FIRST 5 LAKE

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2018

FIRST 5 LAKE

Financial Statements
For the Year Ended June 30, 2018

TABLE OF CONTENTS

FIRST 5 LAKE

Commission Membership
June 30, 2018

Name	**Position**	**Date of Original Appt.**
Pam Klier	Retired Kindergarten Teacher Chair	April 2002
Denise Pomeroy	Director, Department of Health Services Vice-Char	Mandated
Brock Falkenberg	Superintendent of Schools, Lake County Office of Education Commissioner	Mandated
Crystal Markytan	Director, Department of Social Services Commissioner	Mandated
Tina Scott	Supervisor – District 4 Commissioner	Mandated
Susan Jen	Director Health Leadership Network Commissioner	April 2004
Allison Panella	Family Advocate Commissioner	August 2017
Carly Swatosh	Education Specialist Lake County Office of Ed. Commissioner	August 2017
Laurie Daly, Ed D.	Professor of Early Childhood Ed. Woodland Community College Commissioner	August 2014

Jensen Smith
CERTIFIED PUBLIC ACCOUNTANTS, INC.

Making a Lasting Contribution
To our Clients, To our Community, To our Profession

P.O. Box 160
Lincoln, CA 95648
Office (916) 434-1662
Fax (916) 434-1090

INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
First 5 Lake
Lakeport, California

Report on Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of First 5 Lake (Commission) as of and for the year ended June 30, 2018, which collectively comprise the Commission's basic financial statements as listed in the table of contents

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the Commission, as of June 30, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Budgetary Comparison Information and CalPERS schedules on pages 4 through 9; 26 through 27; and 28 through 30 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The summary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2017 on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

Jensen Smith

Jensen Smith
Certified Public Accountants, Inc.
Lincoln, California
November 6, 2018

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

The Lake County (County) Board of Supervisors created the First 5 Lake (Commission) (formerly Lake County Children and Families Commission) in 1998 under the provisions of the Act. The Commission consists of nine members. Four members sit on the Commission by virtue of their respective official positions as identified in the enabling ordinance. Five members are members at-large. They are appointed by the seated Commissioners and the County Board of Supervisors re-affirms the appointments. As of June 30, 2018, all nine seats on the Commission were filled. The Commission is a public entity with independent status, with the County's governmental structure providing staff services, including accounting, personnel and legal counsel.

As management of the Commission, we offer readers of our financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2018.

Overview of the Financial Statements

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

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

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

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

The government-wide financial statements can be found on pages 10 - 11 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commission, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund financial statements report essentially the same functions as those reported in the government-wide financial statements.

However, unlike the government-wide financial statements, fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year.

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

The Commission adopts an annual appropriated budget for its fund. Revisions to the budget are allowed and appropriate during the fiscal year to reflect more accurately revenues and expenditures. A budgetary comparison statement has been provided for the fund to demonstrate compliance with the original and final budgets approved by the Commission.

The fund financial statements can be found on pages 10 - 11 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 12 - 25 of this report.

Government-wide Financial Analysis

The Commission has presented its financial statements under the reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB 34), Basic Financial Statements – and Management's Discussion and Analysis (MD&A) – for State and Local Governments.

Net position may serve over time as a useful indicator of a government's financial position. In the case of the Commission, assets exceed liabilities by $575,865 at the close of the most recent fiscal year. The most significant portion of the Commission's net position is its cash in county treasury balance of $447,647. This represents primarily resources received from the State Commission from Proposition 10 taxes that have not been expended. Cash and investments are maintained in the County's cash and investment pool where interest earned on the Commission's balance is apportioned to the Commission. Another source of net position also resides in the Commissions receivables due from the State Commission for Proposition 10 taxes ($123,427), IMPACT grant ($75,934), and IMPACT Region 1 Hub reimbursement ($4,080). These receivables represent taxes that were remitted by the State but had not been received by the Commission as of

June 30, 2018. The Commission also reports accounts payable of $46,412 representing payments due on grant services contracts that had not been expended at year-end.

The Commission's net position decreased overall by $61,439 during the 17-18 fiscal year. This decrease is explained in the governmental activities analysis (below) and is primarily a result of an emergency grant of $26,041 given to Redwood Community Services for The NEST program.

FIRST 5 LAKE
Statement of Net Position Comparison

	FY 2017-18	FY 2016-17	Difference
Total Assets & Deferred outflows	$ 779,514	$ 837,341	$ (57,827)
Total Liabilities& Deferred inflows	203,649	200,037	3,612
Net Position	$ 575,865	$ 637,304	$ (61,439)

Statement of Activities Comparison

	FY 2017-18	FY 2016-17	Difference
Total Revenues	$ 841,832	$ 840,889	$ 943
Total Expenses	903,271	761,934	141,337
Change in Net Assets	$ (61,439)	$ 78,955	$ (140,394)

Financial Analysis of the Commission's Governmental Fund

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

For the year-ended June 30, 2018, the Commission reported an ending fund balance of $670,738, a decrease of $33,991 from the prior year. The Commission will use the combined revenues of annual Proposition 10 allocations plus its reserve fund to sustain the current level of programs and services.

