FIRST 5 MARIN
CHILDREN AND FAMILIES COMMISSION

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

For the Year Ended June 30, 2018

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FIRST 5 MARIN CHILDREN AND FAMILIES COMMISSION
FOR THE YEAR ENDED JUNE 30, 2018

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INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
First 5 Marin Children and Families Commission
San Rafael, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of the First 5 Marin Children and Families Commission (Commission), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the supplementary information, such as management's discussion and analysis, budgetary comparison information, schedule of proportionate share of the net pension liability, and schedule of pension contributions on pages 3-7 and 31 - 32 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2018 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 Commission's internal control over financial reporting and compliance.

Vavrinek, Trine, Day LLP

Palo Alto, California
October 15, 2018

FIRST 5 MARIN CHILDREN AND FAMILIES COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)
JUNE 30, 2018

This section of First 5 Marin Children and Families Commission's (Commission) annual financial report presents our discussion and analysis of the Commission's financial performance for the fiscal year that ended June 30, 2018. Please read it in conjunction with the Commission's financial statements, which immediately follow this section.

FISCAL 2018 FINANCIAL HIGHLIGHTS

Financial highlights of the year include the following:

At the close of fiscal year 2017-18, the Commission's assets plus deferred outflows exceeded its liabilities plus deferred inflows by $5,480,355 (net position), a decrease of 3% from the previous year. The net position is classified as unrestricted, which is available to meet the Commission's ongoing obligations. The change in net position is attributed to expenses for programs being closer to budgeted amount and considerably lower revenue than in the previous year.

Total Commission revenues for fiscal year 2017-18 are substantially from Marin County's portion of state tobacco tax revenue. Our allocation for $1,330,125 is a decrease of $213,560, or 14%, from the prior year's amount of $1,543,685. This decrease was anticipated when the new tobacco tax was passed in 2016 and Prop 10 backfill was not slated to be received until FY18-19. Total expenses for fiscal year 2017-18 were $1,499,095, an increase of $321,193, or 27%, from prior year expenses of $1,177,902.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Commission's financial report includes:

1. The basic financial statements, which include the *government-wide financial statements* and the *fund financial statements*
2. Notes to the financial statements
3. Required supplementary information
4. Other supplementary information

<u>Government-Wide Financial Statements</u>

The *government-wide financial statement*s provide a broad overview of the Commission's activities as a whole and are comprised of the *statement of net position* and the *statement of activities*. The *statement of net position* provides information about the financial position of the Commission on the full accrual basis, similar to that used in the private sector. It shows the Commission's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. The *statement of activities* provides information about the Commission's revenues and all its expenses, also on the full accrual basis, and explains in detail the change in net position for the year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. 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 *fund financial statements* report essentially the same functions as those reported in the government-wide financial statements. However, unlike the government-wide financial statements, the fund financial statements report the Commission's operations in more detail and focus primarily on the short-term activities of the Commission. The 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.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and general fund financial statements.

SUPPLEMENTARY INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents certain other supplementary information concerning the Commission's finances.

FINANCIAL INFORMATION

The following is a summary of the Commission's statement of net position comparing balances at June 30, 2018 and June 30, 2017.

	Governmental Activities		
	2018	2017	Change
Assets:			
Current and other assets	$ 5,911,428	$ 5,978,027	$ (66,599)
Noncurrent assets	3,864	3,864	-
Total Assets	5,915,292	5,981,891	(66,599)
Deferred outflows of resources:	101,139	82,507	18,632
Liabilities:			
Current liabilities	200,040	148,696	51,344
Noncurrent liabilities	306,588	255,874	50,714
Total Liabilities	506,628	404,570	102,058
Deferred inflows of resources:	29,448	13,743	15,705
Net Position:			
Unrestricted	5,480,355	5,646,085	(165,730)
Total Net Position	$ 5,480,355	$ 5,646,085	$ (165,730)

The Commission's net position from governmental activities decreased from $5,646,085 in 2017 to $5,480,355 in 2018. The $165,730 decrease in net position is primarily attributed to a significant decrease in revenue and an increase in program expenses for fiscal year 2017-18.

Total assets decreased $66,599, or 1%, from the prior year. The most significant portion of the Commission's current assets is its cash and investment balances. Cash is maintained in the Marin County treasury investment pool, where interest earned on the Commission's balance is apportioned to the Commission. The Commission also maintains an investment portfolio managed in accordance with its investment policy, with objectives of capital preservation and maintenance of liquidity, while providing a rate of return.

