

**STANISLAUS COUNTY CHILDREN
AND FAMILIES COMMISSION**

(A Component Unit of the County of Stanislaus, California)

**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT**

**FOR THE YEAR ENDED
JUNE 30, 2019**

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**STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
COMMISSION MEMBERSHIP
AS OF JUNE 30, 2019**

<u>Name</u>	<u>Position</u>	<u>Original Appointment</u>	<u>Term Expires</u>
Vicki Bauman	School Representative	June 2005	August 2019
Vito Chiesa	Board of Supervisors	January 2009	December 2020
David Cooper	Community Representative	September 2006	August 2021
Ignacio Cantu Jr	Community Representative	October 2017	August 2020
Mary Ann Lilly-Tengowski	Director, Health Services Agency	November 2007	Permanent
Nelly Paredes-Waslborn, PH.D	Community Representative Vice-Chair	September 2004	August 2019
Kathryn Harwell	Director, Community Services Agency Chair	August 2016	Permanent
Armand George Skol	Community Representative	June 2002	August 2020
Julie Vaishampayan, MD	Health Officer	May 2017	Permanent



INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Stanislaus County Children and Families Commission

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and major fund of the Stanislaus County Children and Families Commission (the Commission), a component unit of the County of Stanislaus, California (the County), as of and for the year ended June 30, 2019, the related notes to the financial statements, and the respective budgetary comparison for the general fund, which collectively comprise the Commission's 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 an opinion 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the Commission, as of June 30, 2019, 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.

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 3-8, the schedule of the Commission's proportionate share of the County's proportionate share of the net pension liability on page 29, and the schedule of the Commission's contributions on page 30 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 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 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 October 7, 2019, 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.

HUDSON HENDERSON & COMPANY, INC.

A handwritten signature in blue ink that reads "Hudson Henderson & Company, Inc." in a cursive script.

Fresno, California
October 7, 2019



**STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019**

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, 2019. It is important to read this section in conjunction with the basic financial statements and notes in this audit.

OVERVIEW OF THE ENTITY

The Stanislaus County Children and Families Commission was established by the Stanislaus County Board of Supervisors on December 8, 1998, pursuant to Ordinance #687. The ordinance provides that the Commission shall operate as an independent County agency and be governed by a nine-member Board of Commissioners appointed by the Stanislaus County Board of Supervisors with independent strategic planning and budget authority. The Commission operates under the regulatory guidance of the California Health and Safety Code and was formed as a result of the passage of Proposition 10 by California voters in November of 1998.

The mission of the Commission is to be a catalyst to help give children and families the best start. The Commission achieves its mission by focusing its efforts on family functioning, health, child development, and sustainable systems.

Fiscal Year 2018-2019 contained a number of significant outcomes for the Commission. The most significant was the completion of a strategic direction/planning process resulting in a new five-year Strategic Plan for the Commission and a new five-year long-range fiscal model which was approved on December 10, 2018. This Commission meeting also included other fiscal actions, including program reductions, taken to support the Strategic Plan the impact of which will more significantly be seen in Fiscal Year 2019-2020.

The Commission consistently reaches tens of thousands of children, parents, and providers each year through their service contracts. Primary functions of Commission staff are preparing and monitoring contracts for services, processing contract invoices, and ensuring compliance with Commission policies and procedures and State code. The Commission also interfaces with various community initiatives and promotes collaboration among partners with a strong focus on funded program outcomes. Functions and priorities of staff will evolve as the new strategic plan is implemented.

FISCAL YEAR 2018-2019 FINANCIAL HIGHLIGHTS

Fiscal Year 2018-2019 showed a significant decrease in projected expenditures as a result of the discontinuance of services of one funded partner prior to the fiscal year end. This was a planned discontinuance of a program which ultimately took place one quarter earlier than projected resulting in lower expenditures. Also, in Fiscal Year 2018-2019 there was a significant reduction in use of fund balance for budget balancing. There was a total use of \$53,485 in fund balance in Fiscal Year 2018-2019 versus of use of nearly \$1.8 million in Fiscal Year 2017-2018. This decreased use of fund balance reflects strategic policy decisions made by Commission.

