CHILDREN AND FAMILIES COMMISSION OF FRESNO COUNTY

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

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITORS' REPORT

FOR THE YEAR ENDED
JUNE 30, 2016

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HUDSON HENDERSON & COMPANY INC.
certified public accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
Children and Families Commission of Fresno County

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the discretely presented component unit, and major fund of the Children and Families Commission of Fresno County (the Commission), a component unit of the County of Fresno, California, as of and for the year ended June 30, 2016, 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.

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Opinion

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 major fund of the Commission, as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2016, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Commission's internal control over financial reporting and compliance.

HUDSON HENDERSON & COMPANY, INC.

Hudson Henderson & Company, Inc.

Fresno, California
October 19, 2016

CHILDREN AND FAMILIES COMMISSION OF FRESNO COUNTY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

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 seven 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 2015-2016 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, 2016.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Government Accounting Standards Board (GASB) in its Statement No. 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments,* issued June 1999, and GASB Statement No. 37, *Basic Financial Statements – and Management and Discussion and Analysis – for State and Local Governments: Omnibus,* an amendment to GASB Statement No. 21 and Statement No. 34, issued in June 2001.

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 ages 0-5 and their families.

Central to the Commission's mission are the strategic goals of its investments which aim to directly serve children ages 0-5 and their families and are categorized into three goal areas: Health Promotion, Early Learning, and Strong Families. These are laid out in a three-tiered investment framework which seeks to influence: (1) children ages 0-5 and their families; (2) community partners; and (3) the early childhood system of care.

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FINANCIAL HIGHLIGHTS

- During fiscal year 2015-2016, the Commission allocated and received revenues of approximately $11 million from the State of California as revenues collected under the Children and Families Act.
- During fiscal year 2015-2016, the Commission disbursed approximately $8.8 million to funded agencies.
- The Commission committed approximately $15.8 million towards the 2013-2020 Strategic Plan, which will be disbursed in the subsequent fiscal years to fund its investment framework and approximately $10.9 million of the Commission's fund balance is nonspendable for the Lighthouse for Children facility leverage loan.

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 comprise 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).

Also presented in the Government-Wide Financial Statements is a discretely presented component unit, the Lighthouse for Children, Inc. The 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 and prepared separately from the financial information presented for the primary government entity in a separate column on the Government-Wide Financial Statements as well as throughout the Notes to the Financial Statements. Financial statements for Lighthouse for Children, Inc. may be obtained from the Children and Families Commission of Fresno County, 2405 Tulare Street, Suite 200, Fresno, California 93721.

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 devises 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 particular purposes or to show that the Commission is meeting legal responsibility for using certain revenues.

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

The Commission's total assets are approximately $30.3 million at the end of the fiscal year. The majority of the Commission's assets are in cash and investments of $16.6 million with a loan receivable of $10.9 million.

Cash and investments are maintained in the Commission's checking, 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 23 through 26 for types of investments and credit ratings. Another asset is the Commission's receivables due from the State Commission for Proposition 10 taxes ($2 million). These receivables represent taxes remitted by the State but not received by the Commission as of June 30, 2016. The Commission also reports accounts payable of $2.9 million representing payments due on invoices.

CHILDREN AND FAMILIES COMMISSION OF FRESNO COUNTY
STATEMENT OF NET POSITION COMPARISON

	June 30, 2016	June 30, 2015	Change
ASSETS			
Cash and investments	$ 16,560,547	$ 14,846,409	$ 1,714,138
Due from the state- proposition 10	1,981,930	1,814,790	167,140
Other receivables	118,448	78,636	39,812
Loans receivable, long-term (related party)	10,956,060	10,956,060	-
Nondepreciable capital assets	27,450	27,450	-
Capital assets, net of accumulated depreciation	640,591	643,506	(2,915)
Total Assets	30,285,026	28,366,851	1,918,175
LIABILITIES			
Current liabilities	2,870,176	2,133,067	737,109
Noncurrent liabilities	55,261	59,184	(3,923)
Total Liabilities	2,925,437	2,192,251	733,186
NET POSITION			
Net investment in capital assets	668,041	670,956	(2,915)
Unrestricted	26,691,548	25,503,644	1,187,904
Total Net Position	$ 27,359,589	$ 26,174,600	$ 1,184,989

In fiscal year 2015-2016, the Commission's net position increased by $1,157,712, see below. The increase was due to an unanticipated increase in revenues.

