

**CHILDREN AND FAMILIES
COMMISSION OF FRESNO COUNTY**

(A COMPONENT UNIT OF THE COUNTY OF FRESNO, CALIFORNIA)

ANNUAL FINANCIAL REPORT

JUNE 30, 2015

CHILDREN AND FAMILIES COMMISSION OF FRESNO COUNTY

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Board of Commissioners
Fresno County Children and Families Commission
Fresno, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, and the major fund of the Fresno County Children and Families Commission (Commission), a component unit of Fresno County, California, as of and for the year ended June 30, 2015, 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 of 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, the discretely presented component unit, and the major fund of the Fresno County Children and Families Commission as of June 30, 2015, and the respective changes in financial position thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 10, and Budgetary Comparison Information on page 33, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we also have issued our report dated October 21, 2015, on our consideration of the Commission's internal control over financial reporting and 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 *Governmental Auditing Standards* in considering the Fresno County Children and Families Commission's internal control over financial reporting and compliance.

Varrinck, Trine, Day & Co., LLP.

Fresno, California

October 21, 2015

EXECUTIVE DIRECTOR

Emilia Reyes

COMMISSIONERS

Henry Perea

Chair

Carol Chandler

Kari Gilbert

Hugo Morales

Lisa Nichols

Marcia E. Sablan, MD

Diane Sharp Johnson

Dawan Utecht

MANAGEMENT’S DISCUSSION AND ANALYSIS FISCAL YEAR 2014-2015

Introduction

On November 3, 1998, California voters approved Proposition 10, the California Children and Families Act (Act). The Act increased tobacco taxes to provide funds for early childhood development and smoking cessation programs. The passage of this Act created an unprecedented opportunity for Fresno County to mobilize its many resources and create an integrated, coordinated system of care that supports and enhances the lives of children from the prenatal stage up through age five and their families. The intent of the Act is for all California children to be healthy, live in a healthy and supportive family environment, and enter school ready to learn.

The Fresno County (County) Board of Supervisors created the Children and Families Commission of Fresno County (Commission) on December 8, 1998, under the provisions of the Act. The Commission consists of nine members appointed by the County Board of Supervisors. The Commission is a public entity legally separate and apart from the County and is considered a component unit of the County due to the operational relationship between the Commission and the County.

This report contains a discussion of key program, management, financial, and performance information for fiscal year 2014-2015 and financial statements that discuss the Commission’s financial condition, and the auditor’s opinion, which is independent and objective which provides reasonable assurance about whether the financial statements are free from material misstatements. Finally, this comprehensive report contains other statutorily required information that demonstrates management accountability and financial and program performance.

As management of the Commission, we offer readers our financial statements and this narrative overview and analysis for the fiscal year ending June 30, 2015.

Mission and Strategic Goals

The Commission’s mission is to be a catalyst for creating an accessible and effective network of quality services for young children (0-5 years) and their families.

The strategic goals of the Commission are to improve family functioning, create strong families, child development so children are ready for school, children’s health, and systems for families so services are integrated, accessible, culturally appropriate, and of high quality.

CHILDREN AND FAMILIES COMMISSION OF FRESNO COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

Financial Highlights

- During fiscal year 2014-2015 the Commission was allocated and received revenues of approximately \$10.8 million from the State of California as revenues collected under the Children and Families Act.
- During fiscal year 2014-2015, the Commission disbursed approximately \$9.2 million to funded agencies.
- The Commission committed approximately 10.2 million towards the 2013-2020 Strategic Plan, which will be disbursed in the subsequent fiscal year to fund priority focus and approximately \$10.9 million of the Commission's fund balance is nonspendable for the Lighthouse for Children facility leverage loan.

Overview of the Financial Statements

The discussion and analysis is intended to serve as an introduction to the Commission's financial statements. The Commission's financial statements are comprised of three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains required supplementary information in addition to the basic financial statements.

Government – Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Commission's finances, in a manner similar to private sector business.

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).

Also presented in the Government-Wide Financial Statements is a discretely presented component unit, the Lighthouse for Children, Inc. Lighthouse for Children is a discretely presented component unit because it is a legally separate entity for which the Commission is financially accountable through the appointment of the corporation's board and because it does not provide services exclusively or almost exclusively to the Commission. Financial information for this component unit is reported separately from the financial information presented for the primary government in a separate column on the Government-Wide Financial Statements as well as throughout the Notes to the Financial Statements. Separate financial statements are prepared for Lighthouse for Children, Inc. and may be obtained from the Children and Families Commission of Fresno County, 2405 Tulare Street, Suite 200, Fresno, California 93721.

CHILDREN AND FAMILIES COMMISSION OF FRESNO COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

Fund Financial Statements

The fund financial statements provide detailed information for the General Fund – not the Commission as a whole. Some funds are required to be established by State law or by liability covenants. However, management may establish other funds to help control and manage money for particular purposes or to show that it is meeting legal responsibilities. The fund financial statements can be found on pages 13 and 15.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 17 through 31 of this report.

Government-Wide Financial Analysis

The Commission's total assets are approximately \$28.4 million at the end of the fiscal year. The majority of the Commission's assets are in cash and investments of \$14.8 million with a loan receivable of \$10.9 million.

