

**MODOC COUNTY CHILDREN AND FAMILIES COMMISSION  
(A COMPONENT UNIT OF MODOC COUNTY)**

**ALTURAS, CALIFORNIA**

**BASIC FINANCIAL STATEMENTS**

**JUNE 30, 2017**

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners  
Modoc County Children and Families Commission  
Alturas, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Modoc County Children and Families Commission, a component unit of Modoc County, California, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Modoc County Children and Families 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 basic financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Modoc County Children and Families Commission as of June 30, 2017, and the respective changes in financial position, and the respective budgetary comparisons included as part of the basic financial statements, thereof 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 through 7, the schedule of proportionate share of the net pension liability and the schedule of the Commission's contributions - pension plan, on pages 27 through 28, listed as required supplementary information in the table of contents 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 Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary data on page 29 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 10, 2017 on our consideration of Modoc County Children and Families 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 Modoc County Children and Families Commission's internal control over financial reporting and compliance.

*R.J. Ricciardi, Inc.*

R.J. Ricciardi, Inc.  
Certified Public Accountants

San Rafael, California  
October 10, 2017

Modoc County Children and Families Commission  
(A Component Unit of Modoc County)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2017

## Introduction

In November 1998, voters passed a statewide ballot initiative, Proposition 10, to fund programs that promote the physical, cognitive and emotional development of children ages 0-5. Proposition 10 funds are generated by a tax on tobacco products and are intended to facilitate the creation and implementation of an integrated and collaborative system of care for young children in the areas of health, family support and early learning. All revenue generated is collected in the California Children and Families (First 5 California) Trust Fund Account and allocations are made to each of the 58 counties in the State based on the number of births recorded in the relevant county in proportion to the number of births recorded in California. Each county must establish a local First 5 Commission to oversee the use of these funds in accordance with their strategic plan.

Our discussion and analysis of Modoc County Children and Families Commission's (the Commission) financial performance provides an overview of the Commission's financial activities for the year ended June 30, 2017. It should be read in conjunction with the Commission's financial statements (including notes and supplementary information), which follow this section.

## Financial Highlights

### **Government-wide Financial Analysis**

- Total net position was \$269,310 at June 30, 2017. This was an increase of \$46,066 (20.6%) from the prior year.
- Overall revenues were \$303,356, which was more than expenses of \$257,290 by \$46,066.

### **Fund Financial Analysis**

- The general fund reported a fund balance this year of \$365,340.
- The total cost of the Commission's programs decreased by \$58,990.

## Overview of the Financial Statements

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements, and required 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 entity'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.
- **Governmental funds** statements tell how general government services were financed in the short term as well as what remains for future spending.

A comparison of the Commission's budget for the year is included. The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The basic financial statements are followed by a section of required supplementary information that further explains and supports the financial statements.

Modoc County Children and Families Commission  
(A Component Unit of Modoc County)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2017

### **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* includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the *statement of activities* regardless of when cash is received or paid.

The two government-wide statements report the Commission's net position and how it has changed. Net position, the difference between the assets and liabilities, is one way to measure the Commission's financial health or position.

- Over time, increases or decreases in the Commission's net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Commission, one needs to consider additional nonfinancial factors such as changes in birth rates within the county and changes in program funding by the Federal and State governments.

The government-wide financial statements of the Commission include governmental activities. Most of the Commission's basic services are included here, such as school readiness, improved oral health, home visits, and general administration. State grants finance most of these activities.

The *government-wide financial statements* can be found on pages 8 and 9 of this report.

### **Fund Financial Statements**

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

- Governmental funds - Most of the Commission's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Commission's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the government funds statements that explain the relationship (or differences) between them.

The *fund financial statements* can be found on pages 10 and 11 of this report.

**Notes to the basic financial statements** provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The *notes* can be found on pages 13 through 26 of this report.

Modoc County Children and Families Commission  
(A Component Unit of Modoc County)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2017

**Government-wide Financial Analysis**

**Net Position**

|   | Governmental Activities |                   | Percentage<br>Change |
|---|-------------------------|-------------------|----------------------|
|   | 2017                    | 2016              |                      |
| <b>ASSETS</b>                           |                         |                   |                      |
| Cash and investments in County Treasury | \$ 379,931              | \$ 380,081        | -0.0%                |
| Intergovernmental receivable, net       | 67,997                  | 80,384            | -15.4%               |
| Interest receivable                     | 1,034                   | 853               | 21.2%                |
| Total assets                            | <u>448,962</u>          | <u>461,318</u>    | -2.7%                |
| DEFERRED OUTFLOWS OF RESOURCES          | <u>42,168</u>           | <u>8,826</u>      | 377.8%               |
| <b>LIABILITIES</b>                      |                         |                   |                      |
| Accounts payable                        | 73,496                  | 101,010           | -27.2%               |
| Compensated absences                    | 10,126                  | 13,146            | -23.0%               |
| Long-term liabilities:                  |                         |                   |                      |
| Net pension liability                   | 123,644                 | 127,009           | -2.6%                |
| Total liabilities                       | <u>207,266</u>          | <u>241,165</u>    | -14.1%               |
| DEFERRED INFLOWS OF RESOURCES           | <u>14,554</u>           | <u>5,735</u>      | 153.8%               |
| <b>NET POSITION</b>                     |                         |                   |                      |
| Restricted                              | 269,310                 | 223,244           | 20.6%                |
| Total net position                      | <u>\$ 269,310</u>       | <u>\$ 223,244</u> | 20.6%                |

**Fiscal Year 2017 Compared to Fiscal Year 2016**

- At the end of fiscal year 2017, total assets decreased by \$12,356 (2.7%) when compared to fiscal year 2016.
- Total deferred outflows of resources increased by \$33,342 (377.8%) due to a change in deferred pension actuarial assumptions.
- Total liabilities decreased by \$33,899 (14.1%).
- Total deferred inflows of resources increased by \$8,819 (153.8%) due to a change in deferred pension actuarial assumptions.
- Net position increased by \$46,066 (20.6%). Net position is money received that is set aside for programs, projects, and activities to be conducted in the future according to a documented plan, budget or financial forecast formally approved by the Commission.

