

**CHILDREN AND FAMILIES COMMISSION
OF SAN LUIS OBISPO COUNTY**

FINANCIAL STATEMENTS
June 30, 2021

CHILDREN AND FAMILIES COMMISSION OF SAN LUIS OBISPO COUNTY
TABLE OF CONTENTS
June 30, 2021

FINANCIAL SECTION

Independent Auditors' Report.....	1
Management's Discussion & Analysis.....	3

BASIC FINANCIAL STATEMENTS:

Government-Wide Financial Statements:

Statement of Net Position.....	8
Statement of Activities	9

Fund Financial Statements:

Balance Sheet-Governmental Fund	10
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position	11
Statement of Revenues, Expenditures, and Changes in Fund Balance-Governmental Fund.....	12
Reconciliation of the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance to the Statement of Activities	13
Notes to the Financial Statements	14

REQUIRED SUPPLEMENTARY INFORMATION:

Budgetary Comparison Schedule-General Fund	27
Schedule of Proportionate Share of Net Pension Liability	28
Schedule of Pension Contributions.....	29

COMPLIANCE SECTION:

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	31
Independent Auditors' Report on State Compliance	33

FINDINGS AND RECOMMENDATIONS SECTION:

Schedule of Audit Findings and Questioned Costs	35
Schedule of Prior Fiscal Year Audit Findings and Questioned Costs	36

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Children and Families Commission of San Luis Obispo County
San Luis Obispo, California

We have audited the accompanying financial statements of the governmental activities and the major fund of the Children and Families Commission of San Luis Obispo County, as of and for the fiscal year ended June 30, 2021, 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.

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Children and Families Commission of San Luis Obispo County, as of June 30, 2021, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 6 to the basic financial statements in March 2020, the World Health Organization has declared COVID-19 to constitute a “Public Health Emergency of International Concern.” Given the uncertainty of the situation, the duration of any financial impact cannot be reasonably estimated at this time. Our opinion is not modified to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management’s discussion and analysis on page 3 through 7, the budgetary information on page 27, the schedule of proportionate share of net pension liability on page 28, and the schedule of pension contributions on page 29 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 4, 2021, on our consideration of the Children and Families Commission of San Luis Obispo County’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to 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 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 District’s internal control over financial reporting and compliance.

Moss, Kelly & Hargheim LLP

Santa Maria, California
October 4, 2021

Commissioners:

Bruce Gibson
Chairperson
Designated Representative,
San Luis Obispo County
Board of Supervisors

Penny Borenstein, MD
Vice-Chairperson
Designated Representative,
San Luis Obispo County
Health Agency

Linda Belch
Designated Representative,
San Luis Obispo County
Department of Social Services

James Brescia, EdD
Designated Representative,
San Luis Obispo County
Office of Education

Erica Ruvalcaba-Heredia, EdD
Representative at Large,
Center for Family
Strengthening/Promotores
Collaborative

Melinda Sokolowski
Designated Representative,
Child Care Planning Council

James Tedford, MD
Medical Representative
American Academy of
Pediatrics/Patterson and
Tedford Pediatrics

Alison Ventura, PhD
Representative at Large,
Cal Poly Kinesiology/Public
Health

Robert Watt
Representative at Large
Coast Unified School District
(Retired)

Executive Director
Wendy L. Wendt

Management's Discussion and Analysis
For the Year Ended June 30, 2021

In November 1998, voters passed a statewide ballot initiative to add a surtax to tobacco products (Proposition 10). The monies collected are to be used to fund programs that promote early childhood development, from prenatal to age five. The intent is for all California children to be healthy, to live in a healthy and supportive environment, and to enter school ready to learn.

The San Luis Obispo County Board of Supervisors created the Children and Families Commission of San Luis Obispo County in 1998 under the provisions of the California Children and Families Act. The Commission consists of nine commissioners appointed by the County Board of Supervisors. The Commission is a public entity legally separate and apart from the County.

As management of the Children and Families Commission of San Luis Obispo County, we offer readers this overview of the Commission's financial activities for the fiscal year ended June 30, 2021.

Financial Highlights

- Beginning in FY 2014-15, the Government Accounting Standards Board (GASB) Statement No. 68 requires reporting of long-term pension liabilities for CalPERS pension plans. This requirement applies to Government-wide financial statements which report long-term liabilities, but does not apply to Fund statements, which report near-term liabilities.
- The Commission received \$1,741,456 from the State of California from revenues collected under the California Children and Families Act (Proposition 10, including \$402,266 backfill funds under Proposition 56 and \$1,052 interest apportionment from the state Surplus Monetary Investment Fund - SMIF). Two remaining IMPACT HUB payments were received in FY2020-21, totaling \$83,898. An additional \$37,572 in IMPACT program funds (as of FY2020-21 administered through the San Luis Obispo County Office of Education) were received under a contract with SLOCOE to cover continuing First 5-based staffing support for IMPACT. Local interest revenue totaled \$92,320. Medi-Cal Administrative Activities (MAA) revenue totaled \$65,477. Other revenue totaled \$100,017 which included 1) \$20,000 from the County Department of Social Services toward start-up costs of the Help Me Grow Centralized Access Point based at Community Action Partnership of San Luis Obispo and 2) \$80,000 (posted as deferred revenue in FY19-20) to support a collaborative public sector child care study, with contributions from the County of San Luis Obispo, the City of San Luis Obispo, Cal Poly and San Luis Coastal Unified School District.
- During the current fiscal year, the Commission disbursed \$1,331,031 in grants to contracted service providers and to systems change/advocacy.

Management's Discussion and Analysis
For the Year Ended June 30, 2021

- The *net assets* (see "Government-wide financial statements" on p. 8) of the Children and Families Commission of San Luis Obispo County exceeded its liabilities and deferred inflows at the close of the current fiscal year by \$9,347,232. The *fund balance* (see Fund financial statements on p. 10) is \$9,395,180. The entire fund balance amount is funding classified as nonspendable, restricted, committed, and assigned to Commission operations and programs.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis area is intended to serve as an introduction to the Children and Families Commission of San Luis Obispo County's basic financial statements. The Children and Families Commission of San Luis Obispo County's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements, and a compliance section.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Children and Families Commission of San Luis Obispo County's finances, in a manner similar to a private sector business. Government-wide financial statements report long-term liabilities.