Of the fund balance at June 30, 2018, the Commission had restricted assets of $70,169, committed assets of $75,870, assigned assets of $445,431, and non-spendable assets of $79,268.

Total revenue consisting of Proposition 10 funds, interest income, and State Commission matching revenue and local revenue increased from $839,632 to $843,089 for the year ended June 30, 2018. This increase was due primarily to an increase in IMPACT grant revenue.

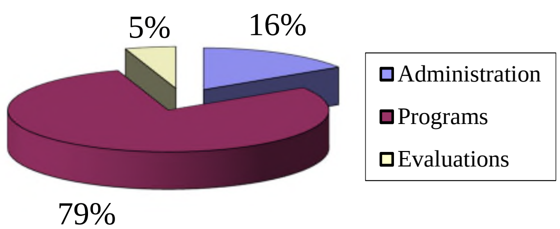
Total expenditures increased to $877,080 in 2017-18, an increase of $126,334 from the prior fiscal year. The total expenditures increased primarily due to the further roll out of the IMPACT grant program ($35,526), an emergency grant for The NEST ($26,041), and the spend down of grant funds by Bloom/Hero Project ($25,428), Oral Health Project ($2,386), Nurturing Parenting ($7,554), AmeriCorps ($7,783), Imagination Library ($12,658) and ESBA Early Learning Center ($1,046), and an increase in Evaluation expenses due to a transition between contractors ($7,440)

Fund Budgetary Highlight

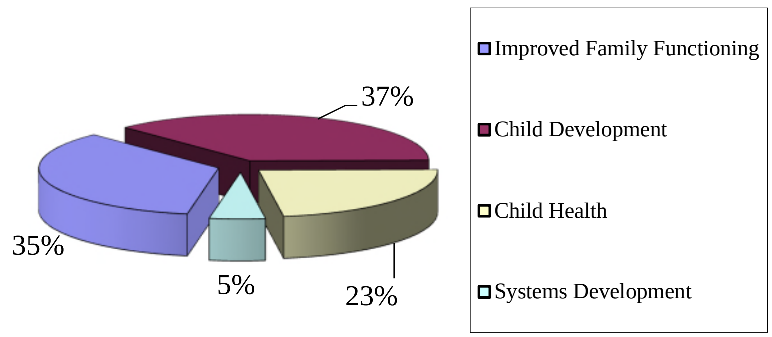
Total revenues were under budget by 8.5% or $78,652, while total expenditures were under budget by 8.3% or $79,632. The under budget of total revenues was due primarily to the delay in IMPACT program implementation and funding. Expenditures were under budget due primarily to the IMPACT delay. Expenditures for general administrative services and supplies were $143,214 or 15.9%. The cost of evaluation services was $46,117 or 5.1%.

The remainder of the funds was allocated to program design and implementation. The LCOE AmeriCorps project continues to provide training and support for developing capable future staff members for child development and family strengthening agencies inside and outside the county. The IMPACT grant provided professional development and support to early childhood educators while improving the quality of childcare sites. Children with special needs were identified for early intervention and developmental services through access to the ESBA toll-free Healthline, Early Learning Centers and widening use of the Ages and Stages Questionnaire. LCOE Healthy Start, AmeriCorps and local dentists have actively strengthened their networks to provide positive oral health outcomes for young children. New agencies are using the Nurturing Families parenting program while outreach efforts increased the reach of this program helping increase parent confidence in appropriate parenting techniques and knowledge of child development. Imagination Library continued to distribute age-appropriate books to children throughout the county and increased saturation beyond 50%. Bloom connected with parents through online strategies and engaging activities for kindergarten readiness. First 5 Lake, through its staff, continued to play an essential role in the community in the areas of service outreach, planning, support and management; provider capacity building, training and support; and community strengthening.

Fund Allocation



Program Distribution



Capital Assets and Long-Term Liabilities

Capital Assets

The Commission's investment in capital assets for its governmental activities as of June 30, 2018, amounts to $1,195 (net of accumulated depreciation). This investment in capital assets includes equipment only.

More detailed information about the Commission's capital assets is presented in Notes 2 and 4 of the basic financial statements on pages 14 and 19 of this report

Long-Term Liabilities

The Commission's long-term liabilities consist of compensated absences payable. More detailed information about the Commission's long-term liabilities is presented in Note 2 of the basic financial statements on page 14 of this report.

Economic Factors and Next Year's Budget

The Commission is committed to focusing Proposition 10 funds on the purposes for which they are intended as reflected in its Vision Statement: Lake County's children receive the best possible start in life and thrive.