The highlights of Fiscal Year 2018-2019 reflect a combination of planning and policy work to create expenditures that more closely match revenues and to provide greater long-term stability to the organization:

- Total revenues increased \$484,899 (10.47%) from 2018 to 2019 primarily due to an increase in Proposition 56 funds received in 2019. Total revenues were \$5,107,064 in Fiscal Year 2018-2019.
- Commission expenses decreased \$1,541,236 (23.5%) as compared to the prior year. The decrease was largely the result of an \$800,000 decrease in program expenses as part of the final budget and an early termination of a program contract. This policy decision reflected the Commission's objective to move toward more closely balancing the Commission's budget to actual revenues. Total expenses were \$5,030,104 in Fiscal Year 2018-2019.
- The use of Commission reserves decreased by \$1,744,427 (97.3%) as compared to the prior year. The total use of Commission reserves was \$53,485 in Fiscal Year 2018-2019.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts – the management's discussion and analysis (this section), the basic financial statements, and supplementary information. The three sections together provide a comprehensive overview of the Commission. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives:

- **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the Commission's overall financial position.
- **Fund financial statements** focus on reporting the individual parts of the Commission's operations in more detail. The fund financial statements comprises the remaining statements.
 - **Government funds** statements tell how general governmental services were financed in the short-term as well as what remains for future spending.

The basic financial statements also include notes that explain some of the information within the statements and provide more detailed data. These are followed by a section of required supplementary information which further explains and supports the basic financial statements.

Government-Wide Statements

The government-wide statements report information about the Commission as a whole using accounting methods similar to those used by private-sector companies.

The *Statement of Net Position* presents information on all of the Commission's assets and liabilities, with the difference between the two reported as *net position*. Changes in net position may serve as a useful indicator of the financial position of the Commission.

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. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal years (e.g., earned but unused vacation leave).

Fund Financial Statements

The fund financial statements provide more detailed information about the Commission's most significant funds – not the Commission as a whole. Funds are accounting devices that the Commission uses to keep track of specific sources of funding and spending for particular programs. Some funds are required to be established by state law and by bond covenants. The Commission establishes other funds to control and manage money for purposes or to show that the Commission is meeting legal responsibility for using certain revenues.

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. 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 Board of Commissioners 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 Net Position (government-wide financials) and 2) Statement of Activities (change in net position). Both tables are summarized for the last three years.

	2019	2018	2017
ASSETS			
Current assets	\$ 7,125,134	\$ 7,050,810	\$ 9,014,467
Capital assets, net of accumulated depreciation	-	1,214	2,917
Total Assets	<u>7,125,134</u>	<u>7,052,024</u>	<u>9,017,384</u>
DEFERRED OUTFLOWS			
Deferred Pensions	<u>440,922</u>	<u>281,748</u>	<u>344,028</u>
LIABILITIES			
Current liabilities	639,764	477,655	643,400
Noncurrent liabilities	<u>792,839</u>	<u>817,284</u>	<u>744,526</u>
Total Liabilities	<u>1,432,603</u>	<u>1,294,939</u>	<u>1,387,926</u>
DEFERRED INFLOWS			
Deferred Pensions	<u>20,239</u>	<u>11,541</u>	<u>5,981</u>
NET POSITION			
Net investment in capital assets	-	1,214	2,917
Unrestricted	<u>6,113,214</u>	<u>6,026,078</u>	<u>7,964,588</u>
Total Net Position	<u>\$ 6,113,214</u>	<u>\$ 6,027,292</u>	<u>\$ 7,967,505</u>

Highlights of the above statement include:

- The slight increase in total assets over the prior year is due to the Commission's significantly decreased use of reserves.
- Current liabilities increased compared to the prior year due to an increase in accruals for contract costs due to the County.
- Long-term liabilities decreased due to the net pension liability recorded in connection with Governmental Accounting Standards Board (GASB) Statement No. 68 (which was implemented in 2015 - making 2019 the fifth year of implementation).
- Deferred outflows of resources and deferred inflows of resources of \$440,922 and \$20,239, respectively, were recorded in connection with changes in the Commission's proportionate share of the County's proportionate share of the net pension liability.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Revenues			
Program revenues	\$ 4,879,905	\$ 4,557,237	\$ 4,833,041
General revenues	<u>236,121</u>	<u>73,890</u>	<u>49,009</u>
 Total Revenues	 <u>5,116,026</u>	 <u>4,631,127</u>	 <u>4,882,050</u>
 Expenses	 <u>5,030,104</u>	 <u>6,571,340</u>	 <u>6,346,303</u>
 Change in Net Position	 <u>\$ 85,922</u>	 <u>\$ (1,940,213)</u>	 <u>\$ (1,464,253)</u>

Highlights of the above statement include:

- The Commission has significantly decreased its expenses, so revenues and expenses more closely align. As a result, the change in net position was stabilized.
- Total revenues increased \$484,899 (10.47%) from 2018 to 2019 primarily due to receiving \$478,727 in Prop 56 backfill funds.
- Commission expenditures decreased by \$1,541,236, which is a 23.45% decrease.