The *statement of net position* presents information on all of the Children and Families Commission of San Luis Obispo County's assets and liabilities, with the difference between the two reported as *net position*.

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

Fund financial statements. A *fund* is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Children and Families Commission of San Luis Obispo County, like local governments, uses fund accounting to ensure compliance with finance-related legal requirements. Fund financial statements report essentially the same functions as those reported in the government-wide financial statements. However, unlike the government-wide financial statements, fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

The Commission adopts an annual appropriated budget for its governmental fund. A budgetary comparison statement has been provided for this fund to demonstrate compliance with the budget. It should be noted that the GASB 68 requirements apply to Government-wide reporting of long-term liabilities, but do not affect Fund financial statements. For more information see pages 11 and 13: Reconciliation of Government-Wide and Fund Financial Statements.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 14-25 of this report.

Supplementary information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Children and Families

Management's Discussion and Analysis
For the Year Ended June 30, 2021

Commission of San Luis Obispo County's finances. Required supplementary information can be found on pages 27-29 of this report.

Compliance section. The independent audit also includes a report on internal control over 1) financial reporting and 2) compliance (beginning on page 31 of this report). While the test of compliance uncovered no material findings, one significant deficiency in internal control was reported related to vacation accrual calculation. This finding and the Commission Correction Action Plan are detailed on pages 35-36.

COMMISSION FINANCIAL ANALYSIS

This Management Discussion & Analysis uses the Fund Financial Statements for the following year-to-year comparisons.

Fund Balance. The Fund Balance may serve over time as a useful indicator of a Commission's financial position. In the case of the Children and Families Commission of San Luis Obispo County, the Fund Balance was \$9,395,180 at the close of the most recent fiscal year. However, financial statement users need to consider other factors, both financial and non-financial, in assessing the Commission's financial position. These factors include changes in services, changes in state funding, changes in the economy and other external factors outside of the Commission's control (e.g. enacted legislation).

Changes in the Commission's Assets/Liabilities/Fund Balance (in thousands) were as follows:

TABLE 1

	2020-2021	2019-20	Change	%
ASSETS				
Cash and Investments	\$ 9,398	\$ 9,067	\$ 331	
Due from other agencies	188	696	(508)	
Prepaid expenditures	4	4	-	
Deposits	4	4	-	
Total assets	<u>\$ 9,594</u>	<u>\$ 9,771</u>	<u>\$ (177)</u>	-2%
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts Payable	\$ 184	\$ 662	\$ (478)	
Accrued Payroll liabilities	15	15	-	
Unearned Revenue	-	80	(80)	
Total liabilities	<u>\$ 199</u>	<u>\$ 757</u>	<u>\$ (558)</u>	-74%
FUND BALANCES				
Nonspendable	\$ 7	\$ 7	\$ -	
Restricted	52	52	-	
Committed	3,510	4,178	(668)	
Assigned	5,826	4,777	1,049	
Total fund balances	<u>\$ 9,395</u>	<u>\$ 9,014</u>	<u>\$ 381</u>	4%
TOTAL Liabilities and Fund Balances	<u>\$ 9,594</u>	<u>\$ 9,771</u>	<u>\$ (177)</u>	

Management's Discussion and Analysis
For the Year Ended June 30, 2021

The most significant portion of the Commission's assets is its cash and investments balance (\$9.399 million). This represents resources received from First 5 California from Proposition 10 taxes that have not been expended and are committed to future periods and programs through the Commission's long-range sustainability plan (FY 2016-28). Cash and investments are maintained in the County's cash and investment pool where interest earned on the Commission's balance is apportioned to the Commission. Included in Assets are \$188,226 in Commission receivables due from other agencies, including: First 5 California for Proposition 10 allocations (\$107,648), County Office of Education IMPACT program staffing invoice for Q3-4 (\$19,665), MHSA invoices totaling \$49,106, and \$11,807 for MAA. The Commission also reports payables of \$184,191, representing payments due on grant service contracts that had not been expended at year-end, and \$14,811 in accrued payroll liabilities.

Revenues. The Commission receives the vast majority of its revenue from the state allocation of Proposition 10 funds or from interest earned from its investments. In the fiscal year ending June 30, 2021, the amount received through core Proposition 10 funds (including Proposition 56 backfill funds) was an increase of \$30,705 compared to the prior fiscal year. The Commission invests its funds in the San Luis Obispo County Treasury, which returned \$92,320 in local interest for FY 2020-21, representing a 47% decrease from the prior fiscal year.

Changes in the Commission's revenues (in thousands) were as follows:

TABLE 2

	2020-21	2019-20	Change	%
Revenues				
Prop. 10 and 56 allocation	\$ 1,741	\$ 1,711	\$ 30	2%
Foundation and state (IMPACT)	122	665	(543)	-82%
MHSA - Innovations Grant	121	61	60	98%
MediCal Administrative Activities (MAA)	65	15	50	333%
Other revenue	100	26	74	285%
Investment Income	92	173	(81)	-47%
Total revenue	<u>\$ 2,241</u>	<u>\$ 2,651</u>	<u>\$ (410)</u>	<u>-15%</u>

Total revenue (see above) consisting of Proposition 10 funds, IMPACT funds, a multi-year state Mental Health Services Act (MHSA) Innovations grant, MAA revenue and interest income experienced an decrease from \$2.651 million to \$2.241 million for the year ended June 30, 2021. Core Proposition 10 combined with Proposition backfill revenues experienced a 2% increase. The conclusion of the IMPACT program as managed through First 5 SLO County is largely responsible for the overall revenue decrease. MHSA revenues increased as the program reached its penultimate year of full operation. MAA revenue increased due to receipt of delayed payments from the prior year. Other revenue experienced a significant increase with the realization of deferred revenue totaling \$80,000 from four local public agencies for a collaborative child care study which launched in FY20-21. Overall total revenue experienced a decrease of 15%.

