

**STANISLAUS COUNTY CHILDREN
AND FAMILIES COMMISSION**

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2016**

**STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

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**STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
COMMISSION MEMBERSHIP
AS OF JUNE 30, 2016**

<u>Name</u>	<u>Position</u>	<u>Original Appointment</u>	<u>Term Expires</u>
Vicki Bauman	School Representative	June 2005	August 2016
Vito Chiesa	Board of Supervisors	January 2009	December 2016
David Cooper	Community Representative <i>Chair</i>	September 2006	August 2018
Denise Hunt	Community Representative	September 2011	August 2017
Mary Ann Lee	Director, Health Services Agency	November 2007	Permanent
Nelly Paredes-Walsborn, PH.D	Community Representative	September 2004	August 2016
Madelyn Schlaepfer	Director, Behavioral Health and Recovery Services	November 2012	Permanent
George Skol	Community Representative <i>Vice-Chair</i>	June 2002	August 2017
John Walker, MD	Health Officer	November 2000	Permanent

FINANCIAL SECTION

BROWN
ARMSTRONG
—
CERTIFIED
PUBLIC
ACCOUNTANTS

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MEMBER of the American Institute of
Certified Public Accountants

BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Stanislaus County Children and Families Commission
Modesto, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and general fund of the Stanislaus County Children and Families Commission (the Commission), a component unit of Stanislaus County, as of and for the year ended June 30, 2016, 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 Commission'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 Commission'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 general fund of the Commission, as of June 30, 2016, and the respective changes in financial position, and the respective budgetary comparison statement for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, in 2016, the Commission implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*; GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*; and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Our opinion is not modified with respect 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 pages 3-7, the schedule of the Commission's proportionate share of the net pension liability on page 26, and the schedule of contributions on page 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The Commission Membership is presented for the purposes of additional analysis and is not a required part of the basic financial statements.

The Commission Membership has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2016, 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 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 Commission's internal control over financial reporting and compliance.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Bakersfield, California
September 23, 2016

*Brown Armstrong
Accountancy Corporation*

**STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2016**

This section of the Stanislaus County Children and Families Commission's (the Commission) annual financial report presents management's discussion and analysis of the Commission's financial performance for the fiscal year ended June 30, 2016. It is important to read this section in conjunction with the basic financial statements and notes in this audit.

FISCAL YEAR 2015-2016 FINANCIAL HIGHLIGHTS

In 2016, the Commission completed its 16th year of operations in Stanislaus County (the County) promoting the development and well-being of children 0 through 5 years of age. As the Commission expended funds to implement its Strategic Plan, it also continued to implement a plan to spend down a reserve accumulated when the Commission first began operations. Consequently, the highlights of the 2015-2016 fiscal year tend to reflect a planned spend down of reserves coupled with a decreasing revenue stream:

- Total revenues increased \$37,630 (0.7%) from 2015 to 2016 primarily due to surprisingly strong state-wide tobacco sales and higher than anticipated interest revenue.
- Commission expenditures decreased more than \$185,576 (2.9%) primarily due to staff vacancies (and resultant decreased pension expenses) and lower health program expenditures due to the impact of the Federal Affordable Care Act.
- In a planned draw down of reserves, the Commission's expenditures exceeded revenues by \$859,394 in 2016.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of two parts:

- Basic financial statements, including government-wide and fund statements and notes to those statements.
- This discussion and analysis of the basic financial statements.

The Commission's basic financial statements offer key, high-level financial information about its activities.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Commission's finances in a manner similar to a private sector business. These statements provide both long-term and short-term information about the Commission's overall financial status.

The statement of net position includes information on all of the Commission's assets, liabilities, and deferred outflows and inflows of resources with the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources reported as net position. Changes in net position may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

The statement of activities presents information showing how the Commission's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

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 and legal requirements. All of the Commission's activities are accounted for in one fund.

As a rule, governmental fund financial statements focus on near-term inflows and outflows of spendable resources and on balances of spendable resources at the end of the fiscal year.

The Commission adopts an annual appropriated budget for the General Fund. A budgetary comparison statement has been provided for this fund to demonstrate compliance with the adopted budget.

The Commission was created as an independent County agency by an ordinance of the Board of Supervisors, who acted under the authority of California State law. A nine member Commission appointed by the Board of Supervisors governs the Commission and authorizes expenditures. The County classifies the Commission as a County agency unit of local government and includes the Commission's basic financial statements in the County's basic financial statements.

CONDENSED FINANCIAL STATEMENTS

The following tables summarize the Commission's 1) Statement of Activities (change in net position) and 2) Statement of Net Position (government-wide financials). Both tables are summarized for the last three fiscal years.

	2014	2015	2016
<u>Revenues</u>			
Program revenues	\$ 5,499,359	\$ 5,287,511	\$ 5,287,566
General revenues	<u>106,926</u>	<u>72,609</u>	<u>110,184</u>
Total revenues	5,606,285	5,360,120	5,397,750
<u>Total Expenses</u>	<u>6,408,162</u>	<u>6,439,720</u>	<u>6,254,144</u>
Deficiency of revenues over expenses	(801,877)	(1,079,600)	(856,394)
Beginning net position	12,572,300	11,770,423	10,288,152
Prior period adjustment	-	(402,671)	-
Beginning net position, as restated	<u>12,572,300</u>	<u>11,367,752</u>	<u>10,288,152</u>
Ending net position	<u>\$ 11,770,423</u>	<u>\$ 10,288,152</u>	<u>\$ 9,431,758</u>

Highlights of the above statement include:

- By expending more than it receives, the Commission is continuing to follow its plan to reduce its reserves. (The Commission's stated policy is to maintain at least six month's worth of annual budgeted revenue in its reserve.)
- Total revenues increased by more than \$37,630 (0.7%) from 2015 to 2016 primarily due to:
 - Unexpectedly strong tobacco purchases. However, projections for future years anticipate further declines in tobacco tax revenues due to fewer smokers purchasing cigarettes and recent legislation increasing the legal age to purchase cigarettes. (Tobacco taxes, which make up a significant portion of the Commission's program revenue, are distributed by the State according to a formula that considers the amount of tobacco purchased in the State and the number of live births in the County.)
 - Higher than anticipated investment earnings.
- Commission expenditures decreased more than \$185,576 (2.9%) primarily due to staff vacancies (and resultant decreased pension expenses) and lower health program expenditures due to the impact of the Federal Affordable Care Act.

