FIRST 5 SACRAMENTO COMMISSION

Independent Auditor's Reports,
Basic Financial Statements, and
Required Supplementary Information

For the Fiscal Year Ended June 30, 2020

Certified
Public
Accountants

FIRST 5 SACRAMENTO COMMISSION
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

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Independent Auditor's Report

Board of Commissioners
First 5 Sacramento Commission
Sacramento, California

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

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 the general fund of the Commission, as of June 30, 2020, and the respective changes in financial position and the budgetary comparison for the general fund for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Macias Gini & O'Connell LLP
500 Capitol Mall, Suite 2200
Sacramento, CA 95814

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedule of the Commission's proportionate share of the County's net pension liability, the schedule of contributions – pension, and the schedule of the Commission's proportionate share of the County's total OPEB liability, 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 September 24, 2020, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Commission's 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.

Macias Gini & O'Connell LLP

Sacramento, California
September 24, 2020

FIRST 5 SACRAMENTO COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

First 5 Sacramento Commission (Commission) presents its financial statements under the reporting model required by accounting principles generally accepted in the United States of America (GAAP). Certain comparative information between the current year and the prior year is required to be presented in Management's Discussion and Analysis (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, 2020. It should be read in conjunction with the Commission's financial statements.

FINANCIAL HIGHLIGHTS

During the fiscal year ending June 30, 2020, the Commission implemented the second year of programs outlined in the 2018 Strategic Plan, which covers fiscal years 2018-19 through 2020-21. This section highlights financial activities for the fiscal year 2019-20:

- Total assets decreased by $3,507,276 (10.4%) from the prior year as a direct result of the Commission's decision to spend down its reserves as approved in the three-year strategic plan.

- Net position decreased by $4,145,891 (15.1%) from $27,538,308 in fiscal year 2018-19 to $23,392,417 in the current year.

OVERVIEW OF THE BASIC 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 basic financial statements.

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's business.

The *Statement of Net Position* presents information on all of the Commission's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of the improvement or deterioration in the financial position of the Commission.

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). The government-wide financial statements are shown on the right hand columns of pages 7 and 8 of this report.

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 spendable 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 of resources, liabilities, deferred inflows of resources, and net position as of June 30, 2020 and 2019.

Summary of Statements of Net Position

	June 30, 2020	June 30, 2019	Variance	Percent Change
Assets				
Current and other assets	$ 26,892,175	$ 28,486,284	$ (1,594,109)	-5.6%
Due from government agencies	3,190,987	5,104,154	(1,913,167)	-37.5%
Total Assets	30,083,162	33,590,438	(3,507,276)	-10.4%
Deferred outflows of resources	634,030	731,732	(97,702)	-13.4%
Liabilities				
Current and other liabilities	3,226,574	2,545,788	680,786	26.7%
Due to government agencies	1,495,634	1,747,476	(251,842)	-14.4%
Net pension liability	1,725,387	1,821,448	(96,061)	-5.3%
Total OPEB liability	121,403	182,410	(61,007)	-33.4%
Noncurrent liability	212,712	153,505	59,207	38.6%
Total Liabilities	6,781,710	6,450,627	331,083	5.1%
Deferred inflows of resources	543,065	333,235	209,830	63.0%
Net Position:				
Unrestricted	$ 23,392,417	$ 27,538,308	$ (4,145,891)	-15.1%

Current and other assets decreased by $1,594,109 due to planned reductions of reserves over the current Strategic Plan.

Due from government agencies decreased by $1,913,167 due to the timing of Prop 10 revenues collected, along with the timing of program revenues collected for the CalWORKs Home Visitation Program (HVP).

Deferred outflows of resources decreased by $97,702 mostly due to the decrease in changes in assumptions related to pensions.

Total liabilities increased by $331,083 mostly due to an increase in current and other liabilities of $680,786 and a decrease in due to government agencies of $251,842 in the current year that was related to timing of claims and warrants payable.

For the year ended June 30, 2020, current year operations decreased the Commission's net position by $4,145,891.

GOVERNMENT-WIDE FINANCIAL ANALYSIS (CONTINUED)

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, 2020 and 2019.

Summary of Statements of Activities

	June 30, 2020	June 30, 2019	Variance	Percent Change
Revenues				
Program revenue	$ 17,517,972	$ 15,545,633	$ 1,972,339	12.7%
General revenues	666,391	982,934	(316,543)	-32.2%
Total revenues	18,184,363	16,528,567	1,655,796	10.0%
Expenses				
Child development services	22,330,254	20,681,771	1,648,483	8.0%
Changes in net position	(4,145,891)	(4,153,204)	7,313	-0.2%
Net position beginning of period	27,538,308	31,691,512	(4,153,204)	-13.1%
Net position end of period	$ 23,392,417	$ 27,538,308	$ (4,145,891)	-15.1%

The Commission recognized a total of $17,517,972 in program revenue from First 5 California, the State of California, and the County of Sacramento (County) reflecting a 12.7 percent increase in tobacco tax revenue, Medi-Cal Administrative Activities (MAA) revenue, other state operating grant revenue, and County operating grant revenue for fiscal year 2019-20. This increase was mostly due approximately an additional $1.4 million received in operating grants for the HVP program as well as a one-time $300,000 grant for the Perinatal Equity Initiative (PEI).

