



Financial Statements

For the Year Ended June 30, 2024

# FIRST 5 Santa Clara County

(A Component Unit of the County of Santa Clara, California)

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## Independent Auditor's Report

To the Board of Commissioners for  
FIRST 5 Santa Clara County  
San Jose, California

### Report on the Audit of the Financial Statements

#### ***Opinions***

We have audited the financial statements of the governmental activities and the general fund of FIRST 5 Santa Clara County Children and Families Commission (FIRST 5 Santa Clara County or the Commission), a component unit of the County of Santa Clara (County), as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise FIRST 5 Santa Clara County's basic financial statements as listed in the table of contents.

In our opinion, the accompanying 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, 2024, 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.

#### ***Basis for Opinions***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, (*Government Auditing Standards*). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Commission and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

#### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America; and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Commission's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Commission's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Commission's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 GAAS, 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.

***Supplementary 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 Schedule of Revenues and Expenditures by Fund Source and Fund Balance of California Children and Families Commission (CCFC) Funds for First 5 Programs (Schedule) is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with GAAS. In our opinion, the Schedule is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 7, 2024 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.



Sacramento, California  
October 7, 2024

This Management's Discussion and Analysis is intended to serve as a narrative overview and analysis of the financial activities of FIRST 5 Santa Clara County for the year ended June 30, 2024. The information presented should be read in conjunction with the information furnished in the financial statements and notes to the financial statements (beginning on page 10).

FIRST 5 Santa Clara County ("FIRST 5" or the "Commission") was formed when voters approved Proposition 10 in November 1998, adding an additional excise tax on cigarettes and tobacco related products to fund programs that promote, support and improve early childhood development, for children prenatal through five years of age and their families. Proposition 10 was designed to address the lack of public funding and support for early childhood development in the wake of a growing body of scientific evidence indicating that the emotional, physical, and intellectual environment that a child is exposed to prior to five years of age has a profound impact on how their brain develops. The goal is for all young children in California through age five to go to school physically healthy and ready to learn.

In March 1999, the Santa Clara County ("County") Board of Supervisors created the nine-member Commission. FIRST 5 is a public entity legally separate and apart from the County and is considered a component unit of the County due to the operational relationship between FIRST 5 and the County.

### **Financial Highlights**

- At the end of the Fiscal Year (FY) 2023-2024, FIRST 5 had assets of \$33.9 million and liabilities of \$8.1 million. The assets consist primarily of \$26.5 million in cash and investments, \$4.1 million in current receivables and other assets and \$3.3 million in noncurrent assets. Total liabilities consist primarily of \$8.1 million in accounts payable, accrued liabilities and unearned revenue, resulting in a net position of \$25.4 million of which \$22.7 million was available to meet FIRST 5 Santa Clara County's ongoing operating expenses and \$2.7 million is invested in capital assets, net of related debt.
- During 2023-24, FIRST 5 Santa Clara County program revenues were approximately \$24.9 million, representing a \$1.9 million increase over the prior year. Total expenses were \$28.5 million compared to \$31.2 million in the prior year.
- Revenue from the Proposition 10 tobacco tax measure was \$11.0 million, a decrease of approximately \$1.8 million from the prior year.
- Other Grant revenue was \$10.1 million, an increase of \$2.2 million.

### **Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to FIRST 5's basic financial statements. FIRST 5's basic financial statements comprise three components: 1) government activities financial statements, 2) governmental fund financial statements, and 3) notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements.

### **Government-wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of FIRST 5's finances, in a manner similar to a private sector business. The Statements of Net Position present information on all of FIRST 5's assets, liabilities, and deferred inflows of resources with the differences reported as net position.

The Statement of Activities present information showing how FIRST 5's net position changed during the most recent fiscal years. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave). The government-wide financial statements can be found on pages 10 and 11 of this report.

### **Governmental Fund Financial Statements**

Governmental fund financial statements report essentially the same functions as those reported in the government activities financial statements. However, unlike the government activities financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as balances of spendable resources available at the end of the fiscal year. The Governmental Fund financial statements are prepared on the modified accrual basis and measure only current revenues, expenditures and fund balances; they exclude capital assets and long-term liabilities.

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. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the Commission's activities are accounted for in the general fund. The governmental fund financial statements can be found on pages 12 and 14 of this report. A reconciliation between the governmental fund financial statements and the government-wide financial statements is presented on pages 13 and 15.

### **Notes to Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government activities and governmental fund financial statements. The notes to the basic financial statements can be found on pages 16 through 27 of this report.

The notes to the financial statements provide additional information that is essential to a complete understanding of the information provided in the financial statements.

The required supplementary information includes a budgetary comparison schedule. The schedule of revenues, expenditures, and changes in fund balance – budget and actual general fund presents FIRST 5 Santa Clara County's budget comparisons between the original budget and the final amended budget compared with actual resource inflows and outflows.

**Statement of Net position**

The composition of net position as of June 30, 2024, is shown in the following table:

|                               | FY 2023-2024 | FY 2022-2023 | Increase/(decrease) |
|-------------------------------|--------------|--------------|---------------------|
| Current and other assets      | \$ 31.1      | \$ 35.2      | \$ (4.1)            |
| Capital assets                | 2.8          | 3.0          | (0.2)               |
| Total assets                  | 33.9         | 38.2         | (4.3)               |
| Current and other liabilities | 8.0          | 8.8          | (0.8)               |
| Long-term liabilities         | 0.1          | 0.1          | -                   |
| Total liabilities             | 8.1          | 8.9          | (0.8)               |
| Deferred inflows of resources | 0.4          | 0.3          | 0.1                 |
| Net position                  | \$ 25.4      | \$ 29.0      | \$ (3.6)            |

- Total Assets declined \$4.3 million.
  - Cash and investments declined by \$3.7 million. Receivables and other current assets declined by \$ 0.4 million.
  - Long Term assets remained the same at \$3.3 million.
- Deferred inflows relate to the rental income in accordance with GASB 87, *Leases*. This item increases the net position as of the end of the fiscal year but has no effect on fund balance. The notes to the financial statements provide a full accounting of all deferred inflows related to this income.
- Total liabilities declined by \$0.8 million for accounts payable and accrued liabilities.

**Statement of Activities**

During the year ended June 30, 2024, FIRST 5 Santa Clara County's net position decreased by approximately \$3.6 million as compared to \$8.2 million from the prior year. This change in net position is shown in the following table:

|                                 | FY 2024 | FY 2023 | CHANGE \$ | CHANGE % |
|---------------------------------|---------|---------|-----------|----------|
| (All amounts in \$millions)     |         |         |           |          |
| Program revenues                | \$ 23.3 | \$ 22.6 | \$ 0.70   | 3.1%     |
| General revenues                | 1.6     | 0.4     | 1.20      | 300.0%   |
| Total revenues                  | 24.9    | 23.0    | 1.90      | 8.3%     |
| Program expenses                | 28.5    | 31.2    | (2.70)    | -8.7%    |
| Change in net position          | (3.6)   | (8.2)   | 4.60      | 56.1%    |
| Net position, beginning of year | 29.0    | 37.2    | (8.20)    | -22.0%   |
| Net position, end of year       | \$ 25.4 | \$ 29.0 | \$ (3.60) | -12.4%   |

Proposition 10 Revenue was \$10,971,723 compared to \$12,796,065 in FY 2022-23.