The following economic factors were considered in preparing the Commission's financial plan for fiscal year 2018-2019:

- Proposition 10 funding will be stabilized through fiscal year 2020-2021 at $625,000 with the Commission's participation in First 5 CA's Small Population County Funding Augmentation policy.
- First 5 California's IMPACT Initiative, will continue for the next two years without fiscal year constraints.

- The state's improved economic base as it recovers more fully from the recession will support an increase in pre-K slots and other selective services to young children.
- General administrative costs will remain below the level established in the Commission's administrative cost policy.
- Federal Grant opportunities will continue to diminish as a result of cuts imposed by Congress.
- The Lake County Department of Behavior Health will continue to be the major funder of the Mother-Wise Program.
- Opportunities to leverage funds will continue to maximize Proposition 10 funding.

The Commission views Proposition 10 as a mechanism to establish and fund a sustainable system of results-oriented early childhood development and family support services for the 0-5 population, not as just another funding source for programs. In that regard, the Commission will continue its practice of evaluating all funded programs to determine what is working or has promise to impact the health and well-being of children. This information in turn will be used to help evaluate the overall impact of Proposition 10 in Lake County. And the result of these evaluation activities will assist the Commission in determining the optimum future services to be provided with its respective future revenues.

Requests for Information

This financial report is designed to provide a general overview of First 5 Lake's finances for all those interested. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to First 5 Lake, 1950 Parallel Drive, Lakeport, California 95453.

FIRST 5 LAKE
GOVERNMENTAL FUNDS BALANCE SHEET AND STATEMENT OF NET POSITION
JUNE 30, 2018

	General Fund	Total	Adjustments		Statement of Net Position
ASSETS AND DEFERRED OUTFLOWS					
Cash	$ 447,647	$ 447,647	$ -		$ 447,647
Imprest Cash	100	100	-		100
State Fund and Other Receivables	203,441	203,441	-		203,441
Interest Receivable	613	613	-		613
Prepaid Program Costs	79,268	79,268	-		79,268
Fixed Assets - Net of Depreciation	-	-	1,195	(1)	1,195
Deferred Ouflows from Pensions	-	-	47,250	(3)	47,250
Total Assets and Deferred Outflows	$ 731,069	$ 731,069	48,445		779,514
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES/NET POSITION					
Accounts Payable	$ 46,412	$ 46,412	-		46,412
Payroll Payable	13,919	13,919	-		13,919
Compensated Absences Payable	-	-	2,537	(2)	2,537
Net Pension Liability	-	-	140,485	(3)	140,485
Total Liabilities	60,331	60,331	143,022		203,353
DEFERRED INFLOWS OF RESOURCES					
Deferred Inflows from Pensions	-	-	296	(3)	296
FUND BALANCES					
Nonspendable	79,268	79,268	(79,268)		-
Restricted	70,169	70,169	(70,169)		-
Committed	75,870	75,870	(75,870)		-
Assigned	445,431	445,431	(445,431)		-
Unassigned	-	-	-		-
Total Fund Balances	670,738	670,738	(670,738)		-
Total Liabilities and Fund Balances	$ 731,069	$ 731,069			
NET POSITION					
Restricted			574,670		574,670
Invested in Capital Assets - Net of Depreciation			1,195		1,195
Total Net Position			$ 575,865		$ 575,865

(1) Capital assets used in the governmental activities are not financial resources and therefore are not reported in the funds.

(2) Compensated absences payable applicable to the Commission's governmental activities are not due and payable in the current period and accordingly are not reported as a fund liability.

(3) Deferred Inflows, Outflows and the Net Pension Liability applicable to the Commission's governmental activities are not due and payable or receivable in the current period and accordingly are not reported as a fund liability.

See Accompanying Notes.

FIRST 5 LAKE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES AND STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED
JUNE 30, 2018