CHILDREN AND FAMILIES COMMISSION OF FRESNO COUNTY
GOVERNMENTAL ACTIVITIES COMPARISON

	June 30, 2016	June 30, 2015	Change
Revenues			
Program revenues	$ 11,025,496	$ 10,838,492	$ 187,004
General revenues	577,201	720,120	(142,919)
Total Revenues	11,602,697	11,558,612	44,085
Expenses			
Program services	8,783,233	9,243,328	(460,095)
Evaluation services	1,111,472	1,002,806	108,666
Administrative costs	550,280	682,195	(131,915)
Total Expenses	10,444,985	10,928,329	(483,344)
Change in Net Position	$ 1,157,712	$ 630,283	$ 527,429

FINANCIAL ANALYSIS OF THE COMMISSION'S GOVERNMENTAL FUND

For the fiscal year ended June 30, 2016, the Commission reported an ending fund balance of $26,746,809, an increase of $1,183,981 from the prior year. The increase represents the amount of excess revenues over expenditures for the year ended June 30, 2016. See pages 12 and 14 of the financial statements for the fund financial statements.

Revenue and Expenditure Analysis – Governmental Fund

Total revenues consist of Proposition 10 funds, investment income, and other revenues. There was an increase in total revenues from $11.56 million in the prior year to $11.60 million for the year ending June 30, 2016. Although Proposition 10 revenues increased by nearly $187,000, and investment income increased by nearly $136,000, other revenues decreased by more than $278,000 due to reduced reimbursements from Fresno County Office of Education for costs associated with the Program for Infant/Toddler Care services and less frequent out-of-county uses of the Breastfeeding Friendly Trailer. Expenditures showed little change from the prior year as the Commission sought to maintain its level of service and their commitment to serving the young children and families in Fresno County.

In June 2016, the Commission awarded contracts with over a dozen different agencies to improve the quality of early learning settings; promote developmental surveillance, response and follow-up through the Help Me Grow system; and expand direct service opportunities to engage and support family literacy in Fresno County.

Additionally, the *Esta En Ti* Campaign, a partnership with the local Univision affiliate, reached Spanish-speaking families to improve child outcomes through public service announcements and interviews to provide tips and resources and help connect them with services.

CHILDREN AND FAMILIES COMMISSION OF FRESNO COUNTY
GOVERNMENTAL ACTIVITIES COMPARISON

	June 30, 2016	June 30, 2015	Change
Revenues			
Proposition 10 taxes	$ 11,025,496	$ 10,838,492	$ 187,004
Interest and Investment Earnings	298,594	163,028	135,566
Other revenue	278,607	557,092	(278,485)
Total Revenues	11,602,697	11,558,612	44,085
Expenditures			
Program services	8,756,964	9,225,724	(468,760)
Evaluation services	1,111,472	1,002,806	108,666
Administrative costs	550,280	694,066	(143,786)
Total Expenditures	10,418,716	10,922,596	(503,880)
Change in Fund Balance	$ 1,183,981	$ 636,016	$ 547,965

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 2015-2016 as detailed in the Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual (shown on page 16). In fiscal year 2015-2016 the Commission received actual revenues of $11.6 million compared to the budgeted amount of $10.5 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 $1 million more than budgeted as Proposition 10 revenues came in at $1 million more than expected, interest and investment revenues were more than $.01 million more than expected, and other revenues came in at $0.03 million more than expected.

In fiscal year 2015-2016 actual expenditures were more than $0.8 million less than budgeted due primarily to reduced staffing in the current year and a public education program that was deferred to the subsequent fiscal year. 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 16.

