FIRST 5
Sacramento Commission

FINANCIAL PLANNING COMMITTEE
2750 Gateway Oaks Dr., Suite 330
Sacramento, CA 95833

AGENDA

Thursday **January 17, 2017** **12:30 p.m.**

Members: Kathy Kossick (Chair), Beth Hassett (Vice-Chair), Terrence Jones
Advisory Committee Members: Ernie Brown, Walter Wyniarczuk
Staff: Julie Gallelo, Nancy Benton, Kim Kendzior, Michele Peterson
Clerk: Gail Syputa

1. Welcome/Call to order and Roll Call
2. Public Comments on Non-Agenda Matters
3. Approve November 17, 2016 Draft Action Summary
4. Receive Staff Updates
5. Review and Accept the 2016 Audited Financial Statements
6. Review and Comment on Financial Statements for the Period Ended November 30, 2016
7. Approve Recommendation to Place Prop 56 Funding in Fund Balance Until 2021
8. Approve Recommendation on 2018 Contractor “Step Down” Parameters
9. Approve Recommendation for a Feasibility Study to Expand MAA Reimbursement of First 5 Funded Programs
10. Committee Member Comments
11. Adjourn

Meeting materials are posted at www.first5sacramento.net. Some documents may not be online because of their size and/or format. Hard copies are available from the Clerk of the Commission at the First 5 Sacramento Commission office.

FIRST 5
Sacramento Commission

FINANCIAL PLANNING COMMITTEE
2750 Gateway Oaks Dr., Suite 330
Sacramento, CA 95833

DRAFT ACTION SUMMARY

Thursday November 17, 2016 12:30 p.m.

Members: Kathy Kossick (Chair), Beth Hassett (Vice-Chair), Terrence Jones
Advisory Committee Members: Ernie Brown, Walter Wyniarczuk
Staff: Julie Gallelo, Nancy Benton, Kim Kendzior, Michele Peterson
Clerk: Gail Syputa

1. Welcome/Call to order and Roll Call
   Action: Meeting was called to order at 12:33PM and a quorum was established.

2. Public Comments on Non-Agenda Matters
   Action: Sheila Boxley asked about Prop 56 impact. This topic to be covered in #5.

3. Approve August 15, 2016 Draft Action Summary
   Action: Wyniarczuk/Brown. Approved as recommended.

4. Review and Accept the 2015 Audited Financial Statements
   Action: The audit was not available for review as a result of GASB 68 and the County's challenge in providing the pension liability figures needed by the First 5 deadline. An extension has been granted by First 5 CA to December 31, 2016. The audit will be presented at the January FPC meeting and the February Commission meeting.

5. Staff Updates
   Action: Kim Kendzior reviewed the handouts.
   - Julie Gallelo stated that there will be a 13-17% internal cut in 2018 and she is starting now to look for opportunities to lessen the chance of any position layoffs. Kim Kendzior is retiring in February 2017 and her position will be downgraded to an ASO III. Liane Hopkins will be retiring in March 2017 and no decision has been made yet whether to fill, downgrade or eliminate this position. Walter Wyniarczuk gave kudos to Julie Gallelo on taking implementing budget saving options now, rather than waiting until 2018.
   - Prop 56 – The proposition passed and it does have backfill written into the language of the bill. It also has the ability to tax e-cigarettes, which is unregulated right now and will become effective April 1, 2017. The increased revenue from Prop 56 is unknown at this time.
   - With a 20% reduction looming and a 37% reduction in 2021, it was suggested that any money that First 5 receives from Prop 56 be added to the reserve to offset the 2021 cliff.

6. Approve Meeting Schedule from Bi-Monthly to Quarterly
   Action: Jones/Brown. Approved as recommended.
   Julie Gallelo requested that the budget review be condensed from three reviews to two and explained the decision-making behind the request. The committee was in support of this direction.

7. Review and Comment on Financial Statements for the Period Ended September 30, 2016
   Action: Nancy Benton reviewed the handouts and answered any questions.

8. Committee Member Comments
   Action: Kathy Kossick gave kudos to Kim Kendzior for her dedication and hard work.

9. Adjourn – 1:14PM

Respectfully submitted,

Gail Syputa, Clerk
First 5 Sacramento Commission

FIRST 5 SACRAMENTO COMMISSION
Financial Planning Committee Staff Update
January 5, 2017

1. **Medi-Cal Administrative Activities (MAA):**
   The first quarter for Fiscal Year (FY) 2015-16 has been submitted. The second quarter for the First 5 claim plan is ready for review. This will be reviewed with new staff as part of the transition plan.

   The State changed their policy on the use of Actual Client Counts versus County-wide Averages. FY 2013-14 and FY 2014-15 are to be re-submitted using Actual Client Count for all MAA time-study activities. The Commission will earn another $100,000 for all eight quarters. These revisions have been submitted.

   First 5 is still waiting for a new budget for the MAA contract split. A budget was received showing MAA costs only; however, there are still questions that have to be resolved. The contract is on hold until all issues are resolved.

   The Commission hired Health Reach to evaluate contractors for potential MAA earnings, and three to six contractors are interested in pursuing this. The expansion activities are anticipated to cost between $10,000 to $20,000 per contractor. First 5 is proposing to support contractors and there is a proposal in your packet for review.

2. **Audit Reports:**
   Commission staff has received several contractor audits for the FY 2015-16 and has begun the review. The audits for those contractors receiving Federal funds will be used as part of the risk assessment which will be completed between April and June 2017.

3. **Site Visits**:
   Several site visits have occurred and several more are due within the 2016-17 fiscal year. Staff is working to complete the reports and correspondence with the sites regarding the results.

4. **Strategic Planning:**
   The Commission approved the Strategic Plan Mission, Vision, Principles and Spending Plan. Early comments from Commissioners indicated an interest in Prop 56 funds being used to reduce the impact of the anticipated 20.7% reductions in the next planning cycle. It was recommended that staff work through the Financial Planning Committee to discuss the option of adding some flexibility to the reductions for agencies working in their sustainability plans. The proposals related to Prop 56 and the step-down expenditure plan will be discussed later in the meeting.

5. **Fiscal Accountability:**
   Planners now approve all invoices and budget revisions and report late submissions to the Chief of Administration on an exception basis. There were no reports of late submissions for this period.

6. **Staffing Changes:**
   The Chief of Administration position will be downgraded from a Senior Administrative Analyst to an Administrative Services Officer III. Interviews have been held and the new person is scheduled to begin on January 23, 2017. The new Chief will work with the ED to determine if the proposed March retirement vacancy for an ASO II will be downgraded or eliminated. This position could be vacant for a few months to determine the impact before making the decision.

2017 At-A-Glance
FINANCIAL PLANNING COMMITTEE
MEETING AGENDA ITEMS

January 5	Staff Update Review and Accept FY 2015-16 Financial Audit Review of Financial Statement as of November 30, 2016 Approve Recommendation for Prop. 56 Funds Approve Parameters for Contract Negotiations Related to Step Down Reductions
April 6	Staff Update Review of Financial Statement as of February 28, 2017 Review and Approval of Proposed Budget for FY 2017-18 Review and Approve policies with Financial Impact or Those Related to Contractor's Fiscal Activities
July 6	Staff Update Review of Financial Statement as of May 31, 2017 Review and Approval of Final Budget for FY 2017-18
October 5	Staff Update Review FY 2016-17 Year End Financial Statements Review of Financial Statement as of August 31, 2017

First 5 Sacramento Commission
Financial Planning Committee (FPC) Meeting
January 5, 2017 12:30 – 1:30

Audit Backgrounder

Background:
The Children and Families Act of 1998 requires that California's 58 county commissions submit an annual report and audit to the First 5 California State Commission by November 1st of each year.

In accordance with Health and Safety Code Section 130140 (a) (1) (G) "the county commission [shall] prepare and adopt an annual audit … [and] conduct at least one public hearing prior to adopting any annual audit and reports."

First 5 Sacramento requested and was granted an extension until December 31, 2016. The audit and single audit report were filed within this deadline. This information is collected by the State Commission and included in the First 5 California State Commission Annual Report to the Legislature.

Current Situation:
Two audits were conducted by Vavrinek, Trine, Day & Co., LLP (VTD) for Fiscal Year 2015-16.

- *The Audit of Financial Statements* addresses the Commission's overall fiscal operations. There were no audit findings.

- *The Single Audit* addresses federal funds, specifically reimbursements related to Medi-Cal Administrative Activities (MAA) funds and Community Based Child Abuse and Prevention (CBCAP) funds. There were no audit findings.

Recommendation:
Review and receive the First 5 Sacramento audits for FY15/16. Submission of the audits to the Commission meeting on February 6, 2017 for public review and adoption.

Attachments:
- Letter of Introduction and Scope from VTD
- Independent Auditors' Reports – Basic Financial Statements
- Single Audit Report

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

To the Board of Commissioners
First 5 Sacramento Commission
Sacramento, California

We have audited the financial statements of the governmental activities and the general fund of First 5 Sacramento Commission (Commission), a component unit of the County of Sacramento, California, for the year ended June 30, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Commission are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the Commission adopted Governmental Accounting Standards Board (GASB) Statements No. 72, *Fair Value Measurement and Application*, effective July 1, 2015. We noted no transactions entered into by the Commission during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the Commission's financial statements were:

> Management's estimates include certain liabilities owed to vendors and grantees included in accounts payable and due to other governments which are based on estimates of historical expenditures and management's estimate of the date of collection to comply with period of availability for certain revenues. Management's estimates also include amounts related to the net pension liability, related deferred inflows of resources and deferred outflows of resources, and disclosures are based on actuarial valuations and a proportionate share of the County of Sacramento's collective net pension liability. We evaluated the key factors and assumptions used to develop management's estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

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

> The disclosure of the Commission's defined benefit pension plan, net pension liability and related deferred inflows of resources and deferred outflows of resources is described in Note 5 to the financial statements. The valuation of the net pension liability and related deferred outflows (inflows) of resources are sensitive to the underlying actuarial assumptions used including, but not limited to, the investment rate of return and discount rate, and the Commission's proportionate share of the County of Sacramento's collective net pension liability.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 23, 2016.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to management's discussion and analysis, the schedule of the Commission's proportionate share of the County's net pension liability and the schedule of the Commission's contributions, which are required supplementary information (RSI) that supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

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

Vavrinek, Trine, Day & Co. LLP

Sacramento, California
December 23, 2016

FIRST 5 SACRAMENTO COMMISSION

Independent Auditors' Reports, Basic Financial Statements,
Required Supplementary Information,
and Compliance Section

For the Fiscal Year Ended June 30, 2016

FIRST 5 SACRAMENTO COMMISSION
FOR THE FISCAL YEAR ENDED JUNE 30, 2016
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Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
First 5 Sacramento Commission
Sacramento, California

Report on the Financial Statements

We have audited the accompanying financial statement of the governmental activities and the General Fund of the First 5 Sacramento Commission (Commission), a component unit of the County of Sacramento, California, 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 statement that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards required 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 auditors' judgment, including the assessment of 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 the General Fund of the Commission, as of June 30, 2016, and the respective changes in financial position thereof, and the budgetary comparison for the General Fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

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Emphasis of Matter

As described in Note 1 to the financial statements, the Commission adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statements No. 72, *Fair Value Measurement and Application*, effective July 1, 2015. Our opinion is not modified with respect to this matter.