Current liabilities for the year ending June 30, 2018, increased $51,344 or 35% from the prior year due to increased payables on program contracts.

Noncurrent liabilities at June 30, 2018, consist primarily of the CalPERS net pension liability for $270,976, an increase of $50,714 or 20% from the previous year. The primary reason for the variance is the fluctuation of the actuarially determined CalPERS net pension liability.

At June 30, 2018, the Commission reported deferred outflows of resources and deferred inflows of resources in the amounts of $101,139 and $29,448, respectively. The deferred outflows (inflows) of resources represent amounts that will increase (decrease) pension expense in subsequent periods.

The following is a summary of the Commission's revenue, expense and change in net position comparing fiscal year 2017-18 with fiscal year 2016-17:

	Governmental Activities		
	2018	2017	Change
Program Revenues:			
Proposition 10 tobacco tax	$ 1,271,051	$ 1,543,685	$ (272,634)
Proposition 56 tobacco tax	59,074	-	59,074
Total Program Revenues	1,330,125	1,543,685	(213,560)
General Revenues:			
Investment income	3,240	(282)	3,522
Total Revenues	1,333,365	1,543,403	(210,038)
Expenses:			
Program and services	1,326,274	999,190	327,084
Evaluation	109,948	116,387	(6,439)
General administration	62,873	62,325	548
Total Expenses	1,499,095	1,177,902	321,193
Change in net position	(165,730)	365,501	(531,231)
Net position, beginning of year	5,646,085	5,280,584	365,501
Net position, end of year	$ 5,480,355	$ 5,646,085	$ (165,730)

Tobacco tax revenues decreased by $213,560, or 14% compared to 2016-17. This decrease was anticipated when the new tobacco tax was passed in 2016 and Prop 10 backfill was not slated to be received until fiscal year 2018-19.

The Commission allocates its expenses based on four strategic results identified in its 2017-2022 Strategic Plan: Partnership for Change, Grassroots Capacity, Public Education and Public Policy Advocacy. In accordance with State Law, the Commission also maintains a cost center which reflects our Evaluation efforts. The Commission expended $1,499,095 in fiscal year 2017-2018 compared to $1,177,902 in the previous fiscal year. This is an increase in expenses of $321,193 or 27%. The increase is primarily due to continued roll-out of previously approved initiatives as well as the Commission's responses to emerging and urgent issues impacting children and families throughout the course of the year. One example is the Commission's response to the North Bay fires.

Financial Analysis of the Governmental Fund

The fluctuations in the Commission's General Fund revenues and expenditures from the year ended June 30, 2017 to June 30, 2018 are similar to those in the Government-wide Statement of Activities. Differences between the General Fund and the governmental activities arise primarily due to differences in accounting treatment for compensated absences and retirement resulting from the governmental fund financial statements being reported on a modified accrual basis of accounting.

General fund balance decreased $117,943 because of lower revenues and new program funding.

GENERAL FUND BUDGETARY HIGHLIGHTS

Total revenues were less than budgeted by $12,598, or 9%, and total expenditures were less than the budgeted amount by $701,475 or 33%. The revenue decrease is due to Proposition 10, interest and other revenue being lower than budgeted. Total expenditures were less than budgeted due to some continuing funded projects taking more time than anticipated to be implemented. The Commission allocates specific pools of funds in anticipation of new projects in each of the priority strategy areas. Because initiatives are community-driven and designed (with First 5 Marin), they often take longer than expected to come to fruition.

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

The State projects a continuing decrease of Proposition 10 Tobacco Surtax revenue and, therefore, in the share allocated to the Commission due to a decline in tobacco consumption. The decrease is projected to be approximately 3-4% for fiscal year 2018-19. The backfill required for Proposition 10 revenue will "catch up" with decreasing revenues in fiscal year 2018-19, bringing the Commission roughly back to the funding level received in FY 16-17.

REQUEST FOR INFORMATION

This annual report is intended to provide the community with a general overview of the Commission's finances. Questions about this report should be directed to the Commission's Executive Director at 1050 Northgate Drive, Suite 130, San Rafael, CA 94903.