CAPITAL ASSETS AND LONG-TERM DEBT

Capital assets of $668,041 (net of accumulated depreciation) are for the Huron land and facility and equipment purchased. See Note 5 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 7 for details.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The budgeting process began in conjunction with the development of the 2013-2020 Strategic Plan and is reviewed annually. During the initial process, Commissioners from the Finance and Program Review 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 2013-2020 Strategic Plan.

On an annual basis the Commissioners review the budgets. The Commission is committed to continued collaboration 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 April 20, 2016, the Commission reviewed and approved the 2015-2017 Revised Two Year Budget with the following program allocations:

- Tier 1: Children and Families - $15.2 million
- Tier 2: Community Partners - $0.5 million
- Tier 3: Early Childhood System of Care - $2.9 million
- Other Investments - $1.3 million
- Accountability and Evaluation - $1.9 million

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 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, 2016

	Primary Government	Component Unit
ASSETS		
Cash and investments	$ 16,560,547	$ 691,789
Due from the state- proposition 10	1,981,930	-
Other receivables	118,448	52,106
Loans receivable, long-term (related party)	10,956,060	-
Capital assets, not being depreciated	27,450	649,080
Capital assets, net of accumulated depreciation	640,591	14,246,972
Total Assets	30,285,026	15,639,947
LIABILITIES		
Accounts payable	2,870,176	20,000
Long-term liabilities		
Portion due within one year:		
Compensated absences	15,168	-
Portion due in more than one year:		
Compensated absences	40,093	-
Notes payable	-	15,714,000
Total Liabilities	2,925,437	15,734,000
NET POSITION		
Net investment in capital assets	668,041	(817,948)
Unrestricted	26,691,548	723,895
Total Net Position	$ 27,359,589	$ (94,053)

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

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

		Program Revenues			Net (Expense) Revenue and Changes in Net Position	
					Primary Government	Component Unit
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Lighthouse for Children, Inc.
Governmental Activities:						
First 5 Fresno County	$ 10,444,985	$ -	$ 11,025,496	$ -	$ 580,511	
Total Primary Government	$ 10,444,985	$ -	$ 11,025,496	$ -	580,511	
Component Unit						
Lighthouse for Children, Inc.	$ 632,132	$ 148,000	$ 15,000	$ -		$ (469,132)
Total Component Unit	$ 632,132	$ 148,000	$ 15,000	$ -		(469,132)
General Revenues:						
Interest and Investment Earnings					298,594	1,205
Miscellaneous Income					278,607	-
Total General Revenues					577,201	1,205
Change in Net Position					1,157,712	(467,927)
Net Position, Beginning of Year					26,174,600	336,874
Prior Period Adjustment					27,277	37,000
Net Position, End of Year					$ 27,359,589	$ (94,053)

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

CHILDREN AND FAMILIES COMMISSION OF FRESNO COUNTY
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2016

ASSETS	
Current Assets	
Cash and investments	$ 16,560,547
Due from the state- proposition 10	1,981,930
Other receivables	118,448
Loans receivable, long-term (related party)	10,956,060
Total Assets	$ 29,616,985
LIABILITIES AND FUND BALANCE	
Liabilities	
Accrued expenses	$ 2,870,176
Total Liabilities	2,870,176
Fund Balance	
Nonspendable	10,956,060
Committed	15,790,749
Total Fund Balance	26,746,809
Total Liabilities and Fund Balance	$ 29,616,985

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

CHILDREN AND FAMILIES COMMISSION OF FRESNO COUNTY
RECONCILIATION OF GOVERNMENTAL FUND BALANCE
SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2016

Reconciliation of the Balance Sheet of the Governmental Fund to the Statement of Net Position:	
Total Fund Balance - Governmental Fund	$ 26,746,809
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund (net of accumulated depreciation of $78,260).	668,041
The compensated absences liability is not due in the current period and, therefore are not included in the governmental fund.	(55,261)
Total Net Position - Governmental Activities	$ 27,359,589