	2014	2015	2016
Assets			
Current assets	\$ 12,397,572	\$ 11,751,833	\$ 10,347,135
Capital assets, net	<u>8,026</u>	<u>6,323</u>	<u>4,620</u>
Total assets	<u>\$ 12,405,598</u>	<u>\$ 11,758,156</u>	<u>\$ 10,351,755</u>
Total Deferred Outflows of Resources	<u>\$ -</u>	<u>\$ 63,712</u>	<u>\$ 69,693</u>
Liabilities			
Current liabilities	\$ 605,350	\$ 1,070,061	\$ 554,331
Long-term liabilities	<u>29,825</u>	<u>312,310</u>	<u>317,151</u>
Total liabilities	<u>\$ 635,175</u>	<u>\$ 1,382,371</u>	<u>\$ 871,482</u>
Total Deferred Inflows of Resources	<u>\$ -</u>	<u>\$ 151,345</u>	<u>\$ 118,208</u>
Net Position			
Net investment in capital assets	\$ 8,026	\$ 6,323	\$ 4,620
Restricted net position	<u>11,762,397</u>	<u>10,281,829</u>	<u>9,427,138</u>
Total net position	<u>\$ 11,770,423</u>	<u>\$ 10,288,152</u>	<u>\$ 9,431,758</u>

Highlights of the above statement include:

- The decrease in total assets over this year is due to the Commission's planned spending of its reserves.
- Capital assets decreased by \$1,703 due to depreciation recorded against the Commission's assets.
- Current liabilities decreased compared to the prior year due to a decrease in accruals for contract costs.
- Long-term liabilities increased slightly due to the net pension liability recorded in connection with Governmental Accounting Standards Board (GASB) Statement No. 68 (which was implemented in 2015 – which makes 2016 the second year of implementation).
- Deferred outflows of resources and deferred inflows of resources of \$69,693 and \$118,208, respectively, were recorded in connection with changes in the Commission's net pension liability.

OVERALL FINANCIAL POSITION

The vast majority of Commission revenues are generated from a \$.50 per pack tax on tobacco products collected by the State of California and distributed to California's 58 counties based on the percentage of live births in each county. Despite the increase in tobacco taxes in 2015-2016, tobacco tax revenues have steadily declined an average of 2% per year since the creation of the Commission in 1998. This decline accelerated sharply in 2009-2010 when the federal government imposed higher taxes on tobacco. The increased cost of tobacco products encouraged users to quit smoking and/or purchase tobacco products in areas where taxes are not collected (Indian reservations, out of state, or over the internet). Although a continuing decline in tobacco tax revenues is expected in future years, the sharp decline noted in 2009-2010 is expected to be a one-time event and future revenue reductions are expected to be more in line with past experience.

In response to anticipated and ongoing tobacco tax revenue decreases (the primary source of revenue for the Commission), a revised Strategic Plan was adopted by the Commission in December of 2014. The plan provides specific detail about Commission priorities and direction in order to give the community as much time as possible to plan for changes in funding support levels for community programs.

According to its financial policies, the Commission is to maintain a reserve that contains the equivalent of at least six month's worth of operating costs. Long-term projections of revenues and expenditures permit program operations to be adjusted to ensure a sufficient reserve is maintained.

ANALYSIS OF THE CHILDREN AND FAMILIES COMMISSION FUND

The Board of Supervisors' ordinance establishing the Stanislaus County Children and Families Commission created a trust fund to record Commission revenues and expenditures. Because the Commission utilizes one fund for all its programs, this audit is somewhat unique as only one fund is examined from a "government-wide" and "fund" perspective.

Fund balances over this three year period covered by this audit continue to decrease as a result of the Commission's strategic decision to utilize fund balance to support community programs.

BUDGET VERSUS ACTUAL VARIATIONS

The following table compares the original budget for the 2015-2016 fiscal year with the final budget. Both budgets can then be compared to actual expenditures for the year. It should be noted that these figures were developed according to modified accrual basis of accounting standards.

	Original Budget	Final Budget	Actual (GAAP Basis)	Variance with Final Budget
Revenues				
Proposition 10 - tobacco tax	\$ 5,094,712	\$ 5,094,712	\$ 5,285,000	\$ 190,288
Surplus money investment fund	-	-	2,515	2,515
Investment earnings	84,821	84,821	110,184	25,363
Miscellaneous revenue	-	-	51	51
Total revenues	5,179,533	5,179,533	5,397,750	218,217
Expenditures				
Contracts	6,629,924	6,629,924	5,767,670	862,254
Salaries and employee benefits	522,326	522,326	395,757	126,569
Services and supplies	134,936	134,936	123,291	11,645
Total expenditures	7,287,186	7,287,186	6,286,718	1,000,468
Net change in fund balance	\$ (2,107,653)	\$ (2,107,653)	(888,968)	\$ 1,218,685
Fund balance - beginning of year			10,681,772	
Fund balance - end of year			\$ 9,792,804	

Highlights of the above statement include:

- In 2016, the Commission actually received \$218,217 more in total revenues than what was budgeted. This represents 4.2% more than what was projected.
- Some of the underspending in the Contracts line item in 2016 is due to:
 - Maximization of State programs and funding sources through the referral of clients to State services and enhanced billing to the Medi-Cal program (Healthy Cubs program). The impact of the Federal Affordable Care Act also contributed to the decrease in Healthy Cubs program expenditures.
 - A Contingency for Contract Adjustments line item not being used.
- Salaries and Employee Benefits were underspent due to two authorized positions being left vacant during the year.