Modoc County Children and Families Commission  
(A Component Unit of Modoc County)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2017

**Changes in Net Position**

|                                       | Governmental Activities |             | Percentage<br>Change |
|---------------------------------------|-------------------------|-------------|----------------------|
|                                       | 2017                    | 2016        |                      |
| Program revenues:                     |                         |             |                      |
| Operating grants and contributions    |                         |             |                      |
| Tobacco tax                           | \$ 57,788               | \$ 49,826   | 16.0%                |
| Small county augmentation             | 242,212                 | 250,174     | -3.2%                |
| CARES Plus                            | -                       | 16,270      | -100.0%              |
| Subtotal program revenues             | 300,000                 | 316,270     | -5.1%                |
| General revenues:                     |                         |             |                      |
| Interest and other income             | 3,356                   | 2,720       | 23.4%                |
| Total revenues                        | 303,356                 | 318,990     | -4.9%                |
| Program expenses:                     |                         |             |                      |
| Salaries and benefits                 | 64,602                  | 58,718      | 10.0%                |
| Pension adjustment                    | (27,888)                | 21,663      | -228.7%              |
| Program contractors                   | 202,135                 | 264,902     | -23.7%               |
| Insurance                             | 1,317                   | 1,923       | -31.5%               |
| Memberships                           | 2,875                   | 2,875       | 0.0%                 |
| Office expenses                       | 5,969                   | 6,791       | -12.1%               |
| Professional and specialized services | 7,400                   | 7,875       | -6.0%                |
| Transportation and travel             | 64                      | 267         | -76.0%               |
| Other                                 | 816                     | -           | -%                   |
| Total expenses                        | 257,290                 | 365,014     | -29.5%               |
| Change in net position                | \$ 46,066               | \$ (46,025) | 200.1%               |
| Net cost of services                  | \$ 42,710               | \$ (48,744) | 187.6%               |

Fiscal Year 2017 Compared to Fiscal Year 2016

- The Commission's total revenues were \$303,356. A majority of the revenue comes from grants. Program revenues decreased by \$16,270 (5.1%) and general revenues increased by \$636 (23.4%). The decrease in program revenue was primarily due to not having CARES Plus funds in 2017. The increase in general revenue was primarily due to more interest income.
- The total cost of all programs and services was \$257,290. Most of the costs were paid directly by grants and contributions of \$300,000. Program expenses decreased by \$107,724 (29.5%). The majority of the decrease was due to a decrease in the pension adjustment and a decrease in program contractors.

Net cost of services represents each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by charges for services, operating grants and capital grants and contributions.

**Fund Financial Analysis**

The overall financial performance of the Commission as a whole is reflected in its governmental funds as well. As the Commission completed the year, its governmental funds reported a combined fund balance of \$365,340, which is above last year's ending fund balance of \$346,346.

Modoc County Children and Families Commission  
(A Component Unit of Modoc County)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the Year Ended June 30, 2017

**General Fund Budgetary Highlights**

Over the course of the year, the Commission revises its annual budget to reflect unexpected changes in revenues and expenditures. A schedule of the Commission's original and final budget amounts compared with actual revenues and expenses is provided in the statement of revenues, expenditures and changes in fund balance - budget and actual.

The *statement of revenues, expenditures and changes in fund balance - budget and actual* can be found on page 12 of this report.

**Capital Assets and Long-Term Debt**

**Capital Assets**

The Commission does not own any significant capital assets.

**Long-Term Debt**

At year end, the Commission had \$123,644 in long-term debt, consisting of net pension liability. More detailed information about the Commission's debt is presented in the notes to the financial statements.

**Economic Outlook and Major Initiatives**

The uncertainty of federal and state funding can have a profound impact on the financial health of the Commission. Although no changes are currently anticipated, the federal and the state governments could implement budget cuts.

**Requests for Information**

This financial report is designed to provide our citizens, taxpayers, parents, participants, investors and creditors with a general overview of the Commission's finances and to demonstrate the Commission's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact: Amanda Hoy, Executive Director, Modoc County Children and Families Commission, 802 North East St. Room 103, Alturas, CA 96101.

Modoc County Children and Families Commission  
(A Component Unit of Modoc County)  
STATEMENT OF NET POSITION  
June 30, 2017

|   | Governmental<br>Activities |
|---|----------------------------|
| <u>ASSETS</u>                           |                            |
| Cash and investments in County Treasury | \$ 379,931                 |
| Intergovernmental receivable, net       | 67,997                     |
| Interest receivable, net                | 1,034                      |
| Total assets                            | 448,962                    |
| <u>DEFERRED OUTFLOWS OF RESOURCES</u>   |                            |
| Deferred outflows of resources          | 42,168                     |
| Total deferred outflows of resources    | 42,168                     |
| <u>LIABILITIES</u>                      |                            |
| Accounts payable                        | 73,496                     |
| Compensated absences, current portion   | 10,126                     |
| Long-term liabilities:                  |                            |
| Net pension liability                   | 123,644                    |
| Total liabilities                       | 207,266                    |
| <u>DEFERRED INFLOWS OF RESOURCES</u>    |                            |
| Deferred inflows of resources           | 14,554                     |
| Total deferred inflows of resources     | 14,554                     |
| <u>NET POSITION</u>                     |                            |
| Restricted                              | 269,310                    |
| Total net position                      | \$ 269,310                 |

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

Modoc County Children and Families Commission  
(A Component Unit of Modoc County)  
STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2017

|                                       | <u>Governmental<br/>Activities</u> |
|---------------------------------------|------------------------------------|
| Program expenses:                     |                                    |
| Salaries and benefits                 | \$ 64,602                          |
| Pension adjustment                    | (27,888)                           |
| Program contractors                   | 202,135                            |
| Insurance                             | 1,317                              |
| Memberships                           | 2,875                              |
| Office expenses                       | 5,969                              |
| Professional and specialized services | 7,400                              |
| Transportation and travel             | 64                                 |
| Other                                 | 816                                |
| Total program expenses                | <u>257,290</u>                     |
| Program revenues:                     |                                    |
| Operating grants and contributions:   |                                    |
| Tobacco tax                           | 57,788                             |
| Small county augmentation             | <u>242,212</u>                     |
| Total program revenues                | <u>300,000</u>                     |
| Net program revenues (expenses)       | <u>42,710</u>                      |
| General revenues:                     |                                    |
| Interest and other income             | <u>3,356</u>                       |
| Total general revenues                | <u>3,356</u>                       |
| Change in net position                | 46,066                             |
| Net position, beginning of period     | <u>223,244</u>                     |
| Net position, end of period           | <u><u>\$ 269,310</u></u>           |