Cash and investments are maintained in the Commission's checking, investment savings accounts, the Fresno County investment pool where interest earned on the Commission's balance is apportioned to the Commission, and in an investment account. Please refer to pages 21 through 24 for the types of investments and credit ratings. Another asset is the Commission's receivables due from the State Commission for Proposition 10 taxes (\$1.8 million). These receivables represent taxes that were remitted by the State but not received by the Commission as of June 30, 2015. The Commission also reports accounts payable of (\$2.1 million) representing payments due on invoices.

CHILDREN AND FAMILIES COMMISSION OF FRESNO COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

Children & Families Commission of Fresno County Statement of Net Position Comparison

	2015	2014	Change
Assets			
Cash and investments	\$ 14,846,409	\$ 13,786,625	\$ 1,059,784
Due from the State - Proposition 10	1,814,790	2,046,909	(232,119)
Other receivables	78,636	21,859	56,777
Loans receivable, long-term (related party)	10,956,060	10,956,060	-
Nondepreciable capital assets	27,450	27,450	-
Capital assets being depreciated	704,162	704,162	-
Accumulated depreciation	(60,656)	(43,052)	(17,604)
Total Assets	28,366,851	27,500,013	866,838
Liabilities			
Accounts payable	2,133,067	1,884,641	248,426
Long-term obligations	59,184	71,055	(11,871)
Total Liabilities	2,192,251	1,955,696	236,555
Net Position			
Net investment in capital assets	670,956	688,560	(17,604)
Unrestricted	25,503,644	24,855,757	647,887
Total Net Position	\$ 26,174,600	\$ 25,544,317	\$ 630,283

In fiscal year 2014-2015 the Commission's net position increased by \$630,283. Although program revenues decreased from the prior year, administrative and program costs also decreased.

Children & Families Commission of Fresno County Governmental Activities Comparison

	2015	2014	Change
Revenues			
Program revenues	\$ 10,838,492	\$ 11,196,587	\$ (358,095)
General revenues	720,120	614,412	105,708
Total Revenues	11,558,612	11,810,999	(252,387)
Expenses			
Program services	9,243,328	9,250,457	(7,129)
Evaluation services	1,002,806	1,060,600	(57,794)
Administrative costs	682,195	726,211	(44,016)
Total Expenses	10,928,329	11,037,268	(108,939)
Change in Net Position	\$ 630,283	\$ 773,731	\$ (143,448)

CHILDREN AND FAMILIES COMMISSION OF FRESNO COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

Capital Assets

Capital assets of \$670,956 (net of accumulated depreciation) are for the Huron land and facility. Additionally the component unit's remaining assets in construction in progress were moved into buildings and improvements as the Lighthouse for Children Facility was fully constructed and occupied during the year. See Note 4 for more information on capital assets.

Debt Administration

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 6 for details.

Financial Analysis of the Commission's Governmental Fund

As noted earlier, the Commission uses governmental fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

For the fiscal year ending June 30, 2015, the Commission reported an ending fund balance of \$25.6 million, an increase of more than \$0.6 million from the prior year.

Revenue and Expenditure Analysis – Governmental Fund

Total revenues consist of Proposition 10 funds, investment income, and other revenues. There was a decrease in total revenues from \$11.8 million in the prior year to \$11.6 million for the year ending June 30, 2015. Although Proposition 10 revenues decreased by nearly \$360,000, and investment income decreased by nearly \$160,000, other revenues increased by more than \$260,000 due to reimbursements from Fresno County Office of Education. Expenditures showed little change from the prior year as the commission sought to maintain its level of service.

CHILDREN AND FAMILIES COMMISSION OF FRESNO COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

Children & Families Commission of Fresno County Governmental Fund Comparison

	2015	2014	Change
Revenues			
Proposition 10 taxes	\$ 10,838,492	\$ 11,196,587	\$ (358,095)
Investment income	163,028	321,549	(158,521)
Other revenue	557,092	292,863	264,229
Total Revenues	<u>11,558,612</u>	<u>11,810,999</u>	<u>(252,387)</u>
Expenses			
Program services	9,225,724	9,239,479	(13,755)
Evaluation services	1,002,806	1,060,600	(57,794)
Administrative costs	694,066	734,699	(40,633)
Total Expenses	<u>10,922,596</u>	<u>11,034,778</u>	<u>(112,182)</u>
Other Financing Sources			
Proceeds from asset transfers	-	1,246,250	-
Change in Net Position	<u>\$ 636,016</u>	<u>\$ 2,022,471</u>	<u>\$ (140,205)</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 2014-2015 as detailed in the Statement of Revenues, Expenditures, Changes in Fund Balance – Budget and Actual (shown on page 33).

In fiscal year 2014-2015 the Commission received actual revenues of \$11.6 million compared to the budgeted amount of \$11.2 million. In preparing the budget the Commission took into account variables such as declining tobacco consumption, impending State budget changes, and lower returns on investments. Actual total revenues were \$0.4 million more than budgeted as Proposition 10 revenues came in at \$0.2 million more than expected, interest and investment revenues were more than \$0.1 million less than expected, and other revenues came in at \$0.3 million more than expected.