CAPITAL ASSETS

The Net Investment in Capital Assets line item was decreased by \$1,703, which represents the current year depreciation in 2016.

CURRENTLY KNOWN CONDITIONS

The following are facts, decisions, and conditions that could potentially have a significant impact on Commission finances:

- The 2015-2017 Strategic Plan provides specific detail about Commission priorities and direction. As planned, the Commission will decrease its support to some community programs in future years in order to support priority programs for an extended period of time. This effort to provide priority community programs with extended financial support should be successful – barring any unexpected changes in the Commission's operating environment.
- The Commission will be updating its Strategic Plan during calendar year 2017 with a planned implementation date of January of 2018. The new Strategic Plan could change the Commission's direction, activities, priorities, and work plan for future years which could result in changes in its support of current community programs.
- Three changes to tobacco taxes will or could have an impact on Commission finances:
 - During a 2016 Special Session of the California State Legislature, two new laws were enacted that will impact Commission revenues:
 - Raising the legal age to purchase cigarettes from 18 to 21 (which will decrease tobacco taxes collected).
 - Establishing a retail licensing and enforcement program to be funded by retailers selling tobacco products. The prior enforcement program was funded by tobacco sales taxes.
 - In November of 2016, California voters will be considering Proposition 56 – which would add a tax of \$2 on every package of cigarettes sold. The Commission will not receive any portion of the \$2 per pack tax that would be authorized by the passage of Proposition 56. However, under the provisions of Proposition 56, the definition of cigarettes would be expanded to include e-cigarettes and the Commission will receive an equivalent amount of the current \$.50 per pack tax on traditional cigarette products.
 - The two laws enacted during the 2016 Special Session of the California Legislature are estimated by the State Board of Equalization (BOE) to result in a 5-10% annual decrease in Commission revenues. BOE is also estimating that approval of Proposition 56 will increase annual Commission revenues by a minimum of 10%. Thus, the three tobacco tax changes are anticipated to result in either no impact to Commission revenues or a slight increase in Commission revenues. Should Proposition 56 fail, annual Commission revenues could decrease as much as 10%. Only after actual revenues are received for 3-6 months after these three tax changes take effect will the impact on revenues be known.

ADDITIONAL INFORMATION

This financial report is designed to provide a general overview of the Commission's finances for those with an interest in the Commission's operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director of the Stanislaus County Children and Families Commission, 930 15th Street, Modesto, CA 95354.

BASIC FINANCIAL STATEMENTS

**STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
STATEMENT OF NET POSITION
JUNE 30, 2016**

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 9,369,860
Due from other agencies	950,538
Interest receivable	26,737
Capital assets, net	<u>4,620</u>
Total assets	<u>\$ 10,351,755</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources from pensions	<u>\$ 69,693</u>
LIABILITIES	
Accounts payable	\$ 535,821
Salaries and benefits payable	18,510
Long-term liabilities, compensated absences	26,123
Long-term liabilities, net pension liability	<u>291,028</u>
Total liabilities	<u>\$ 871,482</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources from pensions	<u>\$ 118,208</u>
NET POSITION	
Net investment in capital assets	\$ 4,620
Restricted net position - children's programs	<u>9,427,138</u>
Total net position	<u>\$ 9,431,758</u>

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

**STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

Functions/Programs	Expenses	Program Revenues	Net (Expense) and Revenues and Change in Net Position
		Operating Grants and Contributions	Governmental Activities
Governmental activities:			
Child development services	\$ 6,254,144	\$ 5,287,566	\$ (966,578)
Totals	<u>\$ 6,254,144</u>	<u>\$ 5,287,566</u>	<u>(966,578)</u>
General revenues:			
Interest and investment earnings			110,184
Change in net position			(856,394)
Net position beginning of year			<u>10,288,152</u>
Net position end of year			<u>\$ 9,431,758</u>

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

**STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
BALANCE SHEET – GOVERNMENTAL FUND
JUNE 30, 2016**

	General Fund
ASSETS	
Cash and investments	\$ 9,369,860
Due from other agencies	950,538
Interest receivable	<u>26,737</u>
Total assets	<u>\$ 10,347,135</u>
LIABILITIES	
Accounts payable	\$ 535,821
Salaries and benefits payable	<u>18,510</u>
Total liabilities	<u>554,331</u>
FUND BALANCE	
Committed	
Approved contracts not yet executed	5,426,083
Budget reserve account	500,000
Contracts approved and executed	<u>610,000</u>
Total committed	<u>6,536,083</u>
Assigned	
Future CORE programs and services	<u>3,256,721</u>
Total fund balance	<u>9,792,804</u>
Total liabilities and fund balance	<u>\$ 10,347,135</u>
Reconciliation of the Balance Sheet of the Governmental Fund to the Statement of Net Position:	
Total fund balance	\$ 9,792,804
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund (net of accumulated depreciation of \$20,505).	4,620
Deferred outflows of resources for pensions used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund.	69,693
Compensated absences (long-term liabilities) are not due in the current period and, therefore, are not included in the governmental fund.	(26,123)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund.	(291,028)
Deferred inflows of resources for pensions are not due in the current period, and therefore, are not reported in the governmental fund.	<u>(118,208)</u>
Total net position - governmental activities	<u>\$ 9,431,758</u>