General revenues decreased by $316,543 mostly due to a decrease in interest revenue compared to fiscal year 2019.

Expenses had an overall increase of $1,648,483 mostly due to increases in the CalWORKS Home Visiting Program.

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 time after the end of the year. Therefore, certain federally funded revenue previously recognized when invoiced at the government-wide level, is a deferred inflow of resources 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 financial statements.

ANALYSIS OF THE GOVERNMENTAL FUND STATEMENTS (CONTINUED)

As of the end of fiscal year 2019-20, the Commission's general fund reported a total ending fund balance of $23,991,842, a decrease of $4,086,360 (14.6%) in comparison with the prior fiscal year balance of $28,078,202.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

- Budgeted program revenues had an overall favorable variance of $315,694 primarily due to Prop 10 tobacco tax. Interest and other income had a favorable variance of $440,391 (194.9%) due to an increase of return rates during the fiscal year greater than anticipated as well as the fair value adjustment per GASB 31. County operating grants had an unfavorable variance of $1,270,104 (27.1%) due to the CalWORKS HVP program, which is still in the implementation phase and increasing service delivery, however, the program was unable to utilize all funding available for the project.
- Budgeted program expenditures were underspent by $3,736,945 primarily due to the Home Visitation Initiative (HVI) program and Effective Parenting result areas. CalWORKs HVI was underspent by $1,746,619 (37.3%) and Effective Parenting was underspent by $675,351 (8.0%).

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Proposition 10 funding is expected to stabilize near the natural annual decreasing rate of 2.5% after years of volatility caused by the passage of Proposition 56, which increased excise taxes on tobacco products. Sustainability efforts has led to the Commission engaging a home visiting program funded through the California Department of Social Services and passed on to community-based organizations to provide the services. The Commission retains a negotiated amount of the funds to reimburse for expenses. In fiscal year 2019-20 $2,936,824 was spent providing home visiting services. In fiscal year 2020-21 funding is anticipated to be $4,688,418.

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
GOVERNMENTAL FUND BALANCE SHEET AND STATEMENT OF NET POSITION
JUNE 30, 2020

	General Fund	Adjustments (Note 3)	Statement of Net Position
Assets:			
Cash and investments	$ 26,892,175		$ 26,892,175
Due from County of Sacramento	224,111		224,111
Due from other government agencies	2,966,876		2,966,876
Total assets	$ 30,083,162		30,083,162
Deferred outflows of resources:			
Deferred outflows related to OPEB		$ 5,042	5,042
Deferred outflows related to pensions		628,988	628,988
Total deferred outflows of resources		634,030	634,030
Liabilities:			
Accounts payable and accrued expenses	$ 3,200,917		3,200,917
Due to County of Sacramento	205,600		205,600
Due to other government agencies	1,290,034		1,290,034
Net pension liability		1,725,387	1,725,387
Total OPEB liability		121,403	121,403
Long term liabilities:			
Due within one year		25,657	25,657
Due after one year		212,712	212,712
Total liabilities	4,696,551	2,085,159	6,781,710
Deferred inflows of resources:			
Unavailable revenue-state and federal grants	1,394,769	(1,394,769)	
Deferred inflows related to OPEB		76,452	76,452
Deferred inflows related to pensions		466,613	466,613
Total deferred inflows of resources	1,394,769	(851,704)	543,065
Fund balance/Net position:			
Fund balance:			
Assigned	12,102,428	(12,102,428)	
Unassigned	11,889,414	(11,889,414)	
Total fund balance	23,991,842	(23,991,842)	
Total liabilities, deferred inflows of resources, and fund balance	$ 30,083,162		
Net position:			
Unrestricted		$ 23,392,417	$ 23,392,417

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

FIRST 5 SACRAMENTO COMMISSION
GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE AND STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	General Fund	Adjustments (Note 3)	Statement of Activities
Expenditures/expenses:			
Child development services	$ 22,148,667	$ 181,587	$ 22,330,254
Program revenues:			
Operating grants and contributions:			
Prop 10 Tobacco Tax	12,879,926		12,879,926
State operating grants	1,046,128	122,056	1,168,184
County operating grants	3,418,339		3,418,339
Federal operating grants	51,523		51,523
Total program revenues	17,395,916	122,056	17,517,972
Net expense			(4,812,282)
General revenues:			
Interest and other income	666,391		666,391
Change in fund balance/net position	(4,086,360)	(59,531)	(4,145,891)
Beginning fund balance/net position	28,078,202	(539,894)	27,538,308
Ending fund balance/net position	$ 23,991,842	$ (599,425)	$ 23,392,417