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

Modoc County Children and Families Commission  
(A Component Unit of Modoc County)  
GOVERNMENTAL FUNDS BALANCE SHEET  
June 30, 2017

|  | <u>General<br/>Fund</u> |
|--|-------------------------|
| <u>ASSETS</u>                            |                         |
| Cash and investments in County Treasury  | \$ 379,931              |
| Intergovernmental receivable, net        | 67,997                  |
| Interest receivable, net                 | <u>1,034</u>            |
| Total assets                             | <u>\$ 448,962</u>       |
| <br><u>LIABILITIES AND FUND BALANCES</u> |                         |
| Liabilities:                             |                         |
| Accounts payable                         | \$ 73,496               |
| Compensated absences, current portion    | 10,126                  |
| Total liabilities                        | <u>83,622</u>           |
| Fund balances:                           |                         |
| Restricted                               | 202,973                 |
| Committed                                | <u>162,367</u>          |
| Total fund balances                      | <u>365,340</u>          |
| Total liabilities and fund balances      | <u>\$ 448,962</u>       |

**Reconciliation of the Governmental Funds Balance Sheet with the Governmental Activities Statement of Net Position:**

|   |                   |
|---|-------------------|
| Total Governmental Funds Fund Balances  | \$ 365,340        |
| Amounts reported in the Statement of Net Position are different because:  |                   |
| Long-term assets are not available to pay for current period expenditures, and long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund: |                   |
| Deferred outflows of resources  | 42,168            |
| Net pension liability   | (123,644)         |
| Deferred inflows of resources   | <u>(14,554)</u>   |
| Net Position of Governmental Activities   | <u>\$ 269,310</u> |

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

Modoc County Children and Families Commission  
(A Component Unit of Modoc County)  
GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES  
For the Year Ended June 30, 2017

|  | General<br>Fund |
|--|-----------------|
| Revenues:                                    |                 |
| Tobacco tax                                  | \$ 57,788       |
| Small county augmentation                    | 242,212         |
| Interest and other income                    | 3,356           |
| Total revenues                               | 303,356         |
| Expenditures:                                |                 |
| Program expenditures                         | 202,135         |
| Administrative expenditures                  | 67,837          |
| Evaluation expenditures                      | 14,390          |
| Total expenditures                           | 284,362         |
| Excess of revenues over (under) expenditures | 18,994          |
| Fund balance, beginning of period            | 346,346         |
| Fund balance, end of period                  | \$ 365,340      |

**Reconciliation of the Net Change in Fund Balances with the Change in Net Position of Governmental Activities:**

|   |           |
|---|-----------|
| Net Change in Fund Balances   | \$ 18,994 |
| Amounts reported in the Statement of Activities are different because:  |           |
| Change in long-term portion of assets and liabilities do not provide or require the use of current financial resources and therefore are not reported in the governmental fund: |           |
| Change in deferred outflows of resources  | 33,342    |
| Change in net pension liability   | 3,365     |
| Change in deferred inflows of resources   | (8,819)   |
| Actuarially determined pension expense is not reported in the funds   | (816)     |
| Change in Net Position of Governmental Activities   | \$ 46,066 |

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

Modoc County Children and Families Commission  
(A Component Unit of Modoc County)  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES  
Budget and Actual  
For the Year Ended June 30, 2017

|   | General Fund       |                    |                                |                                  |
|---|--------------------|--------------------|--------------------------------|----------------------------------|
|   | Original<br>Budget | Final<br>Budget    | Actual<br>(Budgetary<br>Basis) | Variance<br>with Final<br>Budget |
| Revenues:                                       |                    |                    |                                |                                  |
| Tobacco tax                                     | \$ 57,788          | \$ 57,788          | \$ 57,788                      | \$ -                             |
| Small county augmentation                       | 242,212            | 242,212            | 242,212                        | -                                |
| Interest and other income                       | -                  | 2,322              | 3,356                          | 1,034                            |
| Total revenues                                  | <u>300,000</u>     | <u>302,322</u>     | <u>303,356</u>                 | <u>1,034</u>                     |
| Expenditures:                                   |                    |                    |                                |                                  |
| Salaries and benefits                           | 87,918             | 88,692             | 64,602                         | 24,090                           |
| Program contractors                             | 233,017            | 247,031            | 202,135                        | 44,896                           |
| Insurance                                       | 2,000              | 2,000              | 1,317                          | 683                              |
| Maintenance of equipment                        | 100                | 100                | -                              | 100                              |
| Memberships                                     | 2,875              | 2,875              | 2,875                          | -                                |
| Office expenses                                 | 7,064              | 6,290              | 5,969                          | 321                              |
| Professional and specialized services           | 7,600              | 7,600              | 7,400                          | 200                              |
| Departmental expense projects                   | 100                | 100                | -                              | 100                              |
| Transportation and travel                       | 400                | 400                | 64                             | 336                              |
| Total expenditures                              | <u>341,074</u>     | <u>355,088</u>     | <u>284,362</u>                 | <u>70,726</u>                    |
| Excess of revenues over (under)<br>expenditures | <u>\$ (41,074)</u> | <u>\$ (52,766)</u> | 18,994                         | <u>\$ 71,760</u>                 |
| Fund balance, beginning of period               |                    |                    | <u>346,346</u>                 |                                  |
| Fund balance, end of period                     |                    |                    | <u>\$ 365,340</u>              |                                  |

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

Modoc County Children and Families Commission  
(A Component Unit of Modoc County)  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2017

NOTE 1 - GENERAL

The Modoc County Children and Families Commission (the Commission), a component unit of Modoc County accounts for its financial transactions in accordance with accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

The Commission was established by Ordinance 321 developed by the Modoc County Board of Supervisors. The Board of Supervisors may appoint a majority of the Commission's governing body and the Commissioners serve at the pleasure of the Board of Supervisors and may be removed at will. The Board of Supervisors also has the authority to terminate the program under Health and Safety Code Section 130140.1. Based on these facts, the Commission is a component unit of Modoc County as defined in GASB Statements No. 14 and 39. The Board of Supervisors can impose its will by removing Commissioners and may exercise financial control by terminating the program.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Measurement Focus, Basis of Accounting, & Financial Statement Presentation

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) 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 the related cash flows. Nonexchange transactions, in which the Commission gives (or receives) value without directly receiving (or giving) equal value in exchange, include county assessments, grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. When both restricted and unrestricted net position is available, restricted resources are generally depleted first before the unrestricted resources are used.