***Other* Matters**

Required Supplementary Information

Accounting principles generally accepted in the United State of America require that the management's discussion and analysis, the schedule of proportionate share of the County's net pension liability and the schedule of contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information, and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2016, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to described the scope of our testing of internal control over financial reporting and compliance and that results of that testing, and not to provide an opinion on 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.

Vavrinek, Trine, Day & Co. LLP

Sacramento, California
December 23, 2016

FIRST 5 SACRAMENTO COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

First 5 Sacramento Commission (Commission) presents its financial statements under the reporting model required by the Generally Accepted Accounting Principles (GAAP). Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

This discussion and analysis of the Commission's financial performance provides an overview of its financial activities for the fiscal year ending June 30, 2016. It should be read in conjunction with the Commission's financial statements.

FINANCIAL HIGHLIGHTS

During the fiscal year ending June 30, 2016, the Commission implemented the first year of programs outlined in the 2015 Strategic Plan Update, which covers fiscal years 2015-16 through 2017-18. This section highlights financial activities for the fiscal year 2015-16:

- Total assets decreased by $7,281,196 (11.5%) from the prior year as a direct result of the Commission's decision made during the fiscal years 2016-2018 strategic planning period to use unrestricted funds to cover the anticipated revenue shortfall.

- The net position decreased by $6,137,663 (11%) from $56,032,367 in fiscal year 2014-15.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Commission's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements.

Government-Wide Financial Statements

The government-wide financial statement is designed to provide readers with a broad overview of the Commission's finances in a manner similar to a private sector's business.

The *Statement of Net Position* 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 this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave). The government-wide financial statements are shown on the right hand columns of pages 8 and 9 of this report.

The Commission's long-term liabilities consist of compensated absences payable, net pension liabilities and other post-employment benefits. Additional information about these long-term liabilities is presented in Notes 5 and 7 of the Basic Financial Statements

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 this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave).

Fund Financial Statements

A fund is a group 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 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 spend-able resources available at the end of the fiscal year. The fund financial statements are shown on the left hand columns of pages 7 and 8 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following summarizes the Commission's assets, deferred outflows, liabilities, deferred inflows and net position and compares fiscal year 2015-16 with 2014-15.

Summary of Statement of Net Position

	June 30, 2016	June 30, 2015	Variance	Percent Change
Assets				
Current and other assets	$ 51,652,591	$ 59,773,329	$ (8,120,738)	-13.6%
Due from government agencies	4,273,575	3,434,033	839,542	24.4%
Total Assets	55,926,166	63,207,362	(7,281,196)	-11.5%
Deferred outflows of resources	244,367	250,640	(6,273)	-2.5%
Liabilities				
Current and other liabilities	2,171,360	2,309,315	(137,955)	-6.0%
Due to government agencies	2,552,509	3,391,198	(838,689)	-24.7%
Net Pension liability	1,059,387	692,823	366,564	52.9%
Noncurrent liability	270,492	289,182	(18,690)	-6.5%
Total Liabilities	6,053,748	6,682,518	(628,770)	-9.4%
Deferred inflows of resources	222,081	743,117	(521,036)	-70.1%
Net Position:				
Unrestricted	49,894,704	56,032,367	(6,137,663)	-11.0%
Total Net Position	$ 49,894,704	$ 56,032,367	$ (6,137,663)	-11.0%

Due from governmental agencies increased by $839,542 due to delays from the State of California in processing payments on submitted MAA invoices.

Long-term liabilities increased by $366,564 as a result of an increase in the net pension liability.

Deferred inflows of resources reduced by $521,036 as a result of changes in the net pension liability and the related deferred inflows related to pensions.

For the year ended June 30, 2016, current year operations decreased the Commission's net position by $6,137,663.

FIRST 5 SACRAMENTO COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

The following is a summary of the Commission's Statement of Activities comparing revenues, expenses and changes in Net Position for the fiscal years ended June 30, 2016 and 2015.

Changes in Net Position / Statement of Activities

	2015-16	2014-15	Variance	Percent Change
Revenues				
Program revenue	$ 14,924,099	$ 14,975,839	$ (51,740)	-0.3%
General revenues	493,118	(544,477)	1,037,595	-190.6%
Total revenues	15,417,217	14,431,362	985,855	6.8%
Expenses				
Child development services	21,554,880	24,027,809	(2,472,929)	-10.3%
Total expenses	21,554,880	24,027,809	(2,472,929)	-10.3%
Change in net position	(6,137,663)	(9,596,447)	3,458,784	-36.0%
Net position beginning of period	56,032,367	65,628,814	(9,596,447)	-14.6%
Net position end of period	$ 49,894,704	$ 56,032,367	$ (6,137,663)	-11.0%

General revenues increased by $985,855 due to a combination of an increase in interest earned in fiscal year 2015-16 and a re-allocation of earned interest to other departments in the prior fiscal year.

The Commission received a total of $13,444,160 in revenue from First 5 California reflecting a decrease in tobacco tax revenue of less than ½ percent from fiscal year 2014-15.

Expenses had an overall decrease of $2,472,929 due to a reduction in program contracts in the Health Result Area and a delay in capital expenditures for fluoridation and dental clinics in the Dental Result Area.

ANALYSIS OF THE GOVERNMENTAL FUND STATEMENTS

The activities are contained in the general fund of the Commission. The focus of the Commission's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in accessing the Commission's financing requirements. In particular, fund balance may serve as a useful measure of the Commission's net resources, both committed and available for futures operation needs.

The receipt of funds related to current period revenues must occur within a set period of availability after the end of the year. Therefore, certain federally funded revenue previously recognized when invoiced at the government wide level, is a deferred inflow for those funds received after 120 days into the future accounting period.

Similarly, portions of liabilities, such as pension obligations, which will not become due in the current period, are not reported within the context of the general fund statements.

As of the end of fiscal year 2015-16, the Commissions general fund reported a total ending fund balance of $49,642,611; a decrease of $6,869,335 (12.16%) in comparison with the prior fiscal year balance of $56,511,946.

FIRST 5 SACRAMENTO COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

GENERAL FUND BUDGETARY HIGHLIGHTS

The following summarizes the significance variances between the Commission's budgeted and actual revenues and expenses. The *Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund* can be found on page 9 of this report.

- Federal operating grants had an unfavorable decrease under budget of $1,422,532 (-75.1%) due to a delay in the State California processing invoices submitted during the fiscal year thus increasing the balance sheet account of deferred inflows of resources account by $564,783 (56%).

- Interest and investment earnings had a favorable variance of $718,083 (318.2%) due to a correction in FY2014-15 between county allocations budgeted in that year, but booked in the prior year.

- Program expenditures were underspent from the budget in two majority result areas; Dental and Effective Parenting. Dental was underspent by $2,824,539 (78.1%) due to a delay in capital projects. Effective Parenting was underspent primarily due to repayments from prior years' federal operating grants that have yet to be invoiced to First 5.

ECONOMIC FACTORS AND NEXT YEARS BUDGET

The passage of SBx2-7 on June 9, 2016 raises the tobacco purchasing age from 18 to 21. Though the true impacts of this law are unknown, the state's Legislative Analyst's Office (LAO) assumes the reduction in tobacco consumption will reduce statewide Proposition 10 revenues by up to $24 million per year state-wide. The Commission's initial projections of the passage of this bill indicate an additional reduction of 1.2% of Proposition 10 revenue. This anticipated decrease in revenue has been incorporated into the budget for fiscal year 2016-17.

CONTACT INFORMATION

This financial report is designed to provide a general overview of the Commission's finances. Questions concerning the information provided in this report or requests for additional financial information should be addressed to the Executive Director of the First 5 Sacramento Commission office located at 2750 Gateway Oaks Drive, Suite 330, Sacramento, California 95833.

FIRST 5 SACRAMENTO COMMISSION
STATEMENT OF NET POSITION / GOVERNMENTAL FUND BALANCE SHEET
JUNE 30, 2016

	General Fund	Adjustments (Note 3)	Statement of Net Position
Assets:			
Cash and investments	$ 51,652,591		$ 51,652,591
Due from County of Sacramento	289,248		289,248
Due from other government agencies	3,984,327		3,984,327
Total assets	$ 55,926,166		55,926,166
Deferred outflows of resources:			
Deferred outflows related to pensions		244,367	244,367
Total deferred outflows of resources	-	244,367	244,367
Liabilities:			
Accounts payable and accrued expenses	$ 2,157,433		2,157,433
Due to County of Sacramento	699,561		699,561
Due to other government agencies	1,852,948		1,852,948
Net pension liability		1,059,387	1,059,387
Long term liabilities:			
Due within one year		13,927	13,927
Due after one year		270,492	270,492
Total liabilities	4,709,942	1,343,806	6,053,748
Deferred inflows of resources:			
Unavailable revenue-state and federal grants	1,573,613	(1,573,613)	
Deferred inflows related to pensions		222,081	222,081
Total deferred inflows of resources	1,573,613	(1,351,532)	222,081
Fund balance/Net position:			
Fund balance:			
Assigned	26,360,567	(26,360,567)	
Unassigned	23,282,044	(23,282,044)	
Total fund balance	49,642,611	(49,642,611)	
Total liabilities, deferred inflows, and fund balances	$ 55,926,166		
Net position:			
Unrestricted		49,894,704	49,894,704
Total net position		$ 49,894,704	$ 49,894,704

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

FIRST 5 SACRAMENTO COMMISSION
STATEMENT OF ACTIVITIES / GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

	General Fund	Adjustments (Note 3)	Statement of Activities
Expenditures/expenses:			
Child development services	$ 21,721,769	$ (166,889)	$ 21,554,880
Program revenues:			
Prop 10 Tobacco Tax	13,444,160		13,444,160
Other State operating grants	444,375		444,375
Federal operating grants	470,781	564,783	1,035,564
Total program revenues	14,359,316	564,783	14,924,099
Net program (expense)			(6,630,781)
General revenues:			
Interest and investment earnings (loss)	492,398		492,398
Other revenue	720		720
Total general revenues	493,118		493,118
Excess (deficiency) of revenues over/(under) expenditures	(6,869,335)	6,869,335	
Change in net position:		(6,137,663)	(6,137,663)
Beginning fund balance	56,511,946		
Net position, beginning of period			56,032,367
Ending fund balance/net position	$ 49,642,611	$ -	$ 49,894,704