OVERALL FINANCIAL POSITION

Revenue is projected by the State of California to continue to decline for the Commission. The vast majority of Commission revenues are generated from tobacco taxes 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. Tobacco tax revenue has decreased significantly since the passage of Prop 10. Revenue declined 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. Additional regulatory changes were implemented in 2017, including an increased smoking age of 21. These changes also included an additional \$2 per pack cigarette tax, though this revenue was not designated to fund County Commissions. The State projected there would be a significant decline in tax revenue as a result of the \$2 per pack increase. To make First 5 whole for this revenue loss, the State committed to "backfill" revenue. The first Proposition 56 backfill payment of approximately \$200,000 was recorded by the Commission at the end of Fiscal Year 2017- 2018. The second backfill payment of \$478,727 was received in the fall of 2018.

Reducing the cost structure of Commission operations has been an important fiscal consideration as well. In December of 2017, the Commissioners authorized staff to explore budget reduction impacts for Fiscal Year 2018-2019. After considerable work and deliberation, the Commissioners approved Fiscal Year 2018-2019 direct service contracts that were approximately \$1 million less than in Fiscal Year 2017-18. These reductions were an attempt to decrease heavy reliance on fund balance as a budget balancing strategy, and to begin the necessary long-term strategy of re-balancing expenses with the revenue of the Commission.

The Commission conducted an extensive strategic direction/planning process beginning in June 2018 and concluded with a unanimous approval of a new Strategic Plan on December 10, 2018. At their December 10, 2018, the Commission also took action to fund contracts for Fiscal Year 2019-2020 that had highest alignment with the new Strategic Plan. This action resulted in another decrease of approximately \$1.8 million for contracts that would not be funded in Fiscal Year 2019-2020. Total contract reductions of approximately \$2.75 million have occurred over the 2018-2019 and 2019-2020 fiscal years in order to significantly rebalance the Commission budget.

According to its financial policies, the Commission is to maintain a reserve that contains the equivalent of at least half of the Commission's budgeted revenues for the current fiscal year. 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 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. The following table presents an overview of the Commission's governmental fund over the past three years.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Revenues			
Proposition 10 taxes	\$ 4,401,178	\$ 4,283,346	\$ 4,833,041
Proposition 56 taxes	478,727	198,808	-
Interest and investment earnings	199,740	73,890	49,009
Other revenue	<u>36,381</u>	<u>75,083</u>	<u>-</u>
Total Revenues	<u>5,116,026</u>	<u>4,631,127</u>	<u>4,882,050</u>
Expenditures			
Contracts	4,418,804	5,781,821	5,798,749
Salaries and employee benefits	504,811	456,323	345,370
Services and supplies	<u>245,896</u>	<u>190,895</u>	<u>159,668</u>
Total Expenditures	<u>5,169,511</u>	<u>6,429,039</u>	<u>6,303,787</u>
Change in Fund Balance	<u>\$ (53,485)</u>	<u>\$ (1,797,912)</u>	<u>\$ (1,421,737)</u>

Fund Budgetary Highlights

This section contains an explanation of the significant differences between the Commission's final budget amounts and actual amounts, and original and final budget amounts recorded for revenues and expenditures for fiscal year 2018-2019 as detailed in the Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual (shown on page 15). In Fiscal Year 2018-2019 the Commission received actual revenues of \$5.1 million compared to the budgeted amount of \$4.9 million. In preparing the budget, the Commission used revenue projections provided by the State of California. Actual total revenues were \$217,956 more than budgeted as interest and investment revenues were \$125,000 more than expected, and other revenues came in at \$36,000 more than expected.

In Fiscal Year 2018-2019, actual expenditures were \$1.4 million less than budgeted primarily due to minimal use of the contract adjustment funding and the early termination of a contract resulting in an additional \$665,000 savings in unused program expenses. A schedule of the Commission's original and final budget amounts compared with actual revenues and expenses is provided in the audited financial report, see page 15.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital assets of \$0 (net of accumulated depreciation) are for equipment purchased. See Note 3 for more information on capital assets.

At the end of the current fiscal year, the Commission did not have any outstanding long-term debt, however, the Commission does have one long-term obligation for compensated absences. See Note 4 for details.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

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

- A continual decrease in tobacco tax revenue is projected by the State for future fiscal years. Proposition 56 backfill funds are being received by the Commission, but they are lower than projected.
- The Commission approved approximately \$1.8 million of contract funding reductions for Fiscal Year 2019-2020.
- The Commission approved a budget for Fiscal Year 2019-2020 that is more closely balanced between revenues and expenses.
- The long-range model approved by the Commission on December 10, 2018, shows the Commission maintaining a budget that is close to balance through the next five fiscal years.
- The Commission has begun implementation of its new Strategic Plan and will begin shifting investment toward strategies identified in the plan.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

The financial report is designed to provide a general overview of the Commission's finances for all those interested. 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.

STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
STATEMENT OF NET POSITION
JUNE 30, 2019

	<u>Primary Government</u>
ASSETS	
Cash and investments	\$ 6,021,512
Due from other agencies	1,075,922
Other receivables	27,700
Capital assets, net of accumulated depreciation	<u>-</u>
Total Assets	<u>7,125,134</u>
DEFERRED OUTFLOWS	
Deferred Pensions	<u>440,922</u>
LIABILITIES	
Accounts payable and accrued expenses	346,952
Salaries and benefits payable	25,956
Due to County	232,556
Long-term liabilities	
Portion due within one year:	
Compensated absences	75,040
Portion due in more than one year:	
Compensated absences	33,825
Net pension liability	<u>718,274</u>
Total Liabilities	<u>1,432,603</u>
DEFERRED INFLOWS	
Deferred Pensions	<u>20,239</u>
NET POSITION	
Net investment in capital assets	-
Restricted- children's programs	<u>6,113,214</u>
Total Net Position	<u><u>\$ 6,113,214</u></u>

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

**STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

Functions/Programs	Expenses	Program Revenues		Net (Expense) and Revenues and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Child development services	\$ 5,030,104	\$ -	\$ 4,879,905	\$ (150,199)
Total Primary Government	<u>\$ 5,030,104</u>	<u>\$ -</u>	<u>\$ 4,879,905</u>	<u>(150,199)</u>
General Revenues:				
Interest and Investment Earnings				199,740
Miscellaneous Income				<u>36,381</u>
Total General Revenues				<u>236,121</u>
Change in Net Position				85,922
Net Position, Beginning of Year				<u>6,027,292</u>
Net Position, End of Year				<u>\$ 6,113,214</u>

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

**STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2019**

ASSETS

Current Assets	
Cash and investments	\$ 6,021,512
Due from other agencies	1,075,922
Interest receivable	<u>27,700</u>
Total Assets	<u>\$ 7,125,134</u>

LIABILITIES AND FUND BALANCE

Liabilities	
Accounts payable and accrued expenses	\$ 346,952
Salaries and benefits payable	25,956
Due to County	<u>232,556</u>
Total Liabilities	<u>605,464</u>
Fund Balance	
Committed	
Approved contracts not yet executed	1,000,000
Budget reserve account	500,000
Contracts approved and executed	<u>2,931,339</u>
Total committed	4,431,339
Assigned	
Future CORE programs and services	<u>2,088,331</u>
Total Fund Balance	<u>6,519,670</u>
Total Liabilities and Fund Balance	<u>\$ 7,125,134</u>

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

**STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
RECONCILIATION OF GOVERNMENTAL FUND BALANCE
SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2019**

Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets

Total fund balance	\$ 6,519,670
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds (net of accumulated depreciation of (\$8,096)	-
Deferred outflows of pension contributions reported in the Statement of Net Position	440,922
Long-term liabilities) are not due in the current period and, therefore are not included in the governmental fund.	(827,139)
Deferred inflows of pensions reported in the Statement of Net Position	<u>(20,239)</u>
Total net assets - governmental activities	<u><u>\$ 6,113,214</u></u>

The accompanying notes are an integral part of the 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, 2019**

REVENUES	
Proposition 10 taxes	\$ 4,401,178
Proposition 56 taxes	478,727
Interest and investment earnings	199,740
Other revenue	<u>36,381</u>
Total Revenues	<u>5,116,026</u>
EXPENDITURES	
Contracts	4,418,804
Salaries and employee benefits	504,811
Services and supplies	<u>245,896</u>
Total Expenditures	<u>5,169,511</u>
Net Change in Fund Balance	(53,485)
Fund Balance, Beginning of Year	<u>6,573,155</u>
Fund Balance, End of Year	<u><u>\$ 6,519,670</u></u>

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

**STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
RECONCILIATION OF THE CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

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	\$	(53,485)
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$1,214) exceeded capital outlay (\$0) in the current period.</p>		
		(1,214)
<p>Long-term liabilities are not due during the current year and, therefore, the change is not recorded in the governmental fund.</p>		
		<u>140,621</u>
Change in Net Position - Governmental Activities	\$	<u><u>85,922</u></u>

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

STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE- BUDGET TO ACTUAL (GAAP)
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2019

	Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget
	Original	Final		
REVENUES				
Proposition 10 taxes	\$ 4,814,108	\$ 4,814,108	\$ 4,401,178	\$ (412,930)
Proposition 56 taxes	-	-	478,727	478,727
Interest and investment earnings	75,000	75,000	199,740	124,740
Other revenue	-	-	36,381	36,381
Total Revenues	<u>4,889,108</u>	<u>4,889,108</u>	<u>5,116,026</u>	<u>226,918</u>
EXPENDITURES				
Program	6,001,432	5,862,742	4,697,981	1,164,761
Evaluation	32,516	29,344	21,210	8,134
Administration	354,245	496,107	450,320	45,787
Total Expenditures	<u>6,388,193</u>	<u>6,388,193</u>	<u>5,169,511</u>	<u>1,218,682</u>
Net Change in Fund Balance	<u>\$ (1,499,085)</u>	<u>\$ (1,499,085)</u>	(53,485)	<u>\$ 1,445,600</u>
Fund Balance, Beginning of Year			<u>6,573,155</u>	
Fund Balance, End of Year			<u>\$ 6,519,670</u>	

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

**STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 Board of Commissioners 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 discretely presented 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.

Measurement Focus, Basis of Accounting and Financial Statement Presentation: 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 includes a Management's Discussion and Analysis section, a Statement of Net Position, a Statement of Activities, and, if applicable, a Statement of Cash Flows. The financial statements consist of the following:

- Government-Wide Financial Statements-

The Statement of Net Position and the Statement of Activities display information about the Commission as a whole. The Statement of Net Position presents the financial condition of the governmental activities of the Commission at fiscal year-end. The Statement of Activities presents a comparison between direct expenses and program revenues for each program or function of the Commission's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and 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 limited exceptions.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued):

- Fund Financial Statements-

The Commission's governmental fund is accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. 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 Balance reflects the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Commission considers revenues to be available if they are collected within 9 months of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under the accrual basis of accounting. However, compensated absences are recorded only when payment is due.

This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the fund financial statements for the governmental fund.

The Commission reports the following major governmental fund:

The **General Fund** is the general operating fund of the Commission and accounts for all revenues and expenditures of the Commission.

Revenues – Exchange and Non-Exchange Transactions: Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on 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 that 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.

Expenses/Expenditures: On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred. Principal and interest on long-term obligations, which have not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the government-wide statements.

Investments: The Commission is restricted by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements.

State statutes and the Commission's Investment Policy authorize the Commission to invest in U.S. Government Treasury and Agency Securities, bankers' acceptances, commercial paper, corporate bonds and notes, repurchase agreements, and the State Treasurer's Local Agency Investment Fund (LAIF). In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments held by the County Treasurer are stated at fair value. The fair value of pooled investments is determined quarterly and is based on current market prices received from the securities custodian. The balance available for withdrawal is based on the accounting records maintained by the County Treasurer.

STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Due from Other Agencies: The Commission utilizes the allowance method of accounting for and reporting uncollectible or doubtful accounts. At June 30, 2019, management considered all accounts to be fully collectible and, therefore, no allowance was recorded in the accompanying financial statements.

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. The Commission does not possess any infrastructure. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide Statement of Net Position. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Equipment:	3-10 years
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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 Commission that is applicable to a future reporting period.

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.

Use of Estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the 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 expenses during the reporting period. Actual results could differ from those estimates.

Accrued Liabilities and Long-Term Obligations: All current and long-term obligations are reported in the government-wide financial statements. Compensated absences that will be paid from governmental funds are reported as a liability in the governmental fund financial statements only to the extent that they are due for payment at year end.

STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated Absences: 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."

In the governmental fund financial statements, a liability for these amounts is reported only if they have matured, for example, as a result of employee resignations or retirements prior to year-end, and payment of the liability is made subsequent to year-end. This is in accordance with GASB Interpretation No. 6, *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*.

Pensions: In government-wide financial statements, retirement plans (pensions) are required to be recognized and disclosed using the accrual basis of accounting (see Note 5 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.

STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Equity: In the fund financial statements, in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, governmental funds report fund balance as nonspendable, restricted, committed, assigned or unassigned based primarily on the extent to which the Commission is bound to honor constraints on how specific amounts can be spent.

- *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 (The Board of the Children and Families Commission). 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 Commission 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.

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.

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.

Net Position: Net position represents the residual interest in the Commission's assets after liabilities are deducted. In accordance with GASB Statement No. 34, the fund equity section on the Statement of Net Position was combined to report total net position and present it in three broad components: net investment in capital assets, restricted, and unrestricted. Net position, net investment in capital assets includes capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. Net position is restricted when constraints are imposed by third parties or by law through constitutional provisions or enabling legislation. All other net position is unrestricted. The Commission's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Budgeting Procedures: 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.

STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental Accounting Standards Update: During the year ending June 30, 2019, the Commission implemented the following standards with no financial impact:

GASB Statement No. 83 – *Certain Asset Retirement Obligations*. The requirements of this statement are effective for reporting periods beginning after June 15, 2018.

GASB Statement No. 88 – *Certain Disclosure Related to Debt, including Direct Borrowings and Direct Placements*. The requirements of this statement are effective for reporting periods beginning after June 15, 2018.

Released GASB Statements to be implemented in future financial statements are as follows:

GASB Statement No. 84 – *Fiduciary Activities*. The requirements of this statement are effective for reporting periods beginning after December 15, 2018.

GASB Statement No. 87 – *Leases*. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

GASB Statement No. 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period*. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

GASB Statement No. 90 – *Majority Equity Interests- an amendment of GASB Statements No. 14 and No 61*. The requirements of this statement are effective for reporting periods beginning after December 15, 2018.

GASB Statement No. 91 – *Conduit Debt Obligations*. The requirements of this statement are effective for reporting periods beginning after December 15, 2020.

Subsequent Events: In compliance with accounting standards, management has evaluated events that have occurred after year-end to determine if these events are required to be disclosed in the financial statements. Management has determined that no events require disclosure in accordance with accounting standards. These subsequent events have been evaluated through October 7, 2019, which is the date the financial statements were available to be issued.

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.

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 investments as of June 30, 2019, consist of the following:

Cash and Investments in County of Stanislaus Treasury	<u>\$ 6,021,512</u>
Total Interest and Investment Earnings from County of Stanislaus	<u>\$ 199,740</u>

STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 3 – CAPITAL ASSETS

Capital assets activity related to governmental activities for the year ended June 30, 2019 was as follows:

	Beginning Balance	Additions	Deletions/ Adjustments	Ending Balance
Equipment	\$ 25,125	\$ -	\$ (17,029)	\$ 8,096
Less Accumulated Depreciation	<u>(23,911)</u>	<u>(1,214)</u>	<u>17,029</u>	<u>(8,096)</u>
Total	<u>\$ 1,214</u>	<u>\$ (1,214)</u>	<u>\$ -</u>	<u>\$ -</u>

Depreciation expense charged to the governmental unit for the year ended June 30, 2019, was \$1,214.

NOTE 4 – COMPENSATED ABSENCES

Compensated absences activity for the year ended June 30, 2019 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Compensated Absences	\$ 111,010	\$ 75,787	\$ (77,932)	\$ 108,865	\$ 75,040
Total	<u>\$ 111,010</u>	<u>\$ 75,787</u>	<u>\$ (77,932)</u>	<u>\$ 108,865</u>	<u>\$ 75,040</u>

NOTE 5 – PENSIONS

Plan Description: The Commission, as a component unit of the County, is a participant in the Stanislaus County Employees Retirement Association (StanCERA), a retirement system organized under the 1937 Retirement Act. 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 plan is 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. The participating entities are the County, City of Ceres, and six special districts located in the County not governed by the County's Board of Supervisors. 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, P.O. Box 3150, Modesto, CA 95353-3150 or by calling (209) 525-6393.

The StanCERA 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.

STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 5 – PENSIONS (continued)

Plan Description (continued):

Summary of Plans and Eligible Participants

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)	Vests 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.
Safety 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 20 or more years of credited service.
Safety Tier 6 (open to new members)	Vests after five years of credited service and may retire at age 50 with 5 years of service credit or age 70 regardless of service credit.

Benefits Provided: Members terminating employment before accruing 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.

The retirement benefit for Tier 1, Tier 2, Tier 4, Tier 5, and Tier 6 members includes a postretirement cost-of-living adjustment (COLA) based upon the Consumer Price Index. COL increases/decreases are limited to a maximum of 3% annually. Total COL decrease(s) cannot exceed the cumulative amount of previous COLA increase(s). Tier 1, Tier 2, Tier 4, Tier 5, and Tier 6 provide death and disability benefits.

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 Council is required by statute to contribute the remaining amounts necessary to finance the estimated benefits accrued to its members.

STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 5 – PENSIONS (continued)

Benefits Provided (continued): Member and employer contribution rates for each plan are as follows:

Plan	Employer Contribution Rates	Employee Contribution Rates
General Tier 1	26.01%	4.83-7.29%
General Tier 2	20.08%	6.29-10.48%
General Tier 3	14.07%	Non-contributory
General Tier 4	24.59%	4.71-7.09%
General Tier 5	22.97%	7.60-11.70%
General Tier 6	20.10%	7.28%
Safety Tier 2	30.62%	10.32-16.36%
Safety Tier 4	43.31%	7.87-11.36%
Safety Tier 5	31.36%	11.71-17.12%
Safety Tier 6	25.43%	11.83%

The Commission’s contributions to StanCERA for the fiscal year ended June 30, 2018, was equal to the required contributions. The required contributions for the last three fiscal years are noted in the below chart. The Commission does not contribute towards post-employment benefits other than retirement.

Fiscal Year End	Contributions	
June 30, 2016	\$	51,349
June 30, 2017	\$	66,649
June 30, 2018	\$	82,251

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.

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

Ad-hoc benefits are non-vested benefits determined by the Board of Retirement. Approved changes to the excess earnings policy by the Board of Retirement on June 30, 2014, placed restrictions on offering adhoc benefits, specifically that the system must be 100% actuarially funded prior to the Board of Retirement offering any ad-hoc benefits. StanCERA is 76.70% actuarially funded as of June 30, 2018.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: At June 30, 2019, the Commission reported a liability of \$718,274 for its proportionate share of the County’s Proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018, and the liability used to calculate the net pension liability was determined by an actuarial valuation date of June 30, 2017, updated to June 30, 2018. 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, 2018, the Commission’s proportion share of the County’s proportionate share was 0.1243%, compared to 0.1196% at June 30, 2017, an increase of 0.0047%.

STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 5 – PENSIONS (continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued): For the year ended June 30, 2019, the Commission recognized a pension expense of \$138,476. 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, 2019, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Deferred outflows of resources - change in proportionate share Council contributions subsequent to the measurement date	\$ 342,895 98,027	\$ - -
Deferred inflows of resources - change in actual vs. proportionate contributions	-	20,239
	\$ 440,922	\$ 20,239

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’s contributions of \$98,027 made subsequent to the measurement date are reported as deferred outflows of resources for fiscal year ending June 30, 2019, and will be recognized as reduction of the net pension liability in the fiscal year ending June 30, 2020.

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

Year Ending June 30,	Amount
2020	\$ 83,419
2021	67,916
2022	(24,785)
2023	196,106
Total	\$ 322,656

Actuarial Assumptions: The total pension liability in the June 30, 2018 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	3.00%
Amortization growth rate	3.25%
Salary increases	3.25% plus merit component
COLA increases	2.70% for those eligible
Investment rate of return expense	7.25%, net of investment
Post-retirement mortality	Sex distinct RP-2000 Combined Mortality, projected to 2020 using scale AA

STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 5 – PENSIONS (continued)

Actuarial Assumptions (continued): The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period July 1, 2013 – June 30, 2016.

Asset Class	Long-Term Expected Real Rate of Return	Target Allocation
Domestic Equities		
U.S. Large Cap	5.90%	12.00%
U.S. Small Cap	5.20%	3.00%
International Equities		
International Developed	9.20%	16.00%
Emerging Market Equity	11.30%	4.00%
U.S. Fixed Income		
Core Fixed Income	3.20%	0.00%
U.S. Treasury	2.30%	3.00%
Short-term Gov/Credit	2.50%	18.00%
Real Estate		
Core	4.70%	5.00%
Value-add	6.70%	5.00%
Risk Parity	7.00%	14.00%
Private Equity	8.20%	5.00%
Private Credit	9.10%	14.00%
Infrastructure	4.70%	0.00%
Cash	2.00%	1.00%

Discount Rate: The discount rate used to measure the total pension liability was 7.25%. 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 7.25%, 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 percent lower (6.25%) or 1 percent higher (8.25%) than the current rate, as follows:

1% Decrease 6.25%	Discount Rate 7.25%	1% Decrease 8.25%
\$ 1,153,012	\$ 718,274	\$ 363,905

Pension Plan Fiduciary Net Position: Detailed information about the pension plan’s fiduciary net position is available in the separately issued StanCERA CAFR.

STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 6 – 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 purpose 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 – RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, employee's health and natural disasters. The Commission manages these various risks of loss by purchasing commercial insurance coverage. Their policy includes coverage for bodily injury, property damage, personal injury, automobile liability, directors' and officers' liability, public officials' errors and omissions, and non-owned and hired autos. In addition, the Commission maintains a workers' compensation insurance policy and a health benefits insurance package for its employees. Settlements have not exceeded covered amounts for the past three years.