The Statement of Net Position presents the Commission's financial position in a net position approach. The Statement of Activities reports the change in net position in a net program cost format to demonstrate the degree to which the expenses of the Commission are offset by its program revenues. The Commission has no business-type activities.

The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The statement of net financial position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

Modoc County Children and Families Commission  
(A Component Unit of Modoc County)  
NOTES TO BASIC FINANCIAL STATEMENTS  
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

A. Measurement Focus, Basis of Accounting, & Financial Statement Presentation (concluded)

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Commission's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The Commission does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Governmental fund financial statements, presented after the government-wide financial statements, are reported using the *current financial resources measurement focus* and the *modified accrual* basis of accounting. With this measurement focus, only current assets and current liabilities are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in current assets. Revenues are recognized as soon as they are both measurable and available. "Measurable" means that the amount of the transaction can be determined. 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. Revenues from reimbursement type programs are considered to be *available* when they are collectible within sixty days of the end of the current fiscal period in order to properly match revenues with related expenditures. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as non-major funds, regardless of their fund type. Major funds are those that have assets, liabilities, revenue or expenditures equal to ten percent of their fund-type total. The General Fund is always a major fund. The Commission may also select other funds it believes should be presented as major funds.

The Commission reports the following major governmental fund types: the General Fund is the Commission's primary operating fund. It is used to account for all activities, except those required to be accounted for in another fund.

B. Program Revenues

Program revenues in the financial statements include tobacco tax, small county augmentation funds and other funding from First 5 California.

Modoc County Children and Families Commission  
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Net Position

The government-wide financial statements utilize a net position presentation. Net position is categorized as invested in capital assets (net of related debt), restricted and unrestricted.

Invested in Capital Assets, Net of Related Debt - This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

Restricted Net Position - This category presents external restrictions imposed by creditors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position - This category represents net position of the Commission not restricted for any project or other purpose.

D. 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 recognized deferred outflows and inflows of resources.

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period and will not be recognized as an outflow of resources (expense/expenditure) until then. The Commission has one such item which is reported in note 7.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the government that is applicable to a future reporting period and will not be recognized as an inflow of resources (revenue) until then. The Commission has one such item which is reported in note 7.

E. Use of Estimates

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

Modoc County Children and Families Commission  
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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Budgetary Information

The Commission adopted a budget consistent with the modified accrual basis of accounting used in governmental funds, which can be amended by the Commission throughout the year. The basis used to prepare the budget is the same as the basis used to reflect actual revenues and expenditures, except deferred outflows of resources, net pension liability and deferred inflows of resources are not included in the budget.

G. Risk Management

The Commission is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission has managed these risks by obtaining coverage from commercial insurance companies as well as providing employee education and prevention programs. All risk management activities are accounted for in the General Fund. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported are considered.

The Commission estimates that the amount of actual or potential claims against the Commission as of June 30, 2017 will not materially affect the financial condition of the Commission. Therefore, the General Fund contains no provision for estimated claims. Information relating to an analysis of claims activities for the year was not available.

H. Commitments and Contingencies

Litigation

The Commission is not currently involved in any litigation. In the opinion of management and legal counsel, the disposition of any litigation pending will not have a material effect on the financial statements.

State Allowances, Awards, and Grants

The Commission has received State funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursements will not be material.

I. Economic Dependency

The Commission has a significant economic dependency on tobacco tax allocations from the State, as these allocations represent a substantial portion of the Commission's revenue. During the year ended June 30, 2017, the Commission received \$300,000, which amounts to 99% of total revenue for the year. The Commission's ability to continue operations depends primarily on the continuance of this funding source. Tobacco tax allocations from the State do not have a termination date but are vulnerable to changes in legislation.

Modoc County Children and Families Commission  
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June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

J. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Capital Assets

The Commission does not report any fixed assets in its financial statements. The Commission's property consists of office furniture and equipment, which does not meet the Commission's capitalization threshold of \$5,000 in the government wide financial statements.

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Commission's pension plan and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

K. Subsequent Events

In preparing these basic financial statements, the Commission has evaluated events and transactions for potential recognition or disclosure through October 10, 2017, the date the basic financial statements were available to be issued.

L. Implementation of Governmental Accounting Standards Board (GASB) Statements

GASB Statement No. 82 – Pension Issues

In March 2016, the GASB issued GASB Statement No. 82, *Pension Issues – an amendment of Statements No. 67, No. 68, and No. 73*. This Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting for Financial Reporting for Pensions*, and No. 73, *Accounting for Financial Reporting for Pensions and Related Assets That Are Not within the Scope of Statement 68, and Amendments to Certain Provisions of Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement is effective for the Commission's fiscal year ending June 30, 2017.

NOTE 3 - CASH AND INVESTMENTS IN COUNTY TREASURY

Cash and Investments in County Treasury

The Commission's investments are carried at fair value instead of cost, as required by U.S. generally accepted accounting principles. The Commission adjusts the carrying value of its investments, if material, to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year. At June 30, 2017, the difference between book value and fair value was immaterial and is not reflected in the value of the Commission's investments.

Modoc County Children and Families Commission  
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NOTE 3 - CASH AND INVESTMENTS IN COUNTY TREASURY (continued)

The Commission maintains its cash in the County Treasury. Funds are pooled with those of other agencies and invested. These pooled funds are carried at cost, which closely approximates fair market value as determined by the pooled fund manager. Therefore, no adjustment has been made to reflect the current market value in the financial statements. Assumptions made in determining the fair value of the pooled investment portfolios are available from the Modoc County Treasurer. Interest earned is deposited into participating funds. Any investment losses are proportionately shared by all funds in the pool.

The Commission is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq.

The fair value of cash and investments of the Commission's investment in the County Pool is reported in the accompanying financial statements at amounts based upon the Commission's pro-rated share of the fair value provided by the Treasurer for the County Pool portfolio. The Commission's cash and investments in the pool totaled \$379,931 as of June 30, 2017.