Other Program Revenues totaled \$10.1 million and consisted of the following:

- Other First 5 California Grant Income was \$ 1,211,060 of which:
  - \$904,641 from First 5 California's IMPACT grant and Incentive Layer,
  - \$251,012 from First 5 California Refugee Support grant and
  - \$55,407 for First 5 California Home Visiting grant



- The Marin Foundation funded \$2.5 million for general operating support to support programs that contribute to the strengthening of family-school partnerships. The emphasis is to include interactive family engagement and learning, family engagement in children's learning in classroom settings, home visits by early learning specialists, support services or enrichment activities offered on school sites and public venues designed to stimulate family awareness and children's curiosity; family engagement in literacy initiatives, and policy advocacy that contribute to sustainable and longer-term family-school partnerships.
- Santa Clara County Board of Supervisors QUALITY MATTERS Early Learning Apprenticeship Pilot Extension grant income of \$1,681,777. The Apprenticeship Pilot is equity-oriented, focused on bringing a diverse set of individuals into the field of early learning and childcare. Components include paid on-the-job training with local preschool and family childcare home employers, no-cost college coursework, embedded tutoring, mentorship, and cohort learning in a community-based location. The two-year program culminates in a wage increase, along with Apprentices earning an Associate Teacher child development permit.
- Santa Clara County Board of Supervisors Family Child Care Network & Shared Services Alliance for Family Child Care Home Early Educators grant income of \$343,601. The Shared Services Alliance is an administrative structure that enables services at scale. Participating Family Child Care Home (FCCH) business early educators would be able to share costs for business supports that promote quality early care and learning environments (e.g., marketing and social media tools, enrollment and tuition management, health insurance and other benefits, substitute pools, retirement and tax guidance, and legal supports). This work will start by convening Family Child Care early educators in Santa Clara County and other important partners to begin building the infrastructure for the Shared Services Alliance and identifying the most critical current business and pedagogical needs of FCCH early educators.
- Santa Clara County Board of Supervisors Transitional Kindergarten (TK) Teacher Equity Initiative grant income of \$91,645. The TK Teacher Equity Initiative is intended to support local, diverse early educators who are interested in applying for these higher-paying, benefited, union-protected school district jobs by removing barriers and supporting access to higher education credential pathways.
- Santa Clara County Social Services Agency funded \$720,000 for diaper distributions efforts in the Family Resource Centers (FRC's).
- Santa Clara County Probation Department funded \$590,436 for the Valley Palms FRC.
- Santa Clara County Board of Supervisors granted an inventory item of \$50,584 for FIRST 5 to conduct a study of Santa Clara County's home visiting services across various systems.
- Grant funding of \$500,000 from Sunlight Giving for general operating support for all programs
- California Department of Social Services – Quality Counts California Block Grant funded \$555,948.
- ParentChild+ funded \$262,500. This national program is designed to address four factors key to ensuring school success for young children—and essential to giving children and their families the opportunity to thrive. Increases school readiness and school success, support reading and play activities in the home, build language, literacy, and learning-rich home environments, and support the development of social-emotional skills so children enter school ready to be successful students.
- Santa Clara County Public Health Department funded \$425,375 in support of the ParentChild+ program efforts.
- Santa Clara Health Family System granted \$250,000 to support the University of California San Francisco (UCSF) Dyadic Services Technical Assistance team to implement the evidence-based Healthy Steps model. FIRST 5 Santa Clara County will identify and execute subcontracts with up to two community clinics who will participate in a full range of technical assistance services.

- Santa Clara Health System granted \$485,715 to identify and execute subcontracts with up to two community clinics who will participate in a full range of technical assistance services with the University of California San Francisco (UCSF) Dyadic Services Technical Assistance team to implement the evidence-based Healthy Steps model and maximize Medi-Cal billing and reimbursement.
- Children and Youth Behavioral Health Initiative funded \$300,000 for Phase 2 of the Healthy Steps Program. In this second phase of the project, FIRST 5 hopes to expand the number of sites implementing Healthy Steps to at least seven total. Working with School Health Clinics, Valley Health Center (Santa Clara County Health System), and Bay Area Community Health FIRST 5 intends to work with UCSF to support implementation of Healthy Steps at additional sites within their network
- City of San Jose funded \$100,000 for mini-grants for family child care home providers.
- \$2.2 million for MediCal Administrative Activities (MAA) revenue compared to \$1.9 million for FY 2022-23. MAA revenue is recorded when the income is received. Activities can be billed after our audit is submitted to the State so there is always a one-year lag in billings. FY 2023-24 includes revenue billed and received for the four quarters for FY 2022-23. FY 2022-23 includes revenue billed and received for the four quarters for FY 2021-22.

### Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual

#### Comparison of Budget to Actual

The following table presents a budget to actuals comparison of revenues and expenditures for the fiscal year ending June 30, 2024.

(All amounts in \$ millions)

|  | Budgeted amounts |                 | Actual       | Variance **   |
|--|------------------|-----------------|--------------|---------------|
|  | Original         | Final           |              |               |
| <b>Revenues</b>  |                  |                 |              |               |
| Proposition 10 taxes                                   | \$ 11.6          | \$ 11.6         | \$ 11.0      | \$ (0.6)      |
| Grant Revenue  | 9.8              | 10.6            | 10.1         | (0.5)         |
| Rental Income  | 0.1              | 0.1             | 0.2          | 0.1           |
| Investment Income                                      | 0.2              | 0.2             | 1            | 1.1           |
| Medi-Cal administrative agreement reimbursement income | 2.1              | 2.1             | 2.2          | 0.1           |
| Other income   | 0.2              | 0.1             | 0.2          | 0.1           |
| <b>Total revenues</b>                                  | <b>24.0</b>      | <b>24.7</b>     | <b>25.0</b>  | <b>0.3</b>    |
| <b>Expenditures</b>                                    |                  |                 |              |               |
| <b>Current</b>   |                  |                 |              |               |
| Salaries and benefits                                  | 8.3              | 8.1             | 7.5          | 0.6           |
| Supplies and services                                  | 2.9              | 3.1             | 2.8          | 0.3           |
| Grant expenditures                                     | 21.8             | 22.5            | 18.2         | 4.3           |
| Capital Outlay   | -                | -               | 0.2          | (0.2)         |
| <b>Total expenditures</b>                              | <b>33.0</b>      | <b>33.7</b>     | <b>28.7</b>  | <b>5.0</b>    |
| <b>Other Financing Sources</b>                         |                  |                 |              |               |
| IT Subscription  | -                | -               | 0.1          | 0.1           |
| <b>Net change in fund balance</b>                      | <b>\$ (9.0)</b>  | <b>\$ (9.0)</b> | <b>(3.6)</b> | <b>\$ 5.4</b> |

\*\* Revenues in excess of budget and expenditures less than budget are expressed as positive variances.

