there are no entities that meet the definition of a blended component unit. The Commission has determined that the not-for-profit entity "Raise & Shine" was a component unit that requires presentation as a discretely presented component unit.

Discretely Presented Component Units

Raise & Shine is a Not-for-profit California Corporation created in 2015 by the governing board of the Commission to provide healthy development of children in Northern California. Raise & Shine is a legally separate and independent entity from the Commission. The Board of Directors of the entity consists of three to nine board members and at least two of the members will be members of the Commission. The day to day operation are managed by the appointed Chief Executive Officer, whom is also the Executive Director of the Commission. For the year ended June 30, 2017, the entity had three board members and all three were Commissioners. Since the Commission can impose its will on the entity, Raise & Shine is considered a discretely presented component unit of the Commission. Separately issued financial statements may be obtained at the entity's administrative office which is also the Commission's administrative office located at 166 Gobbi Street, Ukiah, CA 95482.

The financial statements included in this report are intended to present the financial position and results of operations of only the Commission. They are not intended to present the financial position and results of operations of the County of Mendocino taken as a whole.

**FIRST 5 MENDOCINO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

Note 2: Summary of Significant Accounting Policies

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 the 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.

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

The governmental fund financial statements are reported using the current financial resources measurements 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 and 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 is the Commission's primary operating fund. It accounts for all financial resources of the general government.

**FIRST 5 MENDOCINO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

Note 2: Summary of Significant Accounting Policies (continued)

Non-Current Governmental Assets/Liabilities

GASB Statement No. 34 eliminates the presentation of account groups, but provides for these records to be maintained and incorporates the information into the government-wide statement of Net Position.

Accounts Receivable and Grants and Contracts Receivable

This amount represents receivables from FIRST 5 California. As of June 30, 2017, the Commission was due \$64,610 from the State of California for Proposition 10 funding, and \$282,097 from other sources. Management believes its receivables to be fully collectible, and accordingly, no allowance for doubtful accounts is required.

Compensated Absences

Employees accrue vacation of two weeks per year, with a maximum accrual of 160 hours. Upon termination, unused vacation, up to accrual limits, is paid off in cash. At fiscal year end, the total vacation liability was \$17,331.

Capital Assets

Capital assets have been acquired for general commission purposes. Assets purchased are recorded as expenditures in the governmental funds and capitalized at cost or estimated cost where no historical records are available. The Commission defines capital assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Capital assets are depreciated in the government-wide statements using the straight-line method over their estimated useful lives of 5 years.

Net Position/Fund Balances

Net Position

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

**FIRST 5 MENDOCINO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

Note 2: Summary of Significant Accounting Policies (continued)

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.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories as noted below.

• **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.

**FIRST 5 MENDOCINO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

Note 2: Summary of Significant Accounting Policies (continued)

Fund Balances (continued)

• **Committed –**

Two criteria determine the Committed 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 Proposition 10 funds is the FIRST 5 Mendocino Commission.
2. Removal or modification of use of funds can be accomplished only by formal action of the authority (i.e., Commission) that established the constraints.

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

**FIRST 5 MENDOCINO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

Note 2: Summary of Significant Accounting Policies (continued)

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 Mendocino 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.

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 unreported amounts and disclosures. Actual results could differ from those estimates.

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

At June 30, 2017, nearly all cash is pooled for investment purposes and held by the County of Mendocino. The Mendocino County Treasury is an external investment pool for the Commission and the Commission is considered an involuntary participant.

**FIRST 5 MENDOCINO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

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

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 fair value of cash and investments were the same and therefore, no adjustment was necessary for GASB 31 compliance.

The Commission deposits funds in interest bearing accounts with Mendocino 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 Mendocino's financial statements. Investments held in the County's investment pool are available on demand and are stated at cost plus accrued interest, which approximates fair value.

Note 4: Capital Assets

Changes in Capital Assets for the year ended June 30, 2017, was as follows:

	<u>July 1, 2016</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2017</u>
Equipment	\$ 7,830	\$ --	\$ -	\$ 7,830
Vehicles	--	22,989	--	22,989
Less accumulated depreciation	(7,830)	(192)	--	(8,022)
Capital assets, net	<u>\$ --</u>	<u>\$ 22,797</u>	<u>\$ --</u>	<u>\$ 22,797</u>

Note 5: Functional Allocation of Costs

The Commission allocates costs between administrative, program and evaluation activities. Direct costs are expensed directly to the category. Indirect costs and Personnel costs are allocated based on the amount of time staff spends on each activity. Costs for the year ended June 30, 2017 were as follows:

	<u>General Fund</u>	<u>Adjustment</u>	<u>Government-Wide</u>
Program	\$ 1,702,681	\$ (7,989)	\$ 1,694,692
Administration	130,902	(4,718)	126,184
Evaluation	<u>14,377</u>	<u>--</u>	<u>14,377</u>
TOTAL	<u>\$ 1,847,960</u>	<u>\$(12,707)</u>	<u>\$ 1,835,253</u>

The differences between the general fund statements and the government-wide statements were depreciation expenses of \$192, the change in the accrued vacation time of \$4,910 and the expenditure for the grant reported as loan repayment for the Raise & Shine, Sandbox child care center of \$15,000, and the vehicle purchase of \$22,989.