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

**STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>General Fund</u>
Revenues	
Proposition 10 - tobacco tax	\$ 5,285,000
Surplus money investment fund	2,515
Investment earnings	110,184
Miscellaneous revenue	<u>51</u>
Total revenues	<u>5,397,750</u>
Expenditures	
Contracts	5,767,670
Salaries and employee benefits	395,757
Services and supplies	<u>123,291</u>
Total expenditures	<u>6,286,718</u>
Net change in fund balance	<u>(888,968)</u>
Fund balance - beginning of year	<u>10,681,772</u>
Fund balance - end of year	<u>\$ 9,792,804</u>
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the Governmental Fund to the Statement of Activities:	
Net change in fund balance - governmental fund	\$ (888,968)
The governmental fund reports capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$1,703) exceeded capital outlay (\$0) in the current period.	(1,703)
Compensated absences (long-term liabilities) are not due during the current year and, therefore, are not recorded in the governmental fund. This is the amount by which compensated absences decreased in the current period.	4,338
Pension liability (long-term liability) is not due during the current year and, therefore, is not recorded in the governmental fund. This is the amount by which pension expense is less than current year employer pension contributions.	<u>29,939</u>
Change in net position - governmental activities	<u>\$ (856,394)</u>

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

**STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL (GAAP)
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2016**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (GAAP Basis)</u>	<u>Variance with Final Budget</u>
Revenues				
Proposition 10 - tobacco tax	\$ 5,094,712	\$ 5,094,712	\$ 5,285,000	\$ 190,288
Surplus money investment fund	-	-	2,515	2,515
Investment earnings	84,821	84,821	110,184	25,363
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Services and supplies	134,936	134,936	123,291	11,645
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Net change in fund balance	\$ (2,107,653)	\$ (2,107,653)	(888,968)	\$ 1,218,685
Fund balance - beginning of year			10,681,772	
Fund balance - end of year			\$ 9,792,804	

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

**STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Stanislaus County Children and Families Commission (the Commission) was established on December 8, 1998, pursuant to Health and Safety Code §130140. The Commission was also established in accordance with the provisions of the California Children and Families First Act of 1998 and by the County of Stanislaus Ordinance #687. The Commission is funded by surtaxes imposed on the sale of cigarettes and tobacco products. The nine members (as amended by Ordinance #787) of the Commission are appointed by the County of Stanislaus (the County) Board of Supervisors.

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. Services to enhance early childhood development include early childhood education and health programs.

The Commission is a blended component unit of the County under accounting principles generally accepted in the United States of America. As such, the results of its operations are also included in the County's Comprehensive Annual Financial Report (CAFR). The basic financial statements included in this report are intended to present the financial position and results of operations of only the Commission. They are not intended to present the financial position and the results of operations of the County taken as a whole. For additional information regarding the County, please refer to the audited basic financial statements available from the County.

B. Basis of Presentation and Accounting

The basic financial statements of the Commission are prepared on the basis of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – Management Discussion and Analysis – for State and Local Governments*, and related standards. GASB Statement No. 34 established standards for external financial reporting for all state and local government entities which include a management's discussion and analysis section, a statement of net position, and a statement of activities. It requires the classification of net position into three components – net investment in capital assets, restricted, and unrestricted.

Government-Wide Statements

The Commission's government-wide financial statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of governmental activities for the Commission.

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting. Accordingly, all of the Commission's assets and liabilities, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balance for all major governmental funds. An accompanying schedule is presented to reconcile and explain the differences in fund balances as presented in these statements to the net position presented in the government-wide financial statements. The Commission only has one fund, the General Fund. The General Fund is the Commission's primary operating fund. It accounts for all the financial resources and the legally authorized activities of the Commission.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation and Accounting (Continued)

Governmental Fund Financial Statements (Continued)

All governmental fund types are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Revenues are recognized when received in cash, except that revenues subject to accrual, generally 180 days after year-end, are recognized when due. Expenditures are recognized in the accounting period in which the related fund liability is incurred. When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, and then unrestricted resources as they are needed.

Adjustments Between Fund Financial Statements and Government-Wide Financial Statements

The government-wide financial statements were adjusted from the modified accrual basis of accounting used on the fund financial statements to the accrual basis of accounting used for the government-wide financial statements. These adjustments included expenses for depreciation during the year related to capital assets and compensated absence obligations.

Non-Exchange Transactions

A non-exchange transaction consists of a government giving or receiving value without directly receiving or giving equal value in return. These transactions include income taxes, sales taxes, property taxes and fines, certain grants, and private donations. Recognition of sales taxes or derived tax revenue transactions assume accrual basis of accounting, per GASB Statement No. 33, except where indicated for revenue recognition.

C. Budgets and Budgetary Accounting

The Commission prepares and legally adopts a final budget on or before July 1st of each fiscal year.

After the budget is approved, the appropriations can be added to, subtracted from, or changed only by Commission resolution. All such changes must be within the revenues and reserves estimated as available in the final budget or within revised revenue estimates as approved by the Commission.

An operating budget is adopted each fiscal year on the modified accrual basis of accounting. Additionally, encumbrance accounting is utilized to assure effective budgetary control.

Encumbrances outstanding at year-end represent the estimated amount of the expenditures ultimately to result if the unperformed contracts in process at year-end are completed or purchase commitments satisfied. Such year-end encumbrances are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year and included in the subsequent year's budget. Unencumbered appropriations lapse at year-end.

D. Due from Other Agencies

These amounts represent receivables from other governments or contractors. As of June 30, 2016, the Commission had \$950,538 due from the State of California and \$26,737 in interest receivable due from the County Cash and Investment Pool. Management believes its receivables to be fully collectible and, accordingly, no allowance for doubtful accounts is required.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Additions, improvements, and other capital outlays that significantly extend the useful life of the asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Equipment – 10 years

F. Compensated Absences – Vacation and Sick Leave

Commission employees earn vacation and sick leave with pay every year. The amount of vacation and sick leave earned is based on the years of continuous service.