The final budget anticipated a drawdown of \$9.0 million from fund balance for FY 2023-24 for agency program and operations. However, largely due to savings in personnel and Grant expenditures, the actual use of the fund balance was \$3.6 million. The fund balance is FIRST 5 Santa Clara County's fund which covers expenditures and future costs as the expected decline of tobacco tax revenue occurs.

**Summary of Known Facts, Decisions or Conditions**

The following are currently known facts, decisions or conditions that are expected to have a significant impact on the financial position or changes in financial position of FIRST 5 Santa Clara County:

Tobacco tax revenue projections are based on California Department of Finance and Tax Administration and First 5 California projections for county commissions and based largely on birth rates in each county and tobacco consumption rates.

Tobacco tax receipts for FIRST 5 Santa Clara County for FY 2023-24 show a negative variance of \$0.6 million compared to the budget and a decrease of \$1.8 million from the prior year. In November 2022, voters in California voted to uphold a flavor ban for all tobacco products. First 5 California has projected FIRST 5 Santa Clara County's revenue was projected to remain at \$11.0 million for FY 2024-25 and an average decline of 3% for each of the fiscal years through FY 2027-28 based upon budgetary information received from First 5 California.

Due to the anticipated decline in tobacco tax revenues, planned program reductions will be reflected in the latter years of the agency's long-range financial plan.

On June 22, 2023, the Commission approved a Bridge Strategic Plan for FY 2023-24 allowing for the continuation of the previously approved Strategic Plan adopted on June 21, 2018, for Fiscal Years 2018-2023. The Commission adopted a research-based strategic framework that guided FIRST 5's investments and partnerships. The framework includes the following elements under which all investment were aligned for fiscal year 2023-2024:

- Children's Health
- Community and Neighborhood Engagements
- Workforce Development
- Family Strengthening and Support
- Early Care and Education
- Communications and Public Awareness

On September 21, 2023, the Commission passed a new Strategic Plan for Fiscal Years FY 2025 to 2027. Future granting decisions will conform with the new plan.

All the above factors were considered in preparing FIRST 5 Santa Clara County's budget for FY 2023- 2024.

**Requests for Information**

The annual financial report is designed to provide a general overview of the FIRST5 Santa Clara County's finances and operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Jennifer Kelleher Cloyd, Executive Director, FIRST 5 Santa Clara County, 4000 Moorpark Avenue, Suite 200, San Jose, California 95117.

FIRST 5 Santa Clara County  
Statement of Net Position  
June 30, 2024

|  | Governmental<br>Activities |
|--|----------------------------|
| Assets   |                            |
| Current Assets   |                            |
| Cash and investments   | \$ 26,520,349              |
| Grant and other receivables                                      | 2,558,229                  |
| Due from the State - California Children and Families Commission | 1,368,261                  |
| Prepays and other assets   | 224,387                    |
| Total Current Assets   | 30,671,226                 |
| Noncurrent Assets  |                            |
| Lease receivable   | 449,035                    |
| Capital assets, not being depreciated                            | 2,357,856                  |
| Capital assets, depreciable, net                                 | 297,978                    |
| Right to use lease asset, net                                    | 35,953                     |
| Right to use subscription IT asset, net                          | 128,937                    |
| Total Noncurrent Assets  | 3,269,759                  |
| Total Assets   | 33,940,985                 |
| Liabilities  |                            |
| Current Liabilities  |                            |
| Accounts payable   | 7,327,058                  |
| Accrued salaries and benefits                                    | 128,296                    |
| Other accrued liabilities  | 32,048                     |
| Unearned revenue   | 24,416                     |
| Lease liability  | 5,774                      |
| IT Subscription liability  | 74,428                     |
| Compensated absences   | 410,985                    |
| Total Current Liabilities  | 8,003,005                  |
| Noncurrent Liabilities   |                            |
| Lease liability  | 30,376                     |
| IT Subscription liability  | 26,943                     |
| Compensated absences   | 40,697                     |
| Total Noncurrent Liabilities                                     | 98,016                     |
| Total Liabilities  | 8,101,021                  |
| Deferred Inflows of Resources                                    |                            |
| Lease related  | 420,015                    |
| Net Position   |                            |
| Net investment in capital assets                                 | 2,683,203                  |
| Unrestricted   | 22,736,746                 |
| Total Net Position   | \$ 25,419,949              |

FIRST 5 Santa Clara County  
Statement of Activities  
For the Year Ended June 30, 2024

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|  | Governmental<br>Activities |
|--|----------------------------|
| Function/program expenses:                             |                            |
| Early Childhood Development                            | \$ 28,485,537              |
| Total program expenses                                 | 28,485,537                 |
| Program revenues:                                      |                            |
| Operating grants and contributions                     |                            |
| Proposition 10 taxes                                   | 10,971,723                 |
| Grant revenue  | 10,098,762                 |
| Medi-Cal administrative agreement reimbursement income | 2,187,347                  |
| Total program revenues                                 | 23,257,832                 |
| Net program expenses                                   | (5,227,705)                |
| General revenues:                                      |                            |
| Investment income                                      | 1,267,982                  |
| Rental income  | 180,015                    |
| Other income   | 184,415                    |
| Total general revenues                                 | 1,632,412                  |
| Change in Net Position                                 | (3,595,293)                |
| Net Position, Beginning                                | 29,015,242                 |
| Net Position, Ending                                   | \$ 25,419,949              |

FIRST 5 Santa Clara County  
Governmental Fund Balance Sheet  
June 30, 2024

|  | General Fund  |
|--|---------------|
| <b>Assets</b>  |               |
| Cash and investments   | \$ 26,520,349 |
| Grant and other receivables  | 2,558,229     |
| Due from the State - California Children and Families Commission     | 1,368,261     |
| Lease receivable   | 449,035       |
| Prepays and other assets   | 224,387       |
| Total Assets   | \$ 31,120,261 |
| <b>Liabilities, Deferred Inflows of Resources, and Fund Balances</b> |               |
| <b>Liabilities</b>   |               |
| Accounts payable   | \$ 7,327,058  |
| Accrued salaries and benefits  | 128,296       |
| Other accrued liabilities  | 32,048        |
| Unearned revenue   | 24,416        |
| Total Liabilities  | 7,511,818     |
| <b>Deferred Inflows of Resources</b>                                 |               |
| Unavailable revenue  | 820,518       |
| Lease related  | 420,015       |
| Total Deferred Inflows of Resources                                  | 1,240,533     |
| <b>Fund Balances</b>   |               |
| Nonspendable   |               |
| Prepays  | 224,387       |
| Committed  |               |
| Community Investment Contracts                                       | 19,402,821    |
| Assigned   |               |
| Projected budgetary deficit - FY2024-25                              | 2,740,702     |
| Total Fund Balances  | 22,367,910    |
| Total Liabilities, Deferred Inflows, and Fund Balance                | \$ 31,120,261 |

FIRST 5 Santa Clara County  
 Reconciliation of Governmental Fund Balance Sheet to the Statement of Net Position  
 June 30, 2024