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

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

REVENUES	
Proposition 10 taxes	$11,025,496
Interest and investment earnings	298,594
Other revenue	278,607
Total Revenues	11,602,697
EXPENDITURES	
Program services	8,756,964
Evaluation services	1,111,472
Administrative costs	550,280
Total Expenditures	10,418,716
Net Change in Fund Balance	1,183,981
Fund Balance, Beginning of Year	25,562,828
Fund Balance, End of Year	$26,746,809

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

CHILDREN AND FAMILIES COMMISSION OF FRESNO COUNTY
RECONCILIATION OF THE CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

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	$ 1,183,981
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 ($30,192) exceeded capital outlay ($0) in the current period.	(30,192)
Long-term liabilities are not due during the current year and, therefore, the change is not recorded in the governmental fund.	3,923
Change in Net Position - Governmental Activities	$ 1,157,712

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

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

	Budgeted Amounts		Actual	Variance with
	Original	Final	(GAAP Basis)	Final Budget
REVENUES				
Proposition 10 taxes	$ 10,008,300	$ 10,008,300	$ 11,025,496	$ 1,017,196
Interest and investment earnings	289,000	289,000	298,594	9,594
Other revenue	250,000	250,000	278,607	28,607
Total Revenues	10,547,300	10,547,300	11,602,697	1,055,397
EXPENDITURES				
Salaries and benefits	1,820,763	1,694,348	1,260,186	434,162
Supplies and services	484,699	513,278	416,508	96,770
Evaluation expenditures	940,000	940,000	1,004,514	(64,514)
Grant expenditures	7,056,075	8,143,229	7,737,508	405,721
Total Expenditures	10,301,537	11,290,855	10,418,716	872,139
Net Change in Fund Balance	$ 245,763	$ (743,555)	1,183,981	$ 1,927,536
Fund Balance, Beginning of Year			25,562,828	
Fund Balance, End of Year			$ 26,746,809	

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

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 seven 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 significant 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 of which is made up of a majority of First 5 Commissioners. The 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.

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 of Fresno taken as a whole. For additional information regarding the County of Fresno, please refer to the Comprehensive Annual Financial Report available from the County of Fresno.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

- 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Accounts Receivable: The Commission utilizes the allowance method of accounting for and reporting uncollectible or doubtful accounts. At June 30, 2016, management considered all accounts to be fully collectible and, therefore, no allowance was recorded in the accompanying financial statements.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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:

Buildings:	15-90 years
Building Improvements:	10-80 years
Leasehold Improvements:	5-20 years
Equipment:	3-20 years

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 Financial 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 Financial 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated Absences: The 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. 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. In the basic financial statements, these amounts are referred to a "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."*

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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.

Governmental Accounting Standards Update: During the year ending June 30, 2016, the Commission implemented the following standards:

GASB Statement No. 72 – *Fair Value Measurement and Application*. The provisions of this statement are effective for financial statements for reporting periods beginning after June 15, 2015.

GASB Statement No. 73 – *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. The provisions of this statement are effective for fiscal years beginning after June 15, 2015, except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for fiscal years beginning after June 15, 2016.

GASB Statement No. 79 – *Certain External Investment Pools and Pool Participants*. The requirements of this statement are effective for reporting periods beginning after June 15, 2015, except for the provisions in paragraphs 18, 19, 23-26 and 40, which are effective for reporting periods beginning after December 15, 2015.

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

GASB Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. The provisions of this statement are effective for financial statements for reporting periods beginning after June 15, 2016.

GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits other than Pension Plans*. The provisions of this statement are effective for financial statements for reporting periods beginning after June 15, 2017.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental Accounting Standards Update (continued):

GASB Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The provisions of this statement are effective for financial statements for reporting periods beginning after June 15, 2015.

GASB Statement No. 77 – *Tax Abatement Disclosures*. The requirements of this statement are effective for reporting periods beginning after December 15, 2015.

GASB Statement No. 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Plans*. The requirements of this statement are effective for reporting periods beginning after December 15, 2015.

GASB Statement No. 80 – *Blending Requirements for Certain Component Units- an amendment of GASB Statement No. 14.* The requirements of this statement are effective for reporting periods beginning after June 15, 2016.