After at least six months of Commission service, most regular employees, upon separation, are entitled to all unused vacation time accumulation. Most regular employees are entitled to a portion of accumulated sick leave after six years of service, depending on age, years of service, and bargaining unit.

At the close of each fiscal year, the balance of this accumulated time at the last pay period is computed for each employee at the current salary range. In the basic financial statements, these amounts are referred to as "Compensated Absences."

G. Pensions

In government-wide financial statements, retirement plans (pensions) are required to be recognized and disclosed using the accrual basis of accounting (see Note 9 and the Required Supplementary Information (RSI) section immediately following the Notes to the Financial Statements), regardless of the amount recognized as pension expenditures on the governmental fund statements, which use the modified accrual basis of accounting.

In general, the Commission recognizes a net pension liability, which represents the Commission's proportionate share of the County's proportionate share of the excess of the total pension liability over the fiduciary net position of the pension reflected in the actuarial report provided by Stanislaus County Employees' Retirement Association (StanCERA). The net pension liability is measured as of the County's prior fiscal year-end. Changes in the net pension liability are recorded, in the period incurred, as pension expense or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change. The changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources (that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience) are amortized over the weighted average remaining service life of all participants in the respective pension plan and are recorded as a component of pension expense beginning with the period in which they are incurred.

For purposes of measuring the net pension liability and deferred outflows of resources or deferred inflows of resources related to pensions and pension expense, information about the fiduciary net position of the County's pension plans with StanCERA and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they were reported to StanCERA. 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.

Projected earnings on pension investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-period beginning with the period in which the difference occurred. Each subsequent year will incorporate an additional closed five-year period of recognition.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Use of Estimates

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

I. Fund Balance

Beginning with fiscal year 2011, the Commission implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- **Nonspendable** - Amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
- **Restricted** - Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed** - Amounts constrained to specific purposes by the Commission itself, using its highest level of decision-making authority (Board of Commissioners). To be reported as committed, amounts cannot be used for any other purpose unless the Commission takes the same highest level action to remove or change the constraint.
- **Assigned** - Amounts the Commission intends to use for a specific purpose. Intent can be expressed by the Board of Commissioners or by an official or body to which the Board of Commissioners delegates the authority.
- **Unassigned** - Amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

The Commission establishes and modifies or rescinds fund balance commitments by passage of an ordinance or policy. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget as a designation or commitment of the fund, such as approved contracts. Assigned fund balance is established by the Commission through adoption or amendment of the budget or future year budget plan as intended for a specific purpose.

The Commission's policy is to first apply committed resources and then assigned resources when an expenditure is incurred for purposes for which any amounts in any of these unrestricted fund value classifications could be used.

For the Commission's governmental fund, the Commission strives to maintain a budgeted total fund balance that is in excess of at least half of current year budgeted revenues.

J. Governmental Accounting Standards Update

During the fiscal year ending June 30, 2016, the Commission implemented the following standards:

GASB Statement No. 72 – Fair Value Measurement and Application. The provisions of this statement are effective for financial statements for reporting periods beginning after June 15, 2015. There was no effect on the Commission's accounting or financial reporting as a result of implementing this standard.

GASB Statement No. 73 – Accounting and Financial Reporting for Pensions and Related Assets that are not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68. The provisions of this statement are effective for fiscal years beginning after June 15, 2015 – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for fiscal years beginning after June 15, 2016. There was no effect on the Commission's accounting or financial reporting as a result of implementing this standard.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Governmental Accounting Standards Update (Continued)

GASB Statement No. 76 – *Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* The provisions of this statement are effective for fiscal years beginning after June 15, 2015. There was no effect on the Commission's accounting or financial reporting as a result of implementing this standard.

Recently released standards by GASB affecting future fiscal years are as follows:

GASB Statement No. 74 – *Financial Reporting for Postemployment Benefits Other than Pension Plans.* The provisions of this statement are effective for fiscal years beginning after June 15, 2016. The Commission has not fully judged the effect of the implementation of GASB Statement No. 74 as of the date of the basic financial statements.

GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other than Pension Plans.* The provisions of this statement are effective for fiscal years beginning after June 15, 2017. The Commission has not fully judged the effect of the implementation of GASB Statement No. 75 as of the date of the basic financial statements.

GASB Statement No. 77 – *Tax Abatement Disclosures.* The requirements of this statement are effective for reporting periods beginning after December 15, 2015. The Commission has not fully judged the effect of the implementation of GASB Statement No. 77 as of the date of the basic financial statements.

GASB Statement No. 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans.* The requirements of this statement are effective for reporting periods beginning after December 15, 2015. The Commission has not fully judged the effect of the implementation of GASB Statement No. 78 as of the date of the basic financial statements.

GASB Statement No. 79 – *Certain External Investment Pools and Pool Participants.* The requirements of this statement are effective for reporting periods beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23-26, and 40. The Commission has not fully judged the effect of the implementation of GASB Statement No. 79 as of the date of the basic financial statements.

GASB Statement No. 80 – *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14.* The requirements of this statement are effective for reporting periods beginning after June 15, 2016. The Commission has not fully judged the effect of the implementation of GASB Statement No. 80 as of the date of the basic financial statements.

GASB Statement No. 81 – *Irrevocable Split-Interest Agreements.* The requirements of this statement are effective for reporting periods beginning after December 15, 2016. The Commission has not fully judged the effect of the implementation of GASB Statement No. 81 as of the date of the basic financial statements.

GASB Statement No. 82 – *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73.* The requirements of this statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The Commission has not fully judged the effect of the implementation of GASB Statement No. 82 as of the date of the basic financial statements.