In fiscal year 2014-2015 actual expenditures were more than \$0.2 million less than budgeted due primarily to reduced staffing in the current year.

Economic Factors and Next Year's Budget

The budgeting process began in conjunction with the development of the 2013-2020 Strategic Plan. During the process, Commissioners from both the Program and Finance Committee met in a series of planning sessions to discuss, review and provide staff direction on the Commission's financial resources and strategies to support the incoming 2013-2020 Strategic Plan.

CHILDREN AND FAMILIES COMMISSION OF FRESNO COUNTY

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

Throughout the entire process, Commissioners are committed to continued collaborating with community partners and leveraging resources to maximize funds. Due to reduced funding and limited resources it is increasingly important to leverage the available expertise and knowledge of the community and to build on initiatives that have a strong foundation of evidence. This unified approach not only allows for a more effective use of resources, but it also allows for enhanced focus and greater collective impact.

On June 17, 2015, the Commission reviewed and approved the 2015-2017 two year budget and long-range financial plan with the following program allocations:

- Strategic Plan Investments - \$10.5 million
- Early Childhood Capacity Building - \$0.5 million
- System and Multi-Sector Partnerships - \$2.6 million
- Accountability and Evaluation - \$1.9 million

Requests for Information

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 Children and Families Commission of Fresno County, 2405 Tulare Street, Suite 200, Fresno, CA 93721.

CHILDREN AND FAMILIES COMMISSION OF FRESNO COUNTY

**STATEMENT OF NET POSITION
JUNE 30, 2015**

	Primary Government <u>Governmental Activities</u>	Component Unit <u>Lighthouse for Children</u>
ASSETS		
Cash and investments	\$ 14,846,409	\$ 1,681,303
Due from the State - Proposition 10	1,814,790	-
Other receivables	78,636	10,891
Loans receivable, long-term (related party)	10,956,060	-
Nondepreciable capital assets	27,450	649,080
Capital assets being depreciated	704,162	14,136,040
Accumulated depreciation	(60,656)	(176,527)
Total Assets	<u>28,366,851</u>	<u>16,300,787</u>
LIABILITIES		
Accounts payable	2,133,067	249,913
Long-term obligations	59,184	15,714,000
Total Liabilities	<u>2,192,251</u>	<u>15,963,913</u>
NET POSITION		
Net investment in capital assets	670,956	-
Unrestricted	25,503,644	336,874
Total Net Position	<u>\$ 26,174,600</u>	<u>\$ 336,874</u>

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

CHILDREN AND FAMILIES COMMISSION OF FRESNO COUNTY

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

	Primary Government Governmental Activities	Component Unit Lighthouse for Children
PROGRAM EXPENSES		
Program services	\$ 9,243,328	\$ -
Evaluation services	1,002,806	-
Administrative costs	682,195	-
Component Unit, Lighthouse for Children Administrative costs	-	297,505
Total Program Expenses	10,928,329	297,505
PROGRAM REVENUES		
Operating grants and contributions- Proposition 10 taxes	10,838,492	-
Total Program Revenues	10,838,492	-
Net Program Revenue	(89,837)	(297,505)
GENERAL REVENUES		
Investment income	163,028	8,246
Other revenue	557,092	-
Total General Revenues	720,120	8,246
Changes in Net Position	630,283	(289,259)
Net Position, Beginning of Year	25,544,317	626,133
Net Position, End of Year	\$ 26,174,600	\$ 336,874

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

CHILDREN AND FAMILIES COMMISSION OF FRESNO COUNTY

**GOVERNMENTAL FUND
BALANCE SHEET
JUNE 30, 2015**

	<u>General Fund</u>
ASSETS	
Cash and investments	\$ 14,846,409
Due from the State - Proposition 10	1,814,790
Other receivables	78,636
Loans receivable, long-term (related party)	10,956,060
Total Assets	<u><u>\$ 27,695,895</u></u>
 LIABILITIES AND FUND BALANCE	
LIABILITIES	
Accounts payable	\$ 2,133,067
Total Liabilities	<u><u>2,133,067</u></u>
 FUND BALANCE	
Nonspendable	10,956,060
Committed	10,209,453
Assigned	4,397,315
Total Fund Balance	<u><u>25,562,828</u></u>
Total Liabilities and Fund Balance	<u><u>\$ 27,695,895</u></u>

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

CHILDREN AND FAMILIES COMMISSION OF FRESNO COUNTY

GOVERNMENTAL FUND

RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET

TO THE STATEMENT OF NET POSITION

JUNE 30, 2015

Amounts Reported in the Statement of Net Position are Different Because:

Total Fund Balance - Governmental Fund	\$ 25,562,828
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	670,956
The compensated absences liability is not due and payable with current financial resources and is not reported in governmental funds.	(59,184)
Total Net Position - Governmental Activities	<u><u>\$ 26,174,600</u></u>