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

FIRST 5 SACRAMENTO COMMISSION
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	Budgeted Amounts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	(Negative)
Revenues:				
Prop 10 Tobacco Tax	$ 11,437,170	$ 11,437,170	$ 12,879,926	$ 1,442,756
State operating grants	1,344,000	1,344,000	1,046,128	(297,872)
County operating grants	3,269,830	4,688,443	3,418,339	(1,270,104)
Federal operating grants	51,000	51,000	51,523	523
Interest and other income	226,000	226,000	666,391	440,391
Total revenues	16,328,000	17,746,613	18,062,307	315,694
Expenditures:				
Child development services:				
Program by result area:				
Health	1,401,264	1,651,157	1,531,867	119,290
Dental	408,735	1,734,456	1,550,372	184,084
Nutrition	806,863	806,827	754,324	52,503
Early Care	1,116,895	1,116,880	1,021,118	95,762
School Readiness	4,807,213	4,787,031	4,141,951	645,080
Effective Parenting	8,423,806	8,423,719	7,748,368	675,351
CalWorks HVI	3,269,830	4,683,443	2,936,824	1,746,619
Community Connections	417,489	417,345	396,418	20,927
Policy, Advocacy, and Sustainability	215,194	215,079	164,410	50,669
Program Management	336,852	336,658	311,545	25,113
Evaluation	570,943	570,834	489,883	80,951
Administrative costs	1,135,746	1,141,733	1,101,587	40,146
Total expenditures	22,910,830	25,885,162	22,148,667	3,736,495
Changes in fund balance	(6,582,830)	(8,138,549)	(4,086,360)	4,052,189
Beginning fund balance	28,078,202	28,078,202	28,078,202	
Ending fund balance	$ 21,495,372	$ 19,939,653	$ 23,991,842	$ 4,052,189

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

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 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 Social Services Agency, the Superintendent of the Sacramento County Education Office (SCOE), and the County Health Officer. The remaining three 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 Commission are reported in the financial statements, including deferred inflows and outflows of resources.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. With this measurement focus, all assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position associated with the operations/activities of the Commission are included in 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, 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 also include tobacco taxes. 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 change 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 are 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 change in fund balance. The two statements are titled the governmental fund balance sheet and statement of net position and the governmental fund revenues, expenditures, and change in fund balance and statement of activities. An explanation of the reconciliation between the statements is detailed in Note 3.

Net Position and Fund Balance
Net Position in the government-wide financial statements at June 30, 2020 consists of the following:

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

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

Fund balance refers to the difference between assets, liabilities, and deferred inflows of resources in the governmental fund balance sheet. Fund balance is categorized as a hierarchy based largely on the extent to which a government is bound to observe spending constraints. Categories included in 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.

- *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 balance.

<u>Budgetary Principles</u>
The Commission is required by County ordinance to prepare a budget each year based on estimates of revenues and expected expenditures. On August 5, 2019, the Commission adopted its final budget of expenditures for the fiscal year ended June 30, 2020. 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 – general fund 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.

<u>Cash and Investments</u>
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.

<u>Deferred Outflows/Inflows of Resources</u>
In addition to assets, the statement of net position reports 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 (expense) until the event occurs. The Commission reports deferred outflows related to pensions and OPEB.

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

In addition to liabilities, the statement of net position and balance sheet report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources,* represents an acquisition of net position or fund balance that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Commission has one item which arises only under the modified accrual basis of accounting. The item, unavailable revenue, is reported only in the general fund, and represents amounts deferred, which will be recognized as an inflow of resources in the period that the amounts become available. In addition, the statement of net position reports deferred inflows related to pensions and OPEB.

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 all employees in the Management (032) representation unit up to half of their sick leave at retirement.

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.

Pension and Other Postemployment Benefits Plans

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. The Retiree Healthcare Plan, an other postemployment benefits (OPEB) plan, does not have a trust or equivalent arrangement and is funded on a pay-as-you-go basis.

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.

NOTE 2 – CASH AND INVESTMENTS

The Commission maintains 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 based upon the relationship of its average daily cash balance to the total of the pooled account.

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

	June 30, 2020
Cash in County Treasury	$ 26,892,175

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 U.S Securities and Exchange Commission (SEC) as an investment company.

The following table identifies investment types that are authorized by the California Government Code (Code) Section 53601 and the County's Investment Policy (Policy).

Authorized Investment Type	Maximum Maturity (per Code/per policy)	Percentage of Portfolio (per Code/per policy)	Maximum Investment in One Issuer (per Code/per policy)	Minimum Rating Per S&P/Moody's/Fitch (per policy)
U.S. Treasury and Agency Obligations	5 years	not specified/100%	--	A-1/P-1/F1*
Washington Supranational Obligations	5 years	30%	10%	A-1/P-1/F1*
Municipal Notes	5 years	not specified/80%	10%	SP-1/M1G1/FI
Registered State Warrants	5 years	not specified/80%	10%	--
Bankers' Acceptances	180 days	40%	10%	A-1/P-1/F1*
Commercial Paper	270 days	40%	10%	A-1/P-1/F1*
Negotiable Certificates of Deposit	5 years/180 days	30%	10%	--
CRA Bank Deposit/Certificates of Deposit	not specified/1 year	not specified/30%	10%	--
Repurchase Agreements	1 year	not specified/30%	10%	A-1/P-1/F1*
Reverse Repurchase Agreements	92 days	20%	10%	A-1/P-1/F1*
Medium-Term Corporate Notes	5 years/180 days	30%	10%	A-1/P-1/F1*
Collateralized Mortgage Obligations	5 years/180 days	20%	10%	A-1/P-1/F1*
Local Agency Investment Fund	not specified	None	--	A-1/P-1/F1*
Money Market Mutual Funds	not specified	20%	10%	A-1/P-1/F1*

*Per Investment Policy, the issuers short-term credit ratings shall be at or above A-1 by Standard and Poor's (S&P), P-1 per Moody's, and if available, F1 per Fitch, and the issuer's long-term credit ratings shall be at or above A by (S&P), A2 by Moody's , and A by Fitch.