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

FIRST 5 SACRAMENTO COMMISSION
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	(Negative)
Revenues:				
Prop 10 Tobacco Tax	$ 13,732,848	$ 12,864,680	$ 13,444,160	$ 579,480
Other State operating grants	444,373	444,373	444,375	2
Federal operating grants	1,085,125	1,893,313	470,781	(1,422,532)
Interest and investment earnings	(360,685)	(225,685)	492,398	718,083
Other revenue			720	720
Total revenues	14,901,661	14,976,681	14,852,434	(124,247)
Expenditures:				
Program by result area:				
Health	2,534,338	2,378,141	1,918,632	459,509
Dental	4,622,469	3,614,666	790,127	2,824,539
Nutrition	931,071	932,362	896,479	35,883
Early Care	1,553,963	1,554,893	1,479,048	75,845
School Readiness	6,129,377	5,866,503	5,423,324	443,179
Effective Parenting	9,822,813	11,458,725	8,952,723	2,506,002
Community Connections	424,295	296,951	242,172	54,779
Evaluation	633,213	611,793	660,405	(48,612)
Administrative costs	1,457,592	1,511,527	1,358,859	152,668
Total expenditures	28,109,131	28,225,561	21,721,769	6,503,792
Net change in fund balance	(13,207,470)	(13,248,880)	(6,869,335)	6,379,545
Fund balance, July 1	56,511,946	56,511,946	56,511,946	
Fund balance, June 30	$ 43,304,476	$ 43,263,066	$ 49,642,611	$ 6,379,545

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

FIRST 5 SACRAMENTO COMMISSION
NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

In November 1998, the people of the State of California passed Proposition 10, also known as the Children and Families Act. Proposition 10 mandated an additional 50-cent-per-pack tax on cigarettes and a comparable increase in the tax of other tobacco products and required that the new funds be used on programs focused exclusively on early childhood development for children ages zero through five.

Following the directive of Proposition 10 to fund programs at the community level, each of the State's 58 counties created a Proposition 10 Commission as well as a trust fund to receive Proposition 10 revenues. In Sacramento County, the First 5 Sacramento Commission (Commission) was established by the County of Sacramento (County) Board of Supervisors through adoption of Ordinance SCC-1154 dated October 5, 1999. This ordinance amended Chapter 2.99 of the Sacramento County Code (SCC). The Commission is a component unit of the County.

The purpose of the Commission is to promote, support, and improve the early development of children ages zero through five.

The Commission's seven member governing board includes one member from the County Board of Supervisors, the Administrator of the Countywide Services Agency and the County Health Officer. The remaining four board members are appointed in accordance with SCC §2.99.050(b) with representation among recipients of project services included in the County strategic plan; educators specializing in early childhood development; representatives of local child care resource or referral agencies; representatives of a local organization for prevention or early intervention for families at risk; representatives of community-based organizations with the purposes of promoting and nurturing early childhood development; representatives of local school districts; and, representatives of local medical, pediatric or obstetric associations or societies.

Upon termination of the Commission, all assets of the Commission shall be returned to the State of California. The liabilities of the Commission shall not become liabilities of the County upon either termination of the Commission or the liquidation or disposition of the Commission's remaining assets.

The financial statements of the Commission have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing GAAP for state and local government organizations.

Government-wide and Fund Financial Statements

Government-wide Financial Statements - The statement of net position and statement of activities are presented on an economic resources measurement focus. All economic resources and obligations of the reporting government are reported in the financial statements, including deferred inflows and outflows.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets and liabilities associated with the operations/activities of the Commission are included on the statement of net position.

The statement of activities presents direct expenses and program revenues for each function of the Commission's governmental activities. Direct expenses are those that are specifically associated with a program or function and,

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

therefore, are clearly identifiable to a particular function. Program revenues include grants and contributions restricted for the operational requirements of a particular program. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. Program revenues include tobacco taxes and state and federal reimbursement grants. General revenues are all revenues that do not qualify as program revenues and include investment income and other income. Net position represents the resources that the Commission has available for use in providing services and is composed of unrestricted net position.

Fund Financial Statements - The fund financial statements consist of the balance sheet and the statement of revenues, expenditures and changes in fund balance of the Commission's general fund. These statements are presented on a current financial resources measurement focus. Generally, only current assets, current liabilities and deferred inflow/outflow of resources are included on the balance sheet. All current operations of the Commission are accounted for in the general fund.

The fund financial statements have been prepared on the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Revenues are considered available if they are received within 120 days after year-end. Revenues susceptible to accrual include tax revenues, reimbursement grant revenues and investment income. Expenditures are recognized in the accounting period in which the fund liability is incurred except for compensated absences which are recorded only when payment is due.

The Commission has combined its government-wide financial statements; the statement of net position and the statement of activities, with its fund financial statements; the balance sheet and the statement of revenues, expenditures, and changes in fund balances. The two statements are titled, the statement of net position and governmental funds balance sheet, and the statement of activities and governmental fund revenues, expenditures, and changes in fund balances. An explanation of the reconciliation between the statements is detailed in Note 3.

Fund Balance and Net Position

Net Position in the government-wide financial statements at June 30, 2016 consists of the following:

- *Unrestricted Net Position* – This category represents net position of the Commission, not restricted for any project or other purpose.

Fund Balance refers to the difference between assets, liabilities, and deferred inflows of resources in the governmental funds balance sheet. Fund balances are categorized as a hierarchy based largely on the extent to which a government is bound to observe spending constraints. Category included on the balance sheet consists of the following:

- *Assigned* – This category comprises amounts intended to be used by the Commission for specific purposes. Intent can be expressed by the governing body, or by an official or body to which the governing body delegates the authority. The Commission has delegated authority to the Executive Director to act on behalf of the Commission for administrative contracts of up to $50,000. Budgetary authority is also used to delegate the Commission's intent to the Executive Director.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- *Unassigned* – This category is the residual classification for the general fund and includes all amounts not contained in the other classifications.

Please refer to Note 8 for additional details regarding the Commission's fund balances.

Budgetary Principles

The Commission is required by County ordinance to prepare a budget each year based on estimates of revenues and expected expenditures. On August 3, 2015, the Commission adopted its final budget of expenditures for the year ended June 30, 2016. The budget is prepared on the modified accrual basis of accounting. The accompanying statement of revenues, expenditures and changes in fund balance – budget and actual includes the budgeted expenditures for the year, along with management's estimate of revenues for the year. The legal level of budgetary control is at the total fund level. The Commission utilizes an encumbrance system as a management control technique to assist in controlling expenditures. Unencumbered appropriations lapse at the end of the fiscal year.

Cash and Investments

In accordance with SCC §2.99.110(b), the Commission has adopted the County's cash and investment policy and as such, the Commission's cash and investments are held with the Sacramento County Department of Finance, Treasurer, as part of the cash and investment pool (as an involuntary participant) with other County Funds.

Investments are stated at fair value. However, the value of the pool shares in the County Treasurer's investment pool that may be withdrawn is determined on an amortized cost basis, which approximates fair value.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources* represent a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources until the event occurs. The commission reports deferred outflows related to pensions.

In addition to liabilities, the statement of net position and balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of fund balance that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. In addition, the Commission reports deferred inflows related to pensions.

Compensated Absences

Commission employees are granted vacation in varying amounts based upon classification and length of service. Additionally, certain employees are allowed compensated time-off (CTO) in lieu of overtime compensation and/or for working on holidays.

Sick leave is earned by regular, full-time employees. Any sick leave hours not used during the period are carried forward to future years, with no limit to the number of hours that can be accumulated. Any sick leave hours unused at the time of an employee's retirement are added to the actual period of service when computing retirement benefits.
The commission does not pay accumulated sick leave to employees who terminate prior to retirement. It is the policy of the Commission to pay certain employees a portion of their sick leave at retirement.

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Commission accrues for compensated absences in the government-wide statement of net position. The liquidation of compensated absences occurs when the hours are used or upon retirement or termination from the Commission.

Pensions

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

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results may differ from those estimates.

Fair Value Measurement

As of July 1, 2015, the Commission retrospectively applied Governmental Accounting Standards Board ("GASB") Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements. The Commission categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Effect of New Governmental Accounting Standards Board (GASB) Pronouncements

These statements are effective July 1, 2015.

Statement No. 72 – In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application.* This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This statement is effective for periods beginning after June 15, 2015. The Commission implemented this standard as of July 1, 2015.

Statement No. 73 – In June 2015, GASB issued Statement No. 73. *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68.* The objective of this statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It

NOTE 1 – ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68 for pension plans and pensions that are within their respective scopes. The requirements of this statement are effective for reporting periods beginning after June 15, 2015, except for the certain provisions, which are effective for reporting periods beginning after June 15, 2016. For the applicable provisions effective this year, the Commission has determined that this statement did not have a material effect on the financial statements.

Statement No. 76 – In June 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The statement does not have an impact on the financial statements.

GASB Statement No. 79 – In December 2015, GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The requirements of this statement are effective for reporting periods beginning after June 15, 2015, except for the certain provisions, which are effective for reporting periods beginning after December 15, 2015. For the applicable provisions effective this year, the Commission has determined that this statement did not have a material effect on the financial statements.

NOTE 2 - CASH AND INVESTMENTS

The Commission maintains specific cash deposits and investments with the County and involuntarily participates in the external investment pool of the County. The Commission's share of the investment pool is separately accounted for and interest earned, net of related expenses, is apportioned quarterly and at the end of the fiscal year based upon the relationship of its daily cash balance to the total of the pooled account.

The following is a summary of the Commission's cash and investments:

	June 30, 2016
Cash in County Treasury	$ 51,652,441
Cash on Hand	150
Total	$ 51,652,591

The County Treasurer's investment pool is subject to regulatory oversight by the Treasury Oversight Committee, as required by Section 27134 of the California Government Code. The pool is not registered with the SEC as an investment company.

Statutes authorize the County to invest in the following:

a) Obligations of the County or any local agency and instrumentality in or of the State of California;

b) Obligations of the U.S. Treasury, agencies and instrumentalities;

NOTE 2 - CASH AND INVESTMENTS (CONTINUED)

c) Bankers' acceptances eligible for purchase by Federal Reserve System;

d) Commercial paper with an A-1 rating by Moody's Investors Service or P-1 rating by Standard & Poor's Corporation;

e) Repurchase agreements or reverse repurchase agreements;

f) Medium-term notes with a five-year maximum maturity of corporations operating within the United States and rated in the top three rating categories by Moody's Investor Service or Standard & Poor's Corporation;

g) Guaranteed investment contracts; and

h) Shares of beneficial interest issued by diversified management companies (money market funds) investing in securities and obligations as outlined in a) through g). Certain security rankings and/or organizational requirements apply to this type of investment.