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

CHILDREN AND FAMILIES COMMISSION OF FRESNO COUNTY

**GOVERNMENTAL FUND
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>General Fund</u>
REVENUES	
Proposition 10 taxes	\$ 10,838,492
Investment income	163,028
Other revenue	557,092
Total Revenues	<u>11,558,612</u>
EXPENDITURES	
Program services	9,225,724
Evaluation services	1,002,806
Administrative costs	694,066
Total Expenditures	<u>10,922,596</u>
Change in Fund Balance	636,016
Fund Balance - Beginning	24,926,812
Fund Balance - Ending	<u>\$ 25,562,828</u>

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

CHILDREN AND FAMILIES COMMISSION OF FRESNO COUNTY

GOVERNMENTAL FUND

RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2015

Total Net Change in Fund Balance - Governmental Fund	\$ 636,016
Amounts Reported in the Statement of Activities are Different Because:	
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities. This is the amount of depreciation in the period.	(17,604)
The change in the compensated absences liability reported in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as expenditures in Governmental Funds.	11,871
Changes in Net Position	<u>\$ 630,283</u>

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

CHILDREN AND FAMILIES COMMISSION OF FRESNO COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Fresno County Children and Families Commission (the Commission), a component unit of Fresno County, was established by Fresno County Ordinance, Chapter 2.38, pursuant to the provision of Health and Safety Code Section 130140. The Commission was established for the support and improvement of early childhood development within Fresno County consistent with, and in furtherance of, the purposes of the California Children and Families Commission (the State), pursuant to Health and Safety Code Section 130125(b). The Commission consists of nine members appointed by the Fresno County Board of Supervisors.

The State of California implemented the "California Children and Families Act of 1998" which provides for the Commission to receive proceeds from tax on tobacco products. The monies are allocated to local Children and Families Commissions by the State based on the number of births in each county in proportion to the total number of births in all counties.

The governmental reporting entity consists of the Commission and its component unit. Component units are legally separate organizations for which the Commission is financially accountable or organizations whose nature and relationship are such that exclusion would cause the Commission's financial statements to be misleading or incomplete. For financial reporting purposes, the component unit has a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statements No. 39 and No. 61, and thus is included in the financial statements of the Commission. The component unit, although a legally separate entity, is reported in the financial statements using the discrete presentation method because it does not provide services exclusively or almost exclusively to the Commission and to emphasize that it is a legally separate organization.

The discretely presented component unit, Lighthouse for Children, Inc., is governed by a board with a majority of First Five Commissioners. Lighthouse for Children is a Nonprofit Public Benefit Corporation. The specific charitable purposes of this corporation are: (i) to provide the vision and means for Fresno County children to enter school in good health, ready and able to learn, and emotionally well-developed by providing culturally, individually, and developmentally-appropriate parenting and nurturing support and access to resources regarding health care, nutrition, and smoking prevention and cessation; (ii) to serve as an incubator for knowledge in the community regarding child welfare and development; (iii) to generally carry out the goals of the Children and Families Commission of Fresno County; and (iv) to develop infrastructure that promotes the social welfare of Fresno County children and their parents, and enables the corporation to better accomplish the above-stated purposes, which may include acquiring, owning, operating, and leasing property within a low-income community to community charities and businesses. This corporation is also authorized to receive contributions and to make donations to, and otherwise aid and support, legally permissible undertakings consistent with the above-stated purposes. Separate financial statements are prepared for Lighthouse for Children, Inc. and may be obtained from the Children and Families Commission of Fresno County, 2405 Tulare Street, Suite 200, Fresno, California 93721.

CHILDREN AND FAMILIES COMMISSION OF FRESNO COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Basis of Presentation and Measurement Focus

Government-Wide and Fund Financial Statements The statement of net position and statement of activities display information about the primary government (Commission). These statements include the financial activities of the Commission.

The statement of activities presents a comparison between direct expenses and program revenues for the Commission's governmental activity. Direct expenses are those that are specifically associated with the Commission. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of the Commission. Revenues that are not classified as program revenues, including investment income, are presented instead as general revenues. Eliminations have been made to minimize the double counting of internal activities.

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 at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Commission gives (or receives) value without directly receiving (or giving) equal value in exchange, include Proposition 10 taxes, grants, entitlements and donations. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Separate financial statements are provided for the governmental funds. The governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available to finance expenditures of the current period. Proposition 10 apportionments, grant revenues and investment income are accrued when their receipt occurs within sixty days after the end of the accounting period so as to be both measurable and available. All receivables are expected to be collected within the current year. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. General capital assets acquisitions are reported as expenditures in the governmental funds. The following is the Commission's major governmental fund:

Major Governmental Fund

General Fund The General Fund accounts for all Proposition 10 apportionments. These funds are used to support programs within Fresno County that support and improve early childhood development.

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 entity-wide statements.

CHILDREN AND FAMILIES COMMISSION OF FRESNO COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Investments

Investments held at June 30, 2015, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in the county investment pools are determined by the County Treasurer.

Loans Receivable, Long-Term (Related Party)

Loans receivable are due from Chase NMTC Lighthouse Investment Fund, LLC, in connection with the new market tax credit loans recorded by the Commission's discretely presented component unit, Lighthouse for Children, Inc. The loan is recorded for the full amount and the entire outstanding balance plus any unpaid interest is due on the maturity date, December 13, 2038.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the Commission. The Commission maintains a capitalization threshold of \$5,000. The Commission does not possess any infrastructure. Improvements are capitalized; 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 of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: land improvements, 10 to 20 years; buildings, 15 to 90 years; building improvements, 10 to 80 years; infrastructure, 5 to 20 years; equipment, 3 to 20 years; leasehold improvements, 5 to 20 years.