Expenditures. During FY 2020-21, total Commission expenditures were \$1.861 million, a 26% decrease of over \$653,122 from the prior fiscal year. These expenditures included \$1,331,031 disbursed to outside contracted service providers within San Luis Obispo County and to support systems change and advocacy efforts. The expenditure decrease can be attributed primarily to 1) the conclusion of First 5 SLO County's tenure as fiscal lead of First 5 California IMPACT program and 2) lower than anticipated service offerings by funded partners due to COVID-related restrictions.

Management's Discussion and Analysis
For the Year Ended June 30, 2021

Changes in the Commission's expenses (in thousands) were as follows:

TABLE 3

Administrative expenses	2020-21	2019-20	Change	%
Services and Supplies	\$ 209	\$ 198	\$ 11	6%
Rent and utilities	45	45	-	0%
Program Expenses				
Program Related Admn.	276	276	-	0%
Priority Areas (new FY 2020-21)				
<i>Child Health (+Perinatal Readiness FY19-20)</i>	588	508	80	16%
<i>Family Strengthening</i>	232	347	(115)	-33%
<i>Early Learning</i>	335	379	(44)	-12%
IMPACT Program	77	615	(538)	-87%
Evaluation - General	28	35	(7)	-20%
Systems Change/Advocacy/Media	12	44	(32)	-73%
Event Sponsorships	2	3	(1)	-33%
Kits for New Parents	2	3	(1)	-33%
Child Care Feasibility Study	28	-	28	100%
Emergency Response Funding	27	61	(34)	-56%
Total expenses	\$ 1,861	\$ 2,514	\$ (653)	-26%

Capital assets. At the beginning of the current fiscal year the Commission had \$0 in net capital assets. There were no capital assets purchased in FY 2020-21.

Comment on COVID-19. The COVID-19 pandemic that persisted throughout the FY20-21 fiscal year was accompanied with substantial challenges for children, families and child-serving providers. In some cases programs ground to a near-halt as the community faced waves of shutdowns and restricted services. In others, supports were in high demand. Within this sustained period of uncertainty, First 5 worked to continue funding essential programs throughout the year, such as stipends for child care professionals, developmental screening in pediatric settings, and resources for parents raising children with special needs. Staff also dedicated significant time to helping mobilize and/or showcase local initiatives to address critical needs in both the short and long-term – notably supports for immigrant families, child care, and resources to bolster social-emotional health among young children and families. Fortunately, the Commission's own financial position has continued to remain stable during this period, due to a diversified portfolio of funding sources and a consistent core revenue base through Proposition 10 tobacco tax appropriation. It remains to be seen what the next years hold in store in the aftermath of the pandemic. In this regard, the Commission is fortunate to have a healthy fund balance that will help it remain a solid source of ongoing support in the community into the future.

Requests for information. This financial report is designed to provide a general overview of the Children and Families Commission of San Luis Obispo County's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Children and Families Commission of San Luis Obispo County, 3220 South Higuera St., Suite 232, San Luis Obispo, CA 93401.

CHILDREN AND FAMILIES COMMISSION OF SAN LUIS OBISPO COUNTY
STATEMENT OF NET POSITION
June 30, 2021

	Governmental Activities
ASSETS	
Cash and investments	\$ 9,398,679
Due from other agencies	188,226
Prepaid expenses	3,500
Deposits	<u>3,777</u>
Total assets	<u>9,594,182</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred pension	<u>73,843</u>
Total deferred outflows of resources	<u>73,843</u>
LIABILITIES	
Accounts payable	184,191
Accrued payroll liabilities	14,811
Current portion of compensated absences	4,815
Noncurrent liabilities:	
Compensated absences	14,617
Net pension liability	<u>101,634</u>
Total liabilities	<u>320,068</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred pension	<u>725</u>
Total deferred inflows of resources	<u>725</u>
NET POSITION	
Restricted	52,140
Unrestricted	<u>9,295,092</u>
Total net position	<u><u>\$ 9,347,232</u></u>

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

CHILDREN AND FAMILIES COMMISSION OF SAN LUIS OBISPO COUNTY
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2021

		Program Revenues		
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
				Net (Expense) Revenue and Changes in Net Position
Governmental activities:				
Child development services	\$ 1,871,495	\$ -	\$ 2,049,343	\$ -
Total governmental activities	\$ 1,871,495	\$ -	\$ 2,049,343	\$ -
General Revenues:				
Investment income				92,320
Other revenue				100,017
Total general revenues				192,337
Change in net position				370,185
Net position, beginning of fiscal year				8,977,047
Net position, end of fiscal year				\$ 9,347,232

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

CHILDREN AND FAMILIES COMMISSION OF SAN LUIS OBISPO COUNTY
GOVERNMENTAL FUND
BALANCE SHEET
June 30, 2021

	General Fund
ASSETS	
Cash and investments	\$ 9,398,679
Due from other agencies	188,226
Prepaid expenditures	3,500
Deposits	3,777
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Total assets	\$ 9,594,182
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LIABILITIES AND FUND BALANCE	
Liabilities:	
Accounts payable	\$ 184,191
Accrued payroll liabilities	14,811
	<hr/>
Total liabilities	199,002
	<hr/>
Fund Balance:	
Nonspendable:	
Prepaid expenditures	3,500
Deposits	3,777
Restricted	
MAA audit reserve	50,000
Donor restricted	2,140
Committed	
Provider contracts	2,245,603
Facility lease	52,217
Specified projects	1,211,736
Assigned	
Evaluation	164,031
Future initiatives	4,671,295
Emergency response funding	392,700
System change/policy efforts	528,181
Event sponsorships	70,000
	<hr/>
Total fund balance	9,395,180
	<hr/>
Total liabilities and fund balance	\$ 9,594,182
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The notes to basic financial statements are an integral part of this statement.

CHILDREN AND FAMILIES COMMISSION OF SAN LUIS OBISPO COUNTY
RECONCILIATION OF THE GOVERNMENTAL
FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
June 30, 2021

Total fund balance - governmental fund	\$	9,395,180
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Amounts reported for governmental activities in the statement of net position are different because:

Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net position, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:

Compensated absences	\$	(19,432)	
Net pension liability		<u>(101,634)</u>	(121,066)

Deferred outflows and inflows of resources: In governmental funds, deferred outflows and inflows of resources are not reported because they are applicable to future periods. In the statement of net position, deferred outflows and inflows of resources are reported.