FIRST 5 MARIN CHILDREN AND FAMILES COMMISSION
STATEMENT OF NET POSITION
JUNE 30, 2018

	Governmental Activities
ASSETS	
Current Assets:	
Cash and investments	$ 5,630,703
Accounts receivable	259,950
Interest receivable	20,775
Total current assets	5,911,428
Noncurrent Assets:	
Deposit	3,864
Total assets	5,915,292
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pensions	101,139
LIABILITIES	
Current Liabilities:	
Accounts payable	181,289
Accrued wages and benefits	9,207
Compensated absences	9,544
Total current liabilities	200,040
Noncurrent Liabilities:	
Compensated absences	35,612
Net pension liability	270,976
Total noncurrent liabilities	306,588
Total liabilities	506,628
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pensions	29,448
NET POSITION	
Unrestricted	5,480,355
Total net position	$ 5,480,355

The accompanying footnotes are an integral part of these financial statements.

FIRST 5 MARIN CHILDREN AND FAMILES COMMISSION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

		Program Revenues	Net (Expense) Revenue and Changes in Net Position
Functions/Programs	Expenses	Operating Grants and Contributions	Governmental Activities
Governmental activities:			
Early childhood development	$ 1,499,095	$ 1,330,125	$ (168,970)
General Revenues:			
Investment income			3,240
Change in net position			(165,730)
Net Position - beginning			5,646,085
Net Position - ending			$ 5,480,355

The accompanying footnotes are an integral part of these financial statements.

FIRST 5 MARIN CHILDREN AND FAMILIES COMMISSION
GOVERNMENTAL FUND BALANCE SHEET
JUNE 30, 2018

	General Fund
ASSETS	
Cash and investments	$ 5,630,703
Accounts receivable	259,950
Interest receivable	20,775
Total assets	$ 5,911,428
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	$ 29,381
Accrued expenditures	151,908
Accrued wages and benefits	9,207
Total liabilities	190,496
FUND BALANCES	
Committed	2,768,153
Assigned	2,952,779
Total fund balance	5,720,932
Total liabilities and fund balance	$ 5,911,428

The accompanying footnotes are an integral part of these financial statements.

FIRST 5 MARIN CHILDREN AND FAMILIES COMMISSION
RECONCILIATION OF GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2018

Fund balance of governmental fund	$ 5,720,932
Amounts reported for governmental activities in the statement of net position are different because of the following items:	
Deferred outflows of resources related to pensions is not a current financial resource and therefore is not reported on the general fund balance sheet.	101,139
The Commission placed a deposit with the lessor in connection with its leased office facility. The deposit is not a current financial resource and therefore is not reported on the general fund balance sheet.	3,864
Long-term liabilities are not due and payable in the current period and therefore are not reported as fund liabilities:	
Net pension liability	(270,976)
Compensated absences	(45,156)
Deferred inflows of resources related to pensions are not due and payable with current financial resources, and therefore are not reported on the general fund balance sheet.	(29,448)
Net position of governmental activities	$ 5,480,355

The accompanying footnotes are an integral part of these financial statements.

FIRST 5 MARIN CHILDREN AND FAMILIES COMMISSION
GOVERNMENTAL FUND STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2018

	General Fund
REVENUES	
Tobacco tax, Proposition 10	$ 1,271,051
Tobacco tax, Proposition 56	59,074
Investment income	3,240
Total Revenues	1,333,365
EXPENDITURES	
Current	
Partnership for change	735,033
Grassroot capacity	129,494
Public education	270,031
Public policy advocacy	149,432
Evaluation	106,447
General administration	60,871
Total Expenditures	1,451,308
Net change in fund balance	(117,943)
Fund balance - beginning	5,838,875
Fund balance - ending	$ 5,720,932

The accompanying footnotes are an integral part of these financial statements.

FIRST 5 MARIN CHILDREN AND FAMILIES COMMISSION
RECONCILIATION OF THE CHANGE IN FUND BALANCE
TO THE CHANGE IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

Net change in fund balance - total governmental funds	$	(117,943)
Amounts reported for governmental activities in the statement of activities differs from the amounts reported in the statement of revenues, expenditures and changes in fund balance because of the following items:		
Compensated absences expenses 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 compensated absences liability.		(3,239)
Governmental funds report pension contributions as expenditures. However, in the statement of activities, pension expense is measured as the change in net pension liability and the amortization of deferred outflows and inflows related to pensions. This amount represents the net change in pension related amounts.		(44,548)
Change in net position of governmental activities	$	(165,730)

The accompanying footnotes are an integral part of these financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Marin Children and Families Commission (Commission) is a local commission formed in accordance with Section 130100-130150 of the California Health and Safety Code. The Commission is also known as First 5 Marin.