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.

Paid Time Off (Compensated Absences)

The Fresno County Children and Families Commission maintains a Paid Time Off (PTO) program that combines vacation and sick leave benefits into a single PTO bank. Beginning with an eligible employee's first day of employment, PTO will accrue at a rate of 6.154 hours per pay period. After five years of continuous employment, the accrual rate will increase to 7.69 hours per pay period. Once 300 hours are accrued, PTO will no longer accrue until some of the previously accrued PTO is taken. After some PTO is taken, PTO again begins to accrue at the usual rate.

CHILDREN AND FAMILIES COMMISSION OF FRESNO COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

In order to receive PTO pay, the employee must take time off. Payment in lieu of PTO will not be made, except at the time of employment status change, i.e., from a position that earns PTO to a position that does not earn vacation, or at the time of termination of employment.

Estimates

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

Budget and Budgetary Reporting

The Commission is required to prepare a budget each year based on estimates of revenues and expected expenditures. The budget is adopted on a basis consistent with GAAP. Budgetary control is exercised at the major object level. All changes to the budget during the year require the approval of the Commission. All unencumbered annual appropriations lapse at the end of each fiscal year.

Net Position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by any outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The Commission first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Fund Balances - Governmental Funds

As of June 30, 2015, fund balances of the governmental funds are classified as follows:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Committed - amounts that can be used only for specific purposes determined by action of the governing board. The governing board is the highest level of decision-making authority for the Commission. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the Commission's adopted policy, only the governing board or body, such as the finance committee, may assign amounts for specific purposes.

CHILDREN AND FAMILIES COMMISSION OF FRESNO COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Spending Order Policy

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Commission considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Commission considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

NOTE 2 - CASH AND INVESTMENTS

Summary of Cash and Investments

Cash and investments as of June 30, 2015, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 14,846,409
Component unit	1,681,303
Total Cash and Investments	<u><u>\$ 16,527,712</u></u>

Cash and investments as of June 30, 2015, consist of the following:

Cash in banks	\$ 318,146
Investments	14,528,263
Total Commission Cash and Investments	14,846,409
Component unit cash in banks	1,681,303
Total Cash and Investments	<u><u>\$ 16,527,712</u></u>

Policies and Practices

The Commission is authorized under *California Government Code* to make direct investments. Details regarding the types of allowable investments and any limitations are listed under General Authorizations of this Note.

Investment in County Treasury - The Commission is considered to be a voluntary participant in an external investment pool as the Commission deposits many receipts and collections of monies with the County Treasurer. The fair value of the Commission's investment in the pool is reported in the financial statements at amounts based upon the Commission's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

CHILDREN AND FAMILIES COMMISSION OF FRESNO COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

General Authorizations

As per the *California Government Code* and the Commission's investment policy, limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Commission manages its exposure to interest rate risk by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

CHILDREN AND FAMILIES COMMISSION OF FRESNO COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Segmented Time Distribution

Information about the sensitivity of the fair values of the Commission's investments to market interest rate fluctuations is provided by the following schedule that shows the distribution of the Commission's investments by maturity:

Investment Type	Fair Value	12 Months or Less	13 - 24 Months	25 - 60 Months
U.S. Treasuries	\$ 3,793,728	\$ -	\$ 771,504	\$ 3,022,224
Federal Agencies (non-callable)	2,353,347	-	-	2,353,347
California Municipal Bond	305,925	-	-	305,925
Negotiable Certificates of Deposit	748,545	-	748,545	-
Corporate Notes	2,992,238	600,658	526,796	1,864,784
Money Market Mutual Funds	39,893	39,893	-	-
County Pooled Investment Funds	4,294,587	-	4,294,587	-
Total	\$ 14,528,263	\$ 640,551	\$ 6,341,432	\$ 7,546,280

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Commission's investment in the County Pool is not required to be rated, nor has it been rated as of June 30, 2015.

Investment Type	Fair Value	Minimum Legal Rating	Not Required to Be Rated
U.S. Treasuries	\$ 3,793,728	N/A	\$ 3,793,728
Federal Agencies (non-callable)	2,353,347	N/A	2,353,347
California Municipal Bond	305,925	N/A	-
Negotiable Certificates of Deposit	748,545	A	-
Corporate Notes	2,992,238	A	-
Money Market Mutual Funds	39,893	N/A	39,893
County Pooled Investment Funds	4,294,587	N/A	4,294,587
Total	\$ 14,528,263		\$ 10,481,555

N/A - Not applicable

Investment Type	Rating as of Year End					
	AA+	AA	AA-	A+	A	A-
California Municipal Bond	\$ -	\$ 305,925	\$ -	\$ -	\$ -	\$ -
Negotiable Certificates of Deposit	-	-	499,280	-	-	249,265
Corporate Notes	482,246	605,289	479,014	1,125,417	300,272	-
Total	\$ 482,246	\$ 911,214	\$ 978,294	\$ 1,125,417	\$ 300,272	\$ 249,265