	General Programs	Governmental Funds Total	Adjustments	Statement of Activities
Revenues:				
State Funding - Prop. 10 & 56 Allocation	$ 625,000	$ 625,000	$ -	$ 625,000
State Funding - IMPACT	135,798	135,798	-	135,798
State Funding - IMPACT Hub TTA	7,003	7,003	-	7,003
County Funding - Mother-Wise	65,000	65,000	-	65,000
Interest	3,919	3,919	-	3,919
Surplus Money Investment Fund	613	613	-	613
Other Income	5,756	5,756	(1,257) (1)	4,499
Total Revenues	843,089	843,089	(1,257)	841,832
Expenditures:				
Personnel Costs				
Personnel	105,456	105,456	(105,713) (2)	-
Personnel Benefits	38,525	38,525	(64,230) (2)	-
Total Personnel Costs	**143,981**	**143,981**	**(169,943)**	-
Other Operating Costs				
Communications	1,388	1,388	(1,388)	-
Household Expense	100	100	(100)	
Insurance	2,133	2,133	(2,133)	-
Memberships and Subscriptions	3,725	3,725	(3,725)	-
Office Supplies	2,215	2,215	(2,215)	-
Rents for Occupancy	9,280	9,280	(9,280)	-
Special Departmental Expense	24,063	24,063	(24,063)	-
Transportation	5,915	5,915	(5,915)	-
Utilities	3,317	3,317	(3,317)	-
Publication	772	772	(772)	-
Depreciation or Inventory items	-	-	(229) (2)	-
County Administration Costs	2,500	2,500	(2,500)	-
Total Other Operating Costs	**55,408**	**55,408**	**(55,637)**	-
Professional Fees and Contracts				
Audit	6,200	6,200	(6,200)	-
Evaluation & Assessment	32,640	32,640	(32,640)	-
Mini-Grants and Special Projects	26,041	26,041	(26,041)	-
Motherwise Program	67,883	67,883	(67,883)	-
Oral Health	69,470	69,470	(69,470)	-
Nurturing Parenting	61,743	61,743	(61,743)	-
IMPACT Hub T&TA	8,267	8,267	(8,267)	-
IMPACT	125,001	125,001	(125,001)	-
Parent Engagement "Bloom"	43,592	43,592	(43,592)	-
Easter Seals of the Bay Area	70,500	70,500	(70,500)	-
Clearlake Early Learning Center	15,433	15,433	(15,433)	
AmeriCorps	106,921	106,921	(106,921)	-
Imagination Library	44,000	44,000	(44,000)	
Total Professional Fees and Contracts	**677,691**	**677,691**	**(677,691)**	-
Total Expenditures	**877,080**	**877,080**	**(903,271)**	-
Excess (Deficit) of Revenues over Expenditures	(33,991)	(33,991)		
Expenses				
Administration Expenses			143,665	143,665
Program Expenses			713,609	713,609
Evaluation Expenses			45,997	45,997
Total Expenses			903,271 (2)	903,271
Change in Fund Balances/Net Position	(33,991)	(33,991)	(27,448)	(61,439)
Fund Balance/Net Position:				
Beginning of the year	704,729	704,729	(67,425)	637,304
End of the year	$ 670,738	$ 670,738	$ (94,873)	$ 575,865

(1) Revenue Receivables received after ninety days after the fiscal year end are not considered currently available and therefore are not reported in the governmental fund activities. 2016-2017 receivable $1,257 was not received within 90 days of the year end and therefore is reported as revenues in fiscal year 2017-2018.

(2) Some expenses reported in the statement of activities do not require the use of current financial resources, and therefore are not reported in the governmental funds: Change in Compensated Absences $257, Depreciation Expense $229, and the Change in Net Pension Liability/Deferred Inflows/Deferred Outflows $25,705.

See Accompanying Notes

Note 1: Nature of the Entity

Reporting Entity

First 5 Lake (Commission), originally known as the Lake County Children and Families Commission, was established on December 22, 1998 pursuant to Health and Safety Code §130140. The Commission was also established in accordance with the provisions of the California Children and Families First Act of 1998 and by Lake County Ordinance No. 2452.

The Commission is responsible for the creation and implementation of a comprehensive, collaborative, and integrated system of information and services to enhance early childhood development.

The Commission includes all activities (operations of its administrative staff and Commission officers) considered to be part of the Commission. The Commission reviewed the criteria developed by the Governmental Accounting Standards Board (GASB) in its issuance of Statement No.14, relating to the financial reporting entity to determine whether the Commission is financially accountable for other entities. The Commission has determined that no other outside entity meets the above criteria, and therefore, no agency has been included as a component unit in the financial statements. In addition, the Commission is not aware of any entity that would be financially accountable for the Commission that would result in the Commission being considered a component unit of that entity.

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

Note 2: Summary of Significant Accounting Policies

Basis of Presentation and Accounting

Government-Wide Statements

The statements of net position and statements of activities display information about the primary government (Commission). These statements include the financial activities of the overall Commission.

Notes 2: <u>Summary of Significant Accounting Policies</u> (continued)

Basis of Presentation and Accounting (continued)

Government-Wide Statements (continued)

The statement of activities presents a comparison between direct expenses and program revenues for the Commission's governmental activity. Direct expenses are those that are specifically associated with the Commission. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of the Commission. Revenues that are not classified as program revenues, including investment income, are presented instead as general revenues.

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

Fund Financial Statements

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measureable and available to finance expenditures of the current period. Proposition 10 taxes and investment income are accrued when their receipt occurs within ninety days after the end of the accounting period so as to be both measurable and available. All receivables are expected to be collected within the current year. Expenditures are generally recorded when a liability is incurred, as under accrual accounting.

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

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

Notes 2: <u>Summary of Significant Accounting Policies</u> (continued)

State Funds Receivable

This amount represents receivables from the State of California First 5 Commission. Management has determined the Commission's receivables are fully collectible. Accordingly, no allowance for doubtful accounts has been made.