On December 15, 1998, the Marin County Board of Supervisors passed and adopted Ordinance 3288 amending the Marin County Code to add Chapter 2-41, which created the Marin County Children and Families Commission and the Marin County Children and Families Trust Fund.

A governing board consisting of at least five but not more than nine members, which are appointed by the Marin County Board of Supervisors, administers the Commission. The membership consists of two members from the County's Department of Health and Human Services, one member from the County's Board of Supervisors and the remaining members are selected from one or more of the following categories: tobacco control, recipients of project services, educators specializing in early childhood development, representatives of local resource and referral agencies, representatives from local child care coordinating groups, representatives from local organizations specializing in early intervention for families at risk, representatives from community-based organizations that have the goal of promoting nurturing and early childhood development, representatives from local school districts, and representatives from local medical, pediatric, or obstetric associations or societies.

Basis of Accounting, Basis of Presentation, and Measurement Focus

The basic financial statements of the Commission are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

<u>Government-Wide Financial Statements</u>

Government-wide financial statements consist of the statement of net position and the statement of activities. These statements are presented on an economic resources measurement focus. All economic resources and obligations of the reporting government are reported in the financial statements.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Commission gives (or receives) value without directly receiving (or giving) equal value in exchange, include tobacco taxes, grants, entitlements, and donations. Revenues are recognized in the fiscal year in which all eligibility requirements have been satisfied.

The government-wide financial statements have been prepared on the accrual basis of accounting. Under the accrual basis of accounting all assets, liabilities and deferred outflows and inflows of the Commission are included on the statement of net position. The difference between the Commission's assets, liabilities, deferred outflows of resources and deferred inflows of resources is net position. Net position represents the resources the Commission has available for use in providing services. Net position is reported as restricted when constraints are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The Commission's spending priority is to spend restricted resources first, followed by unrestricted. The Commission's net position is classified as follows on June 30, 2018:

Unrestricted – This category represents neither restrictions nor net investment in capital assets and may be used by the Commission for any purpose, though they may not be necessarily liquid.

Fund Financial Statements

The fund financial statements consist of the balance sheet and the statement of revenues, expenditures and changes in fund balance of the Commission's general fund. These statements are presented on a current financial resources measurement focus. Generally, only current assets and current liabilities are included on the balance sheet. The statement of revenues, expenditures and changes in fund balance for the governmental fund generally presents increases (revenues) and decreases (expenditures) in current resources. All operations of the Commission are accounted for in the general fund.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The Commission considers all revenues reported in the General Fund to be available if the revenues are collected within sixty days after fiscal year-end. Expenditures are recorded when the related liability is incurred, except for compensated absences, which are recognized as expenditures to the extent they have matured.

Capital Assets, Net of Accumulated Depreciation

The Commission capitalizes assets with a cost in excess of $5,000 and a useful life greater than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition value at the date of donation. The Commission has no capital assets as of June 30, 2018.

Compensated Absences

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.

Compensated absences consist of employee earned vacation time and personal holiday time and are accrued by the Commission when earned by the employee. Unused vacation time and personal holiday may be accumulated up to a specified maximum and are paid at the time of termination from Commission employment.

Paid personal time off is available to any permanent employee after successfully completing six months of work. Hours will accumulate according to the schedule and cannot exceed a maximum of 340 hours for any employee.

Year of Service	Hourly Standard Accrual	Maximum Vacation (Days/Year)
0-3	0.0385	10
3-5	0.0577	15
5 onward	0.077	20

Sick leave benefits are accumulated for each employee. The employees do not gain a vested right to accumulate sick leave. Accumulated employee sick leave benefits are not recognized as a liability of the Commission since payment of such benefits is not probable. Therefore, sick leave benefits are recorded as expenditures in the period the benefits are taken.

The accumulated dollar amount of unpaid employee vacation as of June 30, 2018 was $45,156.

Pensions

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

Use of Estimates

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

Fund Balance

Fund balance is classified based on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The Commission has established the following classifications and definitions of fund balance for the year ended June 30, 2018:

Nonspendable – Resources that cannot be spent because they are not in an expendable form (e.g. prepaid expense) or must be maintained intact (e.g. endowment principal).

Committed – Resources with self-imposed limitations and require both a formal action of the highest level of decision-making authority (Board of Commissioners) and the same formal action to remove or modify the limitations. The formal action for the Board of Commissioners is a majority vote to commit funds for a specific purpose through resolutions. This includes appropriation of a portion of existing fund balance sufficient to eliminate subsequent year's budget deficit, resources assigned to specific programs for which there is an approved budget and amounts for economic stabilization in the event of specific nonroutine events.