CHILDREN AND FAMILIES COMMISSION OF FRESNO COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Concentration of Credit Risk

The investment policy of the Commission contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the *California Government Code*. Investments in any one issuer that represent five percent or more of the total investments are as follows:

Issuer	Investment Type	Reported Amount
Fresno County Investment Pool	County Pool	\$ 4,292,152
U.S. Treasury	U.S. Treasuries	3,793,728
Federal National Mortgage Assc.	Federal Agencies	1,825,189
Total		\$ 9,911,069

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the Commission's deposits may not be returned to it. The Commission does not have a policy for custodial credit risk for deposits. However, the *California Government Code* requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2015, \$152,886 of the Commission's bank balance was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the Commission.

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The Commission has no custodial credit risk exposure for investments because the all of the Commission's investments are held in a third-party custodian bank in the name of the Commission.

CHILDREN AND FAMILIES COMMISSION OF FRESNO COUNTY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 3 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2015, consisted of intergovernmental grants, entitlements, state apportionments, and local sources. All receivables are considered collectible in full.

	<u>Governmental Activities</u>	<u>Component Unit</u>
State Government		
Proposition 10	\$ 1,814,790	\$ -
Other sources	78,636	10,891
Total	<u>\$ 1,893,426</u>	<u>\$ 10,891</u>

NOTE 4 - CAPITAL ASSETS

Capital asset activity related to governmental activities for the year ended June 30, 2015, was as follows:

	<u>Balance July 1, 2014</u>	<u>Additions</u>	<u>Deletions and transfers</u>	<u>Balance June 30, 2015</u>
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 27,450	\$ -	\$ -	\$ 27,450
Construction in progress (CIP)	-	-	-	-
Total Capital Assets Not Being Depreciated	<u>27,450</u>	<u>-</u>	<u>-</u>	<u>27,450</u>
Capital Assets Being Depreciated:				
Buildings and improvements	704,162	-	-	704,162
Total Capital Assets Being Depreciated	<u>704,162</u>	<u>-</u>	<u>-</u>	<u>704,162</u>
Less Accumulated Depreciation:				
Buildings and improvements	43,052	17,604	-	60,656
Total Accumulated Depreciation	<u>43,052</u>	<u>17,604</u>	<u>-</u>	<u>60,656</u>
Governmental Activities Capital Assets, Net	<u>\$ 774,664</u>	<u>\$ (17,604)</u>	<u>\$ -</u>	<u>\$ 670,956</u>

CHILDREN AND FAMILIES COMMISSION OF FRESNO COUNTY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Capital asset activity related to discretely presented component unit activities for the year ended June 30, 2015, was as follows:

	Balance July 1, 2014	Additions	Deletions and transfers	Balance June 30, 2015
Component Unit				
Capital Assets Not Being Depreciated:				
Land	\$ 649,080	\$ -	\$ -	\$ 649,080
Construction in progress (CIP)	5,919,182	-	5,919,182	-
Total Capital Assets Not Being Depreciated	<u>6,568,262</u>	<u>-</u>	<u>5,919,182</u>	<u>649,080</u>
Capital Assets Being Depreciated:				
Buildings and improvements	-	14,136,040	-	14,136,040
Total Capital Assets Being Depreciated	<u>-</u>	<u>14,136,040</u>	<u>-</u>	<u>14,136,040</u>
Less Accumulated Depreciation:				
Buildings and improvements	-	176,527	-	176,527
Total Accumulated Depreciation	<u>-</u>	<u>176,527</u>	<u>-</u>	<u>176,527</u>
Component Unit Capital Assets	<u>\$ 6,568,262</u>	<u>\$ 13,959,513</u>	<u>\$ 5,919,182</u>	<u>\$ 14,608,593</u>

NOTE 5 - ACCOUNTS PAYABLE

Accounts payable consists of the following at June 30, 2015:

	Governmental Activities	Component Unit
Program grantees	\$ 2,122,672	\$ -
Vendors	10,395	249,913
Total	<u>\$ 2,133,067</u>	<u>\$ 249,913</u>

CHILDREN AND FAMILIES COMMISSION OF FRESNO COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 6 - LONG TERM OBLIGATIONS

Long-term obligations during the year consisted of the following:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2015</u>
Governmental Activities			
Compensated absences - net	\$ 71,055	\$ 11,871	\$ 59,184
Component Unit			
Notes Payable	15,714,000	-	15,714,000
Total	<u>\$ 15,785,055</u>	<u>\$ 11,871</u>	<u>\$ 15,773,184</u>

Compensated Absences – Governmental Activities

Compensated absences, which combines vacation and sick leave benefits into a single PTO bank, amounted to \$59,184.