Deferred outflows of resources relating to pension	73,843	
Deferred inflows of resources relating to pension	<u>(725)</u>	<u>73,118</u>

Total net position - governmental activities	\$	<u><u>9,347,232</u></u>
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The notes to basic financial statements are an integral part of this statement.

CHILDREN AND FAMILIES COMMISSION OF SAN LUIS OBISPO COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUND
For the Fiscal Year Ended June 30, 2021

	General Fund
Revenues:	
Proposition 10 & 56 apportionment	\$ 1,741,456
IMPACT	37,572
IMPACT - HUB reimbursement	83,898
MediCal Administrative Activities (MAA)	65,477
MHSA	120,940
Other revenue	100,017
Investment income	92,320
	<hr/>
Total revenues	2,241,680
	<hr/>
Expenditures:	
Administrative expenses	208,891
Rent and utilities	45,077
Program related administrative expenses	275,703
Priority Areas:	
Child health and development	587,556
Early learning	334,957
Family strengthening	232,295
IMPACT SLO	77,000
Evaluation - general	27,969
New/General advocacy	11,819
Kits for new parents	1,843
Event sponsorships	2,000
Child Care Feasibility Study	28,292
Emergency response funding	27,300
	<hr/>
Total expenditures	1,860,702
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Net change in fund balance	380,978
Fund balance - July 1	9,014,202
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Fund balance - June 30	\$ 9,395,180
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The notes to basic financial statements are an integral part of this statement.

CHILDREN AND FAMILIES COMMISSION OF SAN LUIS OBISPO COUNTY
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2021

Net change in fund balance - governmental fund	\$	380,978
Amounts reported for governmental activities in the statement of activities are different because:		
In governmental funds, pension costs are recognized when employer contributions are made. In the statement of activities, pension costs recognized on the accrual basis. This fiscal year, the difference between accrual-basis pension costs and actual employer contributions was:		(7,722)
In the statement of activities, compensated absences are measured by the amounts earned during the fiscal year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts paid). This fiscal year, vacation earned exceeded the amounts used by \$3,071.		<u>(3,071)</u>
Change in net position - governmental activities	\$	<u><u>370,185</u></u>

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

CHILDREN AND FAMILIES COMMISSION OF SAN LUIS OBISPO COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

The Children and Families Commission of San Luis Obispo County (the Commission) was established on December 15, 1998, pursuant to Health and Safety Code §130140. The Commission was also established in accordance with the provision of the California Children and Families First Act of 1998 and by San Luis Obispo County Ordinances 2846, 2868, and 2886. The San Luis Obispo County Board of Supervisors appoints the nine members of the Commission.

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

B. Reporting Entity

The reporting entity is the Children and Families Commission of San Luis Obispo County. There are no component units included in this report which meets the criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statements No. 39, No. 61, and No. 80.

C. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the Commission. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* are normally supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) the annual benefit assessment that is assessed to all property owners within the Commission's service area and is reported as charges for services, and 2) contract services that represent service zones for service to other agencies or entities for service outside the Commission's current service area. Other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

D. Basis of Presentation

Government-wide Financial Statements:

The government-wide statements are prepared using the economic resources measurement focus. This approach differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the Commission's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The Commission does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the Commission, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the Commission.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Presentation (Continued)

Fund Financial Statements:

Fund financial statements report detailed information about the Commission. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all nonmajor funds are aggregated into one column.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases, (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

E. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting.

Revenues – exchange and non-exchange transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. “Available” means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Commission, “available” means collectible within the current period or within 90 days after fiscal year-end.

Non-exchange transactions, in which the Commission receives value without directly giving equal value in return, include property taxes and grants. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the fiscal year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the Commission must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the Commission on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned revenue:

Unearned revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as unearned revenue.

Expenses/expenditures:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

When both restricted and unrestricted resources are available for use, it is the Commission’s policy to use restricted resources first then unrestricted resources as they are needed.

CHILDREN AND FAMILIES COMMISSION OF SAN LUIS OBISPO COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Fund Accounting

The accounts of the Commission are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance or net position, revenues, and expenditures. The Commission's resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The Commission's accounts are organized into one major fund as follows:

Major Governmental Fund:

The *General Fund* is the general operating fund of the Commission. It is used to account for all financial resources.

G. Budgets and Budgetary Accounting

The Commission adopts an annual budget on or before August 30 of each fiscal year. From the effective date of the budget, the amounts stated as proposed expenditures become appropriations.

The Board of Commissioners may amend the budget by motion during each fiscal year. The original and revised budgets are presented for the General Fund.

All appropriations lapse at the end of the fiscal year to the extent that they have not been expended.

H. Prepaid Items

The Commission has the option of reporting expenditures in governmental funds for prepaid items either when purchased or during the benefiting period. The Commission has chosen to report the expenditure during the period benefited.

I. Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is not utilized by the Commission.

J. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, as prescribed by the GASB and the American Institute of Certified Public Accountants, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

K. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. In the fund financial statements, governmental fund types report the face amount of debt issued as other financing sources.

L. Compensated Absences

The Commission's policy permits employees to accumulate earned but unused vacation. Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and fund liability of the governmental fund from which it will be paid. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable available financial resources are reported in the government-wide financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

M. Fund Balances

Fund balance of the governmental fund is classified as follows:

Nonspendable Fund Balance – represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance – represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance – represents amounts that can only be used for a specific purpose because of a formal action by the Commission’s governing board. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the governing board. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance – represents amounts which the Commission intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the governing board or by an official or body to which the governing board delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service, or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund’s primary purpose. Assignments within the general fund convey that the intended use of those amounts is for a specific purpose that is narrower than the general purpose of the Commission.

Unassigned Fund Balance – represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the Commission considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Commission considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

N. Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement No. 63, “*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*,” and GASB Statement No. 65, “*Items Previously Reported as Assets and Liabilities*,” the Commission recognizes deferred outflows and inflows of resources.