GASB Statement No. 81 – *Irrevocable Split-Interest Agreements.* The requirements of this statement are effective for reporting periods beginning after December 15, 2016.

GASB Statement No. 82 – *Pension Issues- an amendment of GASB Statements No. 67, No. 68, and No. 73.* The requirements of this statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of paragraph 7 in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

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 19, 2016, which is the date the financial statements were available to be issued.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments as of June 30, 2016, are classified in the accompanying financial statements as follows:

Governmental activities	$ 16,560,547
Component unit	691,789
Total Cash and Investments	$ 17,252,336

NOTE 2 – CASH AND INVESTMENTS (continued)

Cash and investments as of June 30, 2016, consist of the following:

Cash in banks	$ 1,075,333
Investments	15,485,214
Total Governmental Activities Cash and Investments	16,560,547
Component unit cash in banks	691,789
Total Cash and Investments	$ 17,252,336

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.

General Authorizations: As per the *California Government Code* and the Commission's Investment Policy, limitations to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers' Acceptances	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 value	None
Medium-Term 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 Power Agency (JPA) Pools (other investment pools)	N/A	None	None

NOTE 2 – CASH AND INVESTMENTS (continued)

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.

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:

		Remaining Maturity (in Months)		
Investment Type	Total	12 Months or Less	13 to 24 Months	25 to 60 Months
U.S. Treasuries	$ 3,402,359	$ -	$ -	$ 3,402,359
Federal Agencies (non-callable)	1,932,231	-	867,303	1,064,928
Federal Agency Mortgage Backed Securities	121,618	-	-	121,618
Municipal Obligations	307,053	-	307,053	-
Negotiable Certificates of Deposit	1,412,783	750,773	662,010	-
Commercial Paper	199,958	199,958	-	-
Corporate Notes	2,961,720	-	1,210,807	1,750,913
Asset-Backed Securities	130,445	-	-	130,445
Money Market Mutual Funds	25,681	25,681	-	-
County Pooled Investment Funds	4,991,366	4,991,366	-	-
	$ 15,485,214	$ 5,967,778	$ 3,047,173	$ 6,470,263

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, 2016.

			Rating as of June 30, 2016									
Investment Type	Fair Value	Minimum Legal Rating	AAA	AA+	AA	AA-	A+	A	A-	A-1+	A-1	Not Rated
U.S. Treasuries	$ 3,402,359	N/A	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 3,402,359
Federal Agencies (non-callable)	1,932,231	N/A	-	1,932,231	-	-	-	-	-	-	-	-
Federal Agency Mortgage Backed Securities	121,618	N/A	-	121,618	-	-	-	-	-	-	-	-
Municipal Obligations	307,053	N/A	-	-	307,053	-	-	-	-	-	-	-
Negotiable Certificates of Deposit	1,412,783	A-	-	-	-	712,440	-	-	-	200,108	500,235	-
Commercial Paper	199,958	A-1	-	-	-	-	-	-	-	-	199,958	-
Corporate Notes	2,961,720	A-	-	491,068	186,164	910,737	61,038	988,267	324,446	-	-	-
Asset-Backed Securities	130,445	AA	130,445	-	-	-	-	-	-	-	-	-
Money Market Mutual Funds	25,681	AAA	25,681	-	-	-	-	-	-	-	-	-
County Pooled Investment Funds	4,991,366	N/A	-	-	-	-	-	-	-	-	-	4,991,366
	$ 15,485,214		$ 156,126	$ 2,544,917	$ 493,217	$ 1,623,177	$ 61,038	$ 988,267	$ 324,446	$ 200,108	$ 700,193	$ 8,393,725

NOTE 2 – CASH AND INVESTMENTS (continued)

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	% of Total Investments
Fresno County Investment Pool	Investment Pool	$ 4,991,366	32.23%
U.S. Treasury	Treasury Securities	3,397,857	21.95%
Federal Home Loan Mortgage Corp.	Federal Agencies (non-callable)	941,976	6.09%
Federal National Mortgage Assc.	Federal Agencies (non-callable)	839,368	5.42%

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, 2016, $827,485 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 all of the Commission's investments are held in a third-party custodian bank in the name of the Commission.