Required disclosure information regarding the categorization of investments and other deposit and investment risk disclosures can be found in the County's Comprehensive Annual Financial Report. The County's financial statements may be obtained by contacting the Department of Finance at 700 H Street, Sacramento, CA 95814. The Sacramento County Treasury Oversight Committee oversees the Treasurer's investments and policies.

The Commission does not have a deposit or investment policy that addressed a specific type of risk. Investments held in the County's investment pool are available on demand and are stated at cost plus accrued interest, which approximates fair value.

Fair Value Measurements

The Commission categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of June 30, 2016, the Commission held no individual investments. All funds are invested in the County Treasurer's Investment Pool.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Commission's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Deposits and withdrawals are made on the basis of $1 and not fair value. Accordingly, the Commission's proportionate share of investments in the County Treasurer's Investment Pool at June 30, 2016 of $51,652,441 is an uncategorized input not defined as a Level 1, Level 2, or Level 3 input.

NOTE 3 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Total fund balances of the Commission's governmental funds of $49,642,611 differs from net position of governmental activities of $49,894,577, primarily from the long term economic focus in the statement of net position versus the current financial resources focus in the governmental fund balance sheets. The effect of the differences is illustrated below:

Deferred outflows of resources, presented in the Statement of Net Position, represents a consumption of net position that applies to future period(s) and, therefore, will not be recognized as an outflow of resources (expense) in the fund financial statements.	
Deferred outflows related to pensions (Note 5)	$ 244,367
Long-term liabilities applicable to the Commission's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net position.	
Net pension liability	(1,059,387)
Compensated absences	(231,812)
Other post-employment benefits (OPEB)	(52,607)
Deferred inflows of resources represents an acquisition of net position that applies to future period(s) and, therefore, will not be recognized as an inflow of resources (revenue) in the fund financial statements.	
Deferred inflows of resources related to pensions	(222,081)
Certain revenues in the governmental funds are deferred because they are not collected within the prescribed time period after year-end. However, the revenues are included on the accrual basis used in the government-wide statements.	1,573,613
Net Position of governmental activities	$ (252,093)

The net change in fund balance for the General Fund, ($6,869,335), differs from the change in net position for governmental activities, ($6,137,663) reported in the statement of activities and governmental fund revenues, expenditures, and changes in fund balances by $731,672.

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities are as follows:

The change in compensated absences reported in the statement of activities does not require the use of current financial resources and therefore is not reported as expenditure in governmental funds.	$ 28,787

NOTE 3 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

The change in OPEB reported in the statement of activities does not require the use of current financial resources and therefore is not reported as expenditure in governmental funds	(10,097)
Governmental funds report pension contributions as expenditures. However, in the Statement of Activities, pension expense is measured as the change in net pension liability and the amortization of deferred outflows and inflows related to pensions. This amount represents the net change in pension related amounts.	148,199
The change in unavailable Medi-Cal Administrative Activities (MAA) revenue reported in the statement of activities does not require the use of current financial resources and therefore are not reported as revenues in governmental funds	564,783
Total change	$ 731,672

NOTE 4 –DISAGGREGATED DUE TO/FROM BALANCES

Amounts due to the County represent contract payments for program services and administrative services provided to the Commission from the County. Amounts due from the County represent interest earnings for the fiscal year 2015-16.

Amounts due for the fiscal year 2015-16 from other government agencies represent distributions from the State First 5 for Proposition 10 funds and other match grants as well as amounts due from the Federal Government for MAA. Amounts due to other government agencies include contract payments for program related contracts.

Due To/From The County of Sacramento	Due To:	Due From:
County of Sacramento, Department of Finance	$ 106,194	$ 289,248
County of Sacramento, Department of Health and Human Services	593,367	
Total Due To/From County of Sacramento	$ 699,561	$ 289,248
Due To/From Other Government Agencies		
First 5, California		$ 2,410,714
Federal Government		1,573,613
Sacramento Public Library Assoc.	37,729	
Sacramento County Office of Education	368,080	
Elk Grove Unified School District	179,268	
Folsom Cordova Unified School District	132,418	
Galt Joint Union Elementary School District	95,573	
Natomas Unified School District	115,910	
River Delta Unified School District	114,891	
Robla Elementary School District	84,231	
Sacramento City Unified School District	332,927	
San Juan Unified School District	156,557	
Twin Rivers Unified School District	235,366	
Total Due To/From Other Government Agencies	$ 1,852,948	$ 3,984,327

NOTE 5 –RETIREMENT PLAN

Plan Description - Employees of the Commission participate in the County of Sacramento's (County) cost-sharing multiple-employer defined benefit retirement plan (the Plan) administered by the Sacramento County Employees Retirement System (SCERS). The Plan is governed by the Sacramento Board of Retirement (Board) under the California County Employees' Retirement Law of 1937 (CERL) and the California Public Employees' Pension Reform Act of 2013 (PEPRA). The Plan's authority to establish and amend the benefit terms are set by the CERL and PEPRA, and may be amended by the California state legislature and in some cases require approval by the County of Sacramento Board of Supervisors and/or the SCERS Board. SCERS issues a stand-alone financial report, which may be obtained by contacting Sacramento County Employees' Retirement System, 980 9th Street, Suite 1900 Sacramento, California 95814.

Benefits Provided - SCERS provides service retirement, disability, death and survivor benefits to eligible employees. All permanent full-time or part-time employees of the County of Sacramento or contracting district become members of SCERS upon employment. There are separate retirement plans for Safety and Miscellaneous member employees. Safety membership is extended to those involved in active law enforcement, fire suppression, and certain other classifications. All other employees, including the Commission's employees, are classified as Miscellaneous members. There are five tiers applicable to Miscellaneous members. Those hired prior to September 27, 1981 are included in Tier 1. Those hired after that date but prior to January 1, 2012 are included in Tier 2 or Tier 3 depending on date of hire and bargaining unit. County members hired after that date but prior to January 1, 2013 are included in Tier 4. New members hired on or after January 1, 2013 are designated as PEPRA Miscellaneous (Tier 5) and are subject to the provisions of California Government Code 7522 et seq. and AB 197.

Miscellaneous members hired prior to January 1, 2013, are eligible to retire once they attain the age of 50 and have acquired 10 or more years of retirement service credit. A member with 30 years of service is eligible to retire regardless of age. Miscellaneous members who are first hired on or after January 1, 2013, are eligible to retire once they have attained the age of 52, and have acquired five years of retirement service credit.

The retirement benefit the member will receive is based upon age at retirement, final average compensation, years of retirement service credit and retirement plan and tier.

Miscellaneous member benefits for Tier 1, Tier 2 and Tier 3 are calculated pursuant to the provisions of California Government Code Section 31676.14. Miscellaneous member benefits for Tier 4 are calculated pursuant to the provisions of California Government Code Section 31676.1. The monthly allowance is equal to 1/90th of the first $350 of final compensation, plus 1/60th of the excess final compensation times years of accrued retirement service credit times age factor from either Section 31676.14 (Tier 1, Tier 2 and Tier 3) or Section 31676.1 (Tier 4). Miscellaneous member benefits for those who are first hired on or after January 1, 2013, are calculated pursuant to the provision of California Government Code Section 7522.25(d). The monthly allowance is equal to the final compensation multiplied by years of accrued retirement credit multiplied by the age factor from Section 7522.20(a).

For members with membership dates before January 1, 2013, the maximum monthly retirement allowance is 100% of final compensation. There is no maximum for members with membership dates on or after January 1, 2013. Final average compensation consists of the highest 12 consecutive months for a Tier 1 Safety or Tier 1 Miscellaneous member and the highest 36 consecutive months for a Tier 2, Tier 3, Tier 4 or Tier 5 member.

NOTE 5 –RETIREMENT PLAN (CONTINUED)

The member may elect an unmodified retirement allowance, or choose an optional retirement allowance. The unmodified retirement allowance provides the highest monthly benefit and a 60% continuance to an eligible surviving spouse. An eligible surviving spouse is one married to the member one year prior to the effective retirement date. There are four optional retirement allowances the member may choose. Each of the optional retirement allowances requires a reduction in the unmodified retirement allowance in order to allow the member the ability to provide certain benefits to a surviving spouse or named beneficiary having an insurable interest in the life of the member.

SCERS provides an annual cost-of-living benefit to Safety Tier 1, Tier 2, Tier 3 and Tier 4 member retirees and Miscellaneous Tier 1, Tier 3, Tier 4 and Tier 5 member retirees. The cost-of-living adjustment, based upon the Consumer Price Index for the San Francisco-Oakland-San Jose area, is capped at 4% for Tier 1 members and 2% for all other members eligible for a cost-of-living adjustment.

Contributions - Participating employers and active members (i.e County), including the Commission and the Commission's employees, are required by statute to contribute a percentage of covered salary to the Plan. Contributions to the Plan are made pursuant to Section 31584 of the County Employees Retirement Law of 1937. The System's funding policy provides for periodic contributions at actuarially-determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate adequate assets to pay benefits when legally due. Each employer of the System is obligated by state law to make all required contributions to the plan and depending on the participating employer and their employees' tiers, such contribution rates range from 17.04% to 42.69% of covered payroll. The Commission's proportionate share of the County's contribution to the Plan was $233,176 for the year ended June 30, 2016.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the Commission reported a liability of $1,059,387 for its proportionate share of the County's net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Commission's proportion of the County's net pension liability was based on the Commission's FY 2015 actual contributions to the County's pension plan relative to the total contributions of the County as a whole. At June 30, 2015, the Commission's proportion was .09860 percent, which was an increase of .00289 percent from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Commission recognized pension expense of $85,104. At June 30, 2016, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

NOTE 5 –RETIREMENT PLAN (CONTINUED)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 10,063	$ 113,374
Changes in actuarial assumptions		45,921
Differences between employer contributions and proportionate share of contributions		62,176
Changes in proportion	1,128	610
Employer contributions paid by the Commission to County subsequent to the measurement date	233,176	
Total	$ 244,367	$ 222,081

The $233,176 reported as deferred outflows of resources related to pensions resulting from the Commission's contributions to the County's plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017.