NOTE 2 – CASH AND INVESTMENTS

The Commission's cash is invested in the County cash and investment pool. The County cash and investment pool is invested in accordance with California State Government Code Section 53600. In addition, the cash and investment pool is further restricted to those investments deemed acceptable per the investment policy guidelines prepared by the County Treasurer and approved by the Board of Supervisors of the County.

Cash and investments held as of June 30, 2016, were invested in certificates of deposit, commercial paper, money market funds, federal notes, treasury notes and bills, corporate notes, and an external investment pool.

Interest earned on the cash and investment pool is apportioned on a quarterly basis. Per GASB Statement No. 31, investment losses and gains are recorded at market value on the Statement of Net Position and as income for the period. The changes resulting from investment losses and gains are shared by the various participants of the pool. For further information regarding the cash and investment pool, the audit report of the County may be obtained by writing the County of Stanislaus, 1010 10th Street, Suite 5100, Modesto, CA 85354.

Cash and investment balances as of June 30, 2016, are as follows:

\$ 9,369,860

NOTE 3 – CHANGES IN CAPITAL ASSETS

The following is a summary of changes in the capital assets for the year ended June 30, 2016:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Equipment	\$ 25,125	\$ -	\$ -	\$ 25,125
Less accumulated depreciation	(18,802)	(1,703)	-	(20,505)
Total	<u>\$ 6,323</u>	<u>\$ (1,703)</u>	<u>\$ -</u>	<u>\$ 4,620</u>

Depreciation expense for the year ending June 30, 2016, was \$1,703.

NOTE 4 – ECONOMIC DEPENDENCY

The Commission received the majority of its funding from one source, taxes imposed by Section 30131.2 of the California Tax and Revenue Code. This code imposes additional taxes on the sale of cigarettes and tobacco products. The total amount of funding from the additional taxes was \$5,285,000 or 97.9% of total revenue for the year ending June 30, 2016. The Commission is thus subject to possible risk of reductions in services and/or closure due to potential future changes to Section 30131.2 of the California Tax and Revenue Code.

NOTE 5 – GOVERNMENT-WIDE STATEMENTS, NET POSITION – CLASSIFICATIONS

The classification of net position into three components, net investment in capital assets, restricted, and unrestricted, is required by GASB Statement No. 34 (and subsequently GASB Statement No. 63). These classifications are defined as follows:

Net Investment in Capital Assets – Consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of debt issued to finance the acquisition, improvement, or construction of those assets.

NOTE 5 – GOVERNMENT-WIDE STATEMENTS, NET POSITION – CLASSIFICATIONS (Continued)

Restricted Net Position – Consists of constraints placed on net position use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislations.

Unrestricted Net Position – Consists of funds which are undesignated and available for general operations.

NOTE 6 – FUND FINANCIAL STATEMENTS, FUND BALANCES

In accordance with GASB Statement No. 54, fund balances are reserved for amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use. Commitments of fund balance represent uses of funds for a specific purposes that require the Board of Commissioners Action for initiation, modification, and removal. Assignment of fund balance represent management plans that are subject to change. Fund balances have been Committed for the following purposes:

Approved Contracts Not Yet Executed represents amounts that the Commission has authorized and entered into an agreement, but the contract has not been executed.

Budget Reserve Account represents an amount the Commission has established, as a contingency fund, of which no funds will be spent without prior Commission approval.

Contracts Approved and Executed represents amounts that the Commission has authorized, entered into an agreement, and has been executed.

NOTE 7 – COMMITMENTS

Operating Lease, Building – The Commission entered into a building lease agreement to house the operations of the Commission at 930 15th Street, Modesto, CA. The lease commenced on December 1, 2014, and will terminate on November 30, 2019. The lease has an option to renew for an additional three years at the end of the first lease period. Lease expense for the year ending June 30, 2016, was \$27,648 for the 930 15th Street building.

Future minimum payments for the year ending June 30 are as follows:

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>Total</u>
Office space lease	\$ 28,544	\$ 30,080	\$ 31,616	\$ 13,440	\$ 103,680
Total	<u>\$ 28,544</u>	<u>\$ 30,080</u>	<u>\$ 31,616</u>	<u>\$ 13,440</u>	<u>\$ 103,680</u>

NOTE 8 – RISK MANAGEMENT

The Commission is exposed to various levels of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission participates in the County risk management insurance. Insurance covered under the County's risk management includes general liability, unemployment, workers' compensation, professional liability, health insurance, and other benefits.

No claims were outstanding during the year ending June 30, 2016. Audit reports of the County listing further details of the County's insurance coverage may be obtained by writing the County of Stanislaus, 1010 10th Street, Suite 5100, Modesto, CA 95354.

NOTE 8 – RISK MANAGEMENT (Continued)

Risk management expenditures during the fiscal year are as follows:

	<u>2016</u>
General liability insurance	\$ 1,339
Unemployment insurance	200
Workers' compensation insurance	1,614
Health insurance	45,649
Other insurance	675
 Total risk management expenditures	 <u>\$ 49,477</u>

NOTE 9 – PENSIONS

A. General Information about the Employee Retirement System

Plans Description

The County is a major participant in the Stanislaus County Employees' Retirement Association (StanCERA), a retirement system organized under the County Employees' Retirement Law of 1937. StanCERA is a cost-sharing multiple-employer Public Employee Retirement System (PERS). StanCERA provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits. Health and welfare insurance for retirees and their dependents is available however administered independently of StanCERA. The plans are administered by StanCERA. An actuarial valuation is performed for the system annually as a whole and the contribution rate is determined for each participating entity. StanCERA issues a Comprehensive Annual Financial Report (CAFR) that includes financial statements and required supplementary information for StanCERA. The CAFR may be obtained by writing to Stanislaus County Employees' Retirement Association, PO Box 3150, Modesto, CA 95353-3150 or by calling (209) 525-6393.