Compensated Absences

Commission employees have accumulated unpaid benefits for compensatory time-off and vacation earned. The accumulated benefits will be liquidated in future years as employees elect to use them. In the normal course of business, all payments of these accumulated benefits will be funded from appropriations of the year in which they are to be paid; therefore, the total liability is recorded as long-term. In accordance with GASB Statement 16, these amounts are not expected to be liquidated from expendable available financial resources.

Capital Assets

Capital assets have been acquired for general commission purposes. Assets purchased are recorded as expenditures in the governmental funds and capitalized at cost or estimated cost where no historical records are available. The Commission defines capital assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of one year. Capital assets are depreciated in the government-wide statements using the straight-line method over their estimated useful lives of 4 years.

Deferred Outflows/Inflows of Resources

In addition to assets the statement of net position includes a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period which will only be recognized as an outflow of resources (expense) in the future. The Commission only has one item that qualifies for reporting in this category, which is deferred outflows of resources related to pension which represents a reclassification of current year's pension contributions, all of which will be amortized during fiscal year 2018-2019 per accounting pronouncement GASB Statement No. 71.

Notes 2: <u>Summary of Significant Accounting Policies</u> (continued)

Basis of Presentation and Accounting (continued)

In addition to liabilities, the statement of net position includes a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and would only be recognized as an inflow of resources (revenue) at that time. The Commission only has one item that qualifies for reporting in this category, related to pension, which is the difference between the projected and actual earnings on the pension plan investments.

Net Pension Liability

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pension and pension expense, information about the fiduciary net position of the Commission's California Public Employees' Retirement System (CalPERS) plan (the Plan) and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by CalPERS. 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.

Net Position

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

- *Invested in Capital Assets, Net of Related Debt* – This category groups all the capital assets into one component of the net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.
- *Restricted* – This category represents resources with external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- *Unrestricted* – This category represents resources of the Commission, not restricted for any project or other purpose.

Notes 2: <u>Summary of Significant Accounting Policies</u> (continued)

Fund Balances

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

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

- **Nonspendable –**

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

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

- **Restricted –**

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

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

Note 2: Summary of Significant Accounting Policies (continued)

Fund Balances (continued)

- **Committed –**

Two criteria determine the Committed fund balance:

1. Use of funds is constrained by limits imposed by the government's highest level of decision making. The highest level of decision making for Proposition 10 funds is the First 5 Lake Commission.
2. Removal or modification of use of funds can be accomplished only by formal action of the authority (i.e., Commission) that established the constraints.

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

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

- **Assigned –**

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

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

Note 2: <u>Summary of Significant Accounting Policies</u> (continued)

Fund Balances (continued)

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

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

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

- **Unassigned –**

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

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

Use of Estimates

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

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

Cash at June 30, 2018 consisted of the following:

Cash in County treasury	$ 447,647
Imprest cash	100
Total cash and investments	$ 447,747

The Commission maintains all of its cash and investments with the Lake County Treasurer in an investment pool. The County of Lake is an external investment pool for the Commission and the Commission is considered an involuntary participant. The Commission does not own any specific identifiable investments in the pool. On a quarterly basis the Treasurer allocates interest to participants based upon their average daily balances. Required disclosure information regarding categorization of investments and other deposit and investment risk disclosures can be found in the County's financial statements. The County of Lake's financial statements may be obtained by contacting the County of Lake's Auditor-Controller's office at 255 N. Forbes Street, Lakeport, California 95453. The Lake County Treasury Oversight Committee oversees the Treasurer's investments and policies.

Required disclosures for the Commission's deposit and investment risks at June 30, 2018, were as follows:

Credit risk	Not rated
Custodial risk	Not applicable
Concentration of credit risk	Not applicable
Interest rate risk	Not available

Investments held in the County's investment pool are available on demand and are stated at cost plus accrued interest, which approximates fair value. The fair value of cash was the same as the carrying value; therefore no adjustment was necessary for GASB 31 compliance.

Pooled Investments:	Carrying Amount
Lake County	$ 447,747

Notes 4: Capital Assets And Depreciation

Capital Assets at June 30, 2018 were as follows:

	June 30, 2018
Equipment	$ 2,706
Less accumulated depreciation	(1,511)
Capital assets, net	$ 1,195

Depreciation expense for the year was $229.

Note 5: Related Party Transactions

During the fiscal year ended June 30, 2018, the Commission paid the County of Lake, a related party, $2,500 for accounting and risk management services.

Note 6: Program Evaluation – Allocation of Costs

The Commission allocated costs between administrative, program and evaluation activities. Direct costs are expensed directly to the category. Indirect costs are allocated based on the amount of time staff spends on each activity. Personnel costs are allocated based on the amount of time spent on those activities. The adjustment between the general fund expenses and the government-wide expenses is the change in the compensated absences payable $257, depreciation $229, and the change in net pension liability/deferred inflows/deferred outflows $25,705. The expenses were allocated as follows:

	General Fund	Adjustment	Government-Wide
Program	$ 692,909	$ 20,700	$ 713,609
Administrative	139,512	4,153	143,665
Evaluation	44,659	1,338	45,997
Total	$ 877,080	$ 26,191	$ 903,271

Note 7: Pension Obligation Including GASB Statement No. 68

The Commission has contracted with the County of Lake for Human Resources and Personnel Services for the Commission. As such, the County of Lake is the employer of record for the employees working at the Commission. The contract with the County of Lake allows the employees to receive the rights and benefits of all other County employees. The Commission reimburses the County for costs associated with the employees in the Commission. The Commission paid the County the following amounts for personnel costs for the year ended June 30, 2018.