In addition to the restrictions and guidelines cited in the Government Code, the County Board of Supervisors annually adopts an "Annual Investment Policy for the Pooled Investment Fund" (Investment Policy). The Investment Policy is prepared by the Department of Finance and is based on criteria cited in the Government Code. The Investment Policy adds further specificity to investments permitted, reducing concentration within most permitted investment types and reducing concentration of investments with any broker, dealer or issuer.

NOTE 2 – CASH AND INVESTMENTS (CONTINUED)

The County was in full compliance with its own more restrictive Investment Policy, and therefore complied with the above-cited Government Code sections.

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

Interest Rate Risk – This is the risk that changes in interest rates will adversely affect the fair value of an investment. Under the County's Investment Policy, the dollar-weighted average maturity on all securities shall be equal to or less than three years. As of June 30, 2020, of the County's $5.0 billion in investments held by the Treasurer, 71 percent of the investments have a maturity of six months or less. The weighted average days to maturity for the entire portfolio was 293 days.

Credit Risk – This is the risk that an issuer or other counterparty to a debt instrument will not fulfill its obligations. The County is permitted to hold investments of issuers with a short-term rating of superior capacity and a minimum long-term rating of upper medium grade by the top two nationally recognized statistical rating organizations (rating agencies). For short-term rating, the issuers' rating must be A-1 and P-1, and the long-term rating must be A and A2, respectively by Standard & Poor's and Moody's rating agencies. In addition, the County is permitted to invest in the State's Local Agency Investment Fund, collateralized certificates of deposits and notes issued by the County that are not rated.

Custodial Credit Risk – This is the risk that in the event a financial institution or counterparty fails, the County would not be able to recover the value of its deposits and investments. As of June 30, 2020, the County has cash deposits with financial institutions in excess of the federal depository insurance limits of $250,000. Banks are required to pledge securities as collateral. Investments are held with a safekeeping agent in the name of the County.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the amount of investment in a single issuer. U.S. Treasury and agency securities are considered to be of the best quality grade, as such, there is no limitation on amounts invested in U.S. Treasury or agency securities per California Government Code. Investments in any one issuer (other than U.S. Treasury securities, money market mutual funds and external investment pools) that represent 5 percent or more of the total County investments.

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.

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

Total fund balances of the Commission's governmental funds of $23,991,842 differs by $599,425 from net position of governmental activities of $23,392,417 primarily from the long-term economic focus in the government-wide statement of net position versus the current financial resources focus in the governmental fund balance sheet. 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)	$ 628,988
Deferred outflows related to OPEB (Note 6)	5,042
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 (Note 5)	(1,725,387)
Compensated absences (Note 7)	(238,369)
Other postemployment benefits (OPEB) liability (Note 6)	(121,403)
Deferred inflows of resources represent 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 (Note 5)	(466,613)
Deferred inflows of resources related to OPEB (Note 6)	(76,452)
Certain revenues in the governmental funds are unavailable 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.	1,394,769
Total adjustment	$ (599,425)

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

The change in fund balance for the General Fund, ($4,086,360), differs from the change in net position for governmental activities, ($4,145,891), reported in the statement of activities and governmental fund revenues, expenditures, and change in fund balance by $59,531.

Explanation of certain differences between the governmental fund statement of revenues, expenditures, and change in fund balance 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 expenditures in governmental funds.	$ (31,123)
Governmental funds report amounts paid by the Commission for OPEB as expenditures. However, in the statement of activities, OPEB expense is measured as the change in the total OPEB liability and the amortization of deferred outflows and inflows related to OPEB. This amount represents the net change in OPEB related amounts.	(1,584)
Governmental funds report pension contributions as expenditures. However, in the statement of activities, pension expense is measured as the change in the net pension liability and the amortization of deferred outflows and inflows related to pensions. This amount represents the net change in pension related amounts.	(148,880)
Net adjustments to expenditures	(181,587)
The change in unavailable Medi-Cal Administrative Activities (MAA) revenue reported in the statement of activities do not provide current financial resources and are not reported as revenues in governmental funds.	122,056
Total adjustment	$ (59,531)

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 2019-20 and amounts related to the CalWORKs Home Visiting Program (HVP).

Amounts due for the fiscal year 2019-20 from other government agencies represent distributions from the State First 5 for Proposition 10 funds and other matching grants, as well as amounts due from the state for MAA. Amounts due to other government agencies include contract payments for program related contracts.