**FIRST 5 MENDOCINO
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2017**

Note 6: Program Evaluation

The Commission spent \$14,377 program evaluation during the fiscal year ended June 30, 2017.

Note 7: Risk Management

The Commission is exposed to various risks of loss related to general liability and workers' compensation. Insurance for the Commission is secured through commercial lines for both general liability and workers' compensation coverage.

Note 8: 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 9: Note Receivable-Related Party Notes

During the fiscal year ended June 30, 2016, the Commission started a nonprofit organization called Raise & Shine. Raise & Shine started as a program of the Commission until it was incorporated and received its own tax exemption from the IRS and California. The new non-profit shares a board of directors that is the same as the Commission. The Commission has funded the non-profit and fronted the initial costs of the Sandbox child care center with the understanding that the new non-profit will reimburse the Commission over the next five years for the loan and initial costs. The Commission has a memorandum of understanding with the new non-profit to provide administrative services including processing payroll, human resource services, and other administrative services. At June 30, 2016, Raise & Shine owed \$84,602 to the Commission for an initial loan of \$50,000 and \$34,602 for start-up costs for equipment and supplies for the Sandbox child care center. This was reduced by a \$15,000 grant as noted above leaving a balance at June 30, 2017 of \$69,602. At June 30, 2017, Raise & Shine also owes the Commission \$66,043 for the last quarter of payroll costs.

Note 10: Subsequent Events

Events subsequent to June 30, 2017 have been evaluated through October 17, 2017, 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 MENDOCINO
SCHEDULE OF REVENUES EXPENDITURES
BUDGET TO ACTUAL
FOR THE YEAR ENDED JUNE 30, 2017**

	Original & Final Budget	Actual Amount	Variance With Original Budget
Budgetary Fund Balances, July 1, 2016	\$ 736,434	\$ 736,434	\$ -
<u>Resources (Inflows)</u>			
Operating Grants and contributions:			
Prop 10 Apportionment	662,952	654,925	(8,027)
Grant Revenues	768,936	743,707	(25,229)
Prop 10 Surplus Money Investment Fund	-	533	533
Interest Income	1,000	2,539	1,539
Other Revenue	149,463	334,018	184,555
Total Revenues	<u>1,582,351</u>	<u>1,735,722</u>	<u>153,371</u>
<u>Charges to Appropriations (Outflows)</u>			
Parenting Programs	431,133	325,817	105,316
Substance Abuse Programs	92,881	82,700	10,181
Policy/Shared Programs	990,919	915,741	75,178
Support Programs	43,028	378,423	(335,395)
Evaluation	19,557	14,377	5,180
Administration	97,762	130,902	(33,140)
Total Expenditures	<u>1,675,280</u>	<u>1,847,960</u>	<u>(172,680)</u>
Deficiency of Revenues over Expenditures	(92,929)	(112,238)	
Fund Balance - Beginning of Year	736,434	736,434	
Fund Balance - End of Year	<u>\$ 643,505</u>	<u>\$ 624,196</u>	

See Accompanying Notes to Financial Statements.

**FIRST 5 MENDOCINO
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2016**

BUDGET AND BUDGETARY ACCOUNTING

The Commission prepares and legally adopts a final budget on or before June 30th of each fiscal year. The Commission operation, 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 changes only by Commission resolution. All such changes must be within the revenues and reserves estimated as available in the final budget or within revised revenue estimates as approved by the Commission.

An operating budget is adopted each fiscal year on the modified accrual basis. 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. Such year-end encumbrances are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent years and included in the subsequent years' budgets. Unencumbered appropriations lapse at year-end.

The legal level of budgetary control (the level on which expenditures may not legally exceed appropriations) is at the object level. Object levels of expenditures are as follows: salaries and benefits, services and supplies, rent and utilities, retention incentive expenditures, and other program expenditures.

OTHER SUPPLEMENTARY INFORMATION

**FIRST 5 MENDOCINO
 SCHEDULE OF EXPENDITURES BY FUND SOURCE AND
 NET POSITION OF CALIFORNIA CHILDREN AND FAMILIES COMMISSION
 FOR FIRST 5 PROGRAMS AND ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2017**

		Revenue CCFC Funds	Expenditures	Change in Position	Net Position Beginning of Year	Net Position End of Year
IMPACT	CCFC Program Funds	\$59,165	\$ 59,165	\$ --	\$ --	\$ --