Risk management expenditures during the fiscal year ended June 30, 2019 are as follows:

General liability insurance	\$	1,252
Unemployment insurance		600
Workers' compensation insurance		1,332
Health insurance		29,386
Other insurance		1,062
Total Risk Management Expenditures	\$	33,632

NOTE 8 – EVALUATION EXPENDITURES

The Commission spent \$21,210 on program evaluation during the fiscal year ended June 30, 2019.

NOTE 9 – RELATED PARTY TRANSACTIONS

During the fiscal year ended June 30, 2019, the Commission paid the County, a related party, \$1,787,502 for the following costs: \$20,859 in accounting, legal, and administrative services and \$1,766,643 for program services. The Commission is a special revenue fund of the County as stated in Note 1.

STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 10 – ECONOMIC DEPENDENCY

The Commission received the majority of its funding from taxes imposed by the California Tax and Revenue Code in correlation with Proposition 10 and Proposition 56. These codes impose additional taxes on the sale of cigarettes and tobacco products. The total amount of funding from the additional taxes was \$4,401,178, or 95.55%, of the total revenue for the year ending June 30, 2019. The Commission is thus subject to possible risk of reductions in services and/or closure due to potential future changes of the California Tax and Revenue Code.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

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, 2019 was \$31,616.

Future minimum payments for the year ending June 30, 2020 are \$13,440.

**STANISLAUS COUNTY CHILDREN
AND FAMILIES COMMISSION**

(A Component Unit of the County of Stanislaus, California)

REQUIRED SUPPLEMENTARY INFORMATION

**STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
SCHEDULE OF THE COMMISSION'S PROPORTIONATE SHARE
OF THE COUNTY'S PROPORTIONATE SHARE OF THE
NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2019
LAST 10 YEARS***

	<u>6/30/2018</u>	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>6/30/2014</u>
Commission's proportion of the County's proportionate net pension liability (asset)	0.1200%	0.12%	0.10%	0.10%	0.12%
Commission's proportionate share of the County's proportionate net pension liability (asset)	\$ 718,274	\$ 706,274	\$ 649,408	\$ 291,028	\$ 281,849
Commission's covered-employee payroll	\$ 235,034	\$ 272,220	\$ 211,089	\$ 263,665	\$ 268,299
Commission's proportionate share of the County's proportionate net pension liability (asset) as a percentage of its covered-employee payroll	305.60%	259.45%	307.65%	110.38%	105.05%
Plan fiduciary net position	\$ 2,284,110	\$ 2,117,088	\$ 1,769,244	\$ 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 (asset)	76.70%	74.98%	70.63%	86.10%	88.49%

* The pension schedules are required to show ten years of data and the additional years' information will be displayed as it becomes available.

**STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
SCHEDULE OF THE COMMISSION'S CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2019
LAST 10 YEARS***

	<u>6/30/2018</u>	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>	<u>6/30/2014</u>
Contractually Required Contribution (Actuarially determined contribution)	\$ 56,535	\$ 66,908	\$ 51,259	\$ 53,096	\$ 56,552
Actual contributions	<u>\$ 82,251</u>	<u>\$ 66,649</u>	<u>\$ 51,349</u>	<u>\$ 52,809</u>	<u>\$ 56,328</u>
Contribution deficiency (excess)	\$ (25,716)	\$ 259	\$ (90)	\$ 287	\$ 224
Commission's covered-employee payroll	\$235,034	\$272,220	\$211,089	\$263,665	\$268,299
Actual contributions as a percentage of the County's covered-employee payroll	35.00%	24.48%	24.33%	20.03%	20.99%

* The pension schedules are required to show ten years of data and the additional years' information will be displayed as it becomes available.

**STANISLAUS COUNTY CHILDREN
AND FAMILIES COMMISSION**

(A Component Unit of the County of Stanislaus, California)

OTHER REPORTS



**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**

To the Board of Commissioners
Stanislaus County Children and Families Commission

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 major fund of the Stanislaus County Children and Families Commission (the Commission), as of and for the year ended June 30, 2019, the related notes to the financial statements, and the respective budgetary comparison for the general fund, which collectively comprise the Commission's financial statements as listed in the table of contents, and have issued our report thereon dated October 7, 2019.

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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

HUDSON HENDERSON & COMPANY, INC.

Hudson Henderson & Company, Inc.

Fresno, California
October 7, 2019



INDEPENDENT AUDITORS’ REPORT ON STATE COMPLIANCE

To the Board of Commissioners
Stanislaus County Children and Families Commission

Compliance

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, 2019.

Management’s Responsibility

Management is responsible for compliance with the requirements of the law 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 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
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, 2019.

HUDSON HENDERSON & COMPANY, INC.

Hudson Henderson & Company, Inc.

Fresno, California
October 7, 2019