NOTE 4 – DISAGGREGATED DUE TO/FROM BALANCES (CONTINUED)

Due To/From the County of Sacramento	Due To:	Due From:
County of Sacramento, Department of Finance	$ 54,501	$ 224,111
County of Sacramento, DHHS	151,099	
Total Due To/From the County of Sacramento	$ 205,600	$ 224,111
Due To/From Other Government Agencies		
First 5 California		$ 1,572,107
State of California		1,394,769
Sacramento County Office of Education	$ 356,343	
Elk Grove Unified School District	118,181	
Galt Joint Union School District	86,682	
Natomas Unified School District	116,735	
River Delta Unified School District	86,046	
Robla Elementary School District	56,104	
Sacramento City Unified School District	237,409	
San Juan Unified School District	100,876	
Twin Rivers Unified School District	131,658	
Total Due To/From Other Government Agencies	$ 1,290,034	$ 2,966,876

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 September 27, 1981 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 January 1, 2012 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.

NOTE 5 – RETIREMENT PLAN (CONTINUED)

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.

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 SCERS'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 SCERS is obligated by state law to make all required contributions to the Plan and depending on the participating employer and their employees' tiers. The average employer contribution rate for the fiscal year ended June 30, 2020 (based on the June 30, 2019 valuation) was 19.56% of compensation. The Commission's proportionate share of the County's contribution to the Plan was $264,518 for the fiscal year ended June 30, 2020.

NOTE 5 – RETIREMENT PLAN (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2020, the Commission reported a liability of $1,725,387 for its proportionate share of the County's net pension liability. The net pension liability was measured as of June 30, 2019, 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 fiscal year 2019 actual contributions to the County's pension plan relative to the total contributions of the County as a whole. At June 30, 2019, the Commission's proportion was 0.0832 percent, which was a decrease of 0.0176 percent from its proportion measured as of June 30, 2018.

For the fiscal year ended June 30, 2020, the Commission recognized pension expense of $409,696. At June 30, 2020, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 71,723	$ 17,421
Net differences between projected and actual investment earnings on pension plan investments		253,855
Changes in assumptions	262,644	
Changes in proportion	30,103	195,337
Employer contributions paid by the Commission to County subsequent to the measurement date	264,518	
Total	$ 628,988	$ 466,613

The $264,518 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 during the year ended June 30, 2021.

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	
2020	$ (26,394)
2021	(26,394)
2022	(26,393)
2023	(22,962)
Total	$ (102,143)

NOTE 5 – RETIREMENT PLAN (CONTINUED)

Actuarial assumptions - The Commission's proportion of the County's total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial method and assumptions, applied to all periods included in the measurement:

Actuarial valuation date	June 30, 2019
Actuarial cost method	Entry age actuarial cost method
Actuarial Assumptions:	
Investment rate of return	7.00%, net of pension plan investment expense, including inflation
Inflation	3.00%
Salary increases	4.50% to 10.75%, varying by service, including inflation

Mortality rates for miscellaneous members used in the latest actuarial valuation dated June 30, 2019 are based on the Headcount-Weighted healthy annuitant RP-2014 mortality table projected generationally with the two-dimensional scale MP-2016 set forward one year for males and no age adjustment for females. For Miscellaneous members that are disabled, the ages are set forward seven years for males and eight years for females.

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 inflation) are developed for each major asset class. These returns 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, by adding expected inflation and subtracting expected investment expenses and a risk margin.

	As of June 30, 2019 Valuation Date	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
U.S. Large Cap Equity	17.00%	5.61%
U.S. Small Cap Equity	4.00%	6.37%
International Developed Equity	16.00%	6.96%
Emerging Markets Equity	4.00%	9.28%
High Yield Bonds	1.00%	3.65%
Bank Loans	1.00%	2.96%
Growth Oriented Abs. Return	3.00%	4.97%
Private Equity	9.00%	8.70%
Private Credit/Private Debt	4.00%	5.10%
Core/Core Plus Bonds	10.00%	1.06%
Global Bonds	3.00%	0.07%
U.S. Treasury	5.00%	0.16%
Diversifying Abs. Return	7.00%	3.04%
Private Real Estate	7.00%	4.37%
Private Assets	7.00%	7.74%
Commodities	2.00%	3.76%
Total	100.00%	

NOTE 5 – RETIREMENT PLAN (CONTINUED)

Discount rate - The discount rate used to measure the Total Pension Liability (TPL) was 7.00% as of June 30, 2019. 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. 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 (NPL) of the County as of June 30, 2019, calculated using the discount rate of 7.00%, as well as what the Commission's proportionate share of the NPL would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate.

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Commission's proportionate share of the County's net pension liability	$ 3,089,563	$ 1,725,387	$ 610,863

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 POSTEMPLOYMENT 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 County has established a Retiree Healthcare Plan (HC Plan), and participates in a single-employer plan and it does not issue a publicly available report. In September 2018 and September 2019, the Board of Supervisors approved the Retiree Medical and Dental Insurance Program Administrative Policy for calendar years 2019 and 2020, respectively. The County provides access to group medical insurance and dental insurance, medical and dental offset payments to a specific group of eligible retirees as a result of a settlement. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75. For financial reporting purposes, the Commission reports a proportionate share of the County's collective total OPEB liability, OPEB expense, and deferred inflows and outflows of resources related to OPEB. Accordingly, the disclosures and required supplementary information have been reported for the Commission as a cost-sharing participant.