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period. The Commission has one item which qualifies for reporting in this category; refer to Note 5 for a detailed listing of the deferred outflows of resources the Commission has reported.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the Commission that is applicable to a future reporting period. The Commission has one item which qualifies for reporting in this category; refer to Note 5 for a detailed listing of the deferred inflows of resources the Commission has reported.

CHILDREN AND FAMILIES COMMISSION OF SAN LUIS OBISPO COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Children and Families Commission of San Luis Obispo County California Public Employee's Retirement System (CalPERS) plan (Plan) and additions to/deductions from the Plan 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.

P. Net Position

GASB Statement No. 63 requires that the difference between assets added to the deferred outflows of resources and liabilities added to the deferred inflows of resources be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Net position that is net investment in capital assets consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. Restricted net position is the portion of net position that has external constraints placed on it by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions or enabling legislation. Unrestricted net position consists of net position that does not meet the definition of net investment in capital assets or restricted net position.

Q. Future Accounting Pronouncements

GASB Statements listed below will be implemented in future financial statements:

Statement No. 87	"Leases"	The provisions of this statement are effective for fiscal years beginning after June 15, 2021.
Statement No. 89	"Accounting for Interest Cost Incurred before the End of a Construction Period"	The provisions of this statement are effective for fiscal years beginning after December 15, 2020.
Statement No. 91	"Conduit Debt Obligations"	The provisions of this statement are effective for fiscal years beginning after December 15, 2021.
Statement No. 92	"Omnibus 2020"	The provisions of this statement are effective for fiscal years beginning after June 15, 2021.
Statement No. 93	"Replacement of Interbank Offered Rates"	The provision of this statement except for paragraphs 11b, 13, and 14 are effective for fiscal years beginning after June 15, 2020. Paragraph 11b is effective for fiscal years beginning after December 31, 2021. Paragraphs 13 and 14 are effective for fiscal years beginning after June 15, 2021.
Statement No. 94	"Public-Private and Public-Public Partnerships and Availability Payment Arrangements"	The provisions of this statement are effective for fiscal years beginning after June 15, 2022.

CHILDREN AND FAMILIES COMMISSION OF SAN LUIS OBISPO COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Q. Future Accounting Pronouncements (Continued)

Statement No. 96	"Subscription-Based Information Technology Arrangements"	The provisions of this statement are effective for fiscal years beginning after June 15, 2022.
Statement No. 97	"Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32"	The provision of this statement except for paragraphs 6-9 are effective for fiscal years beginning after December 15, 2019. Paragraph 6-9 is effective for fiscal years beginning after June 15, 2021.

NOTE 2 – CASH AND INVESTMENTS

On June 30, 2021, the Commission had the following cash and investments on hand:

Cash and investments with the County Treasurer	\$ 9,374,867
Cash in bank	<u>23,812</u>
Total cash and investments	<u>\$ 9,398,679</u>

Cash and investments are presented on the accompanying basic financial statements, as follows:

Cash and investments, statement of net position	\$ <u>9,398,679</u>
Total cash and investments	<u>\$ 9,398,679</u>

The Commission categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. These principles recognize a three-tiered fair value hierarchy. 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 had investments in the San Luis Obispo County investment pool, that investment is measured under Level 2.

Cash in County Treasury

The Commission maintains a portion of its cash in San Luis Obispo County Treasury, an external investment pool. The County pools these funds with those of other governmental entities in the county and invests the cash. These pooled funds are carried at fair value. Interest is earned based on average daily balance and is deposited quarterly into participating funds. Any investment gains and losses are proportionately shared by all funds in the pool. The County is restricted by the California Government Code to invest in obligations issued by the United States Treasury; obligations, participations, or other instruments of or issued by a federal agency or a United States government sponsored enterprise; obligations of State and local agencies of this State; bankers' acceptances; commercial paper; negotiable certificates of deposit; repurchase agreements; medium-term corporate notes; as well as other investments established by the California Government Code. The County's report discloses the required information in accordance with Governmental Accounting Standards Board Statement Nos. 3 and 40. Pooled investments are not required to be categorized by risk category.

CHILDREN AND FAMILIES COMMISSION OF SAN LUIS OBISPO COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2021

NOTE 2 – CASH AND INVESTMENTS (Continued)

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 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, 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 fair 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 the Commission's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

None of the Commission's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

Investments securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the government's name. Investments in external pools, such as cash in county treasury, are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

Interest Rate Risk

The Commission does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The Commission has no investment policy that would further limit its investment choices. San Luis Obispo County Treasury pooled investment funds are unrated.

Concentration of Credit Risk

The Commission places no limit on the amount the Commission may invest in any one issuer. The Commission's investments in San Luis Obispo County Treasury are 100% of total investments.

NOTE 3 – PROGRAM EVALUATION

The Commission spent \$27,969 on program evaluation during the audit period.

NOTE 4 – LONG-TERM LIABILITIES

Changes in long-term liabilities

The following is a summary of long-term liability activity for the fiscal year ended June 30, 2021:

	Balance July 1	Additions	Reductions	Balance June 30	Due Within One Year
Governmental activities:					
Compensated absences	\$ 16,361	\$ 22,331	\$ 19,260	\$ 19,432	\$ 4,815
Net pension liability	84,006	47,884	30,256	101,634	
 Governmental activities					
Long-term liabilities	<u>\$ 100,367</u>	<u>\$ 70,215</u>	<u>\$ 49,516</u>	<u>\$ 121,066</u>	<u>\$ 4,815</u>

CHILDREN AND FAMILIES COMMISSION OF SAN LUIS OBISPO COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2021

NOTE 5 – PENSION PLAN

A. General Information about the Pension Plan

Plan Descriptions

All qualified permanent and probationary employees are eligible to participate in the Commission's Miscellaneous Employee Pension Plans, cost-sharing multiple employer defined benefit plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plans are established by State statute and Commission resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

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 with statutorily reduced benefits. All members are eligible for nonduty 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.