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Commission's proportion of the County's pension plan will be recognized in pension expense as follows:

Year ended June 30	
2017	$ (104,087)
2018	(104,087)
2019	(85,323)
2020	82,609
Total	$ (210,890)

Actuarial assumptions - The Commission's proportion of the County's total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date	June 30, 2015
Actuarial cost method	Entry age actuarial cost method
Actuarial Assumptions:	
Investment rate of return	7.50%
Inflation	3.25%
Projected Salary increases	Miscellaneous: 4.50% to 8.50%; Safety: 5.25% to 11.50%
Cost of Living Adjustments	See below:

NOTE 5 –RETIREMENT PLAN (CONTINUED)

Miscellaneous and Safety Tier 1 benefits are assumed to increase at 3.25% per year. Miscellaneous Tier 3, Tier 4 and Tier 5 and Safety Tier 2, Tier 3 and Tier 4 benefits are assumed to increase at 2.0% per year. Miscellaneous Tier 2 receives no cost of living increases.

Mortality rates used in the latest actuarial valuation dated June 30, 2015 are based on the RP-2000 Combined Healthy mortality table projected 22 years using Projection Scale BB. For healthy Miscellaneous members, no adjustments are made. For Miscellaneous members that are disabled, the ages are set forward three years for females.

The June 30, 2015 actuarial valuation reflected new assumptions compared to the June 30, 2014 actuarial valuation, based on the July 1, 2010 through June 30, 2013 experience study. The June 30, 2014 actuarial valuation reflected salary increases of 3.5% to 11.3% for the miscellaneous plan.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Long-Term Expected Real Rate of Return

	As of June 30, 2015 Valuation Date	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
U.S. Equity	22.50%	5.98%
International Equity	22.50%	7.23%
Fixed Income	20.00%	1.25%
Hedge Funds	10.00%	3.20%
Private Equity	10.00%	12.82%
Real Assets	15.00%	5.64%
Total	100.00%	

Discount rate –The discount rate used to measure the Total Pension Liability (TPL) was 7.5% as of June 30, 2015 and June 30, 2014. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included.

NOTE 5 –RETIREMENT PLAN (CONTINUED)

Based on those assumptions, the pension Plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the TPL.

Sensitivity of the Commission's Proportionate Share of the Net Pension Liability to changes in the discount rate - The following presents the Commission's proportionate share of the Net Pension Liability of the County as of June 30, 2015, calculated using the discount rate of 7.50%, as well as what the Commission's proportionate share of the Net Pension Liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50%) or 1-percentage-point higher (8.50%) than the current rate.

	1.00% Decrease (6.50%)	Current Discount Rate (7.50%)	1.00% Increase (8.50%)
Commission's proportionate share of the County's net pension liability(asset)	$ 2,154,218	1,059,387	153,829

Pension plan fiduciary net position - Detailed information about the County's collective net pension liability is available in the County's separately issued Comprehensive Annual Financial Report (CAFR). The County of Sacramento's financial statements may be obtained on the internet at: http://www.finance.saccounty.net/AuditorController/Pages/AcctGeneral.aspx.

Detailed information about the SCERS's fiduciary net position is available in a separately issued SCERS comprehensive annual financial report. That report may be obtained on the internet at: www.retirement.saccounty.net/Pages/FinancialInformation.aspx.

NOTE 6 – OTHER POST-EMPLOYMENT HEALTH CARE BENEFITS (OPEB)

Plan Description - The Commission is a component unit of the County, which provides medical and dental insurance, and subsidy/offset payments as authorized by the Board of Supervisors on an annual basis. The Board of Supervisors must approve the benefit annually or it is terminated. All annuitants are eligible to enroll in a retiree medical and/or dental insurance plan in a given calendar year if (1) they began receiving a continuing retirement allowance from SCERS during that calendar year, or (2) they were enrolled in the annual plan previously approved by the County, or (3) they previously waived coverage but elected to enroll during the County authorized enrollment period with a coverage date effective January of the given calendar year (continuous coverage).

Neither SCERS nor the County guarantees that a subsidy or offset payment will be made available to annuitants for the purchase of County-sponsored medical and/or dental insurance. Subsidy/offset payments are not a vested benefit of County employment or SCERS membership.

Additional disclosure of the retirement plan and OPEB is included in the County's CAFR. The County's financial statements may be obtained by contacting the Department of Finance at 700 H Street, Sacramento, CA 95814.

NOTE 7 - LONG-TERM OBLIGATIONS

The following is a summary of long-term liabilities transactions for the year ended June 30, 2016:

	Beginning Balances	Additions	Deletions	Ending Balances	Amounts Due Within One Year
Governmental activities:					
Compensated absences	$ 260,599	126,744	(155,531)	$ 231,812	$ 13,927
OPEB	42,510	10,097		52,607	
Total governmental activities:					
Long-term obligations	$ 303,109	$ 136,841	$ (155,531)	$ 284,419	$ 13,927

OPEB are included in the long term liability section of the Statement of Net Position. The liability is calculated as the difference between the required and actual contributions based upon the OPEB actuarial valuation amount on June 30, 2015.

NOTE 8 – FUND BALANCE

Fund balance is classified using a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

A detailed schedule of fund balances as of June 30, 2016, is shown below:

Result Area	Assigned	Unassigned
Health	$ 2,484,204	
Dental	3,290,939	
Improved Nutrition	981,065	
Early Care	1,605,992	
School Readiness	5,914,645	
Effective Parenting	9,354,576	
Community Connections	425,827	
Program Management	284,629	
Evaluation	686,598	
Administration	1,332,092	
Subtotals	$ 26,360,567	$ 23,282,044
Fund Balance, End of Period		$ 49,642,611

NOTE 9 - RELATED PARTY TRANSACTIONS

In accordance with SCC §2.99.110(b), the Commission is required to use the County of Sacramento for its personnel, legal, financial and other administrative services. The Commission incurred expenses totaling $344,825 for these services during the year ended June 30, 2016.

Additionally, during the year ended June 30, 2016, the Commission paid the County of Sacramento $3.2 million for programmatic partner services: $1.9 million to Health and Human Services relating to early childhood health and safety. The Commission also paid $1.3 million to the Sacramento County Office of Education (SCOE) for services to improve child care and for services for families with a developmentally disabled child. SCOE is represented by a member of the Commission.

NOTE 10 - COMMITMENTS

On February 1, 2016, the Commission approved to extend a lease with Gateway Oaks, LLC to provide 6,197 square feet office space for the Commission's staff and business operations at 2750 Gateway Oaks Drive, Suite 330, Sacramento, California, 95833. The lease commenced on August 1, 2016, with the option to terminate the lease after 62 months with at least 60 days written notice. The Real Estate Division of the County makes payments to the lessor on behalf of the Commission and the Commission reimburses the county.

For the fiscal year ended June 30, 2016, the total rent payments are $146,784. The rent schedule for the remaining term is as follows:

Year Ended, June 30	Amount
2017	$ 131,067
2018	133,545
2019	137,264
2020	140,982
2021	144,700
2022	12,084
Total	$ 699,642

NOTE 11 - PROGRAM EVALUATION

In accordance with the *Standards and Procedures for Audits of California Counties Participating in the California Children and Families Program*, issued by the California State Controller, the Commission is required to disclose the amounts expended during the fiscal year on program evaluation. Program evaluation costs pertain to those activities undertaken to support the collection, production, analysis and presentation of evaluation information for Commission management, Commissioners and other interested parties.

The Commission spent $660,405 on program evaluation during the fiscal year.

NOTE 12 - CONTINGENCIES

Changes in the Federal Guidelines for the calculation of Medical Administrative Activities reimbursement funding affecting reimbursements of fiscal years 2010/11 through 2012/13 required a recalculation of the invoices submitted during those periods. The Commission estimates $1.5 million will be owed back to the federal government. The invoices to recognize these amounts were provided to the State of California within their guidelines; however, the State is behind in approving current revenue invoices. According to State guidelines, a liability is not incurred until the State issues the invoice. This process is estimated to take up to two years to complete. These amounts are budgeted in fiscal year 2016-17 and the amount owed will be reduced as the revenue invoices are received.

The Commission is involved in various legal proceedings from time to time in the normal course of business. In management's opinion, the Commission is not involved in any legal proceeding that will have a material adverse effect on financial position or changes in financial position of the Commission.

NOTE 13 – FUTURE GASB PRONOUNCEMENTS

GASB Statement No. 73 – In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68.* Certain provisions of this statement are effective for periods beginning after June 15, 2016. The Commission has not determined the effect, if any, on the financial statements

Statement No. 74 – In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pensions.* This Statement establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain non-employer governments that have a legal obligation to provide financial support for OPEB provided to employees other entities. This Statement is effective June 30, 2017. The Commission has not determined the effect of this Statement.

Statement No. 75 – In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This Statement is effective June 30, 2018. The Commission has not determined the effect of this Statement.

Statement No. 77 – In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures.* This Statement requires governments that enter into tax abatement agreements to disclose the nature, amount, and other commitments made as part of the agreement. This Statement is effective June 30, 2017. The Commission has not determined the effect of this Statement.

Statement No. 78 – In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans.* This Statement amends the scope and applicability of Statement 68 to exclude certain pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan. This Statement is effective June 30, 2017. The Commission has not determined the effect of this Statement.

Statement No. 80 – In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14.* This Statement establishes an additional blending requirement for the financial statement presentation of component units. This Statement is effective June 30, 2017. The Commission has not determined the effect of this Statement.

NOTE 13 – FUTURE GASB PRONOUNCEMENTS (CONTINUED)

Statement No. 81 – In March 2016, GASB issued Statement No. 81, *Irrevocable Split Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement is effective June 30, 2018. The Commission has not determined the effect of this Statement.

Statement No. 82 – In March 2016, GASB issued Statement No. 82, *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No.73.* This Statement clarifies that a *deviation,* as the term is used in Actuarial Standards of Practice issued by the Actuarial Standards Board, from the guidance in an Actuarial Standard of Practice is not considered to be in conformity with the requirements of Statement 67, Statement 68, or Statement 73 for the selection of assumptions used in determining the total pension liability and related measures. This Statement is effective June 30, 2017. The Commission has not determined the effect of this Statement.

GASB Statement No. 83 – In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged. The Commission has not determined its effect on the financial statements.