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|  |                             |
|--|-----------------------------|
| Fund balances of governmental fund   | \$ 22,367,910               |
| <p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>  |                             |
| <p>Long-term assets used in governmental activities are not financial resources and, therefore, are not reported in the fund:</p>  |                             |
| Capital assets and right to use assets, net of accumulated depreciation and amortization   | 2,820,724                   |
| <p>Revenues which are deferred inflows on the fund financial statements because they are not currently available, are reported as revenue in the government-wide statement of activities</p> |                             |
|  | 820,518                     |
| <p>Long-term liabilities are not due and payable in the current period and therefore are not reported in the fund:</p>   |                             |
| Compensated absences   | (451,682)                   |
| Lease liability  | (36,150)                    |
| IT Subscription Liability  | <u>(101,371)</u>            |
| Net Position of Governmental Activities  | <u><u>\$ 25,419,949</u></u> |

FIRST 5 Santa Clara County  
Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance  
For the Year Ended June 30, 2024

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|  | General Fund  |
|--|---------------|
| Revenues   |               |
| Proposition 10 taxes                                     | \$ 11,032,211 |
| Grant revenue  | 9,887,359     |
| Investment income (loss)                                 | 1,267,982     |
| Rental income  | 180,015       |
| Medi-Cal administrative agreement reimbursement income   | 2,187,347     |
| Other income   | 184,415       |
| Total Revenues   | 24,739,329    |
| Expenditures   |               |
| Current  |               |
| Salaries and benefits                                    | 7,581,859     |
| Supplies and services                                    | 2,312,881     |
| Grant expenditures                                       | 18,274,881    |
| Debt Service   |               |
| Principal  | 72,778        |
| Interest   | 6,829         |
| Capital outlay   | 125,715       |
| Total Expenditures                                       | 28,374,943    |
| Excess/(Deficiency) of Revenues Over(Under) Expenditures | (3,635,614)   |
| Other Financing Sources                                  |               |
| IT Subscription  | 88,584        |
| Leases   | 37,131        |
| Total Other Financing Sources                            | 125,715       |
| Net Change in Fund Balance                               | (3,509,899)   |
| Fund Balance, Beginning                                  | 25,877,809    |
| Fund Balance, Ending                                     | \$ 22,367,910 |



FIRST 5 Santa Clara County  
 Reconciliation of the Statement of Revenues, Expenditures and Changes in  
 Fund Balances of the Governmental Fund to the Statement of Activities  
 For the Year Ended June 30, 2024

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Net change in fund balance - total governmental fund \$ (3,509,899)

Amounts reported in governmental activities in the statement of activities  
 are different because:

Governmental funds report capital outlays as expenditures. However, in the  
 statement of activities, the cost of those assets is allocated over their  
 estimated useful lives and reported as depreciation and amortization expense.  
 This is the amount by which the depreciation and amortization exceeds  
 the capital outlays in the current period. (175,494)

Revenues not received within the period of availability are recognized as  
 revenues in the subsequent period. 150,915

Change in compensated absences is reported in the statement of activities do  
 not require the use of current financial resources and therefore are not  
 reported as expenditures in governmental funds. This amount represents  
 the net change in the accrued compensated absences. (7,878)

Principal payments on the long term IT subscription liability reported in the  
 statement of activities are reported as expenditures in the governmental funds. 72,778

The issuance of long-term debt provides current financial resources to  
 governmental funds, but are not reported as revenues in the statement of activities. (125,715)

Change in net position of governmental activities \$ (3,595,293)

## Note 1 - Summary of Significant Accounting Policies

### Reporting Entity

The Santa Clara County (County) Board of Supervisors created the FIRST 5 Santa Clara County Children and Families Commission (Commission) on March 30, 1999, under the provisions of the California Children and Families Act of 1998 (the "Act"). The Act became law in 1998 when California ("State") voters approved Proposition 10, authorizing the State to levy a tax on tobacco products to pay for programs to promote the healthy development of young children. The Commission is a public entity legally separate and apart from the County. The purpose of the Commission is to develop, adopt, promote and implement early childhood development programs in the County that are consistent with the goals and objectives of the Act. The Commission's programs are funded by the taxes imposed by Proposition 10.

The Commission consists of nine members appointed by the County Board of Supervisors. The Commission is considered a component unit of the County due to the operational relationship between the Commission and the County; therefore, the Commission's financial statements are included in the County's Annual Comprehensive Financial Report.

**Government-wide financial statements** (i.e. the statement of net position and the statement of activities) report information on all governmental activities using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Statement of Net Position presents the Commission's assets, deferred outflows, liabilities and deferred inflows, with the difference reported as net position. Net position is reported in three categories.

- Net investment in capital assets consist of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances for bonds, notes, leases, and other debt attributable to the acquisition, construction, or improvement of those assets.
- Restricted net position represents restrictions imposed on the use of the Commission's resources by parties outside of the government or by law through constitutional provisions or enabling legislation.
- Unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted components of net position.

The Statement of Activities presents a comparison between direct expenses and program revenues for the Commission's governmental activities. 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 as general revenues.

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first.

**Governmental fund financial statements** are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. The Commission uses a General Fund to account for all its activities. Revenues are considered to be available within the current period or soon enough thereafter to pay liabilities of the current period. The Commission uses a 90- day availability period for revenue recognition for all governmental fund revenues.

**Fund Balance** – Following is a description of the Commission’s fund balance classifications:

- **Nonspendable** – Includes amounts that cannot be spent because they are either (a) not in spendable form (inventories, prepaid amounts, etc.) or (b) legally or contractually required to be maintained intact (such as the corpus of principal of a permanent fund).
- **Restricted** – Includes amounts with constraints that are either (a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislations.
- **Committed** – Includes amounts that can be used only for the specific purposes determined by a formal action of the Board of Commissioners who have the highest level of decision making authority. Those committed amounts cannot be used for any other purpose the Board of Commissioners removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.
- **Assigned** – Includes amounts the Commission intends to be used for specific purposes that are neither restricted nor committed.
- **Unassigned** – Resources that cannot be reported in any other classification.

The Commission applies restricted resources first when an expenditure is incurred for purposes for which both restricted and other funds are available, then the Commission applies amount to the committed fund balance followed by assigned and then unassigned.

**Cash and Investments** – The Commission categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset’s fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Commission does not have any investments that are measured using Level 3 inputs. The Commission participates in the common investment pool of the County of Santa Clara. In addition, the Commission has a specifically invested portfolio with Chandler Asset Management.

**Grant and Other Receivables** – Grants and other receivables includes funds received from Section 501(c)(3) not-for-profits, community-based organizations, and other governmental agencies to promote the Commission's stated objectives.

**Due from the State – California Children and Families Commission** includes amounts due from the State of California for Proposition 10 taxes, California Electronic Cigarette Excise Tax (CECET), and Surplus Money Investment Fund revenues.

**Capital Assets** – Capital assets are not considered to be financial resources and therefore, are not reported as an asset in the fund financial statements. Capital assets are capitalized and reported at cost, net of accumulated depreciation and amortization in the government-wide financial statements. Capital assets are defined by the Commission as assets with an initial, individual cost of more than \$5,000, and an estimated useful life of more than one year. Such assets are recorded at cost and depreciated using the straight-line method over the estimated useful lives of all assets ranging from 5 to 20 years. Land is not depreciated.