The Plans' provisions and benefits in effect at June 30, 2021, are summarized as follows:

	Miscellaneous	
	Prior to January 1, 2013	On or after January 1, 2013
Hire Date		
Benefit formula	2.0% @ 55	2.0% @ 62
Benefit vesting schedule	5 years service	5 years service
Benefit payments	monthly for life	monthly for life
Retirement age	50-63	52-67
Monthly benefits, as a % of eligible compensation	1.4% to 2.4%	1.0% to 2.5%
Required employee contribution rates	7.000%	8.000%
Required employer contribution rates	12.848% + \$9,528	8.051% + \$5,246

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 the Plan is 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. Contributions to the pension plan from the Commission were \$41,674 for the fiscal year ended June 30, 2021.

CHILDREN AND FAMILIES COMMISSION OF SAN LUIS OBISPO COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2021

NOTE 5 – PENSION PLAN (CONTINUED)

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

At June 30, 2021, the Commission reported a liability of \$101,634 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2019 rolled forward to June 30, 2020 using standard update procedures. The Commission's proportion of the net pension liability was based on a projection of the Commission's long-term share of contributions to the pension plan relative to the projected contributions of all Pension Plan participants, actuarially determined. At June 30, 2020, the Commission's proportion was 0.00241%, which increased by 0.00031% from June 30, 2019.

For the year ended June 30, 2021, the Commission recognized pension expense of \$49,393. Pension expense represents the change in the net pension liability during the measurement period, adjusted for actual contributions and the deferred recognition of changes in investment gain/loss, actuarial gain/loss, actuarial assumptions or method, and plan benefits. At June 30, 2021, the Commission reported deferred outflows of resources and deferred inflows of resources related to pension from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 41,674	\$ -
Differences between expected and actual experience	5,237	
Changes in assumptions		725
Net difference between projected and actual earnings on retirement plan investments	3,019	
Adjustment due to differences in proportions	15,348	
Difference in actual contributions and proportionate share of contributions	8,565	
	<u>\$ 73,843</u>	<u>\$ 725</u>

\$41,674 reported as deferred outflows of resources related to pensions resulting from Commission contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the pension expenses as follows:

Fiscal Year Ending June 30	Amount
2022	\$ 14,191
2023	10,100
2024	5,706
2025	1,447
	<u>\$ 31,444</u>

CHILDREN AND FAMILIES COMMISSION OF SAN LUIS OBISPO COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2021

NOTE 5 – PENSION PLAN (CONTINUED)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Actuarial Assumptions

The total pension liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions:

	<u>Miscellaneous</u>
Valuation Date	June 30, 2019
Measurement Date	June 30, 2020
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	7.15%
Inflation	2.50%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.0% Net of Pension Plan Investment and Administrative Expenses; includes Inflation
Mortality Rate Table (1)	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.50% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

- (1) The mortality table used was developed based on CalPERS' specific data. The table includes 15 years of mortality improvements using 90% Scale MP 2016 published by the Society of Actuaries. For more details on this table please refer to the 2017 experience study report.

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 public agency plans (including PERF C), 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, none of the tested plans run out of assets. Therefore, the current 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 percent will be applied to all plans in the Public Employees Retirement Fund including PERF C. 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 No. 68 section.

CalPERS is scheduled to review all actuarial assumptions as part of its regular Asset Liability Management (ALM) review cycle that is scheduled to be completed in February 2022. Any changes to the discount rate will require Board action and proper stakeholder outreach. For these reasons, CalPERS expects to continue using a discount rate net of administrative expenses for GASB No. 67 and No. 68 calculations through at least the 2021-22 fiscal year. CalPERS will continue to check the materiality of the difference in calculation.

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 pension plan investment expense and inflation) are developed for each major asset class.

CHILDREN AND FAMILIES COMMISSION OF SAN LUIS OBISPO COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2021

NOTE 5 – PENSION PLAN (CONTINUED)

B. Pension Liabilities, Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions (Continued)

Discount Rate (Continued)

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound 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 were calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Years 1-10(a)	Real Return Years 11+(b)
Global Equity	50.0%	4.80%	5.98%
Global Fixed Income	28.0%	1.00%	2.62%
Inflation Sensitive	0.0%	0.77%	1.81%
Private Equity	8.0%	6.30%	7.23%
Real Estate	13.0%	3.75%	4.93%
Liquidity	1.0%	0.00%	-0.92%
Total	100.0%		

(a) An expected inflation of 2.00% used for this period.

(b) An expected inflation of 2.92% used for this period.

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

The following represents the Commission's proportionate share of the net pension liability calculated using the discount rate of 7.15 percent, as well as what the Commission's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.15 percent) or 1- percentage point higher (8.15 percent) than the current rate:

	1% Decrease 6.15%	Discount Rate 7.15%	1% Increase 8.15%
Commission's proportionate share of the net pension plan liability	\$ 189,506	\$ 101,634	\$ 29,027

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

C. Payable to the Pension Plan

At June 30, 2021, the Commission had no amount outstanding for contributions to the pension plan required for the fiscal year ended June 30, 2021.

CHILDREN AND FAMILIES COMMISSION OF SAN LUIS OBISPO COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2021

NOTE 6 – SUBSEQUENT EVENT

Subsequent to fiscal year-end, the Commission may be negatively impacted by the effects of the worldwide COVID-19 pandemic. The Commission is closely monitoring its operations, liquidity, and reserves and is actively working to minimize the current and future impact of this situation. As of the date of the issuance of these financial statements, the full impact to the Commission's financial position is not known.