FIRST 5 SACRAMENTO COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

SCHEDULE OF THE COMMISSION'S PROPORTIONATE SHARE OF THE COUNTY'S NET PENSION LIABILITY LAST TEN YEARS*

	2016	2015
Commission's proportion of the net pension liability:	0.0986%	0.0957%
Commission's proportionate share of the County's net pension liability:	$ 1,059,387	$ 692,823
Commission's covered-employee payroll:	$ 1,177,469	$ 1,261,514
Commission's proportionate share of the County's net pension liability as a percentage of covered-employee payroll:	89.97%	54.92%
Plan fiduciary net position as a percentage of the total pension liability:	87.26%	91.02%
Measurement date:	June 30, 2015	June 30, 2014

Notes to Schedule:

** - Fiscal year 2015 was the first year of implementation, therefore, only two years are shown.*

COUNTY OF SACRAMENTO
COST SHARING RETIREMENT PLAN
SCHEDULE OF THE CONTRIBUTIONS
LAST TEN YEARS*

	2016	2015
Actuarially determined contributions	$ 233,176	$ 250,640
Contributions in relation to the actuarially determined contribution	(233,176)	(250,640)
Contribution deficiency (excess)	$ -	$ -
Commission's covered-employee payroll:	1,312,730	1,177,469
Contributions as a percentage of covered-employee payroll:	17.76%	21.29%

Note to Schedule:

** - Fiscal year 2015 was the first year of implemtation, therefore, only two years are shown.*

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

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

To the Board of Commissioners
First 5 Sacramento Commission
Sacramento, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the general fund of the First 5 Sacramento Commission (Commission), a component unit of the County of Sacramento, California, 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, and have issued our report thereon dated December 23, 2016. As described in Note 1 to the financial statements, the Commission adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statements No. 72, *Fair Value Measurement and Application*, effective July 1, 2015.

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 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.

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Compliance and Other Matters

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

Vavrinek, Trine, Day & Co. LLP

Sacramento, California
December 23, 2016

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

To the Board of Commissioners
First 5 Sacramento Commission
Sacramento, California

Compliance

We have audited the First 5 Sacramento Commission's (Commission), a component unit of the County of Sacramento, California, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on the Commission's compliance with the requirements referred to above based on our audit. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, issued by the State Controller's Office. Those standards and the State of California's *Standards and Procedures for Audits of Local Entities Administering the 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. 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:

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

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Opinion

In our opinion, the Commission 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.

Purpose of Report

The purpose of this report on compliance is solely to describe the scope of our testing over compliance and the results of that testing based on the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, issued by the Controller's Office. Accordingly, this report is not suitable for any other purpose

Vavrinek, Trine, Day & Co. LLP

Sacramento, California
December 23, 2016

FIRST 5 SACRAMENTO COMMISSION

Single Audit Report
(Uniform Guidance)

For the Fiscal Year Ended June 30, 2016

FIRST 5 SACRAMENTO COMMISSION
SINGLE AUDIT REPORT
(UNIFORM GUIDANCE)

FOR THE FISCAL YEAR ENDED JUNE 30, 2016

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Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

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

To the Board of Commissioners
First 5 Sacramento Commission
Sacramento, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the general fund of the First 5 Sacramento Commission (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 basic financial statements, and have issued our report thereon dated December 23, 2016. Our report included an emphasis-of-matter regarding the Commission's adoption of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, effective July 1, 2015.

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 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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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.

Vavrinek, Trine, Day & Co. LLP

Sacramento, California
December 23, 2016

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Commissioners
First 5 Sacramento Commission
Sacramento, California

Report on Compliance for Each Major Federal Program

We have audited the First 5 Sacramento Commission's (Commission) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Commission's major federal programs for the year ended June 30, 2016. The Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Commission's major federal programs based on our audit of the types of compliance requirements referred to above. 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 audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program 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 for each major federal program. However, our audit does not provide a legal determination of the Commission's compliance.

Opinion on Each Major Federal Program

In our opinion, the Commission, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

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Report on Internal Control over Compliance

Management of the Commission is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Commission's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the governmental activities and general fund of the 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 basic financial statements. We issued our report thereon dated December 23, 2016 which contained unmodified opinions on those financial statements. Our report included an emphasis-of-matter regarding the Commission's adoption of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, effective July 1, 2015. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Vavrinek, Trine, Day & Co. LLP

Sacramento, California
December 23, 2016

FIRST 5 SACRAMENTO COMMISSION
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

Federal Grantor/Passthrough/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures	Pass-Through to Subrecipients
U.S. Department of Health & Human Services				
Passed through the County of Sacramento:				
Community Based Child Abuse Prevention Grants	93.590	7205000-14-345	$ 53,683	$ 53,683
Medicaid Cluster:				
Medical Assistance Program	93.778	7200100-14/16-311	973,039	814,568
Total - U.S. Department of Health & Human Services			1,026,722	868,251
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 1,026,722	$ 868,251

See accompanying notes to Schedule of Expenditures of Federal Awards.

FIRST 5 SACRAMENTO COMMISSION
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

NOTE #1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (Schedule) includes the federal award activity of the First 5 Sacramento Commission (Commission) under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Commission, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Commission.

NOTE #2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE #3 – INDIRECT COST RATE

The Commission elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE #4 – FEDERAL CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS

The CFDA numbers included in this report were determined based on the program name, review of grant contract information, and the Office of Management and Budget's Catalog of Federal Domestic Assistance.

NOTE #5 – PASS-THROUGH ENTITIES' IDENTIFYING NUMBER

When federal awards were received from a pass-through entity, the Schedule of Expenditures of Federal Awards will show, if available, the identifying number assigned by the pass-through entity. When no identifying number is shown, the Commission has determined that no identifying number is assigned for the program or the Commission was unable to obtain an identifying number from the pass-through entity

NOTE #6 – MEDI-CAL ADMINISTRATIVE ACITIVITIES

The Uniform Guidance defines major federal award programs based upon total federal expenditures of the grantee during the period reported. The Schedule of Expenditures of Federal Awards includes expenditures incurred for Medi-Cal Administrative Activities (CFDA No. 93.778) in the fiscal year 2014-2015, which were approved for reimbursement by the grantor agency in the fiscal year 2015-2016.

FIRST 5 SACRAMENTO COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

I. SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS	
Type of auditors' report issued on whether the financial statements were prepared in accordance with GAAP:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None Reported
Noncompliance material to financial statements noted?	No
FEDERAL AWARDS	
Internal control over major federal programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None Reported
Type of auditors' report issued on compliance for major federal programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of major federal programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.778	Medical Assistance Program (Medicaid Cluster)

Dollar threshold used to distinguish between Type A and Type B programs:	$ 750,000
Auditee qualified as low-risk auditee?	Yes

FIRST 5 SACRAMENTO COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

II. FINANCIAL STATEMENT FINDINGS

None Reported.

FIRST 5 SACRAMENTO COMMISSION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2016

III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None Reported.

FIRST 5 SACRAMENTO COMMISSION
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

No matters were reported.

First 5 Commission Sacramento
Results of Operations
For the Period Ending November 30, 2016

Descriptions	Budget	Total Actual	(Over) Under Budget	% Remaining Budget
A. REVENUE				
Tobacco Tax Allocation	12,985,757	4,707,635	8,278,122	64%
MAA - Federal Funding	825,000	-	825,000	100%
CBCAP/CAPIT	498,056	144,253	353,803	71%
Interest Earnings	125,000	-	125,000	100%
Other Income and Adjustments	11,500	6,796	4,704	41%
Fund Balance	5,976,208	5,976,208	-	0%
Reserve Release	6,976,560	6,976,560	-	0%
TOTAL SOURCES OF FUNDS	**27,398,081**	**17,811,452**	**9,586,629**	**35%**
B. FUNDED PROGRAMS				
Health	***2,458,258***	***541,492***	***1,916,766***	**78%**
Personnel	156,992	50,393	106,599	
Professional Svcs	2,069,266	490,867	1,578,399	
Media & Program Support	57,000	48	56,952	
Kit for New Parents	175,000	184	174,816	
Dental	***2,391,625***	***208,933***	***2,182,692***	**91%**
Personnel	168,625	55,753	112,872	
Professional Svcs	980,000	153,180	826,820	
Capital Projects	1,200,000	-	1,200,000	
Media & Program Support	43,000	-	43,000	
Nutrition	***968,255***	***2,676***	***965,579***	**100%**
Personnel	38,094	2,639	35,455	
Professional Svcs	915,161	-	915,161	
Media & Program Support	15,000	37	14,963	
Early Care	***1,580,532***	***78,725***	***1,501,807***	**95%**
Personnel	46,032	6,669	39,363	
Professional Svcs	1,530,000	72,056	1,457,944	
Media & Program Support	4,500	-	4,500	
School Readiness	***5,795,379***	***1,024,563***	***4,770,816***	**82%**
Personnel	168,786	61,311	107,475	
Professional Svcs	5,597,593	956,601	4,640,992	
Media & Program Support	29,000	6,651	22,349	
Effective Parenting	***11,375,727***	***2,130,288***	***9,245,439***	**81%**
Personnel	77,868	47,503	30,365	
Professional Svcs	9,599,403	2,068,200	7,531,203	
MAA Back-Pymt Fees	1,661,956	-	1,661,956	
Media & Program Support	36,500	14,585	21,915	
Community Connections	***359,394***	***106,670***	***252,724***	**70%**
Personnel	121,527	40,593	80,934	
Professional Svcs	232,867	65,969	166,898	
Media & Program Support	5,000	108	4,892	
Program Management	**329,381**	**139,261**	***190,120***	**58%**
Total Funded Programs	**25,258,551**	**4,232,608**	**21,025,943**	**83%**
C. OPERATING EXPENSES	***1,460,400***	***495,849***	***964,551***	**66%**
Personnel	912,803	330,142	582,661	64%
Direct Operating Expenses	240,703	104,241	136,462	57%
Allocated Operating Expenses	306,894	61,466	245,428	80%
D. PROGRAM EVALUATION	**679,129**	**193,755**	**485,374**	**71%**
TOTAL EXPENDITURES	**27,398,081**	**4,922,212**	**22,475,868**	**82%**
Sources in Excess(Deficiency) of Expenditures		12,889,240		

First 5 Sacramento Commission
Results of Operations
For the Five Month Period Ending November 30, 2016