Right to use lease assets are recognized at the lease commencement date and represent the Commissions' right to use an underlying asset for the lease term. Right to use lease assets are measured at the initial value of the lease liability plus any payments made to the lessor before commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term, plus any initial direct costs necessary to place the lease asset into service. Right to use lease assets are amortized over the shorter of the lease term or useful life of the underlying asset using the straight-line method. The amortization period varies from 3 to 5 years. Right-to-use assets are recorded at the present value of the payments at the inception of the lease. The asset is recorded as right to use asset and is amortized over the shorter of the asset's useful life or the lease term.

Right to use subscription IT assets are recognized at the subscription commencement date and represent the Commission's right to use the underlying IT asset for the subscription term. Right to use subscription IT assets are measured at the initial value of the subscription liability plus any payments made to the vendor at the commencement of the subscription term, less any subscription incentives received from the vendor at or before the commencement of the subscription term, plus any capitalizable initial implementation costs necessary to place the subscription asset into service. Right to use subscription IT assets are amortized over the shorter of the subscription term or useful life of the underlying asset using the straight-line method. The amortization period is for 3 years.

**Lease Receivables** – Lease receivables are recorded by the Commission as the present value of future lease payments expected to be received from the lessees during the lease terms, reduced by any provision for estimated uncollectible amounts. Lease receivables are subsequently reduced over the life of the lease as cash is received in the applicable reporting period. The present value of future lease payments to be received are discounted based on the interest rate the Commission charges the lessees.

**Compensated Absences** – It is the Commission's policy to permit employees to accumulate earned but unused vacation, sick and paid time-off (PTO) benefits. Compensated absences consist of the employee earned time and are accrued by the Commission when earned by the employee. Vacation pay and PTO, which may be accumulated up to six weeks, is payable upon termination. Sick leave accrues at approximately three hours per pay period and is not limited by how much may be accumulated. Sick leave earned is non-vesting and employees are not reimbursed for accumulated sick leave upon termination. Compensated absence obligations are considered long-term in nature and are reported in the fund financial statements as expenditures in the period paid or when due and payable at year-end under the modified accrual basis of accounting. The compensated absences have been accrued in the government-wide financial statements and are included in long-term liabilities.

**Deferred Inflows of Resources** – In addition to liabilities, the statement of net position and governmental fund balance sheet reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net assets or fund balance that applies to a future period. The Commission has two types of deferred inflows. The first type, unavailable revenue, arises under a modified accrual basis of accounting and is reported only in the governmental funds balance sheet. These amounts represent receivables that are not available to pay current obligations and are expected to be collected after the Commissions period of availability of 90 days. The second type relates to lease receivables and is reported on both the governmental fund balance sheet and the statement of net position. These amounts are amortized as payments on lease receivables are collected.

|                           | Balance<br>Beginning of Year | Increases | Decreases | Balance<br>End of Year | Amount Due<br>within one year |
|---------------------------|------------------------------|-----------|-----------|------------------------|-------------------------------|
| Subscription IT Liability | \$ 84,584                    | \$ 88,584 | \$ 71,797 | \$ 101,371             | \$ 74,428                     |

**Subscription Liabilities** – Represents the Commission’s obligation to make subscription payments arising from subscription agreements. Subscription liabilities are recognized at the subscription commencement date based on the present value of future subscription payments expected to be made during the subscription term. The present value of subscription payments is discounted based on a borrowing rate determined by the Commission.

**Unearned Revenue** – The Commission records unearned revenues on the balance sheet in connection with resources that have been received, but not yet earned or eligibility requirements have not yet been met.

**Use of Estimates** – The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

## Note 2 - Cash and Investments

The following is a summary of deposits and investments as of June 30, 2024:

|                            | Investment Maturities in Years |                      |                     | Total Fair<br>Value  | Moody's<br>Credit Rating | Portfolio<br>Allocation |
|----------------------------|--------------------------------|----------------------|---------------------|----------------------|--------------------------|-------------------------|
|                            | Less than 1                    | 1-3                  | 3-5                 |                      |                          |                         |
| Cash and cash deposits     |                                |                      |                     | \$ 1,602,672         | Not Rated                | 6%                      |
| Investments:               |                                |                      |                     |                      |                          |                         |
| Investment in County Pool  | \$ 42,130                      | \$ -                 | \$ -                | 42,130               | Not Rated                | 0%                      |
| Money market mutual funds  | 1,179,553                      | -                    | -                   | 1,179,553            | Aaa                      | 4%                      |
| U.S. Treasury obligations  | 1,921,934                      | 9,144,702            | 2,398,516           | 13,465,152           | Aaa                      | 51%                     |
| Federal agency securities  | -                              | 945,119              | 2,279,006           | 3,224,125            | Aaa                      | 12%                     |
| Asset backed security      | -                              | 568,193              | 350,472             | 918,665              | Aaa                      | 3%                      |
| Corporate bonds and notes  | 1,151,773                      | 2,422,998            | 2,513,281           | 6,088,052            | See Below                | 23%                     |
| Total investments          | <u>\$ 4,295,390</u>            | <u>\$ 13,081,012</u> | <u>\$ 7,541,275</u> | <u>24,917,677</u>    |                          |                         |
| Total cash and investments |                                |                      |                     | <u>\$ 26,520,349</u> |                          | <u>100%</u>             |

The corporate bonds and notes were rated by Moody’s at June 30, 2024 as follows:

|       |              |
|-------|--------------|
| A1    | \$ 3,369,803 |
| A2    | 794,961      |
| A3    | 348,287      |
| Aaa   | 280,160      |
| Aa2   | 1,118,907    |
| Aa3   | 175,934      |
| Total | \$ 6,088,052 |

**Interest Rate Risk** – The interest rate risk is the risk that the fair value of securities in the portfolio will decrease due to changes in general interest rates. The Commission mitigates interest rate risk by structuring the portfolio so that securities mature to meet cash requirements, thereby avoiding the need to sell securities prior to maturity. Also, the Commission will not invest in securities maturing more than five (5) years from the date of trade settlement, unless the Commission has by resolution granted authority to make such an investment. However, for Bankers Acceptances, Commercial Paper, and Repurchase Agreements, the maximum maturities should not exceed 180, 270, and 365 days, respectively.

**Credit Risk** – Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). Credit risk is mitigated by the Commission by determining on-going credit worthiness of the financial institution’s broker/dealers, intermediaries, and advisors with which the Commission does business; and, diversifying the investment portfolio so that potential losses on individual securities will be minimized. The Commission’s investment policies require that permissible investments are rated as follows:

- Municipal Securities are required to be rated in a rating category of “A” or its equivalent or better by at least one NRSRO.
- Banker’s Acceptances are required to be issued by institutions which have short-term debt obligations rated “A-1” or its equivalent or better by at least one NRSRO; or long-term debt obligations which are rated in a rating category of “A” or its equivalent or better by at least one NRSRO.
- Commercial Paper securities are required to be rated “A-1” or its equivalent or better by at least one NRSRO. They are required to be issued by corporations which have long-term obligations rated in a rating category of “A” or its equivalent or better by at least one NRSRO.
- Negotiable Certificates of Deposits - any amount above the FDIC insured limit must be issued by institutions which have short-term debt obligations rated “A-1” or its equivalent or better by at least one NRSRO; or long-term obligations rated in a rating category of “A” or its equivalent or better by at least one NRSRO.
- Corporate Medium Term Notes are required to be rated in a rating category of “A” or its equivalent or better by at least one NRSRO.
- Asset-Back, Mortgage-Backed, Mortgage Pass-Through Securities, and Collateralized Mortgage Obligations are required to be rated in a rating category of “AA” or its equivalent or better by a NRSRO. They are required to be issued by an issuer having long-term debt obligations rated in a rating category of “A” or its equivalent or better by at least one NRSRO.