Fair Value of Investments

The Commission categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Commission has the following recurring fair value measurements as of June 30, 2017:

|   |                   |
|---|-------------------|
| Modoc County Investment Pool (Level 2 inputs) | \$ <u>379,931</u> |
|---|-------------------|

Investment Policy

The California Government Code §53601, et. seq. provide legal authorization for the investment and deposit of funds of local agencies, and §53635 provides additional authority for counties. Modoc County shall conform to, and comply with, the restrictions of all applicable laws. In addition, further requirements shall be established taking into consideration prudent investment standards.

Investment Objectives

The Pooled Investment Fund shall be prudently invested in order to earn a reasonable return, while awaiting application for government purposes. The specific objectives for the Pooled Investment Fund are ranked in order of importance.

**Safety of Principal** - the preservation of principal is the primary objective. Each transaction shall seek to ensure that capital losses are avoided, whether they are from securities default, broker-dealer default or erosion of market value. Care shall be taken to preserve principal by mitigating the two types of risk, credit risk and market risk.

- Credit Risk is defined as the risk of loss due to failure of the issuer of a security, shall be mitigated by investment in investment grade securities and by diversifying the investment portfolio so that the failure of any one issuer would not unduly harm the County's capital base and cash flow.

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NOTE 3 - CASH AND INVESTMENTS IN COUNTY TREASURY (continued)

- Market Rate Risk is defined as market value fluctuations due to overall changes in the general level of interest rates, shall be mitigated by structuring the portfolio based on historic and current cash flow analysis eliminating the need to sell securities prior to maturity, and avoiding the purchase of long term securities for the sole purpose of short term speculation.

**Liquidity of Investments** - the Pooled Investment Fund should remain sufficiently flexible to enable the County to meet all reasonable anticipated operating requirements. Historic cash flow trends are compared to current cash flow requirements on an ongoing basis.

**Yield** - the Pooled Investment Fund should be designed to attain an optimum rate of return, consistent with the risk limitations, prudent investment principles and cash flow restraints of the County.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the County Pool's investment in a single issuer of securities. For each authorized investment type, state law restricts the maximum percentages allowed in the portfolio and per issuer. As of June 30, 2017, the investment pool has five percent or more of its total investments with the following issuers: 29.14% in Medium Term Corporate Notes, 26.2% in Liquid Assets, 18.6% in Certificates of Deposit – Negotiable, 8.3% in CalTrust, and 8.0% in U.S. Agencies.

The Commission maintains its cash in the Modoc County Treasury, which is not insured or collateralized. As of June 30, 2017 and continuing through the date of issuance of these financial statements, the total amount of pooled funds invested by all agencies in the Modoc County Treasury exceeds the amount of cash available. This is a result of a significant deficit balance in Modoc County's portion of the pooled cash in the County Treasury due to negative cash balances in some County of Modoc funds. The County has been able to provide all funds requested by the Commission and is in the process of rectifying the situation. However, as long as cash is not available for all pooled fund balances in the County Treasury, the Commission is at risk for not being able to recover its deposits. The total amount of Cash in County Treasury as of June 30, 2017 was \$379,931.

Authorized Investments of the County Pool

The County's Investment Policy and the California Government Code allow the County Pool to invest in the following, provided the credit ratings of the issuers are acceptable to the County Pool. The following also identifies certain requirements of the County Pool and California Government Code that address interest rate risk, credit risk, and concentrations of credit risk.

Modoc County Children and Families Commission  
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NOTE 3 - CASH AND INVESTMENTS IN COUNTY TREASURY (concluded)

| <u>Authorized Investment Type</u>                                   | <u>Limit Per Institution</u> | <u>Limit Per Type of Investment</u> | <u>Maximum Allowable Maturity</u> |
|---|------------------------------|-------------------------------------|-----------------------------------|
| Treasuries  |                              | 100%                                | 5 years                           |
| Agencies:   |                              |                                     |                                   |
| Governmental National Mortgage Assn.                                |                              | 50%                                 | 5 years                           |
| Federal Farm Credit System  |                              | 50%                                 | 5 years                           |
| Federal Home Loan Bank  |                              | 50%                                 | 5 years                           |
| Federal Home Loan Mortgage Corporation                              |                              | 50%                                 | 5 years                           |
| Federal National Mortgage Association                               |                              | 50%                                 | 5 years                           |
| Tennessee Valley Authority  |                              | 50%                                 | 5 years                           |
| Student Loan Marketing Association                                  |                              | 50%                                 | 5 years                           |
| Municipal Debt Issues   | 5%                           | 30%                                 | 5 years                           |
| Medium Term Corporate Notes   | 10%                          | 30%                                 | 5 years                           |
| Negotiable Certificate of Deposit                                   | 10%                          | 20%                                 | 5 years                           |
| Time Certificates of Deposits                                       | 15%                          | 40%                                 | 5 years                           |
| Bankers Acceptances   | 15%                          | 40%                                 | 180 days                          |
| Commercial Paper  | 10%                          | 40%                                 | 270 days                          |
| Repurchase Agreements:  |                              |                                     |                                   |
| Less than 30 days   | 20%                          | 30%                                 | 30 days                           |
| Greater than 30 days  | 10%                          | 30%                                 | 365 days                          |
| Shares of Beneficial Interest                                       |                              |                                     |                                   |
| Mutual & Money Market Funds   | 10%                          | 20%                                 | N/A                               |
| Community Local Agency Special Sweep (CLAS\$) Account – Plumas Bank | 50%                          | 50%                                 | N/A                               |
| Local Agency Investment Fund (LAIF)                                 | 100%                         | 100%                                | N/A                               |
| CalTrust Short Term Fund  | 50%                          | 50%                                 | N/A                               |
| CalTrust Medium Term Fund   | 100%                         | 50%                                 | N/A                               |

At June 30, 2017, the County Pool was invested in the following securities:

| <u>Investment Type</u>             | <u>Interest Rate</u> | <u>Maturities</u> | <u>Maturity Range</u> |
|------------------------------------|----------------------|-------------------|-----------------------|
| Asset Backed Security              | 1.36%-1.47%          | 7/22/19-4/15/20   | 2-3 years             |
| CalTrust                           | 0.00%                | N/A               | 0-1 month             |
| Certificates of Deposit Negotiable | 1.10%-2.40%          | 5/18/18-5/17/22   | 9 months-5 years      |
| Commercial Paper                   | 0.00%                | 7/7/17            | 0-1 month             |
| Liquid Assets                      | 0.00%                | N/A               | 0-1 month             |
| Medium Term Corporate Notes        | 1.13%-2.55%          | 10/5/17-3/1/21    | 3 months-4 years      |
| Money Market Mutual Funds          | 0.00%                | N/A               | 0-1 month             |
| Supranationals                     | 1.13%-1.63%          | 5/12/20-7/20/21   | 2-5 years             |
| U.S. Agencies                      | 0.75%-1.75%          | 7/28/17-2/26/21   | 0 months-4 years      |
| U.S. Treasuries                    | 0.63%-1.50%          | 10/31/17-10/31/19 | 3 months-3 years      |