NOTE 3 – FAIR VALUE MEASUREMENTS

The Commission applies generally accepted accounting principles for fair value measurements of financial assets and liabilities. These accounting principles define fair value and establishes a hierarchy that prioritizes fair value measurements based on the types of inputs used for the various valuation techniques. The Commission uses appropriate valuation techniques to determine value based on inputs available.

When available, the Commission measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value. Level 3 inputs are only used when Level 1 or Level 2 inputs are not available. The following description summarizes the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying statements of financial position.

NOTE 3 – FAIR VALUE MEASUREMENTS (continued)

The three levels of inputs used to measure fair value are as follows:

Level 1 – Values measured using quoted prices in active markets for identical investments. The fair value of these financial instruments and investments is based on quoted market prices or dealer quotes in active markets. The fair value of the Commission's investments were measured using quoted market prices in active markets.

Level 2 – Valuations based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly. The Commission did not have any assets reported at fair value with Level 2 inputs for the year ended June 30, 2016.

Level 3 – Valuations based on inputs that are unobservable and significant to the overall fair value measurement. The Commission did not have any assets reported at fair value with Level 3 inputs for the year ended June 30, 2016.

The table below presents the level within the fair value hierarchy at which investments are measured at June 30, 2016:

Fair Value Measurements on a Recurring Basis

Investment Type	Total	Level 1	Level 2	Level 3
U.S. Treasuries	$ 3,402,359	$ 3,402,359	$ -	$ -
Federal Agencies (non-callable)	1,932,231	1,932,231	-	-
Federal Agency Mortgage Backed Securities	121,618	121,618	-	-
Municipal Obligations	307,053	307,053	-	-
Negotiable Certificates of Deposit	1,412,783	1,412,783	-	-
Commercial Paper	199,958	199,958	-	-
Corporate Notes	2,961,720	2,961,720	-	-
Asset-Backed Securities	130,445	130,445	-	-
Money Market Mutual Funds	25,681	25,681	-	-
County Pooled Investment Funds	4,991,366	4,991,366	-	-
	$ 15,485,214	$ 15,485,214	$ -	$ -

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2016 consisted of intergovernmental grants, entitlements, state apportionments and local sources. All receivables consisted of the following:

	Governmental Unit	Component Unit
State Government		
Proposition 10	$ 1,981,930	$ -
Other sources	118,448	52,106
	$ 2,100,378	$ 52,106

NOTE 5 – CAPITAL ASSETS

Capital assets activity related to governmental activities for the year ended June 30, 2016 was as follows:

	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance
Governmental Unit				
Capital assets not being depreciated:				
Land	$ 27,450	$ -	$ -	$ 27,450
Total capital assets not being depreciated	27,450	-	-	27,450
Capital assets being depreciated:				
Equipment	-	-	88,119	88,119
Buildings and improvements	704,162	-	-	704,162
Total capital assets being depreciated	704,162	-	88,119	792,281
Less accumulated depreciation:				
Equipment	-	12,588	60,842	73,430
Buildings and improvements	60,656	17,604	-	78,260
Total accumulated depreciation	60,656	30,192	60,842	151,690
Total capital assets being depreciated, net	643,506	(30,192)	27,277	640,591
Total capital assets, net	$ 670,956	$ (30,192)	$ 27,277	$ 668,041

Depreciation expense charged to the governmental unit for the year ended June 30, 2016, was $30,192.