- Mutual Funds/Money Market Mutual Funds are required (1) to attain the highest ranking or the highest letter and numerical rating provided by not less than two NRSROs; or(2) Have retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations authorized by California Government Code, Section 53601 and with assets under management in excess of \$500 million.

**Concentration of Credit Risk** – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Commission's investment policy limits the amount that may be invested in the securities of any one issuer to 5% of the portfolio, except for securities of the U.S. Treasuries and Federal Agencies. Investments in any one issuer that represent 5% or more of total investments are as follows:

| Issuer                 | Amount       | Percentage Holdings |
|------------------------|--------------|---------------------|
| Federal Home Loan Bank | \$ 1,577,893 | 6%                  |

**Custodial Credit Risk for Deposits** – The Commission maintains cash in separate commercial bank accounts. The Commission maintains its cash and cash equivalents in commercial checking and money market accounts. Custodial credit risk for deposits is the risk that, in the event of a failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities in the possession of an outside party. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. The Commission places its cash and investments with credit worthy and high-quality financial institutions. Cash balance is insured by Federal Deposit Insurance Corporation (FDIC) up to \$250,000. As of June 30, 2024, the cash held by financial institutions totaling \$1,816,791 was entirely insured and collateralized as described above. Total reconciling items (deposits and checks in transit) totaled (\$214,119).

**Cash and Investments in the County Comingled Pool** – As of June 30, 2024, cash and investments of \$42,130 was held in the Santa Clara County's comingled pool, which is managed by the Santa Clara County Treasurer. The County's Treasury Oversight Committee is responsible for the regulatory oversight of the comingled pool. The County reports all of its investments, including the investments of its comingled pool, at fair value. The County Treasurer determines the fair value of the pool on a monthly basis, based on quoted market prices. The value of the pooled shares that may be withdrawn is based upon amortized cost, which is different than the fair value. Realized and unrealized earnings and losses are allocated annually to comingled investment pool participants based on the participants' average daily cash balance relative to the entire pool. Information regarding the County's cash and investments, including custodial risk categories, collateral, and maturities, can be found in the notes of the County's basic financial statements. The County Comingled Pool is not registered with the Securities and Exchange Commission (SEC) and is not rated.

### Fair Value Measurements

The Commission categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. These principles recognize a three-tiered fair value hierarchy, as follows:

- Level 1 inputs are quoted prices in active markets for identical assets
- Level 2 inputs are prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active
- Level 3 inputs are significant unobservable inputs.

The Commission’s investments have the following recurring fair value measurements as of June 30, 2024:

| Investment   | Investment Value     | Fair Value Measuring Using                                    |   |   |
|--|----------------------|---|---|---|
|  |                      | Quoted Price in Active Markets for Identical Assets (Level 1) | Significant other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| U.S. Treasury obligations                              | \$ 13,465,152        | \$ -  | \$ 13,465,152                                 | \$ -                                      |
| Federal agency securities                              | 3,224,125            | -   | 3,224,125                                     | -   |
| Asset backed security                                  | 918,665              | -   | 918,665                                       | -   |
| Corporate bonds and notes                              | 6,088,052            | -   | 6,088,052                                     | -   |
|  | <u>23,695,994</u>    | <u>\$ -</u>   | <u>\$ 23,695,994</u>                          | <u>\$ -</u>                               |
| <b>Investments Not Subject to Fair Value Hierarchy</b> |                      |   |   |   |
| Money market mutual funds                              | 1,179,553            |   |   |   |
| County investment pool                                 | <u>42,130</u>        |   |   |   |
| Total pooled and direct investments                    | <u>\$ 24,917,677</u> |   |   |   |

Deposits and withdrawals of Funds held in the County Investment Pool are made on the basis of \$1 and not fair value, accordingly, FIRST 5 Santa Clara County’s proportionate share of investments in the County of Santa Clara County Investment Pool at June 30, 2024, of \$42,130 is an uncategorized input, not defined as a level 1, level 2 or level 3 input and approximates fair value. The valuation of the Money Market Mutual funds is at one-dollar net asset value (NAV) per share. Money Market Mutual funds may be redeemed daily.

### Note 3 - Lease Receivable

The Commission as a lessor leases various office spaces to 4 different tenants on a fixed monthly fee. The remaining receivable for these leases was \$449,035 for the year ended June 30, 2024. Deferred inflows related to these leases were \$420,015 as of June 30, 2024. Interest revenue recognized on these leases was \$19,076 for the year ended June 30, 2024. Principal receipts of \$181,241 were recognized during the fiscal year. The interest rate on the leases ranged from 1.46% to 5.99%. Final receipt is expected between September 2024 to August 2037 depending on the lease.



**Note 4 - Capital Assets**

A summary of changes in capital assets recorded in governmental activities follows:

|   | Balance<br>July 1, 2023 | Increases    | Decreases | Balance<br>End of Year |
|---|-------------------------|--------------|-----------|------------------------|
| Capital assets not being depreciated                                  |                         |              |           |                        |
| Land  | \$ 2,357,856            | \$ -         | \$ -      | \$ 2,357,856           |
| Capital assets being depreciated                                      |                         |              |           |                        |
| Building  | 3,000,908               | -            | -         | 3,000,908              |
| Building improvements   | 1,356,434               | -            | -         | 1,356,434              |
| Furniture and equipment   | 311,773                 | -            | -         | 311,773                |
| Total capital assets being depreciated                                | 4,669,115               | -            | -         | 4,669,115              |
| Less accumulated depreciation for                                     |                         |              |           |                        |
| Building  | 2,675,854               | 150,045      | -         | 2,825,899              |
| Building improvements   | 1,173,818               | 67,822       | -         | 1,241,640              |
| Furniture and equipment   | 296,622                 | 6,976        | -         | 303,598                |
| Total accumulated depreciation  | 4,146,294               | 224,843      | -         | 4,371,137              |
| Total capital assets being depreciated, net                           | 522,821                 | (224,843)    | -         | 297,978                |
| Right to use lease assets being amortized                             | -                       | 37,131       | -         | 37,131                 |
| Less accumulated amortization for right to use lease assets           | -                       | 1,178        | -         | 1,178                  |
| Total right to use lease assets being amortized, net                  | -                       | 35,953       | -         | 35,953                 |
| Right to use subscription IT assets being amortized                   | 129,984                 | 88,584       | -         | 218,568                |
| Less accumulated amortization for right to use subscription IT assets | 14,443                  | 75,188       | -         | 89,631                 |
| Total right to use subscription IT assets being amortized, net        | 115,541                 | 13,396       | -         | 128,937                |
| Total capital assets, net   | \$ 2,996,218            | \$ (175,494) | \$ -      | \$ 2,820,724           |

Depreciation expense for the year ended June 30, 2024, was \$224,843 and amortization expense was \$76,366. Depreciation expense and amortization expense is included in the early childhood development function on the statement of activities.