Assigned – The assigned portion of fund balance reflects the Commission's intended use of resources, which can be established either by the Commission Board or the Executive Director. The "assigned" fund balance is similar to the "committed" fund balance, with the difference that Commission formal action is not necessary to assign funds or later modify or remove them. This includes appropriation of a portion of existing fund balance sufficient to eliminate subsequent year's budget deficit, resources assigned to specific programs for which there is an approved budget, and resources approved by the Commission for a long range financial plan.

Unassigned – Resources that cannot be reported in any other classification.

The Commission's spending priority is to spend restricted fund balance first, followed by committed, assigned and unassigned fund balance.

The Commission has formally established a stabilization account, which is reported as a component of the general fund committed fund balance. The Commission's stabilization account policy requires an amount of committed fund balance of not less than 6 months of annual operating expenditures for a fiscal year. The stabilization amounts can only be used in emergency situations and requires action by the Commission. Emergency situations are not expected to occur routinely and cannot be readily foreseen by the Commission. As of June 30, 2018, the Commission has $750,000 in the stabilization account.

Refer to Notes 4 and 6 for more details regarding the Commission's stabilization arrangements, respectively.

Deferred Outflows/Inflows of Resources

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

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

New Accounting Pronouncements

The GASB has issued the following accounting pronouncements that will become effective in future fiscal years:

- GASB Statement No. 85, *Omnibus 2017*
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*
- GASB Statement No. 83, *Certain Asset Retirement Obligations*
- GASB Statement No. 84, *Fiduciary Activities*
- GASB Statement No. 87, *Leases*
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
- GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*
- GASB Statement No. 90, *Majority Equity Interests an amendment of GASB Statements No. 14 and No. 61*

The Commission has not determined the effect of these pronouncements.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments are classified in the financial statements as follows:

Cash and cash deposits	$ 314,794
Investments	5,315,909
Total cash and investments	$ 5,630,703

Investments consisted of the following at June 30, 2018:

Money market mutual funds	$ 395,579
Certificates of Deposit	1,348,475
Government bonds	2,299,038
Municipal bond	178,819
Corporate bond	887,977
Governmental external investment pools	206,021
Total investments	$ 5,315,909

The Commission has cash and investment policies including policies for exposure to credit risk (including custodial credit risk and concentration of credit risk) and interest rate risk. The Commission is authorized under California Government Code to make direct investments in the following:

Authorized investment type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Agency Securities	5 years	None	None
Medium-Term Corporate Notes	5 years	60%	None
Money Market Mutual Funds	N/A	20%	10%
Marin County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

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.

The following is a summary of the credit quality of the Commission's investment portfolio at June 30, 2018:

Investment Type	Fair Value	S & P Rating		
		AA	A	Unrated
U.S. Agencies	$ 2,299,036	$ 2,299,036	$ -	$ -
Municipal Bonds	178,819	178,819	-	-
Corporate Bonds	887,977	198,782	689,195	-
Money Market Mutual Funds	395,581	-	-	395,581
Certificates of Deposit	1,348,475	-	-	1,348,475
Marin County Pool	105,857	-	-	105,857
LAIF	100,164	-	-	100,164
Total	$ 5,315,909	$ 2,676,637	$ 689,195	$ 1,950,077

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: 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. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2018, the Commission's bank balance of $64,794 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the Commission. As of June 30, 2018, $5,109,888 of investment balances were exposed to custodial credit risk by not being insured or collateralized.

Concentration of Credit Risk

Investments in any one issuer that represent five percent or more of total investments are as follows:

Issuer	Reported Amount	
BMW Bank of North America of Salt Lake City	$ 242,266	5%
Discover Bank	239,992	5%
Federal Farm Credit Banks Funding Corporation	1,368,555	26%
Federal Home Loan Banks	537,939	10%
Federal National Mortgage Association	392,544	7%
Total	$ 2,781,296	

Interest Rate Risk

Interest rate risk is the measurement of how changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the sensitivity of the fair value of the Commission's investments to market interest rate fluctuations is provided in the following table that shows the distribution of the investment portfolio by maturity.