Salaries	$ 105,456
Retirement Benefits - CalPERS	16,957
Health Benefits	12,080
Taxes and Workers' Compensation	9,488
Total	$ 143,981

Note 7: Pension Obligation Including GASB Statement No. 68 (continued)

As employees of the County of Lake, the Commission employees participate in the retirement benefits of the County of Lake as follows:

Plan Description -
The Commission reimburses the County for contributions to the California Public Employees Retirement System (PERS), a cost-sharing multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute. PERS issues a separate comprehensive financial report. Copies of PERS' annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy -
Active plan members in the PERS are required to contribute 7% of their annual covered salary. The Commission is required to reimburse the County for the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration.

The Commission reimburses the County 16.067% of the employees' annual covered salary. The Commission reimburses the County for both the employee and employer portion paid directly to PERS. The Commission's contributions to CalPERS, through the County of Lake, for the last three years was as follows and equaled 100% of the required contribution for the each year:

June 30, 2018	$16,957
June 30, 2017	$17,787
June 30, 2016	$14,548
June 30, 2015	$15,941

Employees Covered

Inactive employees or beneficiaries currently receiving benefits	0
Active employees	2
Total	2

Note 7: Pension Obligation Including GASB Statement No. 68 (continued)

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

At June 30, 2018, the Commission reported a net pension liability of $140,485 for its proportionate share of the County's net pension liability. The net pension liability was measured as of June 30, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, rolled forward to June 30, 2017, using standard update procedures. The Commission's proportion of the net pension liability was based on a projection of the Commission's long-term share of contributions to the pension plan relative to the projected contributions of all participating entities and the State, actuarially determined. At June 30, 2016 and June 30, 2017, the Commission's proportionate share of the County of Lake's net pension liability was 0.2564% and 0.2198%, respectively.

Pension Expense and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2018, the Commission recognized pension expense of $42,662. At June 30, 2018, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows Resources	Deferred Inflows Resources
Differences between expected and actual experience	$ 5,951	$ 296
Change in Assumptions	19,058	--
Net difference between projected and actual earnings on pension plan investments	5,284	--
Employer contributions paid by Commission subsequent To the measurement date	16,957	--
TOTAL	$ 47,250	$ 296

The $16,957 reported as deferred outflows of resources related to the pension resulting from the Commission's contributions to the County's plan subsequent to the measurement date will be recognized as a reduction in the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pension will be recognized as pension expense as follows:

Years Ending June 30	
2019	12,691
2020	18,060
2021	2,256
2022	(3,010)
Thereafter	-
Total	$ 29,997

Note 7: Pension Obligation Including GASB Statement No. 68 (continued)

Change of Assumptions

In 2017 the accounting discount rate was reduced from 7.65 percent to 7.15 percent.

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the current 7.15 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called “GASB Crossover Testing Report” that can be obtained at CalPERS’ website under the GASB 68 section.

The long term expected rate of return on pension plan investments was determined using a building block method in which best estimates ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS staff took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Taking into account historical returns of all the Public Employees Retirement Funds’ asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown below was adopted by the Board effective July 1, 2016.

Note 7: Pension Obligation Including GASB Statement No. 68 continued

Long-Term Expected Real Rate of Return:

Asset Class	Target Allocation	Real Return, Years 1 -10 (A)	Real Return 11+ (B)
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	0.80%	2.27%
Inflation Linked Securities	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%
	100.00%		

(A) An expected inflation of 2.5% used for this period
(B) An expected inflation of 3.0% used for this period

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 Lake's financial statements may be obtained by contacting the County of Lake, 255 North Forbes St., Lakeport, CA 95453.

Actuarial Assumptions

The total pension liabilities in the June 30, 2016 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	Varies by entry age and service
Investment Rate of Return	7.15%

(1) Net of pension plan investment expenses, including inflation

The mortality table used was developed based on CalPERS's specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience study report available on CalPERS website at www.calpers.ca.gov .

All other actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Note 8: Risk Management

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

Note 9: Section 30131.4 of the California Tax & Revenue Code Certification

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

Note 10: Retiree Medical Plan – Other Postemployment Benefits

Plan Description. The Commission is a participant in the County of Lake's Retiree Medical Plan (the Plan). The County of Lake Retiree Healthcare Plan (the Plan) provides postemployment medical and dental insurance to retired employees through a single-employer defined benefit OPEB plan. Medical insurance benefits are administered by the California Public Employee's Retirement System, (CalPERS), an agent multiple-employer public employee retirement system that acts as a common investment and administrative agent for participating public entities within the State of California, in accordance to the Public Employees Medical and Hospital Care Act (PEMHCA).