**Note 5 - Leases**

During the current year, the Commission entered into a lease agreement as lessee for the use of copier equipment. As of June 30, 2024, the value of the lease liability was \$36,150. The Commission is required to make monthly principal and interest payments of \$684 through August 2029. The lease liability was valued using a discount rate of 5.7% based on the Commission’s incremental borrowing rate.

A summary of the changes in the lease liability during the year ended June 30, 2024 is as follows:

|                 | Balance<br>Beginning of<br>Year | Increases | Decreases | Balance<br>End of Year | Amount Due<br>within one year |
|-----------------|---------------------------------|-----------|-----------|------------------------|-------------------------------|
| Lease Liability | \$ -                            | \$ 37,131 | \$ 981    | \$ 36,150              | \$ 5,774                      |

Remaining obligations associated with the lease liability are as follows:

| Fiscal Year<br>Ended June 30, | Principal | Interest |
|-------------------------------|-----------|----------|
| 2025                          | \$ 5,774  | \$ 1,746 |
| 2026                          | 6,649     | 1,554    |
| 2027                          | 7,036     | 1,167    |
| 2028                          | 7,446     | 757      |
| 2029                          | 7,880     | 323      |
| Thereafter                    | 1,365     | 2        |
| Total                         | \$ 36,150 | \$ 5,549 |

**Note 6 - Subscription-Based Information Technology Arrangements (SBITA)**

The Commission has entered into SBITA’s for the use various software. As of June 30, 2024, the value of the SBITA liability was \$101,371. The Commission is required to make annual principal and interest payments of \$375 to \$45,400 through August 2025. The SBITA liability was valued using a discount rate of 4.9% through 6.3% based on the Commission’s incremental borrowing rate.

A summary of the changes in the subscription liability during the year ended June 30, 2024 is as follows:

|                           | Balance<br>Beginning of Year | Increases | Decreases | Balance<br>End of Year | Amount Due<br>within one year |
|---------------------------|------------------------------|-----------|-----------|------------------------|-------------------------------|
| Subscription IT Liability | \$ 84,584                    | \$ 88,584 | \$ 71,797 | \$ 101,371             | \$ 74,428                     |

Remaining obligations associated with the subscription liability are as follows:

| Fiscal Year<br>Ended June 30, | Principal  | Interest |
|-------------------------------|------------|----------|
| 2025                          | \$ 74,428  | \$ 3,217 |
| 2026                          | 26,943     | 250      |
| Total                         | \$ 101,371 | \$ 3,467 |

**Note 7 - Compensated Absences**

Changes in the compensated absences liability for the fiscal year ended June 30, 2024, are summarized as follows:

|                      | Balance<br>Beginning<br>of Year | Increases  | Decreases  | Balance<br>End of Year | Amount Due<br>within one year |
|----------------------|---------------------------------|------------|------------|------------------------|-------------------------------|
| Compensated Absences | \$ 443,804                      | \$ 462,047 | \$ 454,169 | \$ 451,682             | \$ 410,985                    |

Compensated absences are typically liquidated by the General Fund.

**Note 8 - Post-Employment Benefits**

***Deferred Compensation Plan***

The Commission offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457 (the "457 Plan"). The 457 Plan is available to all employees, excluding employees who work less than 20 hours a week, and permits them to defer a portion of their salary until future years. The 457 Plan is administered by the American Trust Company. The Commission has no administrative involvement and does not perform the investing function. The 457 Plan assets are not included in the Commission's financial statements.

***Retirement Plan***

In November 2001, the Commission's Board approved the implementation of an Internal Revenue Code Section 401(a) Retirement Plan (the "Plan") effective January 1, 2002 for all Commission employees. The Plan is a defined contribution plan administered by the American Trust Company. The Plan is open to all employees, excluding employees who work less than 20 hours per week. Currently, 47 participants are enrolled in the Plan. The Plan provides retirement benefits based on the employee's salary and years of service.

Employees who were hired before February 1, 2021, attain full vesting rights after three years of service. Those who hired on or after February 1, 2021, achieve full vesting after completing five years of employment. The Plan requires employer contributions of 7% of employee’s compensation. The Commission’s contributions under this requirement were \$397,870 for the year ended June 30, 2024. The Commission also contributes a dollar-for-dollar match on the elective deferrals noted in the deferred compensation plan to a maximum of 5% of each employee’s annual compensation. The Commission’s contributions were \$209,594 for the year ended June 30, 2024. Additional supplemental contributions may be made by the Commission based on a compensation arrangement between employee and the Commission. The contribution requirements of Plan members and the Commission are established by and may be amended by the American Trust Company.

**Note 9 - Risk Management**

The Commission is exposed to various risks of loss related to torts: theft, damage, and/or destruction of assets; errors and omissions; injuries to employees; natural disasters; unemployment; and health benefits to employees. The Commission has purchased insurance to cover general liability up to \$5 million, workers compensation up to \$5 million, property insurance up to \$25 million, auto liability up to \$5 million, and employment practice up to \$2 million.

During the year ending June 30, 2024, the Commission had no settlements exceeding insurance coverage for these categories of risk. For the past three years, settlements or judgment amounts have not exceeded insurance provided for the FIRST 5 Santa Clara County.

**Note 10 - Significant Grantees**

The Commission has fifteen grantees who obtained approximately 78% of total grant expenditures for the year ended June 30, 2024. These grantees also make up approximately 82% of accounts payable as of June 30, 2024.

**Note 11 - Related Party Transactions**

Throughout the year, the Commission also provides grants to organizations in which the Commissioners are involved. The Commissioners involved in the grantee organization abstain from voting on any grant related matters, including the approval process of the grant. The following is a summary of the approved grants, actual grant expenditures, and outstanding accounts payable with grants in which Commissioners were involved for the years ended June 30, 2024:

| Related Party                          | Fiscal Year 2023-24<br>Expenditures |
|--|-------------------------------------|
| County of Santa Clara                  | \$ 1,684,824                        |
| Santa Clara County Office of Education | 567,730                             |
| Valley Health Foundation               | 406,476                             |
|  | \$ 2,659,030                        |

The following table shows balances due to agencies represented by Commissioners at June 30, 2024:

| Related Party                          | Amount Due   |
|--|--------------|
| County of Santa Clara                  | \$ 1,506,891 |
| Santa Clara County Office of Education | 184,599      |
| Valley Health Foundation               | 74,919       |
| Santa Clara County Library District    | 2,835        |
|  | \$ 1,769,244 |

The following table shows receivables (amount due) and revenue with agencies represented by Commissioners for the fiscal year ended June 30, 2024:

| Related Party                              | Amount Due<br>to Commission | Fiscal Year 2023-24<br>Revenues |
|--|-----------------------------|---------------------------------|
| County of Santa Clara                      | \$ 1,326,665                | \$ 3,183,421                    |
| Santa Clara County, Social Services Agency | 51,376                      | 720,000                         |

**Note 12 - Program Evaluation Costs**

The Commission spent \$378,816 on program evaluation during year ended June 30, 2024.