NOTE 6 – OTHER POSTEMPLOYMENT HEALTH CARE BENEFITS (OPEB) (CONTINUED)

Benefits Provided - 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, (2) they were enrolled in the annual plan previously approved by the County (continuous coverage), 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. Total benefits paid by the Commission during the year ended June 30, 2020 is $5,042.

At June 30, 2019, there were 12 active employees covered by the HC Plan.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - At June 30, 2020, the Commission reported a liability of $121,403 for its proportionate share of the total OPEB liability. The total OPEB liability was measured as of June 30, 2019, and the total OPEB liability used to calculate the OPEB liability was determined by an actuarial valuation as of June 30, 2019, The Commission's proportion of the total OPEB liability was based on the total full-time equivalents (FTE) of the Commission relative to the total FTEs of the County. At June 30, 2019, the Commission's proportion was 0.1050 percent, which was a decrease of 0.0091 percent from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the Commission recognized OPEB expense of $7,753 At June 30, 2020, the Commission reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Amounts paid for OPEB subsequent to measurement date	$ 5,042	
Changes in proportion		$ 15,866
Differences expected-actual		6,148
Changes in assumptions		54,438
Total	$ 5,042	$ 76,452

$5,042 reported as deferred outflows of resources related to OPEB resulting from amounts paid by the Commission subsequent to the measurement date will be recognized as a reduction of the total OPEB liability during the fiscal year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30	
2021	$ (11,382)
2022	(11,382)
2023	(11,382)
2024	(11,382)
2025	(11,382)
Thereafter	(19,542)
Total	$ (76,452)

NOTE 6 – OTHER POSTEMPLOYMENT HEALTH CARE BENEFITS (OPEB) (CONTINUED)

Actuarial Assumptions - The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial method and assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Valuation Date	June 30, 2019
Contribution Policy	No pre-funding
Discount Rate	3.50% at June 30, 2019 using the Bond Buyer 20-Bond GO Index
Inflation	2.75%
Medical Trend	Non-Medicare - 7.5% for 2021, decreasing to an ultimate rate of 4.0% in 2076
Mortality, Retirement, Disability, Termination	SCERS 2013-2016 Experience Study
Mortality Imporovement	Post-retirement mortality projected fully generational with Scale MP-2019
Salary Increase	3%
Healthcare Participation	45%

Discount Rate - The discount rate used to measure the total OPEB liability was 3.5 percent for the plan and was based on the Bond Buyer 20-Bond GO Index.

Changes in the total OPEB liability - The changes in the total OPEB liability are as follows:

Balance at June 30, 2019	$	159,891,000
Changes recognized for the measurement period:		
Service Cost		11,710,000
Interest		6,515,000
Actual vs. expected experience		(6,716,000)
Changes of assumptions		(49,277,000)
Benefit Payments		(6,500,000)
Net Changes		(44,268,000)
Balance at June 30, 2020	$	115,623,000
First 5's proportion of the total OPEB Liability		0.1050%
First 5's proportionate share of the OPEB liability	$	121,403

NOTE 6 – OTHER POSTEMPLOYMENT HEALTH CARE BENEFITS (OPEB) (CONTINUED)

Sensitivity of the Commission's Proportionate Share of the Total OPEB Liability to Changes in the Discount Rate - The following presents the Commission's proportionate share of the total OPEB liability, as well as what the Commission's proportionate share of the total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.5 percent) or 1-percentage-point higher (4.5 percent) than the current discount rate:

	1.00% Decrease (2.5%)	Current Discount Rate (3.5%)	1.00% Increase (4.5%)
Total OPEB Liability	$ 130,821	$ 121,403	$ 112,579

Sensitivity of the Commission's Proportionate Share of the Total OPEB liability to Changes in the Healthcare Cost Trend Rates - The following presents the Commission's proportionate share of the total OPEB liability, as well as what the Commission's proportionate share of the total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

	1% Decrease (6.5% decreasing to 3.0% in 2076)	Current Trend (7.5% decreasing to 4.0% in 2076)	1% Increase (8.5% decreasing to 5.0% in 2076)
Total OPEB Liability	$ 108,555	$ 121,403	$ 136,407

NOTE 7 – LONG-TERM OBLIGATIONS

The following is a summary of long-term liabilities transactions for the year ended June 30, 2020:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year	Due After One Year (LT)
Governmental activities:						
Compensated absences	$207,246	137,478	(106,355)	$238,369	$ 25,657	$ 212,712

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 balance as of June 30, 2020, is shown below:

Result Area	Assigned	Unassigned
Health	$ 897,471	
Dental	181,983	
Improved Nutrition	519,038	
Early Care	725,119	
School Readiness	3,092,695	
Effective Parenting	5,015,110	
Community Connections	268,722	
Program Management	215,164	
Policy, Advocacy, & Sustainability	139,894	
Evaluation	329,896	
Administration	717,336	
Subtotals	$ 12,102,428	$ 11,889,414
Fund Balance, End of Period		$ 23,991,842

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 $551,509 for these services during the year ended June 30, 2020. Additionally, during the year ended June 30, 2020, the Commission paid the County of Sacramento $1,626,675 for programmatic partner services: $366,951 to Health and Human Services; $100,000 to Child, Family and Adult Services relating to early childhood health and safety; and $1,159,724 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 a lease with Gateway Oaks, LLC to provide 6,197 square feet for a term through July 31, 2021. 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.