Modoc County Children and Families Commission  
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NOTE 4 - INTERGOVERNMENTAL RECEIVABLE

Intergovernmental receivable represents revenues that were received after the fiscal year June 30, 2017:

|                           |    |                      |
|---------------------------|----|----------------------|
| Tobacco tax - May         | \$ | 2,050                |
| Tobacco tax - June        |    | 3,604                |
| Small county augmentation |    | <u>62,343</u>        |
| Total                     | \$ | <u><u>67,997</u></u> |

NOTE 5 - ACCOUNTS PAYABLE

Accounts payable is comprised of funding due to grantees at the fiscal year ended June 30, 2017:

|                         |    |               |
|-------------------------|----|---------------|
| Funding due to grantees | \$ | <u>73,496</u> |
|-------------------------|----|---------------|

NOTE 6 - COMPENSATED ABSENCES

The Commission accrues for compensated absences in the government-wide financial statements to pay its employees for unused vacation, compensatory, and sick time. Unused vacation and compensatory time are cashed out upon separation. Unused sick time is cashed out upon retirement.

The changes in the compensated absences balance for the fiscal year ended June 30, 2017 were as follows:

|                             |    |                      |
|-----------------------------|----|----------------------|
| Balance – beginning of year | \$ | 13,146               |
| Additions                   |    | 7,744                |
| Retirements                 |    | <u>(10,764)</u>      |
| Balance – end of year       | \$ | <u><u>10,126</u></u> |
| Due within a year           | \$ | <u><u>10,126</u></u> |

NOTE 7 - EMPLOYEES' RETIREMENT PLAN

Plan Description

*General.* The Commission, as the employer, participates in the agent multiple-employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members, and beneficiaries. A full description of the pension plan benefit provisions and assumptions for funding purposes can be obtained in CalPERS' annual financial report from their Executive Office – P.O. Box 942704, Sacramento, CA 94229-2704.

Modoc County Children and Families Commission  
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NOTE 7 - EMPLOYEES' RETIREMENT PLAN (continued)

*Contributions.* The contribution requirements of the Plan are established by Section 20814(c) of the California Public Employees' Retirement Law, which requires that employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by the employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement period ended June 30, 2016 the average active employee contribution rate was 7.00% of annual pay, and the Commission's contribution rate was 15.90%. Contributions to the pension plan from the Commission were \$9,375 for the year ended June 30, 2017.

For the fiscal year ended June 30, 2017, the contributions recognized as part of pension expense for the plan were as follows:

|                          |          |
|--------------------------|----------|
| Contributions – employer | \$ 9,375 |
| Contributions – employee | 3,754    |

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

As of June 30, 2017, the Commission reported \$123,644 of net pension liabilities for its proportionate share of the net pension liability. The net pension liability of the plan is measured as of June 30, 2016, and the total pension liability for the plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016. The Commission's proportion of the net pension liability was based on the Commission's contributions received by the pension plan relative to the total contributions received by the pension plan for all participating employees of Modoc County as of June 30, 2016. Based upon this information, the Commission's proportionate share of the net pension liability was 0.64% as of June 30, 2016, which was a decrease of 0.38% from its share measured as of June 30, 2015.

For the year ended June 30, 2017, the Commission recognized pension adjustment of -\$27,888. At June 30, 2017, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|  | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
|--|--------------------------------------|-------------------------------------|
| Differences between actual and expected pension experience               | \$ -                                 | \$ 911                              |
| Changes in pension-related assumptions                                   | -                                    | 358                                 |
| Differences between projected and actual earnings on pension investments | 32,793                               | 13,285                              |
| Pension contributions subsequent to measurement date                     | 9,375                                | -                                   |
| Total  | \$ 42,168                            | \$ 14,554                           |

Modoc County Children and Families Commission  
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NOTE 7 - EMPLOYEES' RETIREMENT PLAN (continued)

The Commission reported \$10,578 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

| <u>Fiscal Year Ended</u> |          |
|--------------------------|----------|
| 6/30/18                  | \$ 1,352 |
| 6/30/19                  | 2,483    |
| 6/30/20                  | 9,195    |
| 6/30/21                  | 5,209    |
| 6/30/22                  | -        |
| Thereafter               | -        |

The total pension liabilities in the June 30, 2016 actuarial valuation were determined using the information below.

Actuarial Methods and Assumptions:

|                            |   |
|----------------------------|---|
| Valuation Date             | June 30, 2016   |
| Actuarial Cost Method      | Entry Age Normal  |
| Amortization Method/Period | June 30, 2013 Funding Valuation Report  |
| Asset Valuation Method     | Market Value of Assets  |
| Actuarial Assumptions:     |   |
| Inflation                  | 2.75%   |
| Salary Increases           | Varies by Entry Age and Service   |
| Payroll Growth             | 3.00%   |
| Investment Rate of Return  | 7.50 Net of Pension Plan Investment and Administrative Expenses; includes Inflation.  |
| Retirement Age             | The probabilities of Retirement are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007.  |
| Mortality                  | The probabilities of mortality are based on the 2010 CalPERS Experience Study for the period from 1997 to 2007. Pre-retirement and Post-retirement mortality rates include 5 years of projected mortality improvement using Scale AA published by the Society of Actuaries. |

The actuarial assumptions used to determine the liabilities for the June 30, 2016 valuation are based on the results of the actuarial experience study for the period ending June 30, 2013.