	Account Description	Budget	Total Actual	% of Budget	Admin	Program
	Salaries	$1,473,114	$524,972	35.6%	$228,138	$296,834
	Benefits	637,991	234,882	36.8%	102,004	132,878
	Total Salaries & Benefits	**$2,111,105**	**$759,854**	**36.0%**	**$330,142**	**$429,712**
1	Books/Periodical Svc	350	$0	0.0%		-
2	Periodicals/Subscriptions	700	-	0.0%		-
3	Business/Conf Exp	4,900	200	4.1%		$200
4	Business Travel	8,800	-	0.0%		-
5	Ed/Training Svc	20,800	7,259	34.9%	659	6,600
6	Ed/Training Sup	146,150	4,972	3.4%		4,972
7	Workplace Amenities	1,900	310	16.3%	160	150
8	Emp Transportation	1,100	273	24.8%	6	267
10	Freight	2,350	-	0.0%		-
11	Insurance	38,000	4,584	12.1%	4,584	-
12	Membership Dues	28,211	-	0.0%		-
13	Office Supplies	9,575	3,505	36.6%	2,775	730
14	Postal Svcs	200	23			23
15	Printing	47,450	2,414	5.1%	1,865	549
17	Rents/Leases/RI Prop.	138,675	58,387	42.1%	58,387	-
19	Ergonomic Furniture	3,750	-	0.0%		-
20	Investment Svc	1,673,956	-	0.0%		-
21	Legal Svc	12,500	4,480	35.8%	4,480	-
22	Personnel Svcs	17,549	7,155	40.8%	7,155	-
23	***Other Prof. Svcs***	***22,737,923***	***3,971,173***	***17.5%***	***5,213***	***3,965,960***
24	Media Svcs	92,500	14,951	16.2%		14,951
25	Data Process Supplies	6,800	7,824	115.1%	7,753	71
26	Interpreter Svcs	650	121	18.6%		121
28	Other Oper. Sup	69,975	67	0.1%		67
29	Other Oper. Svc	550	197	35.8%	197	-
30	CountyWide IT Svcs	14,006	5,837	41.7%	5,837	-
31	System Dev Svc	58,804	13,757	23.4%	12,888	869
32	System Dev Sup	14,295	5,640	39.5%	5,640	-
33	Auditor Svcs	41,850	27,680	66.1%	27,680	-
34	Co Exec Cab Svc	6,510	1,628	25.0%	1,628	-
35	Wan Allocation	18,525	7,710	41.6%	7,710	-
36	Alarm Svcs	2,930	1,221	41.7%	1,221	-
37	GS Printing Svcs	20,725	149	0.7%		149
38	GS Postage	1,075	356	33.1%		356
39	GS Messenger	3,609	1,528	42.3%	1,528	-
40	GS Purchasing	2,023	843	41.7%	843	-
41	Cnty Facility Use Chg	631	263	41.7%	263	-
42	GS Parking	2,000	175	8.8%	175	-
43	GS Surplus Prop Mgmt	457	190	41.6%	190	-
44	Telephone Svcs	30,080	7,486	24.9%	6,870	616
45	Co Wide Cost Alloc (A87)	4,142	-	0.0%		-
	Total Services & Supplies	**$25,286,976**	**$4,162,358**	**16.5%**	**$165,707**	**$3,996,651**
	Total Expenditures	**$27,398,081**	**$4,922,212**	**18.0%**	**$495,849**	**$4,426,363**
	Interest	$125,000	-	0.0%		
	Federal Aid Medi-Cal(MAA)	825,000	-	0.0%		
	Federal Aid - CBCAP	53,683	15,757	29.4%		
	Prop 10 Distributions	12,985,757	$4,707,635	36.3%		
	State Aid - SMIF	3,500	6,396	182.7%		
	State Aid - CAPIT	444,373	128,496	28.9%		
	State Aid (First5)-Town Hall Mtngs	8,000	400	5.0%		
	Total Revenue	**$14,445,313**	**$4,858,684**	**33.6%**		

First 5 Sacramento Commission
Financial Planning Committee (FPC) Meeting
January 5, 2017

Prop 56 Funding Backgrounder

Background:
The Commission recommended considering the use of Prop 56 revenues to soften the 20.7% reduction in the next planning cycle. This issue had not yet come before the Financial Planning Committee so it is timely to discuss it at this time. The Committee has been told of the recent legislation that is effective now.

SBx 2 7 – Increasing the smoking age to 21 (effective 6/9/2016)
Estimates range from a decrease of $9.8 million to $26.3 million. Sacramento's share is a reduction of *$313,600 - $841,600 annually*

One time allocation of BOE reserves (effective 7/1/2016)
Per Governor Brown, the BOE is required to return to First is $3 million statewide. Sacramento's share is a *one-time increase of $96,000*

ABx 2 11 – Change licensing Fees to cover cost of enforcement (effective 6/9/2016)
Reallocates $4.6 million annually statewide from Prop 10. Sacramento's increase is $*147,200 annually.*

Prop 56 - $.50 tobacco tax applies to e-cigarettes (effective April 2017)
The Legislative Advocate Office (LAO) estimates e-cigarette revenues available to Prop 10 Statewide to be in the range of $10 - $40 million per year. The Board of Equalization (BOE) does not believe that the e-smoker is more than 10% of the total smoking population. This would put the estimate at the lower end of the LAO estimate, resulting in $10 - $15 million statewide. At $15 million, the Sacramento share would be $480,000 annually. The mid-point between the two ends of the range ($10 mill. to $40) would result in estimated annual funding to First 5 Sacramento of about *$800,000 per year*.

The adopted 3-year cliff version of the 10-Year Financial Plan already includes a one-time additional 1.2% reduction in FY 2016/17 to account for the legislation that has already been implemented. If the estimated Prop 56 revenue at mid-range ($800,000 per year) is applied to the FY 2018-19 cliff, the cliff would be reduced by approximately 4.5% per year (Chart 1).

If Prop 56 funds are placed into the fund balance, the unspent amount from each year of the 2018 Strategic Plan will be rolled to FY 2021-22. The amount that would accumulate between unspent fund balance and Prop 56 would amount to approximately $10 million. This would reduce the 2021 fiscal cliff to approximately 8% (Chart 2).

The estimates of the amount to be received vary greatly from one end of the range to the other, and the amount that could be applied to the FY 2018-19 Strategic Plan is minimal. There would be a greater impact achieved from placing the funds into the Commission's fund balance and allowing them to accumulated into the next Strategic Plan period. In addition, if the actual funds received are in the low end of the range, and the funds were spent at the higher projected amount, then the cost to the Commission in FY 2021-22 would be to increase the cliff by 3 – 5%.

Current Situation:
Prop 56 funds are not included in the 10- Year Financial Plan and do not reflect a reduction in the cliff. The plan portrays a reduction of 20.7% in FY 2018/19 and a large reduction of 37.5% in FY 2012/22.

There is the potential to greatly reduce the FY 2021/22 cliff if the Prop 56 funds are left in fund balance. Many Commissions across the state are electing to remain status quo regarding the Prop 56 funding until better estimates are available after implementation of the new law.

Recommendation:
Staff recommends that Prop 56 funding, estimated at $800,000 annually, be retained in fund balance to offset the FY 2021/22 fiscal cliff of approximately 37.5%.

Attachments: Chart 1 Prop 56 spent in FY 2018/19
Chart 2 Prop 56 saved

First 5 Sacramento Commission Ten Year Financial Plan
Per Fiscal Year 2016-17 Cliff for 3 Years
Prop 56 spent in FY 2018-19

Financial Planning for Sustainability
Ten Year Baseline Projection
Dollars in Thousands

	2014-15 Actual	2015-16 Projected	2016-17 Budget	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	
Beginning Fund Balance (Unobligated)	66,391	56,512	48,987	36,223	24,796	20,432	15,128	9,084	7,531	5,548	
Revenue	***-3.8%***	***0.8%***	***-3.4%***	***-2.5%***	***-2.5%***	***-2.5%***	***-2.5%***	***-2.5%***	***-2.5%***	***-2.5%***	
Annual Projected Allocations	13,330	13,440	12,986	12,661	12,345	12,036	11,735	11,325	11,438	11,152	
School Readiness	105	0	-	-	-	-	-	-	-		
F5 MAA Funding	149	113	150	150	150	150	123	123	123	86	
B & B MAA Claiming	685	304	775	950	950	950	596	596	596	417	
B & B CBCAP (Fed.)	60	54	54	52	51	50	49	48	47	45	
B&B CAPIT (State)	444	444	444	444	444	444	444	444	444	444	
SMIF	3	4	3	2	1	1	-	1	-	-	
Miscellaneous	-	1	8	-	-	-	-	-	-		
Subtotal Revenue	81,167	70,872	63,407	50,482	38,737	34,063	28,076	21,620	20,179	17,692	
Interest Earnings	(545)	289	214	176	158	177	120	165	129	85	
Interest Rate - Actual and Projected	-0.9%	0.4%	0.5%	0.6%	0.7%	1.0%	1.0%	2.0%	2.0%	2.0%	
Total Revenue (excluding fund balance)	14,231	14,649	14,634	14,435	14,099	13,808	13,068	12,701	12,777	12,229	
					reduction=			reduction=			
Expenses					16.2%			22.9%			
Rate of Inflation - Historical		***2.00%***	***2.00%***	***2.00%***							
Health	2,253	2,014	2,458	2,481	-	-	-	-	-	-	
Dental	2,203	747	2,392	4,152	-	-	-	-	-	-	
Nutrition	836	940	968	982	-	-	-	-	-	-	
Early Care	1,754	1,457	1,581	1,613	-	-	-	-	-	-	
School Readiness	5,231	5,420	5,796	5,964	-	-	-	-	-	-	
Effective Parenting	9,553	9,044	11,376	9,942	-	-	-	-	-	-	
Community Connections	-	299	359	487	-	-	-	-	-	-	
Program Management	442	341	329	362	-	-	-	-	-	-	
Evaluation	478	568	679	686	103	-	-	-	-	-	
Administration	1,360	1,344	1,460	1,489	-	-	-	-	-	-	
Future Allocations					21,183	21,183	21,183	16,325	16,325	16,325	112,524
Subtotal Expenses	24,110	22,174	27,398	28,158	21,286	21,183	21,183	16,325	16,325	16,325	
Total Expenses	24,110	22,174	27,398	28,158	21,286	21,183	21,183	16,325	16,325	16,325	
Ending Fund Bal. (Before int. earned)	**57,057**	**48,698**	**36,009**	**24,620**	**20,274**	**14,951**	**8,964**	**7,366**	**5,419**	**2,932**	
Interest Earned	(545)	289	214	176	158	177	120	165	129	85	
Ending Fund Balance	**56,512**	**48,987**	**36,223**	**24,796**	**20,432**	**15,128**	**9,084**	**7,531**	**5,548**	**3,017**	
Savings - 5-7% per year			2,096	2,023	1,270.98	1,270.98	1,270.98	765.00	765	765	
Prop 56 amounts estimated at mid=point			200	800	800.00	800.00	800.00	800.00	800	800	
Savings available to reduce cliff in future SP.					5,119.04	7,190	9,261	10,532			

* FY 2016-17 Dental includes $950 thousand rollover for GSWC fluoridation project and $250 for Galt Dental Clinic.
* FY 2017-18 Dental includes $2.8 million rollover fro GSWC fluoridation.

MAA revenue effective FY 2021-22 reflects 18% reduction due to cliff.
MAA funding will remain stable for three years.
MAA funding is invoiced 15 months after earned and collected approximately 1 year later.