NOTE 10 – COMMITMENTS (CONTINUED)

For the fiscal year ended June 30, 2020, the total rent payments were $148,751. The rent schedule for the remaining lease term is as follows:

Year Ended, June 30	Amount
2021	$ 144,700
2022	12,084
Total	$ 156,784

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 $489,883 on program evaluation during the fiscal year.

NOTE 12 – CONTINGENCIES

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 the financial position or changes in financial position of the Commission.

NOTE 13 – FUTURE GASB PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) releases new accounting and financial reporting standards which may have a significant impact on the Commission's financial reporting process. Future new standards which may impact the Commission include the following:

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. This Statement is effective for reporting periods beginning after December 15, 2019, or the 2020-2021 fiscal year, as postponed by GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. The Commission has determined that there is no effect on its financial statements.

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of

NOTE 13 – FUTURE ACCOUNTING PRONOUNCEMENTS (Continued)

resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. This Statement is effective for reporting periods beginning after June 15, 2021, or the 2021-2022 fiscal year, as postponed by GASB Statement No. 95. The Commission has not determined the effect on its financial statements.

GASB Statement 90 – In August 2018, GASB issued Statement No. 90, *Majority Equity Interests–An Amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. This Statement is effective for reporting periods beginning after December 15, 2019, or the 2020-2021 fiscal year, as postponed by GASB Statement No. 95. The Commission has determined that there is no effect on its financial statements.

GASB Statement No. 91 – In May 2019, GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement is effective for reporting periods beginning after December 15, 2021, or the 2022-2023 fiscal year, as postponed by GASB Statement No. 95. The Commission has determined that there is no effect on its financial statements.

GASB Statement No. 92 – In January 2020, GASB issued Statement No. 92, *Omnibus 2020*. The primary objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following: (1) The effective date of Statement No. 87, *Leases*, and Implementation Guide No. 2019-3, *Leases*, for interim financial reports; (2) reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB) plan; (3) the applicability of Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits; (4) the applicability of certain requirements of Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements; (5) measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition; (6) reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers; (7) reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature; and (8) terminology used to refer to derivative instruments. This Statement is effective for reporting periods beginning after June 15, 2021, or the 2021–2022 fiscal year, as postponed by GASB Statement No. 95. The Commission has determined that there is no effect on its financial statements.

NOTE 13 – FUTURE ACCOUNTING PRONOUNCEMENTS (Continued)

GASB Statement No. 93 – In March 2020, GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The primary objectives of this Statement is to address those and other accounting and financial reporting implications that result from the replacement of an IBOR (Interbank Offered Rate). The removal of London Interbank Offered Rate (LIBOR) as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021, or the 2022-2023 fiscal year. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021, or the 2021-2022 fiscal year, as postponed by GASB Statement No. 95. The Commission has determined that there is no effect on its financial statements.

GASB Statement No. 94 – In March 2020, GASB issued Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The primary objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements (PPPs). A PPP is an arrangement in which a government (the transferor) contracts with an operator (a governmental or nongovernmental entity) to provide public services by conveying control of the right to operate or use a nonfinancial asset, such as infrastructure or other capital asset, for a period of time in an exchange or exchange-like transaction. This Statement is effective for reporting periods beginning after June 15, 2022, or the 2022-2023 fiscal year. The Commission has determined that there is no effect on its financial statements.

GASB Statement No. 96 – In May 2020, GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. The primary objective of this Statement is to provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset – and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. This Statement is effective June 15, 2022 or the 2022-2023 fiscal year. The Commission has determined that there is no effect on its financial statements.

GASB Statement No. 97 – In June 2020, GASB issued statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans- An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. This Statement is effective for reporting periods beginning after June 15, 2021, or the 2021-2022 fiscal year. The Commission has determined that there is no effect on its financial statements.

NOTE 14 – COVID-19

In March 2020, the World Health Organization declared coronavirus COVID-19 a global pandemic. This contagious disease outbreak, which has continued to spread, and any related adverse public health developments, has adversely affected workforces, customers, economies, and financial markets globally. There was no impact of COVID-19 on the Commission's current year financial statements. At this time, the Commission cannot estimate the impact of COVID-19 on its future years' 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*

	Commission's proportion of the net pension liability	Commission's proportionate share of the County's net pension liability	Commission's covered payroll	Commission's proportionate share of the County net pension liability as a percentage of covered payroll	Plan fiduciary net position as a percentage of the total pension liability	Measurement date
2020	0.0832%	$ 1,725,387	$ 1,244,840	138.60%	82.57%	June 30, 2019
2019	0.1008%	$ 1,821,448	$ 1,316,282	138.38%	82.51%	June 30, 2018
2018	0.1151%	$ 2,225,697	$ 1,422,543	173.40%	80.37%	June 30, 2017
2017	0.1139%	$ 1,845,611	$ 1,312,730	140.59%	81.40%	June 30, 2016
2016	0.0986%	$ 1,059,387	$ 1,177,469	89.97%	87.26%	June 30, 2015
2015	0.0957%	$ 692,823	$ 1,261,514	54.92%	91.02%	June 30, 2014

Notes to Schedule:

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

Changes in assumptions: In the measurement period ended June 30, 2017 the discount rate changed from 7.5% to 7.0%.