	Fair	Weighted Average Maturity	
Investment Type	Value	Less than 1 year	1 to 5 years
Marin County Pool	$ 105,857	$ 105,857	$ -
LAIF	100,164	100,164	-
Money Market Mutual Funds	395,581	395,581	-
Corporate Bonds	887,977	99,093	788,884
Certificates of Deposit	1,348,475	-	1,348,475
Municipal Bonds	178,819	100,439	78,380
U.S. Agencies	2,299,036	496,108	1,802,928
	$ 5,315,909	$ 1,297,242	$ 4,018,667

Fair Value Measurements

The Commission categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets that the Commission has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the Commission's own data.

Deposits and withdrawals in the Marin County Treasury Investment Pool and State Local Agency Investment Fund are made on the basis of $1 and not fair value. Accordingly, the Commission's proportionate share of investments in those funds at June 30, 2018 is an uncategorized input not defined as a Level 1, Level 2, or Level 3 input.

The Commission's fair value measurements are as follows at June 30, 2018:

		Fair Value Measurements Using			
Investment Type	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs	Uncategorized
U.S. Agencies	$ 2,299,036	$ -	$ 2,299,036	$ -	$ -
Municipal Bonds	178,819	-	178,819	-	-
Corporate Bonds	887,977	-	887,977	-	-
Money Market Mutual Funds	395,581	395,581	-	-	-
Certificates of Deposit	1,348,475	1,348,475	-	-	-
Marin County Pool	105,857	-	-	-	105,857
LAIF	100,164	-	-	-	100,164
Total	$ 5,315,909	$ 1,744,056	$ 3,365,832	$ -	$ 206,021

All assets have been valued using a market approach, with quoted market prices.

Reported investment income is comprised of the following components as of June 30, 2018:

Interest income	$ 70,790
Realized and unrealized loss in investments	(67,550)
Total investment income	$ 3,240

NOTE 3 – DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

Plan Description

All qualified permanent and probationary employees are eligible to participate in the Commission's Employee Pension Plan, (the Plan) a cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and Commission resolution. CalPERS acts as a common investment and administrative agent for its participating member employers. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website. Copies of the CalPERS annual financial reports may be obtained from the CalPERS Executive Office at 400 P Street, Sacramento, California 95814.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 or 52, depending on hire date, with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: The Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law. Benefit provisions and all other requirements are established by State statue and may be amended by the Commission's contract with the employees.

The Plan provisions and benefits in effect at June 30, 2018, are summarized as follows:

Hire Date	Prior to January 1, 2013	On or after January 1, 2013
Formula	2% at 55	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 55	52 - 67
Monthly benefits, as a % of annual salary	2.0% to 2.5%	1.0% to 2.5%
Required employee contribution rates	7.00%	6.25%
Required employer contribution rates	8.38%	6.55%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The Commission is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

For the year ended June 30, 2018, contributions were $22,227.

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

As of June 30, 2018, the Commission's reported net pension liability for its proportionate shares of the collective net pension liability is $270,976.

The Commission's net pension liability is measured as the proportionate share of the collective Plan's net pension liability. The net pension liability is measured as of June 30, 2017, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. The Commission's proportion of the net pension liability was based on the Commission's share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The Commission's proportionate share of the net pension liability as of June 30, 2017 and 2018 fiscal periods was as follows:

Proportion - June 30, 2016 measurement date	0.0064%
Proportion - June 30, 2017 measurement date	0.0069%
Increase in proportion	0.0005%

For the year ended June 30, 2018, the Commission recognized a pension expense of $66,775. On June 30, 2018, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Commission contributions subsequent to measurement date	$ 22,227	$ -
Differences between the Commission's contributions and proportionate share of contributions	-	16,452
Changes in assumptions	52,962	4,038
Net difference between projected and actual earnings on plan investments	11,978	-
Change in the Commission's proportion	13,545	2,843
Difference between expected and actual experience	427	6,115
Total	$ 101,139	$ 29,448

Reported as deferred outflows of resources related to contributions subsequent to the measurement date is $22,227, which will be recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	$ 11,535
2020	27,537
2021	17,503
2022	(7,111)
	$ 49,464

Actuarial Assumptions

The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions for the collective miscellaneous plans:

	Miscellaneous
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	Varies by Entry-Age and Service
Investment Rate of Return	7.65% (1)
Mortality	(2)

(1) Net of pension plan investment and administrative expenses, includes inflation.
(2) The probabilities of mortality are based on the 2010 CalPERS experience study for the period from 1997 to 2011.