First 5 Sacramento Commission Ten Year Financial Plan
Per Fiscal Year 2016-17 Rec. Budget
Cliff for 3 Years
Prop 56 and Fund Balance Saved until FY 2021-22

Financial Planning for Sustainability
Ten Year Baseline Projection
Dollars in Thousands

	2014-15 Actual	2015-16 Projected	2016-17 Budget	2017-18	2018-19	2019-20	2020-21	2021-22	2022-23	2023-24	
Beginning Fund Balance (Unobligated)	66,391	56,512	48,987	36,223	24,796	23,873	19,674	14,745	11,166	7,341	
Revenue	***-3.8%***	***0.8%***	***-3.4%***	***-2.5%***	***-2.5%***	***-2.5%***	***-2.5%***	***-2.5%***	***-2.5%***	***-2.5%***	
Annual Projected Allocations	13,330	13,440	12,986	12,661	12,345	12,036	11,735	11,325	11,438	11,152	
School Readiness	105	0	-	-	-	-	-	-	-		
F5 MAA Funding	149	113	150	150	150	150	123	123	123	86	
B & B MAA Claiming	685	304	775	950	950	950	596	596	596	417	
B & B CBCAP (Fed.)	60	54	54	52	51	50	49	48	47	45	
B&B CAPIT (State)	444	444	444	444	444	444	444	444	444	444	
SMIF	3	4	3	2	1	1	-	1	-	-	
Miscellaneous	-	1	8	-	-	-	-	-	-		
Subtotal Revenue	81,167	70,872	63,407	50,482	38,737	37,504	32,621	27,282	23,814	19,485	
Interest Earnings	(545)	289	214	176	170	217	171	257	183	85	
Interest Rate - Actual and Projected	-0.9%	0.4%	0.5%	0.6%	0.7%	1.0%	1.0%	2.0%	2.0%	2.0%	
Total Revenue (excluding fund balance)	14,231	14,649	14,634	14,435	14,111	13,848	13,119	12,793	12,831	12,229	
					reduction=			reduction=			
Expenses					20.7%			8.4%			
Rate of Inflation - Historical		***2.00%***	***2.00%***	***2.00%***							
Health	2,253	2,014	2,458	2,481	-	-	-	-	-	-	
Dental	2,203	747	2,392	4,152	-	-	-	-	-	-	
Nutrition	836	940	968	982	-	-	-	-	-	-	
Early Care	1,754	1,457	1,581	1,613	-	-	-	-	-	-	
School Readiness	5,231	5,420	5,796	5,964	-	-	-	-	-	-	
Effective Parenting	9,553	9,044	11,376	9,942	-	-	-	-	-	-	
Community Connections	-	299	359	487	-	-	-	-	-	-	
Program Management	442	341	329	362	-	-	-	-	-	-	
Evaluation	478	568	679	686	103	-	-	-	-	-	
Administration	1,360	1,344	1,460	1,489	-	-	-	-	-	-	
Future Allocations					20,050	20,050	20,050	18,375	18,375	18,375	115,275
Subtotal Expenses	24,110	22,174	27,398	28,158	20,153	20,050	20,050	18,375	18,375	18,375	
Total Expenses	24,110	22,174	27,398	28,158	20,153	20,050	20,050	18,375	18,375	18,375	
Ending Fund Bal. (Before int. earned)	**57,057**	**48,698**	**36,009**	**22,324**	**23,703**	**19,457**	**14,574**	**10,910**	**7,158**	**1,110**	
Interest Earned	(545)	289	214	176	170	217	171	257	183	85	
Ending Fund Balance	**56,512**	**48,987**	**36,223**	**24,796**	**23,873**	**19,674**	**14,745**	**11,166**	**7,341**	**2,914**	
Savings - 5-7% per year			2,096	2,023	1,203.00	1,203.00	1,203.00	918.75	918.75	918.75	
Prop 56 amounts estimated at mid=point			200	800	800.00	800.00	800.00	800.00	800	800	
Savings available to reduce cliff in future SP.					5,119.04	7,122	9,125	10,328			

* FY 2016-17 Dental includes $950 thousand rollover for GSWC fluoridation project and $250 for Galt Dental Clinic.
* FY 2017-18 Dental includes $2.8 million rollover fro GSWC fluoridation.

MAA revenue effective FY 2021-22 reflects 18% reduction due to cliff.
MAA funding will remain stable for three years.
MAA funding is invoiced 15 months after earned and collected approximately 1 year later.

First 5 Sacramento Commission **8**
Financial Planning Committee (FPC) Meeting
January 5, 2017

2018 Contractor "Step Down" Parameters Backgrounder

Background
On October 3, 2016, the Commission adopted a cliff strategy for contract reductions in the new Strategic Plan. The cliff strategy results in two large reductions in the 2018 and 2021Strategic Plans (20% and 35%, respectively). Contractors are aware of the impending reductions and have been encouraged to develop sustainability plans at their agencies, as well as to join the Commission on our sustainability plan efforts. As of January 1, 2017, contractors have 1.5 years to develop a plan to leverage additional dollars or streamline programs funded by First 5.

After hearing from a contractor at the December Commission meeting that 18 months would not be enough time to fully implement their sustainability plan efforts, Commissioners directed staff to review the advantages and disadvantages of providing contractors with a "step down" option. Additionally, if staff does recommend a "step down" option, Commissioners directed staff to bring back parameters for the implementation of a step down approach.

Working out contract issues with providers is a component of the contract negotiation process, which is scheduled to begin in early spring of 2018 for agencies awarded grants in the new Strategic Plan. Contractors have always been allowed to stagger their overall award in order to build in step increases and COLAs for their employees. Traditionally, contractors allocate less money in the first year of a contract and increase the budget by 2-3% each year, staying within their original 3-year award amount.

The request is for staff to look into allowing contractors to stagger their overall award to include more money allocated in the first year and less money in the subsequent two years in order to implement their sustainability plans.

Current Situation
Staff ran several analyses to look at how agencies might step down (slope) their total award over the three year contract beginning in 2018. After review and discussion, the same valid reasons stand for why a sloped budget is not advantageous in the long run. These reasons include:

- A slope may be hard to manage with annual program changes and no time to relax into a pattern.
- May require annual contract amendments, as it could be difficult to project impacts up front.
- Annual expense reduction may result in decreased employee morale and added stress. Staff will assume that they will lose their job at some point.

Additionally, in order to achieve the same dollar amount savings, the final year ending contract amount will be significantly lower than if the organization had taken the full reduction in the first contract year. This immediately starts the contractor off at a lower contract value for future reduction plans.

Commission staff believes that looking at alternate funding sources now is a better way to proceed. A First 5 Sacramento Systems Sustainability Plan will be in place prior to the start of the 2018 Strategic Plan. The Commission's Sustainability Committee is pursuing additional funding sources such as Medi-Cal Administrative Activity (MAA) funding and other ways to support contractors with their sustainability goals. Contractors will be asked to participate in the Commission's efforts to bring in new dollars, leverage more money and better use existing funding for children's services.

Recommendation:
Staff does not recommend allowing contractors to step down their allocations in the new Strategic Plan. However, if Commissioners permit this approach, staff recommends limiting to 5% of the total award the amount that can be added to the first year of the contract. Additionally, staff recommends that contractors be required to submit their sustainability plans to Commission staff for review prior to approval of a "step down" budget.

Attachments:

- Step Down Funding Examples

First 5 Sacramento Commission
Financial Planning Committee Meeting
Step Down Funding Examples

Example 1 - 30% Reduction taken in Year 1		Example 2 - Reduction halved in First year		Example 3 - Reduction reduced by 5% in first Year	
Annual Contract Value	1,000,000	Annual Contract Value	1,000,000	Annual Contract Value	1,000,000
Percentage Reduction	30%				
Annual Reduction	300,000	First Year	1,000,000	First Year	1,000,000
		15% reduction	150,000	25% reduction	250,000
Net Annual Contract Value	700,000	Net Value Yr. 1	850,000	Net Value Yr. 1	750,000
Total net contract value	2,100,000	2nd Year	1,000,000	2nd Year	1,000,000
Total reduction taken over term	900,000	37.5% reduction	375,000	32.5% reduction	325,000
		Net Value yr. 2	625,000	Net Value yr. 2	675,000
Annual ending contract value	700,000				
		37.5% reduction	375,000	32.5 reduction	325,000
		Net contract Value	625,000	Net contract Value	675,000
		total reduction taken over term	900,000	total reduction taken over term	900,000
		Total net contract value	2,100,000	Total net contract value	2,100,000
		Annual ending contract value	625,000	Annual ending contract value	675,000

Future contract reductions are taken based on the annual ending contract value.

First 5 Sacramento Commission
Financial Planning Committee
January 5, 2017

Medi-Cal Administrative Activities (MAA) Expansion Backgrounder

Background:
The Commission currently contracts with the County Department of Health and Human Services (DHHS) to receive MAA reimbursement for Medi-Cal activities performed by First 5 Sacramento and the Birth & Beyond program. These activities include but are not limited to:

- Providing information – i.e. outreach for programs and providers or making referrals to Medi-Cal services and/ or sites
- Assisting with access – i.e. enrollment, coordination, translation, transportation
- Health Program Planning – i.e. gathering and analyzing data, collaborating to identify and/or fill gaps in services
- Contract monitoring activities for agencies claiming MAA

Currently, the program generates revenues of $1 million annually of which $800,000 is earned by the Birth & Beyond program and $200,000 is earned by First 5 staff. All reimbursements are allocated back to the Child Abuse Prevention Center annually.

Current Situation:
Effective July 1, 2018, the Commission expects to reduce its annual expenses by 20.7%. As a result of this decrease in available funding for the next strategic plan, leveraging and sustainability have become key funding considerations. To support program sustainability and lessen the impact of these reductions, the Commission contracted with Health Reach to assess the potential MAA revenue for contractors who are not currently claiming MAA reimbursement.

Several contractors were identified as having the potential to earn additional revenue and many have expressed an interest in participating in the MAA reimbursement program.

Staff estimates that upon conclusion of the initial assessment, up to six contractors will generate enough MAA revenue to benefit from participating in the MAA reimbursement program. The cost to support these programs is estimated at $20,000 per contractor, not including staff time. Support activities include time study training and review, invoice preparation and claim plan changes, database support, Medi-Cal confirmation and contract monitoring.

Staff are recommending a MAA feasibility study to determine MAA income and costs for additional contractors. The study will be conducted during the remaining 18 months of the current Strategic Plan. During this time, contractors will be time studying and billing MAA to ensure accurate projection of cost/benefit going forward. By First 5 investing up to $120,000, our funded partners will be able to draw down at least $500,000 in MAA revenue annually, thereby increasing their sustainability over the long term and ensuring that services to children remain intact, even as First 5 investments decline over time. Any contractors selected for funding to assist with MAA expansion will be brought to the full Commission for approval in the spring of 2017.

Staff Recommendations:

1. Approve MAA Feasibility Study to determine the cost to implement and the revenue to be earned by expanding MAA to additional contractors.
2. Allocate a total of $120,000 over FY16/17 and FY17/18 to support MAA expansion for up to 6 additional contractors.