NOTE 5 – CAPITAL ASSETS (continued)

Capital assets activity related to the discretely presented component unit for the year ended June 30, 2016 was as follows:

	Beginning Balance	Additions/ Completions	Retirements/ Adjustments	Ending Balance
Component Unit				
Capital assets not being depreciated:				
Land	$ 649,080	$ -	$ -	$ 649,080
Construction in progress	-	-	-	-
Total capital assets not being depreciated	649,080	-	-	649,080
Capital assets being depreciated:				
Equipment	-	625,262	-	625,262
Buildings and improvements	14,136,040	23,696	-	14,159,736
Total capital assets being depreciated	14,136,040	648,958	-	14,784,998
Less accumulated depreciation:				
Equipment	-	361,217	-	361,217
Buildings and improvements	176,527	282	-	176,809
Total accumulated depreciation	176,527	361,499	-	538,026
Total capital assets being depreciated, net	13,959,513	287,459	-	14,246,972
Total capital assets, net	$ 14,608,593	$ 287,459	$ -	$ 14,896,052

Depreciation expense charged to the component unit for the year ended June 30, 2016, was $361,499.

NOTE 6 – ACCOUNTS PAYABLE

Accounts payable consists of the following as of June 30, 2016:

	Governmental Unit	Component Unit
Program grantees	$ 2,802,180	$ -
Vendors	67,996	20,000
	$ 2,870,176	$ 20,000

NOTE 7 – LONG TERM OBLIGATIONS

Long term obligations activity for the year ended June 30, 2016 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
Compensated absences	$ 59,184	$ 14,542	$ (18,465)	$ 55,261	$ 15,168
Component Unit					
Notes payable	15,714,000	-	-	15,714,000	-
Total	$ 15,773,184	$ 14,542	$ (18,465)	$ 15,769,261	$ 15,168

Compensated Absences – Governmental Activities: Compensated absences, which combines vacation and sick leave benefits into a single PTO bank, amounted to $55,261.

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:

QLICI Loan A note from LIIF Sub-CDE XXIV, LLC, dated December 13, 2013, in the original amount of $5,410,400. Quarterly interest only payments commencing on March 1, 2014 and continuing through December 1, 2020. Quarterly principal and interest payments of $68,743 commencing on March 1, 2021 and continuing until the note matures on December 13, 2043. Interest is at a rate of 1.39% per annum. The note is secured by the deed of trust on the property. Payments of principal and interest is to be paid from rent due pursuant to a master lease agreement with the Commission.	$ 5,410,400
QLICI Loan B note from LIIF Sub-CDE XXIV, LLC, dated December 13, 2013, in the original amount of $2,349,600. Quarterly interest only payments commencing on March 1, 2014 and continuing through December 1, 2020. Quarterly principal and interest payments of $29,853 commencing on March 1, 2021 and continuing until the note matures on December 13, 2043. Interest is at a rate of 1.39% per annum. The note is secured by the deed of trust on the property. Payments of principal and interest is to be paid from rent due pursuant to a master lease agreement with the Commission.	2,349,600

NOTE 7 – LONG TERM OBLIGATIONS (continued)

QLICI Loan A note from Central Valley NMTC Sub IV, LLC, dated December 13, 2013, in the original amount of $5,545,660. Quarterly interest only payments commencing on March 1, 2014 and continuing through December 1, 2020. Quarterly principal and interest payments of $70,413 commencing on March 1, 2021 and continuing until the note matures on December 13, 2043. Interest is at a rate of 1.3837% per annum. The note is secured by the deed of trust on the property. Payments of principal and interest is to be paid from rent due pursuant to a master lease agreement with the Commission.	$ 5,545,660
QLICI Loan B note from Central Valley NMTC Sub IV, LLC, dated December 13, 2013, in the original amount of $2,408,340. Quarterly interest only payments commencing on March 1, 2014 and continuing through December 1, 2020. Quarterly principal and interest payments of $30,579 commencing on March 1, 2021 and continuing until the note matures on December 13, 2043. Interest is at a rate of 1.3837% per annum. The note is secured by the deed of trust on the property. Payments of principal and interest is to be paid from rent due pursuant to a master lease agreement with the Commission.	2,408,340
Total notes payable	15,714,000
Less current portion due:	-
Notes payable, long-term portion:	$ 15,714,000

The minimum future principal and interest payments are summarized as follows:

	Principal	Estimated Interest Payments	Estimated Total Debt Service
Years ending June 30:			
2017	$ -	$ 217,923	$ 217,923
2018	-	217,923	217,923
2019	-	217,923	217,923
2020	-	217,923	217,923
2021	290,718	217,420	508,138
2022-2026	3,020,583	971,176	3,991,759
2027-2031	3,237,077	754,683	3,991,760
2032-2036	3,469,088	522,672	3,991,760
2037-2041	3,717,725	274,033	3,991,758
2042-2044	1,978,809	38,332	2,017,141
	$ 15,714,000	$ 3,650,008	$ 19,364,008

NOTE 8 – POSTEMPLOYMENT BENEFITS

The Fresno County Children and Families Commission 401(a) Plan is a defined contribution pension plan 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 the Plan are established and may be amended by the Commissioners of the Commission. The Plan covers all full-time employees, and provides for immediate 100 percent vesting for the participants. The Commission makes contributions of 8.74 percent of compensation to the plan. The Commission made contributions to the Plan amounting to $65,359 for the year ended June 30, 2016.

The Commission also 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, 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 9 – FUND BALANCES

Fund balances are presented in the following categories: nonspendable and committed (See Note 1 for a description of these categories). A detailed schedule of fund balances at June 30, 2016, is as follows:

Nonspendable:	
Lighthouse for Children Facility Loan	$ 10,956,060
Committed:	
Awarded and unpaid grants	15,790,749
Total Fund Balance	$ 26,746,809

NOTE 10 – DEFICIENCY OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2016, expenditures exceeded appropriations as follows:

Expenditures	Amount
Evaluation expenditures	$ (64,514)

NOTE 11 – 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 12 – EVALUATION EXPENDITURES

The Commission spent $1,111,472 on program evaluation during the fiscal year ended June 30, 2016.

NOTE 13 – ECONOMIC DEPENDENCY

The Commission received the majority of its funding from one source, taxes imposed by Section 30131.2 of the California Tax and Revenue Code. This code imposes additional taxes on the sale of cigarettes and tobacco products. The total amount of funding from the additional taxes was $11,025,496, or 95.03%, of the total revenue for the year ending June 30, 2016. The Commission is thus subject to possible risk of reductions in services and/or closure due to potential future changes of Section 30131.2 of the California Tax and Revenue Code.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

<u>Grantee Obligations:</u> As of June 30, 2016, the Commission’s remaining obligations with grantees of $15,790,749 is included in committed fund balance.

<u>Litigation:</u> The Commission is not currently a party to any legal proceedings.

<u>New Market Tax Credits:</u> 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.

NOTE 14 – COMMITMENTS AND CONTINGENCIES (continued)

New Market Tax Credits (continued): 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.

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 15 – PRIOR PERIOD ADJUSTMENT

A prior period adjustment of $27,277 was recorded to the governmental activities net position of the Commission in the government wide Statement of Activities to account for a Breastfeeding Friendly Trailer that was previously incorrectly expensed and not capitalized in the year of acquisition, 2010. The equipment is being recorded net of the accumulated depreciation since inception.

A prior period adjustment of $37,000 was recorded to the component unit, Lighthouse for Children, Inc., to account for revenue that was received in the current year but was earned and receivable as of the prior year-end. The revenue and corresponding receivable were not properly accounted for in the prior period.

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
Children and Families Commission of Fresno County

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, the discretely presented component unit, and major fund of the Children and Families Commission of Fresno County (the Commission), as of and for the year ended June 30, 2016, 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 19, 2016.

Internal Control over Financial Reporting

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

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

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

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. 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 19, 2016

HUDSON HENDERSON& COMPANY INC.
certified public accountants

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

To the Board of Commissioners
Children and Families Commission of Fresno County

Compliance

We have audited the Children and Families Commission of Fresno County (the Commission) compliance with the requirements specified in the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, issued by the State Controller's Office, applicable to the Commission's statutory requirements identified below for the year ended June 30, 2016.

Management's Responsibility

Management is responsible for compliance with the requirements of the 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:

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, the Commission complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the California Children and Families Program for the year ended June 30, 2016.

HUDSON HENDERSON & COMPANY, INC.

Hudson Henderson & Company, Inc.

Fresno, California
October 19, 2016