Notes Payable – Component Unit

The component unit, Lighthouse for Children, Inc. was created by the Commission as a Qualified Active Low Income Community Business (QALICB) to take advantage of a New Market Tax Credit (NMTC) financing structure in order to build a facility within a low-income community. The NMTC transaction structure involves a leverage lender (Children and Families Commission of Fresno County) who provided funding into a newly created investment fund (Fund). An investor, who benefits from the NMTCs, then provided the equity into the Fund. The Fund then loaned the full amount of the financial transaction to two community development entities, who in turn loaned the funds to the Lighthouse for Children, Inc. The following four notes payable from Lighthouse for Children, Inc. combine to represent the total \$15,714,000 loan:

Lighthouse for Children, Inc.: Loan A Note – Low Income Investment Fund (LIIF) CDE (Community Development Entity)

Thirty year note dated December 13, 2013, from LIIF Sub-CDE, LLC in the amount of \$5,410,400, the proceeds of which are being used to construct a facility to be operated as a qualified active low-income community business in a manner consistent with New Market Tax Credit requirements. The maturity date is December 13, 2043, with interest at 1.39 percent due monthly commencing March 1, 2014. Principal and interest on each of the notes is to be paid from rent due pursuant to a master lease agreement with the Commission. The outstanding obligation for this note was \$5,410,400 at June 30, 2015.

CHILDREN AND FAMILIES COMMISSION OF FRESNO COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Lighthouse for Children, Inc.: Loan B Note - Low Income Investment Fund (LIIF) CDE (Community Development Entity)

Thirty year note dated December 13, 2013, from LIIF Sub-CDE, LLC in the amount of \$2,349,600, the proceeds of which are being used to construct a facility to be operated as a qualified active low-income community business in a manner consistent with New Market Tax Credit requirements. The maturity date is December 13, 2043, with interest at 1.39 percent due monthly commencing March 1, 2014. Principal and interest on each of the notes is to be paid from rent due pursuant to a master lease agreement with the Commission. The outstanding obligation for this note was \$2,349,600 at June 30, 2015.

Lighthouse for Children, Inc.: Loan A Note - Central Valley CDE (Community Development Entity)

Thirty year note dated December 13, 2013, from Central Valley NMTC Sub IV, LLC in the amount of \$5,545,660, the proceeds of which are being used to construct a facility to be operated as a qualified active low-income community business in a manner consistent with New Market Tax Credit requirements. The maturity date is December 13, 2043, with interest at 1.3837 percent due monthly commencing March 1, 2014. Principal and interest on each of the notes is to be paid from rent due pursuant to a master lease agreement with the Commission. The outstanding obligation for this note was \$5,545,660 at June 30, 2015.

Lighthouse for Children, Inc.: Loan B Note - Central Valley CDE (Community Development Entity)

Thirty year note dated December 13, 2013, from Central Valley NMTC Sub IV, LLC in the amount of \$2,408,340, the proceeds of which are being used to construct a facility to be operated as a qualified active low-income community business in a manner consistent with New Market Tax Credit requirements. The maturity date is December 13, 2043, with interest at 1.3837 percent due monthly commencing March 1, 2014. Principal and interest on each of the notes is to be paid from rent due pursuant to a master lease agreement with the Commission. The outstanding obligation for this note was \$2,408,340 at June 30, 2015.

The Notes mature in total through December 13, 2043, as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2016	\$ -	\$ 217,923	\$ 217,923
2017	-	217,923	217,923
2018	-	217,923	217,923
2019	-	217,923	217,923
2020	-	217,923	217,923
2021-2025	2,702,145	999,400	3,701,545
2026-2030	3,206,243	785,517	3,991,760
2031-2035	3,426,590	565,170	3,991,760
2036-2040	3,666,808	324,952	3,991,760
2041-2044	2,712,214	82,018	2,794,232
Total	<u>\$ 15,714,000</u>	<u>\$ 3,846,674</u>	<u>\$ 19,560,674</u>

CHILDREN AND FAMILIES COMMISSION OF FRESNO COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 7 - POSTEMPLOYMENT BENEFITS

Pension Plan Description

- A. The Fresno County Children and Families Commission 401(k) Plan (Plan One) and 401(a) Plan (Plan Two) are defined contribution pension plans established by the Commissioners of the Commission and administered through ICMA-RC, a non-profit independent financial services corporation. The provisions and contribution requirements of Plan One and Plan Two are established and may be amended by the Commissioners of the Commission. Plan One covers all full-time employees, except the Executive Director, and provides for immediate 100 percent vesting for the participants. Plan Two covers the Executive Director and also provides for immediate 100 percent vesting. The Commission makes employee contributions of 8.74 percent of compensation to each of the plans, and the Executive Director also contributes 8.74 percent of compensation to Plan Two. The Commission made contributions to Plan One and Plan Two amounting to \$76,751 for the year ended June 30, 2015.

- B. The Commission offers its employees a deferred compensation plan created in accordance with IRC Section 457 and administered through ICMA-RC, a non-profit independent financial services corporation. The plan, available to all full-time Commission employees except the Executive Director, permits them to defer a portion of their current salary until future years. The Commission is not required to make contributions to the plan, and all contributions made to the plan are solely at the discretion of the employees.