All other actuarial assumptions used in the June 30, 2015, valuation were based on the results of a 2010, actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

Discount Rate

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

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

In determining the long-term expected rate of return, CalPERS' staff took into account both short-term and long-term market return expectations as well as the expected pension fund (Public Employees' Retirement Fund) cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective on July 1, 2014.

Asset Class	Current Target Allocation	(1) Real Return Years 1 - 10	(2) Real Return Years 11+
Global Equity	47.00%	4.90%	5.38%
Global Fixed Income	19.00%	0.80%	2.27%
Inflation Sensitive	6.00%	0.60%	1.39%
Private Equity	12.00%	6.60%	6.63%
Real Estate	11.00%	2.80%	5.21%
Infrastructure and Forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%
	100.00%		

(1) An expected inflation of 2.5% used for this period.
(2) An expected inflation of 3.0% used for this period.

Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Commission's proportionate share of the net pension liability, as well as what the Commission's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	1% Decrease	Current Discount Rate	1% Increase
Discount Rate	6.15%	7.15%	8.15%
Commission's Net Pension Liability	$ 445,553	$ 270,976	$ 126,389

Pension Plan Fiduciary Net Position

Detailed information about the Plan's fiduciary net position is available in the separately issued CalPERS financial report.

NOTE 4 – FUND BALANCE

Fund balance is classified using a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Fund balance at June 30, 2018 consisted of the following:

Committed	
Economic stabilization	$ 750,000
Child development programs	
Evaluation	125,089
Grassroots Capacity	215,537
Partnerships for Change	1,066,020
Public Education	206,675
Public Policy and Advocacy	404,832
Total committed for child development programs	2,018,153
Total committed fund balance	2,768,153
Assigned	
Local Initiatives and Program Sustainability	2,952,779
Total fund balance	$ 5,720,932

NOTE 5 – COMMITMENTS AND CONTINGENCIES

Operating Leases

The Commission leases office space from third parties under long-term noncancelable operating leases. The lease will expire after January 2022. Rent expense was $38,778 for the year ended June 30, 2018. Future minimum lease payments under the agreement are as follows:

Fiscal Year Ended June 30,	Amount
2019	$ 48,652
2020	50,111
2021	51,615
2022	30,629
	$ 181,007

NOTE 6 – STABILIZATION ARRANGEMENT

In October of 2013, the governing board adopted a resolution establishing a stabilization account. Under the resolution, a part of the fund balance of the general fund is committed for stabilization arrangements to satisfy outstanding liabilities and meet contractual financial obligations under the Commission's Strategic Plan. The specific events that will allow access to the stabilization account are actions taken by the California legislature, voters, or other parties to redirect First 5 funding, repeal the proposition establishing First 5 Commissions, or otherwise limit the revenue available to the Commission in a manner that is other than from events that are expected to occur routinely.

At June 30, 2018, $750,000 of the fund balance of the general fund was reported as committed for economic stabilization.

NOTE 7 – PROGRAM EVALUATION

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

For the year ended June 30, 2018, the Commission expended $144,893 for program evaluation on a full accrual basis.

NOTE 8 – RISK MANAGEMENT

The Commission is exposed to various risks of loss related to the loss of, damage to and destruction of assets caused by accidents, forces of nature, and the requirements of the California Labor Code.

The Commission mitigates its exposure to loss through purchase of private insurance. During the year ending June 30, 2018, the Commission has 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 Commission.

REQUIRED SUPPLEMENTARY INFORMATION

FIRST 5 MARIN CHILDREN AND FAMILIES COMMISSION
SCHEDULE OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2018

	Approved Budgeted Amounts*	Actual Amounts	Variance - Positive (Negative)
REVENUES			
Proposition 10 tobacco tax	$ 1,343,463	$ 1,271,051	$ (72,412)
Proposition 56 tobacco tax	-	59,074	59,074
Investment income	2,500	3,240	740
Total Revenues	1,345,963	1,333,365	(12,598)
EXPENDITURES			
Current:			
Early childhood development:			
Contracts and initiatives	1,532,935	916,959	615,976
Salaries and employee benefits	321,073	320,543	530
Professional services	163,200	138,747	24,453
Rent and occupancy	37,375	38,778	(1,403)
Supplies	3,000	4,559	(1,559)
Equipment purchase	2,000	751	1,249
Equipment rental and maintenance	7,000	7,406	(406)
Insurance	6,400	6,086	314
Travel and conferences	10,300	7,945	2,355
Telephone	5,000	5,105	(105)
Printing and postage	6,000	1,612	4,388
Dues and subscriptions	5,500	2,078	3,422
Meetings	3,000	739	2,261
Contingency fund	50,000	-	50,000
Total Expenditures	2,152,783	1,451,308	701,475
Net change in fund balance	(806,820)	(117,943)	688,877
Fund Balance, June 30	$ 5,032,055	$ 5,720,932	$ 688,877

* The Commission did not amend the original budget.