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REQUIRED SUPPLEMENTARY INFORMATION

CHILDREN AND FAMILIES COMMISSION OF SAN LUIS OBISPO COUNTY
BUDGETARY COMPARISON SCHEDULE
For the Fiscal Year Ended June 30, 2021

	Budgeted Amounts			Variance
	Original	Final	Actual Amounts	Favorable (Unfavorable)
Revenues:				
Proposition 10 & 56 apportionment	\$ 1,597,962	\$ 1,597,962	\$ 1,741,456	\$ 143,494
IMPACT	37,407	37,407	37,572	165
IMPACT - HUB reimbursement			83,898	83,898
MediCal Administrative Activities (MAA)	50,000	50,000	65,477	15,477
MHSA	264,804	363,004	120,940	(242,064)
Other revenue	80,000	80,000	100,017	20,017
Investment income	62,633	62,633	92,320	29,687
Total revenues	2,092,806	2,191,006	2,241,680	50,674
Expenditures:				
Administrative expenses	198,084	212,367	208,891	3,476
Rent and utilities	45,072	45,072	45,077	(5)
Program related administrative expenses	348,834	348,834	275,703	73,131
Priority Areas:				
Child health and development	784,492	784,492	587,556	196,936
Early learning	457,349	457,349	334,957	122,392
Family strengthening	361,687	361,687	232,295	129,392
IMPACT SLO	77,000	77,000	77,000	
Evaluation - general	28,000	28,000	27,969	31
New/General advocacy	75,000	75,000	11,819	63,181
Kits for new parents	2,500	2,500	1,843	657
Event sponsorships	10,000	10,000	2,000	8,000
Child Care Feasibility Study	80,000	80,000	28,292	51,708
Emergency response funding	75,000	75,000	27,300	47,700
Contingency	20,000	5,717		5,717
Total expenditures	2,563,018	2,563,018	1,860,702	702,316
Net change in fund balance	(470,212)	(372,012)	380,978	752,990
Fund balance - July 1	9,014,202	9,014,202	9,014,202	
Fund balance - June 30	\$ 8,543,990	\$ 8,642,190	\$ 9,395,180	\$ 752,990

CHILDREN AND FAMILIES COMMISSION OF SAN LUIS OBISPO COUNTY
SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION LIABILITY
Last 10 Years*
As of June 30, 2021

The following table provides required supplementary information regarding the Commission's Pension Plan.

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Proportion of the net pension liability	0.00093%	0.00082%	0.00074%	0.00072%
Proportionate share of the net pension liability	\$ 101,634	\$ 84,006	\$ 70,861	\$ 71,810
Covered payroll	\$ 280,462	\$ 265,397	\$ 257,770	\$ 255,488
Proportionate share of the net pension liability as percentage of covered payroll	36.2%	31.7%	27.5%	28.1%
Plan's total pension liability	\$ 43,702,930,887	\$ 41,426,453,489	\$ 38,944,855,364	\$ 37,161,348,332
Plan's fiduciary net position	\$ 32,822,501,335	\$ 31,179,414,067	\$ 29,308,589,559	\$ 27,244,095,376
Plan fiduciary net position as a percentage of the total pension liability	75.10%	75.26%	75.26%	73.31%
	<u>2017</u>	<u>2016</u>	<u>2015</u>	
Proportion of the net pension liability	0.00062%	0.00038%	0.00055%	
Proportionate share of the net pension liability	\$ 53,446	\$ 26,233	\$ 34,190	
Covered payroll	\$ 216,845	\$ 208,398	\$ 240,984	
Proportionate share of the net pension liability as percentage of covered payroll	24.6%	12.6%	14.2%	
Plan's total pension liability	\$ 33,358,627,624	\$ 31,771,217,402	\$ 30,829,966,631	
Plan's fiduciary net position	\$ 24,705,532,291	\$ 24,907,305,871	\$ 24,607,502,515	
Plan fiduciary net position as a percentage of the total pension liability	74.06%	78.40%	79.82%	

Notes to Schedule:

Changes in assumptions

In 2018, inflation was changed from 2.75 percent to 2.50 percent and individual salary increases and overall payroll growth was reduced from 3.00 percent to 2.75 percent.

In 2017, as part of the Asset Liability Management review cycle, the discount rate was changed from 7.65 percent to 7.15 percent.

In 2016, the discount rate was changed from 7.5 percent (net of administrative expense) to 7.65 percent to correct for an adjustment to exclude administrative expense.

In 2015, amounts reported as changes in assumptions resulted primarily from adjustments to expected ages of general employees.

*- Fiscal year 2015 was the 1st year of implementation, thus only seven years are shown.

CHILDREN AND FAMILIES COMMISSION OF SAN LUIS OBISPO COUNTY
SCHEDULE OF PENSION CONTRIBUTIONS
Last 10 Years*
As of June 30, 2021

The following table provides required supplementary information regarding the Commission's Pension Plan.

	2021	2020	2019	2018
Contractually required contribution (actuarially determined)	\$ 41,674	\$ 30,256	\$ 26,907	\$ 22,998
Contribution in relation to the actuarially determined contributions	41,674	30,256	26,907	22,998
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 281,991	\$ 280,462	\$ 265,397	\$ 257,770
Contributions as a percentage of covered payroll	14.78%	10.79%	10.14%	8.92%
	2017	2016	2015	
Contractually required contribution (actuarially determined)	\$ 20,357	\$ 18,322	\$ 21,642	
Contribution in relation to the actuarially determined contributions	20,357	18,322	21,642	
Contribution deficiency (excess)	\$ -	\$ -	\$ -	
Covered payroll	\$ 255,488	\$ 216,845	\$ 208,398	
Contributions as a percentage of covered payroll	7.97%	8.45%	10.38%	

Notes to Schedule

Valuation Date:	6/30/2014
Actuarial cost method	Entry Age Normal
Asset valuation method	5-year smoothed market
Amortization method	The unfunded actuarial accrued liability is amortized over an open 17 year period as a level percentage of payroll.
Discount rate	7.50%
Amortization growth rate	3.75%
Price inflation	3.25%
Salary increases	3.75% plus merit component based on employee classification and years of service
Mortality	Sex distinct RP-2000 Combined Mortality projected to 2010 using Scale AA with a 2 year setback for males and a 4 year setback for females.

Valuation Date:	6/30/2018	6/30/2017	6/30/2016	6/30/2015
Discount Rate:	7.000%	7.250%	7.375%	7.65%
Inflation:	2.500%	2.625%		

*- Fiscal year 2015 was the 1st year of implementation, therefore only seven years are shown.