Modoc County Children and Families Commission  
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NOTE 7 - EMPLOYEES' RETIREMENT PLAN (concluded)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. These geometric rates of return are net of administrative expenses.

| <u>Asset Class</u>            | <u>New Strategic<br/>Allocation</u> | Real Return Years 1-10<br>(expected inflation of<br>2.5%) | Real Return Years 11+<br>(expected inflation of<br>3.0%) |
|-------------------------------|-------------------------------------|---|--|
| Global Equity                 | 47.0%                               | 5.25%   | 5.71%  |
| Global Fixed Income           | 19.0%                               | 0.99%   | 2.43%  |
| Inflation Sensitive           | 6.0%                                | 0.45%   | 3.36%  |
| Private Equity                | 12.0%                               | 6.83%   | 6.95%  |
| Real Estate                   | 11.0%                               | 4.50%   | 5.13%  |
| Infrastructure and Forestland | 3.0%                                | 4.50%   | 5.09%  |
| Liquidity                     | 2.0%                                | -0.55%  | -1.05%   |

Discount Rate

The discount rate used to measure the total pension liability was 7.50 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.50 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.50 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

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

The following presents the Commission's proportionate share of the net pension liability of CalPERS, calculated using the discount rate for CalPERS, as well as what the Commission's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

|                       | Discount Rate<br>- 1% (6.50%) | Current<br>Discount Rate<br>(7.50%) | Discount Rate<br>+ 1% (8.50%) |
|-----------------------|-------------------------------|-------------------------------------|-------------------------------|
| Net pension liability | \$ 180,946                    | \$ 123,644                          | \$ 75,693                     |

Pension Plan Fiduciary Net Position

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

Modoc County Children and Families Commission  
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NOTE 8 - FUND BALANCE

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the Commission is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. The Commission's fund balances were comprised of the following:

Nonspendable Fund Balance - amounts that are not in nonspendable form (such as inventory) or are required to be maintained intact.

Restricted Fund Balance - includes amounts that can be spent only for specific purposes stipulated by external resources providers (such as granters, bondholders, and higher levels of government), constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of the resource provider.

Committed Fund Balance - includes amounts that can only be used for specific purposes determined by a formal action of the Commission's highest level decision-making authority (i.e., Commission Board), the First 5 Commission. Commitments may be changed or lifted only by the Commission taking the same formal action that originally imposed the constraint.

Assigned Fund Balance - comprises amounts intended to be used by the Commission for specific purposes that are neither restricted nor committed. Intent is expressed by (1) First 5's Commission or (2) a body (for example: a budget or finance committee) or official to which First 5's Commission has delegated the authority to assign amounts to be used for specific purposes. The Commission has chosen not to delegate this authority.

Unassigned Fund Balance - 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 resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as obligated for future contracts). Assigned fund balance is established by Commission Board through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

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 Commission Board has provided otherwise in its commitment or assignment actions.

Modoc County Children and Families Commission  
(A Component Unit of Modoc County)  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2017

NOTE 8 - FUND BALANCE (concluded)

At fiscal year-end, fund balance reported on the Statement of Revenues, Expenditures and Changes in Fund Balance includes:

|                              |    |                       |
|------------------------------|----|-----------------------|
| Restricted:                  |    |                       |
| Executed grants              | \$ | 202,973               |
| Committed:                   |    |                       |
| Reserved for entitlements    |    | 106,627               |
| Designated for contingencies |    | <u>55,740</u>         |
| Total fund balance           | \$ | <u><u>365,340</u></u> |

NOTE 9 - EXECUTED GRANTS

The Commission's executed grants as of June 30, 2017 were as follows:

|   |    |                       |
|---|----|-----------------------|
| Modoc County Public Health (Healthy Beginnings) | \$ | 31,380                |
| Modoc Office of Education                       |    | 107,256               |
| Surprise Valley Joint Unified School District   |    | 44,000                |
| TEACH, Inc.                                     |    | <u>20,337</u>         |
| Total   | \$ | <u><u>202,973</u></u> |

NOTE 10 - PROGRAM EXPENDITURES

Program expenditures for the year ended June 30, 2017 include:

|   |    |                       |
|---|----|-----------------------|
| Modoc County Public Health (Healthy Beginnings) | \$ | 49,201                |
| Modoc County Public Health (Oral Health)        |    | 9,700                 |
| Modoc Office of Education                       |    | 79,175                |
| Surprise Valley Joint Unified School District   |    | 22,779                |
| TEACH, Inc.                                     |    | 21,271                |
| Other   |    | <u>20,009</u>         |
| Total   | \$ | <u><u>202,135</u></u> |

NOTE 11 - PROGRAM EVALUATION

The Commission spent \$14,390 on program evaluation during the fiscal year ended June 30, 2017.

**REQUIRED SUPPLEMENTARY INFORMATION**

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

For the Year Ended June 30, 2017

|   | <u>2017</u> |
|---|-------------|
| Commission's proportion of the collective net pension liability (asset)                                     | 0.64%       |
| Commission's proportionate share of the collective net pension liability (asset)                            | \$ 123,644  |
| Commission's covered-employee payroll* (2016)   | \$ 55,199   |
| Commission's proportionate share of the collective net pension liability as a percentage of covered payroll | 224.00%     |
| Plan fiduciary net position as a percentage of the total pension liability                                  | 74.42%      |
|   | <u>2016</u> |
| Commission's proportion of the collective net pension liability (asset)                                     | 1.02%       |
| Commission's proportionate share of the collective net pension liability (asset)                            | \$ 127,009  |
| Commission's covered-employee payroll* (2015)   | \$ 56,731   |
| Commission's proportionate share of the collective net pension liability as a percentage of covered payroll | 223.88%     |
| Plan fiduciary net position as a percentage of the total pension liability                                  | 79.43%      |
|   | <u>2015</u> |
| Commission's proportion of the collective net pension liability (asset)                                     | 0.83%       |
| Commission's proportionate share of the collective net pension liability (asset)                            | \$ 100,888  |
| Commission's covered-employee payroll* (2014)   | \$ 61,566   |
| Commission's proportionate share of the collective net pension liability as a percentage of covered payroll | 163.87%     |
| Plan fiduciary net position as a percentage of the total pension liability                                  | 81.82%      |

The schedules present information to illustrate changes in the Commission's proportionate share of the net pension liability over a ten year period when the information is available.

\*In accordance with Statement No. 82 of the GASB, Covered Employee Payroll is the payroll on which contributions are based. Thus, these amounts may be different than shown in fiscal year ended 2016 and earlier reports.