StanCERA's CAFR is prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and a formal commitment to provide the contributions has been made. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. All other securities are valued at the last reported market price at current exchange rates.

The plans' provisions and benefits in effect at June 30, 2016, are summarized as follows:

General Tiers 1, 2, 4, 5 (not open to new members)	Vests after five years of credited service and may retire at age 50 or older with 10 or more years of membership with StanCERA or any age with 30 or more years of credited service
General Tier 3 (not open to new members)	Vested after ten years of credited service and may retire at age 55 with 10 or more years of credited service.
General Tier 6 (open to new members)	Vests after five years of credited service and may retire at age 52 with 5 years of service credit or age 70 regardless of service credit.

NOTE 9 – PENSIONS (Continued)

A. General Information about the Employee Retirement System (Continued)

Benefits Provided

Members terminating employment before accruing five years (ten years for Tier 3) of retirement service credit forfeit the right to receive retirement benefits unless they establish reciprocity with another public agency within the prescribed time period. Non-vested members who terminate service are entitled to withdraw their accumulated contributions plus accrued interest. Members who terminate after earning five or ten years of retirement service credit may leave their contributions on deposit and elect to take a deferred retirement. Difference between expected or actual experience for vested and non-vested benefits may result in an increase or decrease to pension expense and net pension liability.

For members with Tier 1, Tier 4, or Tier 5 benefits, final average salary is the average monthly salary based on the highest twelve consecutive months of earnings. For members with Tier 2, Tier 3, or Tier 6 benefits, final average salary is the average monthly salary based on the highest thirty-six consecutive months of earnings.

Specific details for the retirement, disability, or death benefit calculations and cost-of-living (COLA) adjustment maximums for each of the pension plans are available in the StanCERA's publicly available CAFR.

Contributions

Those members participating in Tier 1, Tier 2, Tier 4, Tier 5, and Tier 6 are required by statute to contribute to the pension plan. Members' contribution rates for Tier 1, Tier 2, Tier 4, and Tier 5 are formulated on the basis of the age at date of entry and the actuarially calculated future benefits. Members' contribution rate for Tier 6 is a flat rate based on the actuarially calculated future benefit. The County is required by statute to contribute the remaining amounts necessary to finance the estimated benefits accrued to its members. Member and employer contribution rates for each plan are as follows:

PLAN	EMPLOYER CONTRIBUTION RATES	EMPLOYEE CONTRIBUTION RATES
General Tier 1	24.66%	4.83-7.29%
General Tier 2	18.30%	6.29-10-48%
General Tier 3	13.75%	Non-contributory
General Tier 4	25.57%	4.71-7.09%
General Tier 5	20.63%	7.60-11.70%
General Tier 6	18.49%	7.63%

The Commission's portion of the County's contributions to StanCERA for the past three fiscal years was equal to the required contributions for each year and is noted in the chart below. The County does not contribute towards post employment benefits other than retirement.

Fiscal Year Ended
June 30, 2014
June 30, 2015
June 30, 2016

\$ 56,552
64,870
52,809

The County Employees' Retirement Law of 1937 establishes the basic obligations for employer and member contributions and benefits to and of the retirement system. The actual employer and member contribution rates in effect each year are based on recommendations made by an independent actuary and adopted by the StanCERA Board of Retirement.

NOTE 9 – PENSIONS (Continued)

A. General Information about the Employee Retirement System (Continued)

Contributions (Continued)

StanCERA provides a death benefit of \$5,000 paid to the beneficiary or estate if a member dies after retirement, provided that the County was the members' last public employer.

Ad-hoc benefits are non-vested benefits determined by the StanCERA Board of Retirement. Approved changes to the excess earnings policy by the StanCERA Board of Retirement on June 30, 2014, placed restrictions on offering ad-hoc benefits, specifically that the system must be 100% actuarially funded prior to the StanCERA Board of Retirement offering any ad-hoc benefits. StanCERA is 87.5% actuarially funded as of June 30, 2015.

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

At June 30, 2016, the Commission reported a liability of \$291,028 for its proportionate share of the County's proportionate share of the net pension liability. The County's net pension liability was measured as of June 30, 2015, and the liability used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2014, updated to June 30, 2015. The County's proportion of the net pension liability was based on a projection of the County's long-term share of contributions to the pension plan relative to the projected contributions of all pension plan participants, actuarially determined. The Commission's proportion of the County's proportion of the net pension liability was based on the Commission's contributions to the pension plan during the year ended June 30, 2015. At June 30, 2015, the Commission's proportion of the County's proportion was 0.1111%, compared to 0.1363% at June 30, 2014, a decrease of 0.0252%

For the year ended June 30, 2016, the Commission recognized pension expense of \$29,939. 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, 2016, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Deferred inflows of resources - changes in proportion	\$ -	\$ 79,904
Deferred outflows of resources - changes in expectations	2,508	-
County contribution subsequent to the measurement date	67,185	-
Deferred inflows of resources - change in actual vs. proportionate contributions	-	339
Deferred inflows of resources - proportionate share of collective investment return	-	<u>37,965</u>
Total	<u>\$ 69,693</u>	<u>\$ 118,208</u>

Deferred outflows of resources and deferred inflows of resources above represent the unamortized portion of changes to net pension liability to be recognized in future periods in a systematic and rational manner.

The Commission contributions of \$67,185 made subsequent to the measurement date are reported as deferred outflows of resources for fiscal year ending June 30, 2016, and will be recognized as reduction of the net pension liability in the fiscal year ending June 30, 2017.

NOTE 9 – PENSIONS (Continued)

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

Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30</u>	<u>Amount</u>
2017	\$ (28,925)
2018	(28,925)
2019	(28,925)
2020	(28,925)
2021	-
Thereafter	-
 Total	 <u>\$ (115,700)</u>

Actuarial Assumptions

The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions. Total pension liability represents the portion of the actuarial present value of projected benefit payments attributable to past periods of service for current and inactive employees.