Required Supplementary Information  
For the Year Ended June 30, 2024

## FIRST 5 Santa Clara County

FIRST 5 Santa Clara County

Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund  
For the Year Ended June 30, 2024

|   | Budgeted amounts      |                       | Actual<br>Amounts  | Variance with<br>Final budget -<br>Positive<br>(negative) |
|---|-----------------------|-----------------------|--------------------|---|
|   | Original              | Final                 |                    |   |
| <b>Revenues</b>   |                       |                       |                    |   |
| Proposition 10 taxes                                      | \$ 11,585,041         | \$ 11,585,041         | \$ 11,032,211      | \$ (552,830)  |
| Grant revenue   | 9,796,855             | 10,571,232            | 9,887,359          | (683,873)   |
| Rental income   | 131,244               | 131,244               | 180,015            | 48,771  |
| Investment income (loss)                                  | 188,340               | 188,340               | 1,267,982          | 1,079,642   |
| Medi-Cal administrative agreement<br>reimbursement income | 2,055,800             | 2,055,800             | 2,187,347          | 131,547   |
| Other income  | 152,484               | 152,484               | 184,415            | 31,931  |
| <b>Total revenues</b>                                     | <b>23,909,764</b>     | <b>24,684,141</b>     | <b>24,739,329</b>  | <b>55,188</b>   |
| <b>Expenditures</b>                                       |                       |                       |                    |   |
| <b>Current</b>  |                       |                       |                    |   |
| Salaries and benefits                                     | 8,340,926             | 8,040,927             | 7,581,859          | 459,068   |
| Supplies and services                                     | 2,759,183             | 3,059,183             | 2,312,881          | 746,302   |
| Grant expenditures  | 21,786,737            | 22,681,514            | 18,274,881         | 4,406,633   |
| <b>Debt Service</b>                                       |                       |                       |                    |   |
| Principal   | -                     | -                     | 72,778             | (72,778)  |
| Interest  | -                     | -                     | 6,829              | (6,829)   |
| Capital Outlay  | -                     | -                     | 125,715            | (125,715)   |
| <b>Total expenditures</b>                                 | <b>32,886,846</b>     | <b>33,781,624</b>     | <b>28,374,943</b>  | <b>5,406,681</b>  |
| <b>Other Financing Sources</b>                            |                       |                       |                    |   |
| IT Subscription   | -                     | -                     | 88,584             | (88,584)  |
| Leases  | -                     | -                     | 37,131             | 37,131  |
| <b>Net change in fund balance</b>                         | <b>\$ (8,977,082)</b> | <b>\$ (9,097,483)</b> | <b>(3,509,899)</b> | <b>\$ 5,587,584</b>                                       |
| Fund Balance - beginning of year                          |                       |                       | 25,877,809         |   |
| Fund Balance - end of year                                |                       |                       | \$ 22,367,910      |   |

**Note 1 - Budget**

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

An operating budget is adopted each fiscal year in accordance with generally accepted accounting principles based on estimates of revenues and anticipated expenditures. 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 unpaid contracts in process at year-end are fully performed by year-end or purchase commitments satisfied. Unencumbered appropriations lapse at year-end and encumbrance balances that will not be honored are liquidated.

The legal level of budgetary control (the level on which expenditures may not legally exceed appropriations) is at the total fund level. First 5 does not establish a budget for capital outlay, debt service, or other financing sources / (uses).





Supplementary Information  
For the Year Ended June 30, 2024

# FIRST 5 Santa Clara County

FIRST 5 Santa Clara County

Schedule of Revenues and Expenditures by Fund Source and Fund Balance of CCFC Funds for First 5 Programs

For the Year Ended June 30, 2024

|              | <b>IMPACT</b>    |                     |
|--------------|------------------|---------------------|
|              | <u>FIRST 5</u>   | <u>County/Local</u> |
| Revenues     | \$ 791,091       | \$ -                |
| Expenditures | <u>(791,091)</u> | <u>-</u>            |
|              | <u>\$ -</u>      | <u>\$ -</u>         |



Compliance Reports  
For the Year Ended June 30, 2024  
**FIRST 5 Santa Clara County**



**Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance  
and Other Matters Based on an Audit of Financial Statements Performed in Accordance  
with *Government Auditing Standards***

To the Board of Commissioners for  
FIRST 5 Santa Clara County  
San Jose, 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 FIRST 5 Santa Clara County Children and Families Commission (FIRST 5 Santa Clara County or the Commission), a component unit of the County of Santa Clara, California, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Commission’s basic financial statements and have issued our report thereon dated October 7, 2024.

**Report on 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) as a basis for designing 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 Commission’s financial statements will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

## **Report on 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 financial statements. 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.

A handwritten signature in black ink that reads "Eide Sully LLP". The signature is written in a cursive, flowing style.

Sacramento, California  
October 7, 2024



## Independent Auditor's Report on State Compliance

To the Board of Commissioners for  
FIRST 5 Santa Clara County  
San Jose, California

### Report on Compliance

#### *Opinion*

We have audited the FIRST 5 Santa Clara County Children and Families Commission's (FIRST 5 Santa Clara County or the Commission), a component unity of the County of Santa Clara, California, compliance with the requirements specified in the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, issued by the State Controller's Office, applicable to the Commission's statutory requirements identified below for the year ended June 30, 2024.

In our opinion, the Commission complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the California Children and Families Program for the year ended June 30, 2024.

#### *Basis for Opinion*

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS), 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Commission and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit does not provide a legal determination of the Commission's compliance with the compliance requirements referred to above.

#### *Responsibilities of Management for Compliance*

Management is responsible for compliance with the requirements referred to above, and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the California Children and Families Program.

**Auditor’s Responsibilities for the Audit of Compliance**

Our objectives are to obtain reasonable assurance about whether the material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Commission’s compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the State of California’s *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Commission’s compliance with the requirements of the California Children and Families Program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the State of California’s *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Commission’s compliance with the compliance requirements referred to above and performing such other procedures as we consider necessary in the circumstances;
- Obtain an understanding of the Commission’s internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the State of California’s *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, but not for the purpose of expressing an opinion on the effectiveness of the Commission’s internal controls over compliance. Accordingly, we express no such opinion; and
- Select and test transactions and records to determine the Commission’s compliance with the state laws and regulations applicable to the following items:

| Description                           | Audit Guide<br>Procedures | Procedures<br>Performed |
|---------------------------------------|---------------------------|-------------------------|
| Contacting 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                     |

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identify during the audit.

### **Internal Control over Compliance**

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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



Sacramento, California  
October 7, 2024



**Financial Statement Findings**

| <u>Finding No.</u> | <u>Category</u>                    | <u>Status of Corrective Action</u> |
|--------------------|------------------------------------|------------------------------------|
| 2023-001           | Receivable and Revenue Recognition | Implemented                        |
| 2023-002           | Bank Reconciliation Approvals      | Implemented                        |