NOTE 8 - FUND BALANCES

Fund balance classifications comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Those classifications are defined in Note 1. Fund balances consist of the following at June 30, 2015:

	<u>General Fund</u>
Fund Balances	
Nonspendable	
Lighthouse for Children Facility Loan	\$ 10,956,060
Committed	
Awarded and unpaid grants	10,209,453
Assigned	
4th Year Strategic Plan Funding for Direct Services	<u>4,397,315</u>
Total	<u><u>\$ 25,562,828</u></u>

CHILDREN AND FAMILIES COMMISSION OF FRESNO COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 9 - 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.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

Grantee Obligations

At June 30, 2015, the Commission's remaining obligations with grantees of \$10,186,594 is included in committed fund balance.

Litigation

The Commission is not currently a party to any legal proceedings.

New Market Tax Credits

The Lighthouse for Children, Inc. was created by the Commission as a Qualified Active Low Income Community Business (QALICB) to take advantage of a New Market Tax Credit (NMTC) financing structure in order to build a facility within a low-income community. Lighthouse for Children, Inc. was created as a 501(c)(3) non-profit public benefit corporation to act as the QALICB, as the Commission is not eligible to be the QALICB.

New Market Tax Credits are designed to infuse private sector capital into distressed communities by providing a tax credit for taxpayers who make qualified investments into designated Community Development Entities (CDEs). The NMTC transaction structure involves a leverage lender (Children and Families Commission of Fresno County) to provide funding into a newly created investment fund (Fund). The investor then provides the equity into the Fund. The Fund then loans the full amount of the financial transaction to the CDE, who in turn loans the funds to the QALICB. The NMTC transaction is active for seven years. At the end of seven years, the investor will "put" the transaction and Commission will acquire 100 percent interest in the Fund. At that time, the QALICB will likely dissolve and the Commission will acquire title to the property.

There is some nominal risk of tax credit recapture if Lighthouse for Children, Inc. acting as the QALICB, fails to maintain its obligations in the transaction. If the IRS recaptures the credits, the Commission may be responsible for repayment of the entire equity amount. The likelihood of this occurring is minimal as it is the Commission's intent to take whatever steps are necessary to ensure compliance with all NMTC requirements.

CHILDREN AND FAMILIES COMMISSION OF FRESNO COUNTY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Master Lease Agreement - Related Party

The Commission has entered into a master lease agreement with Lighthouse for Children, Inc. (Landlord), the Commission's discretely presented component unit, in which the Commission will act as Master Tenant in a facility that is currently under construction. Landlord is obtaining New Market Tax Credit (NMTC) financing to provide for the construction of the facility which will be used as a child care center, a community learning center, office space for the Commission's operations, and any other activities that fulfill the specific charitable purposes of Lighthouse for Children, Inc. Master Tenant will pay an annual base rent of \$148,000 to the landlord for the property payable in equal monthly installments as stated in the agreement. Landlord and Master Tenant intend to operate the property in a manner that complies with NMTC requirements.

NOTE 11 - PROGRAM EVALUATION

The Commission spent \$1,002,806 on program evaluation during the audit period.

REQUIRED SUPPLEMENTARY INFORMATION

CHILDREN AND FAMILIES COMMISSION OF FRESNO COUNTY

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variances Final to Actual</u>
REVENUES				
Proposition 10 taxes	\$ 10,616,273	\$ 10,616,273	\$ 10,838,492	\$ 222,219
Interest and investment income	303,200	303,200	163,028	(140,172)
Other revenue	125,000	250,000	557,092	307,092
Total Revenues	<u>11,044,473</u>	<u>11,169,473</u>	<u>11,558,612</u>	<u>389,139</u>
EXPENDITURES				
Current:				
Salaries and benefits	1,717,802	1,469,714	1,269,643	200,071
Supplies and services	740,733	531,618	518,707	12,911
Evaluation expenditures	940,000	900,000	869,965	30,035
Grant expenditures	7,645,938	8,268,141	8,264,281	3,860
Total Expenditures	<u>11,044,473</u>	<u>11,169,473</u>	<u>10,922,596</u>	<u>246,877</u>
Change in Fund Balance	-	-	636,016	636,016
Fund Balance - Beginning	<u>24,926,812</u>	<u>24,926,812</u>	<u>24,926,812</u>	-
Fund Balance - Ending	<u>\$ 24,926,812</u>	<u>\$ 24,926,812</u>	<u>\$ 25,562,828</u>	<u>\$ 636,016</u>

COMPLIANCE SECTION



**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***

Board of Commissioners
Fresno County Children and Families Commission
Fresno, 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 of Fresno County Children and Families Commission (Commission), a component unit of Fresno County, California, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated October 21, 2015. The financial statements of Lighthouse for Children, Inc., were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Lighthouse for Children, Inc.

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 an opinion 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control, that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Varrinek, Trine, Day & Co, LLP.

Fresno, California
October 21, 2015



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Commissioners
Fresno County Children and Families Commission
Fresno, California

Compliance

We have audited the Fresno County Children and Families Commission's (Commission), a component unit of Fresno County, California, compliance with the requirements specified in the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, issued by the State Controller's Office, applicable to the Commission's statutory requirements identified below for the year ended June 30, 2015.

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:

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

Opinion

In our opinion, Fresno County California Children and Families 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, 2015.

Purpose of This Report

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

Varrinek, Trine, Day & Co., LLP.

Fresno, California
October 21, 2015