Inflation	3.25%
Amortization growth rate	3.50%
Salary increases	3.50% plus merit component
COLA increases	3.70% for those eligible for COLA
Investment rate of return	7.75%, net of investment expense
Post-retirement mortality	Sex distinct RP-2000 Combined Mortality, projected to 2020 using scale AA

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period July 1, 2009 – June 30, 2012.

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equities	
US Large Capital	7.10%
US Small Capital	7.50%
International Equities	
International Developed	7.70%
Emerging Market Equity	8.50%
US Fixed Income	2.50%
Real Estate	5.70%
Direct Lending	5.00%
Infrastructure	5.50%
Cash	1.50%

NOTE 9 – PENSIONS (Continued)

C. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from the employers will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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 County's proportionate share of the net pension liability calculated using the discount rate of 7.75%, as well as the Commission's proportionate share of the County's proportionate share of the net pension liability if it were calculated using a discount rate that is 1 percentage point lower (6.75%) or 1 percentage point higher (8.75%) than the current rate:

	1% Decrease 6.75%	Discount Rate 7.75%	1% Increase 8.75%
Commission's proportionate share of the County's proportionate share of the net pension liability	\$ 563,665	\$ 291,028	\$ 64,875

Pension Plan Fiduciary Net Position

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

NOTE 10 – RELATED PARTY TRANSACTIONS

During the fiscal year ended June 30, 2016, the Commission paid the County, a related party, \$2,785,892 for the following costs: \$25,625 in accounting, legal, and administrative services and \$2,760,267 for program services. The Commission is a special revenue fund of the County as stated in Note 1.

NOTE 11 – PROGRAM EVALUATION

The Commission spent \$23,750 on program evaluation during the fiscal year ended June 30, 2016, all of which consisted of Commission salaries, benefits, services, and supplies based on time study allocations.

NOTE 12 – SECTION 30131.4 OF THE CALIFORNIA TAX AND REVENUE CODE CERTIFICATION

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

NOTE 13 – SUBSEQUENT EVENTS

In compliance with accounting standards generally accepted in the United States of America, management has evaluated events that have occurred after year-end to determine if these events are required to be disclosed in these basic financial statements. Management has determined that no events require disclosure in accordance with accounting standards. These subsequent events have been evaluated through September 23, 2016, which is the date the basic financial statements were issued.

REQUIRED SUPPLEMENTARY INFORMATION

**STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
A COST-SHARING DEFINED BENEFIT PENSION PLAN
SCHEDULE OF THE COMMISSION'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
AS OF JUNE 30, 2016
LAST 10 YEARS***

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Commission's proportion of the County's proportion of the net pension liability	0.10%	0.12%
Commission's proportionate share of the County's proportionate share of the net pension liability	\$ 291,028	\$ 281,849
Commission's covered-employee payroll	\$ 263,665	\$ 268,299
Commission's proportionate share of the County's proportionate share of the net pension liability as a percentage of its covered-employee payroll	110.38%	105.05%
Plan's fiduciary net position	\$ 1,806,975	\$ 2,166,234
Plan fiduciary net position as a percentage of the Commission's proportionate share of the County's proportionate share of the total pension liability	86.13%	88.49%

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

Notes to Schedule:

Benefit changes and changes in assumption

In 2015, there were no changes in assumptions for benefits changes in the current year, as the beginning and end of year total pension liability are both based on the same actuarial valuation. There was no difference between expected and actual experience this year.

The information presented relates solely to the Commission and not the County of Stanislaus or the Stanislaus County Employees' Retirement Association as a whole.

**STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
A COST-SHARING DEFINED BENEFIT PENSION PLAN
SCHEDULE OF CONTRIBUTIONS
AS OF JUNE 30, 2016
LAST 10 YEARS***

	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Contractually Required Contribution (Actuarially Determined)	\$ 53,096	\$ 56,552
Contributions in Relation to the Actuarially Determined Contributions	<u>52,809</u>	<u>56,328</u>
Contribution Deficiency (Excess)	<u>\$ 287</u>	<u>\$ 224</u>
Covered-Employee Payroll	\$ 263,665	\$ 268,299
Contributions as a Percentage of Covered- Employee Payroll	20.03%	20.99%

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

The information presented relates solely to the Commission and not the County of Stanislaus or the Stanislaus County Employees' Retirement Association as a whole.

COMPLIANCE SECTION

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BROWN ARMSTRONG

Certified Public Accountants

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
Stanislaus County Children and Families Commission
Modesto, 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 general fund of the Stanislaus County Children and Families Commission (the Commission), a component unit of Stanislaus County, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated September 23, 2016.

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.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

*Brown Armstrong
Accountancy Corporation*

Bakersfield, California
September 23, 2016

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INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

To the Board of Commissioners
Stanislaus County Children and Families Commission
Modesto, California

We have audited the Stanislaus County Children and Families Commission's (the 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, 2016.

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 California Children and Families Act* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the requirements referred to above that could have a direct and material effect on the statutory requirements listed below. 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

<u>Description</u>	<u>Audit Guide Procedures</u>	<u>Procedures Performed</u>
Long-Range Financial Plans	2	Yes
Financial Condition of the Commission	1	Yes
Program Evaluation	3	Yes
Salaries and Benefit Policies	2	Yes

Opinion

In our opinion, 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, 2016.

This report is intended solely for the information and use of the County of Stanislaus Board of Supervisors, the Commission, the State Commission, and the State Controller's Office and is not intended to be, and should not be, used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

*Brown Armstrong
Accountancy Corporation*

Bakersfield, California
September 23, 2016