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COMPLIANCE SECTION



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

Board of Commissioners
Children and Families Commission of San Luis Obispo County
San Luis Obispo, 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 major fund of the Children and Families Commission of San Luis Obispo County (the Commission), as of and for the year ended June 30, 2021, 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 4, 2021.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as finding 2021-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Children and Families Commission of San Luis Obispo County's Response to Findings

Children and Families Commission of San Luis Obispo County's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Children and Families Commission of San Luis Obispo County's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Moss, Remy & Haugheim LLP

Santa Maria, California
October 4, 2021



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Commissioners
Children and Families Commission of San Luis Obispo County
San Luis Obispo, California

Report on State Compliance

We have audited the Children and Families Commission of San Luis Obispo County's (Commission) compliance with the types of compliance requirements described 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 fiscal year ended June 30, 2021.

Management's Responsibility for State Compliance

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

Auditors' Responsibility

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, issued by the State Controller's Office. Those standards and the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the requirements referred to above 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:

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

Opinion on State Compliance

In our opinion, the Children and Families Commission of San Luis Obispo County complied, in all material respects, with the compliance requirements referred to above that are applicable to the statutory requirements listed in the schedule above for the fiscal year ended June 30, 2021.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of compliance and the results of that testing, and not to provide an opinion of all the effectiveness of the entity's internal control or on compliance outside of the items tested as noted above. This report is an integral part of an audit performed in accordance with 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 in considering the entity's compliance. Accordingly, this communication is not suitable for any other purpose.

Moss, King & Haugheim LLP

Santa Maria, California

October 4, 2021

FINDING AND RECOMMENDATIONS SECTION

CHILDREN AND FAMILIES COMMISSION OF SAN LUIS OBISPO COUNTY
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
JUNE 30, 2021

Section II – Financial Statements Findings

Finding 2021-001
Vacation

Criteria:

All employees should accrue vacation at rates according to the Commission's policies.

Condition:

In our test of 25 payroll transactions, it was noted that one employee did not get the advancement in vacation accrual rate when the employee reached 4 years of active service.

Cause:

Commission oversight.

Effect:

Employee under accrued vacation hours.

Recommendation:

The Commission should adhere to policy and implement controls to verify years of active service for each employee.

Commission Correction Action Plan:

Staff vacation hour accruals are calculated through First 5 San Luis Obispo County's Paychex payroll-processing account. When this account was first established over a decade ago, the accrual calculation metrics were set up to tabulate 1) full-time employee accrual rates at the three levels associated with First 5 personnel policy active-service levels (1-3 years; 4-9 years; 10+ years), and 2) part-time employee accrual rates at the first of these three levels. At that time, the second and third active-service levels were not incorporated into the Paychex system. According to agency personnel policy, part time employees move to the next vacation accrual level when they have served the number of service hours equivalent to the next active-service level for a full-time employee. The deficiency identified in the current audit report was the result of the initial incomplete incorporation of vacation accrual levels for part time employees within the Paychex system, Paychex' technological limitations regarding calculation of total multi-year hours indicating at what point a part-time employee reaches the next active-service level, and delayed recognition of these two issues by administrative staff at First 5. Fortunately, the oversight only affected one part time employee, and corrective actions were immediate. First, First 5 worked with its Paychex account manager to calculate and add the appropriate number of owed vacation hours to the employee's total. This adjustment was discussed with the affected employee. Second, First 5 incorporated the additional two levels of vacation accrual into the Paychex system. Third, First 5 administrative staff created a system to frequently track and anticipate impending service-level thresholds for any current or future hourly part-time staff who qualify for vacation accrual (those who work 20+ hours per week).

CHILDREN AND FAMILIES COMMISSION OF SAN LUIS OBISPO COUNTY
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS
JUNE 30, 2021

Finding 2020-001
Disbursements

Criteria:

All checks written must match the supporting documentation.

Condition:

In our test of 40 disbursements, it was noted that one check of \$3,593 did not match the supporting documentation which was an invoice for \$2,590.

Cause:

Commission oversight.

Effect:

A vendor was overpaid.

Recommendation:

The Commission should adhere to policy and review each check written.

Commission Correction Action Plan:

The finding by the external audit team of an overpayment on one invoice in May 2020 has uncovered a rare multi-human error within an otherwise-careful and established system of internal fiscal controls. As a means to further tighten this system and to ensure the utmost of caution and accuracy in the future, two additional steps have been established: 1) for Executive Director (ED) and Associate Director (AD) to cross-check one final time each other's SAP entries for accuracy prior to the authorization to draw warrant (ADW) hand delivery to Accounts Payable, and 2) for ED or AD to conduct a final post-document posting SAP review and comparison to the original invoice amount. In addition, the County Accounts Payable staff has pledged to review its role in the faulty payment processing entry, and to develop stricter protocols for checking the accuracy of physical ADW figures against the SAP entry. It should be noted that the faulty vendor payment in question did in fact include the correct payment amount on the physical double-signed ADW; the error was on the SAP payment processing entry which went unnoticed/uncorrected by County Accounts Payable staff when they posted the entry.

Current Status:

Implemented.

CHILDREN AND FAMILIES COMMISSION OF SAN LUIS OBISPO COUNTY
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND QUESTIONED COSTS
JUNE 30, 2021

Finding 2020-002
Bank Reconciliations

Criteria:

Standard practice requires a reconciliation of all bank accounts be done on a monthly basis.

Condition:

In our examination of the payroll bank account, it was noted that no bank reconciliations were performed for the fiscal year.

Cause:

Commission oversight.

Effect:

Without timely bank reconciliations, there is an increased potential for misappropriation of assets.

Recommendation:

The Commission should add the preparation of monthly bank reconciliations to the Commission's policy or internal controls.

Commission Correction Action Plan:

The Executive Director, who is primarily responsible for completing this multi-step payroll entry process, was trained by her predecessor to review monthly Pacific Premier bank statements to ensure timely routing of funds, but did not inherit a formal biweekly bank written reconciliation protocol or related requirement. Nonetheless, management recognizes the need for establishment of a formal require monthly bank account reconciliation as a means to ensure transparency and accuracy, and appreciates the identified opportunity to build on its system of internal fiscal controls. This exercise commences immediately and will be cross-monitored by both members of the management team (Executive Director, Associate Director) plus either the Chair or Vice Chair of the Commission.

Current Status:

Implemented.