**REQUIRED SUPPLEMENTARY INFORMATION**  
SCHEDULE OF THE COMMISSION'S CONTRIBUTIONS - PENSION PLAN  
For the Year Ended June 30, 2017

|  | <u>2017</u>     |
|--|-----------------|
| Contractually required contribution                                  | \$ 8,782        |
| Contributions in relation to the contractually required contribution | <u>9,375</u>    |
| Contribution deficiency (excess)                                     | <u>\$ (593)</u> |
| Covered payroll*   | \$ 55,235       |
| Contributions as a percentage of covered payroll                     | 16.97%          |
|  | <u>2016</u>     |
| Contractually required contribution                                  | \$ 8,777        |
| Contributions in relation to the contractually required contribution | <u>8,826</u>    |
| Contribution deficiency (excess)                                     | <u>\$ (49)</u>  |
| Covered payroll*   | \$ 55,199       |
| Contributions as a percentage of covered payroll                     | 15.99%          |
|  | <u>2015</u>     |
| Contractually required contribution                                  | \$ 8,057        |
| Contributions in relation to the contractually required contribution | <u>8,057</u>    |
| Contribution deficiency (excess)                                     | <u>\$ (0)</u>   |
| Covered payroll*   | \$ 56,731       |
| Contributions as a percentage of covered payroll                     | 14.20%          |
|  | <u>2014</u>     |
| Contractually required contribution                                  | \$ 7,578        |
| Contributions in relation to the contractually required contribution | <u>7,578</u>    |
| Contribution deficiency (excess)                                     | <u>\$ (0)</u>   |
| Covered payroll*   | \$ 61,566       |
| Contributions as a percentage of covered payroll                     | 12.31%          |

The schedules present information to illustrate changes in the Commission's contributions over a ten year period when the information is available.

\*In accordance with Statement No. 82 of the GASB, Covered Employee Payroll is the payroll on which contributions are based. Thus, these amounts may be different than shown in fiscal year ended 2016 and earlier reports.

Modoc County Children and Families Commission  
(A Component Unit of Modoc County)

Schedule 3

**OTHER SUPPLEMENTARY INFORMATION**  
SUPPLEMENTAL SCHEDULE OF FIRST 5 CALIFORNIA (F5CA) FUNDING  
For the Year Ended June 30, 2017

| Program/Project Title                          |                     | Beginning<br>Program/<br>Project<br>Balance<br>(As of July 1) | Revenue           | Expenditures      | Ending<br>Program/<br>Project<br>Balance<br>(As of June 30) |
|--|---------------------|---|-------------------|-------------------|---|
| CARES Plus Round 2, Program                    | F5CA Funds          | \$ -  | \$ -              | \$ -              | \$ -  |
| CARES Plus Round 2, Program                    | County, Local Funds | -   | -                 | -                 | -   |
| CARES Plus Round 2, Coordination               | F5CA Funds          | -   | -                 | -                 | -   |
| CSP 1, Coordination                            | F5CA Funds          | -   | -                 | -                 | -   |
| CSP 1, Program                                 | F5CA Funds          | -   | -                 | -                 | -   |
| CSP 1, Program                                 | County, Local Funds | -   | -                 | -                 | -   |
| CSP 2  | F5CA Funds          | -   | -                 | -                 | -   |
| CSP 3  | F5CA Funds          | -   | -                 | -                 | -   |
| CSP 3  | County, Local Funds | -   | -                 | -                 | -   |
| Proposition 10 LAA (Small County Augmentation) | F5CA Funds          | -   | 242,212           | 242,212           | -   |
| Other (List)                                   | F5CA Funds          | -   | -                 | -                 | -   |
| Total F5CA Funds                               |                     | <u>\$ -</u>   | <u>\$ 242,212</u> | <u>\$ 242,212</u> | <u>\$ -</u>   |
| Total County Funds                             |                     | <u>\$ -</u>   | <u>\$ -</u>       | <u>\$ -</u>       | <u>\$ -</u>   |

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

Board of Commissioners  
Modoc County Children and Families Commission  
Alturas, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and the major fund of Modoc County Children and Families Commission, a component unit of Modoc County, California, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Modoc County Children and Families Commission's basic financial statements as listed in the table of contents, and have issued our report thereon dated October 10, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Modoc County Children and Families 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Modoc County Children and Families Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of Modoc County Children and Families Commission's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Modoc County Children and Families 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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

*R.J. Ricciardi, Inc.*

R.J. Ricciardi, Inc.  
Certified Public Accountants

San Rafael, California  
October 10, 2017

INDEPENDENT AUDITORS' REPORT ON  
STATE COMPLIANCE

Board of Commissioners  
Modoc County Children and Families Commission  
Alturas, California

Compliance

We have audited Modoc County Children and Families Commission's 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 Modoc County Children and Families Commission's statutory requirements identified below for the year ended June 30, 2017.

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 Modoc County Children and Families 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 occurred. An audit includes examining, on a test basis, evidence about Modoc County Children and Families 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 Modoc County Children and Families Commission's compliance with those requirements. In connection with the audit referred to above, we selected and tested transactions and records to determine Modoc County Children and Families Commission's compliance with the state laws and regulations applicable to the following items:

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

Opinion

In our opinion, Modoc County 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, 2017.

Purpose of this Report

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

*R.J. Ricciardi, Inc.*

R.J. Ricciardi, Inc.  
Certified Public Accountants

San Rafael, California  
October 10, 2017

Modoc County Children and Families Commission  
(A Component Unit of Modoc County)  
SCHEDULE OF FINDINGS AND RESPONSES  
June 30, 2017

**EXECUTIVE SUMMARY**

The Families First Initiative of 1998 (Prop 10), was approved by the voters of the State of California on November 10, 1998. In order to carry out the requirements of the Initiative, the Modoc County Board of Supervisors adopted an ordinance establishing the Modoc County Children and Families Commission (the Commission), a component unit of Modoc County. The Commission is responsible for the creation and implementation of a comprehensive, collaborative and integrated system of information and services to enhance early childhood development.

The quality of the Commission's internal controls is highly dependent upon involvement in the day to day operations by the volunteer Commission Board Members. A summary of the auditors' results follows:

**Section I – Summary of Auditors' Results**

1. Type of auditors' report issued: unmodified
2. Internal control over financial reporting:
  - A. Material weakness(es) identified? no
  - B. Significant deficiencies identified that were not considered to be material weakness(es)? none reported
  - C. Noncompliance material to financial statements noted? no

**Section II – Financial Statement Findings**

There were no financial statement findings.

Modoc County Children and Families Commission  
(A Component Unit of Modoc County)  
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS  
June 30, 2017

Recommendation

Status/Explanation

There were no prior year findings or recommendations.