Because the employees are employees of the County and not the Commission directly the County reports on these benefits in the County's annual financial statements.

Note 11: Subsequent Event

Events subsequent to June 30, 2018 have been evaluated through November 6, 2018, the date at which the Commission's audited financial statements were available to be issued. No events requiring disclosure have occurred through this date.

REQUIRED SUPPLEMENTARY INFORMATION

FIRST 5 LAKE
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET TO ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

	GENERAL PROGRAM ORIGINAL BUDGET	GENERAL PROGRAM FINAL BUDGET	GENERAL PROGRAM ACTUAL	VARIANCE WITH FINAL BUDGET UNDER/(OVER)
REVENUES				
Annual Tobacco Tax Income	$ 625,000	$ 625,000	$ 625,000	$ -
IMPACT	224,341	224,341	142,801	81,540
County DBH - Mother-Wise	65,000	65,000	65,000	-
Interest	2,400	2,400	3,919	(1,519)
SMIF	-	-	613	(613)
Other Income	-	5,000	5,756	(756)
TOTAL REVENUES	**916,741**	**921,741**	**843,089**	**78,652**
Expenditures:				
Personnel Costs				
Personnel	103,954	103,954	105,456	(1,502)
Personnel Benefits	38,094	38,094	38,525	(431)
Total Personnel Costs	142,048	142,048	143,981	(1,933)
Other Operating Costs				
Communications	1,420	1,420	1,388	32
Household Expense	100	100	100	-
Insurance	2,133	2,133	2,133	-
Memberships and Subscriptions	3,825	3,825	3,725	100
Office Supplies	1,850	2,150	2,215	(65)
Rents for Occupancy	6,720	9,280	9,280	-
Special Departmental Expense	31,854	24,534	24,063	471
Transportation	4,000	6,020	5,915	105
Utilities	6,300	6,300	3,317	2,983
Publication	500	650	772	(122)
County Administration Costs	3,000	3,000	2,500	500
Total Other Operating Costs	61,702	59,412	55,408	4,004
Professional Fees and Contracts				
Audit	6,200	6,200	6,200	-
Evaluation & Assessment	25,000	31,720	32,640	(920)
Mini-Grants and Special Projects	-	26,041	26,041	-
Motherwise Program	65,000	65,000	67,883	(2,883)
Oral Health	69,705	69,705	69,470	235
Nurturing Parenting	57,054	57,054	61,743	(4,689)
IMPACT	214,994	214,994	125,001	89,993
Parent Engagement "Bloom"	35,000	35,000	43,592	(8,592)
Easter Seals of the Bay Area	70,500	70,500	70,500	-
Clearlake Early Learning Center	14,000	14,000	15,433	(1,433)
AmeriCorps	117,538	117,538	106,921	10,617
Imagination Library	47,500	47,500	44,000	3,500
Total Professional Fees and Contracts	722,491	755,252	677,691	63,444
Total Expenditures	**926,241**	**956,712**	**877,080**	**79,632**
Excess of Revenues over Expenditures				
Change in Fund Balances	(9,500)	(34,971)	(33,991)	
Fund Balance				
Beginning of the year	704,729	704,729	704,729	
End of the year	$ 695,229	$ 669,758	$ 670,738	

See Accompanying Independent Auditor's Report
and Notes to Required Supplementary Information

BUDGET AND BUDGETARY ACCOUNTING

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

After the budget is approved, the Commission's executive director is authorized to adjust a line item appropriation in an amount not to exceed 15% of the approved appropriation. All amounts greater than 15% require Commission approval. All such changes must be within the revenues and reserves estimated as available in the final budget or within revised revenue estimates as approved by the Commission.

An operating budget is adopted each fiscal year in the modified accrual basis of accounting. Additionally, encumbrance accounting is utilized to assure effective budgetary control. Encumbrances outstanding at year-end represent the estimated amount of the expenditures ultimately to result if the unperformed contracts in process at year-end are completed or purchase commitments satisfied. Such year-end encumbrances are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent years and included in the subsequent years' budgets. Unencumbered appropriations lapse at year-end.