See Accompanying Independent Auditor's Report

**FIRST 5 MENDOCINO
 DETAIL SCHEDULE OF EXPENDITURES
 FOR THE YEAR ENDED JUNE 30, 2017**

FIRST 5 PROGRAM EXPENSES

	Parenting	Substance Abuse	Policy Shared	Support Programs	Evaluation	Administrative		TOTALS
						Admin.	Allocated Costs	
Salaries and Employee Benefits	\$ 138,510	\$ 13,889	\$ 230,378	\$ 279,541	\$ 10,128	\$ 45,633	\$ 69,191	\$ 787,270
Outside Services	21,789	38	232,414	-	-	-	12,307	266,548
Professional Fees	-	-	-	-	-	-	23,313	23,313
Occupancy	1,336	-	35,092	332	95	83	38,321	75,259
Meeting Expenses	401	-	622	-	-	2,681	702	4,406
Office Expenses	4,759	-	4,321	383	-	2,258	7,694	19,415
Equipment - Vehicle	-	-	22,989	-	-	-	-	22,989
Postage and Delivery	847	11	1,189	11	-	30	711	2,799
Printing and Reproduction	4,698	730	2,561	-	-	-	3,944	11,933
Advertising	6,372	-	1,014	11	-	1	400	7,798
Outreach	2,532	-	42,092	-	-	45	-	44,669
Training	1,117	-	3,859	298	-	340	1,825	7,439
Travel	7,207	(66)	29,541	448	-	2,264	922	40,316
Memberships	-	-	350	-	-	-	6,106	6,456
Insurance	-	-	100	-	-	-	6,268	6,368
Bank Charges and Fees	-	-	-	-	-	-	30	30
Miscellaneous	1,941	-	481	95	-	1,674	852	5,043
VISTA Program	-	-	-	6,049	-	-	-	6,049
AmeriCorps	-	-	12,014	4,865	-	-	-	16,879
Administration Allocation	32,347	5,125	54,723	3,702	4,154	16,510	(116,561)	-
Program Expenses	31,571	-	119,088	5,981	-	261	597	157,498
Sub-Recipients	70,390	62,973	122,913	76,707	-	-	2,500	335,483
Total Program Expenses	<u>\$ 325,817</u>	<u>\$ 82,700</u>	<u>\$ 915,741</u>	<u>\$ 378,423</u>	<u>\$ 14,377</u>	<u>\$ 71,780</u>	<u>\$ 59,122</u>	<u>\$ 1,847,960</u>

See Accompanying Notes to Financial Statements.

FIRST 5 MENDOCINO
SCHEDULE OF THE STATUS OF PRIOR AUDIT FINDINGS
JUNE 30, 2017

16-01 Generally Accepted Accounting Principles

Condition: Management relies on the auditor to prepare for approval the adjusting journal entries for accruals and the footnote disclosures required for the Organization's financial statements to be in conformity with generally accepted accounting principles. There were multiple entries required for the following types of accounting issues:

- 1.) Grant and other receivables were not recorded or not recorded correctly
- 2.) Checks were back dated to June instead of accruing the expenses as accounts payable
- 3.) Reconciliations were not completed correctly creating a significant reconciliation discrepancy account
- 4.) Grant income was recorded both as an invoice and then again when the payment was received
- 5.) A duplicate entry was made for a disbursement and was not voided out of QuickBooks
- 6.) A duplicate payment was made to a vendor at year end

Criteria: Auditing Standard, AU-C Section 265 states that the auditor may not be part of the Organization's internal control system. Someone from the Organization must be knowledgeable in generally accepted accounting principles and capable of preparing full-disclosure financial statements in conformity with generally accepted accounting principles.

Cause: During the year the Organization lost their long-term outside bookkeeper and there were multiple errors made during the transition.

Effect: The financial statements had to be adjusted during the audit. There were multiple entries required to correct cash, receivables, payables, revenues and expenses.

Status: Corrected

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**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 Mendocino
Ukiah, 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 Mendocino (The Commission) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated October 17, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Commission's internal control over financial reporting. 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 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, 2017

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INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Commissioners
FIRST 5 Mendocino
Ukiah, California

Compliance

We have audited FIRST 5 Mendocino'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 ended June 30, 2017.

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 Mendocino 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, 2017.



Jensen Smith
 Certified Public Accountants, Inc.
 Lincoln, California
 October 17, 2017

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October 17, 2017

Board of Commissioners
FIRST 5 Mendocino
Ukiah, California

Dear Ladies and Gentlemen,

In planning and performing our audit of the financial statements of FIRST 5 Mendocino for the year ended June 30, 2017, we considered FIRST 5 Mendocino's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

We previously reported on FIRST 5 Mendocino's internal control in our report dated October 17, 2017. This letter does not affect our report dated October 17, 2017, on the financial statements or internal control of FIRST 5 Mendocino.

The following item did not constitute a significant deficiency or material weakness, but should be considered and corrected to assure maximum compliance and efficiency:

There were definite improvements in the recording and reconciliations for the accounting this year. There were still a number of entries required but these were related more to classifications between funds and timing between when the County closes their books and when we need to complete the audit in order to meet the State deadline. We discussed these entries with your staff and believe that they understand the issues and how to correct them in the future. We believe that these issue will not continue into the 2017-2018 fiscal year.

We want to thank your staff for their assistance in completing the audit. We commend you for the continued support and services you provide to the children in Mendocino County.

We wish you the best in the current year.

Sincerely,



Jensen Smith
Certified Public Accountants, Inc.