FIRST 5 MARIN CHILDREN AND FAMILIES COMMISSION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST 10 YEARS*
FOR THE YEAR ENDED JUNE 30, 2018

	2015	2016	2017	2018
Proportion of the net pension liability	0.0026%	0.0061%	0.0064%	0.0069%
Proportionate share of the net pension liability	$ 162,982	$ 166,549	$ 223,501	$ 270,976
Covered payroll	$ 258,938	$ 326,111	$ 348,199	$ 220,282
Proportionate Share of the net pension liability as a percentage of covered payroll	62.94%	51.07%	64.19%	123.01%
Plan fiduciary net position as a percentage of the total pension liability	79.82%	78.40%	74.06%	75.39%
Measurement Date	June 30, 2014	June 30, 2015	June 30, 2016	June 30, 2017

FIRST 5 MARIN CHILDREN AND FAMILIES COMMISSION
SCHEDULE OF PENSION CONTRIBUTIONS
LAST 10 YEARS*
FOR THE YEAR ENDED JUNE 30, 2018

	2016	2017	2018
Actuarially determined contributions	$ 26,881	$ 18,453	$ 22,227
Contributions in relation to the actuarially determined contribution	(26,881)	(18,453)	(22,227)
Contribution deficiency (excess)	$ -	$ -	$ -
Covered payroll	$348,199	$220,282	$ 265,239
Contributions as a percentage of covered payroll	7.72%	8.38%	8.38%

* Historical information is required only for measurement periods for which GASB 68 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

NOTE 1 - BUDGET

The Commission prepares and legally adopts a final budget on or before June 30th of each fiscal year. The Commission operations, commencing July 1st, are governed by the proposed budget, adopted by the board of Commissioners 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. The Commission does not establish a budget for capital outlay.

NOTE 2 - SCHEDULE OF THE PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND SCHEDULE OF CONTRIBUTIONS

A cost-sharing employer is required to recognize a liability for its proportionate share of the net pension liability (of all employers for benefits provided through the pension plan) - the collective net pension liability. A cost-sharing employer is required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate shares of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions. The schedules present information to illustrate changes in the Commission’s proportionate share of the net pension liability and employer contributions over a ten-year period when the information is available.

The discount rate used to measure the total pension liability at the June 30, 2017 measurement date was 7.15%, which is a reduction from the discount rate applicable to the previous actuarial valuation of 7.65%.

COMPLIANCE REPORTS

VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

VALUE THE difference

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

To the Board of Commissioners
First 5 Marin Children and Families Commission
San Rafael, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the general fund of the First 5 Marin Children and Families Commission (Commission), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Commission's financial statements, and have issued our report thereon dated October 15, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

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

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinek, Trine, Day LLP

Palo Alto, California
October 15, 2018

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

To the Board of Commissioners
First 5 Marin Children and Families Commission
San Rafael, California

Compliance

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

Management's Responsibility

Management is responsible for compliance with the requirements of the laws and regulations applicable to the California Children and Families Act.

Auditor's Responsibility

Our responsibility is to express an opinion on the Commission's compliance with the requirements referred to above based on our audit.

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

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

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

Opinion

In our opinion, the Commission complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the California Children and Families Program for the year ended June 30, 2018.

Purpose of Report

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

Vavrinek, Trine, Day LLP

Palo Alto, California
October 15, 2018

FIRST 5 MARIN CHILDREN AND FAMILIES COMMISSION
SUMMARY SCHEDULE OF PRIOR FINDINGS AND RESPONSES
JUNE 30, 2018

Summarized below is the current status of all audit findings reported in the prior year's schedule of findings and responses:

2017-001 - Significant Deficiency in Internal Control Over Financial Reporting, Pension Expense

Finding - We noted errors in the previously reported amounts for pension expense and related deferrals.

Current Status – Resolved

2017-002 - Compliance with California Government Code, Minimum Legal Requirements for Investments

Finding - The Commission's medium-term notes represented over 50% of the investment portfolio, which violated government code, at June 30, 2017.

Current Status - Resolved