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

FIRST 5 LAKE
SCHEDULE OF THE COMMISSION'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY - CALPERS
YEAR ENDED JUNE 30, 2018

Commission's proportion share of the net pension liability (asset)	0.2198%
Commission's proportionate share of the net pension liability (asset)	$140,485
Commission's covered-employee payroll	$105,456
Commission's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	75.07%

FIRST 5 LAKE
SCHEDULE OF THE COMMISSION'S CONTRIBUTIONS - CALPERS
YEAR ENDED JUNE 30, 2018

Contractually required contributions	$	16,957
Contributions in relation to the contractually required contribution		(16,957)
Contribution Deficiency (Excess)	$	-
Commission's covered employee payroll	$	105,456
Contributions as a percentage of covered-employee payroll		16.08%

See Accompanying Independent Auditor's Report

FIRST 5 LAKE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2018

1.) Changes of Benefit Terms

Public agencies who participate in CalPERS can make changes to their plan provisions, and such changes occur on an ongoing basis. A summary of the plan provisions that were used for a specific plan can be found in the plan's annual valuation report. The report was obtained by the County of Lake.

OTHER SUPPLEMENTARY INFORMATION

FIRST 5 LAKE
SCHEDULE OF EXPENDITURES BY FUND SOURCE AND NET POSITION OF CALIFORNIA CHILDREN AND FAMILIES COMMISSION FUNDS FOR FIRST 5 PROGRAMS AND ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

		Revenue F5CA Funds	Expenditures	Change in Net Position	Net Position Beginning of Year	Net Position End of Year
IMPACT	F5CA Program Funds	$ 135,798	$ 135,798	$ --	$ --	$ --
Small County Augmentation		$ 204,175	$ 204,175	$ --	$ --	$ --
Total F5CA Funds		$ 339,973	$ 339,973	$ --	$ --	$ --

FIRST 5 LAKE
SCHEDULE OF THE STATUS OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2018

2017-001 Reliance upon Auditor for Footnote Disclosures

Condition: Management relies on the auditor to suggest and draft the footnote disclosures for the financial statements.

Criteria: Auditing Standards state that the auditor may not be part of the Commission's internal control system; specifically someone from the Commission or contracted by the Commission must be sufficiently knowledgeable in generally accepted accounting principles (GAAP) to draft financial statement disclosures in compliance with GAAP including pronouncements from the Government Accounting Standards Board (GASB).

Cause: The Commission does not have an employee familiar with either the disclosure requirements for generally accepted accounting principles or GASB Statements.

Effect: It was necessary for the Commission to rely upon the auditor for adequate disclosures.

Recommendation: We recommend that management consider the cost benefit of hiring an accountant familiar with generally accepted accounting principles or hiring an independent CPA firm to compile full disclosure financial statements whenever it is necessary to issue financial statements to third party users that require this conformity prior to the audit of those financial statements.

Status: Corrected.

Jensen Smith
CERTIFIED PUBLIC ACCOUNTANTS, INC.

Making a Lasting Contribution
To our Clients, To our Community, To our Profession

P.O. Box 160
Lincoln, CA 95648
Office (916) 434-1662
Fax (916) 434-1090

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

Board of Commissioners
First 5 Lake
Lakeport, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of First 5 Lake (Commission), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated November 6, 2018.

<u>Internal Control Over Financial Reporting</u>
In planning and performing our audit, we considered the Commission internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express and opinion on the effectiveness of the Commission internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free 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.

Jensen Smith

Jensen Smith
Certified Public Accountants, Inc.
Lincoln, California
November 6, 2018

Jensen Smith
CERTIFIED PUBLIC ACCOUNTANTS, INC.

Making a Lasting Contribution
To our Clients, To our Community, To our Profession

P.O. Box 160
Lincoln, CA 95648
Office (916) 434-1662
Fax (916) 434-1090

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Commissioners
First 5 Lake
Lakeport, California

Compliance
We have audited First 5 Lake's (Commission) compliance with the requirements specified in the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, issued by the State Controller's Office, applicable to the Commission's statutory requirements identified below for the year ended June 30, 2018.

Management's Responsibility
Compliance with the requirements referred to above is the responsibility of the Commission's management.

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

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

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

Opinion

In our opinion, First 5 Lake (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, 2018.

Jensen Smith

Jensen Smith
Certified Public Accountants, Inc.
Lincoln, California
November 6, 2018

Jensen Smith
CERTIFIED PUBLIC ACCOUNTANTS, INC.

Making a Lasting Contribution
To our Clients, To our Community, To our Profession

P.O. Box 160
Lincoln, CA 95648
Office (916) 434-1662
Fax (916) 434-1090

November 6, 2018

Board of Commissioners
First 5 Lake
Lakeport, California

Dear Ladies and Gentlemen,

The audit progressed smoothly this year.

In planning and performing our audit of the financial statements of First 5 Lake for the year ended June 30, 2018, we considered First 5 Lake's internal control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control.

We previously reported on First 5 Lake's internal control in our report dated November 6, 2018. This letter does not affect our report dated November 6, 2018, on the financial statements or internal control of First 5 Lake.

We want to thank your staff for their assistance in completing the audit and their quick responses to our inquiries. We were delighted to see your continued contributions to services for children ages 0-5 and we wish you success in the 2018-2019 fiscal year.

Sincerely,

Jensen Smith

Jensen Smith
Certified Public Accountants, Inc.