FIRST 5 SACRAMENTO COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

SCHEDULE OF CONTRIBUTIONS - PENSION
LAST TEN YEARS*

	Actuarially determined contributions	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Commission's covered payroll	Contributions as a percentage Contributions as a percentage of covered payroll
2020	$ 264,518	$ (264,518)	$ -	$ 1,352,439	19.56%
2019	$ 221,647	$ (221,647)	$ -	$ 1,244,840	17.81%
2018	$ 198,349	$ (198,349)	$ -	$ 1,316,282	15.07%
2017	$ 227,808	$ (227,808)	$ -	$ 1,422,543	16.01%
2016	$ 233,176	$ (233,176)	$ -	$ 1,312,730	17.76%
2015	$ 250,640	$ (250,640)	$ -	$ 1,177,469	21.29%

* Fiscal year 2015 was the first year of implementation, therefore, only six years

FIRST 5 SACRAMENTO COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)

SCHEDULE OF THE COMMISSION'S PROPORTIONATE SHARE OF THE COUNTY'S TOTAL OPEB LIABILITY LAST TEN YEARS*

	Commission's proportion of the total OPEB liability	Commission's proportionate share of the total OPEB liability	Commission's covered-employee payroll	Commission's proportionate share of the total OPEB liability as a percentage of covered-employee payroll	Measurement date
2020	$ 121,403	0.1050%	$ 948,228	12.80%	June 30, 2019
2019	$ 182,410	0.1141%	$ 933,188	19.55%	June 30, 2018
2018	$ 177,515	0.1173%	$ 1,024,898	17.32%	June 30, 2017

Notes to Schedule:

* Fiscal year 2018 was the first year of implementation,

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 Sacramento Commission
Sacramento, California

We have audited, 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, 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 fiscal year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated September 24, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) 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 weakness 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.

Macias Gini & O'Connell LLP

Sacramento, California
September 24, 2020

Certified Public Accountants

Independent Auditor's Report on State Compliance

Board of Commissioners
First 5 Sacramento Commission
Sacramento, California

We have audited the First 5 Sacramento Commission's (Commission), a component unit of 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 (First 5)*, issued by the State Controller's Office, applicable to the Commission's statutory requirements identified below for the fiscal year ended June 30, 2020.

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 (First 5)*, 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 (First 5)* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above 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. 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

Opinion

In our opinion, the Commission complied, in all material respects, with the compliance requirements referred to above that are applicable to the California Children and Families Program for the fiscal year ended June 30, 2020.

Macias Gini & O'Connell LLP

Sacramento, California
September 24, 2020

FIRST 5 SACRAMENTO COMMISSION
STATUS OF PRIOR YEAR RECOMMENDATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2020

Reference Number: 2019-001
Type of Finding: Significant Deficiency

Criteria

Under accounting principles generally accepted in the United States of America (GAAP), specifically, Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, receivables are recognized for expenditure-driven grants when the qualifying expenditures are incurred, at which time the corresponding revenue is also recognized, except in governmental funds, in which the revenue is deferred until available.

Condition

The First 5 Sacramento Commission (Commission) has a contract with the State Department of Healthcare Services (DHCS) to reimburse the Commission for State Medi-Cal Administrative Activities (MAA) expenditures. The Commission had only recognized MAA receivables as of June 30, 2019 through the third quarter of the 2017-18 fiscal year, therefore not recognizing a receivable for the five quarters ended June 30, 2019.

Cause

Since the process of the Commission working with DHCS in preparing and submitting MAA expenditure claims is over an extended period of time that's well beyond the Commission's availability period, the Commission has historically recognized MAA receivables when the expenditure claims are prepared and submitted to DHCS.

Effect

The Commission's June 30, 2019 financial statements had understated assets (due from other government agencies) corresponding to the five quarters ended June 30, 2019. Since the receivables for these five quarters will not be received by the Commission until long past its availability period, deferred inflows of resources were also understated in its General Fund. Also, revenues were understated in the Commission's Statement of Activities.

The Commission has estimated the MAA receivables for the five quarters ended June 30, 2019 to be $873,820 and has adjusted its financial statements accordingly.

Recommendation

In addition to the Commission adjusting its 2019 financial statements, it should incorporate the development of this estimate into its year-end close process for preparing its annual financial statements, as well as be aware of any other similar expenditure-driven grants to ensure the Commission is properly recording receivables in accordance with GAAP.

Managements Response

Management agrees with the finding and will be creating procedures for the preparation of the financial statements that will define responsibilities during the year-end close process, which will include developing an estimate for the MAA receivables and ensuring accruals are recorded for all expenditure-driven grants. Our procedures will be completed by the end of fiscal year 2019-20 and will be implemented for the preparation of the fiscal year 2019-20 financial statements.

Status of Recommendation

Corrected. Management developed an estimate of the MAA receivable for the expected reimbursable expenses/expenditures and accrued that estimate as part of its year-end close process for preparing its current financial statements.