

California SAWS
Consortium IV



FINANCIAL STATEMENTS

For the Year Ended June 30, 2016

**CALIFORNIA STATEWIDE AUTOMATED
WELFARE SYSTEM CONSORTIUM IV
(A Joint Powers Authority)**

**Financial Statements
and
Required Supplementary Information
with
Independent Auditors' Report**

**For the Fiscal Year Ended
June 30, 2016**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of the California Statewide Automated Welfare System Consortium IV
Rancho Cordova, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of the California Statewide Automated Welfare System Consortium IV (Authority), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the Authority as of June 30, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, the Authority adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, effective July 1, 2015. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 21 and 22 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.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 23, 2017, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

Vavrinik, Trine, Day & Co. LLP

Rancho Cucamonga, California
March 23, 2017

CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A Joint Powers Authority)
Statement of Net Position
June 30, 2016

| | Governmental Activities |
|--|-----------------------------|
| ASSETS | |
| Cash in County of San Bernardino Treasurer's Pool | \$ 8,450,722 |
| Due From Other Governments: | |
| State of California | 2,823,399 |
| Member Counties | 9,065,013 |
| Prepaid Items | 14,305,268 |
| Capital Assets, Not Being Depreciated and Amortized | 10,368,136 |
| Capital Assets, Net of Accumulated Depreciation and Amortization | 80,829,486 |
| Total Assets | <u>125,842,024</u> |
| LIABILITIES | |
| Accounts Payable | 16,253,824 |
| Due To Other Governments: | |
| State of California | 2,931,719 |
| County of San Bernardino | 77,800 |
| Member Counties | 812,890 |
| Matured Leases and Interest Payable | 262,901 |
| Non-current Liabilities | |
| Due Within One Year: | |
| Capital Leases | 2,203,666 |
| Due In More Than One Year: | |
| Capital Leases | 4,437,075 |
| Total Liabilities | <u>26,979,875</u> |
| NET POSITION | |
| Net Investment in Capital Assets | 84,556,881 |
| Unrestricted | <u>14,305,268</u> |
| Total Net Position | <u><u>\$ 98,862,149</u></u> |

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

CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A Joint Powers Authority)
Statement of Activities
For the Fiscal Year Ended June 30, 2016

| <u>FUNCTION/PROGRAM</u> | <u>Expenses</u> | <u>PROGRAM REVENUES</u> | <u>NET (EXPENSE)/REVENUE AND CHANGES IN NET POSITION</u> |
|---|-----------------------|-------------------------|--|
| | | <u>Operating Grants</u> | <u>Governmental Activities</u> |
| Governmental Activities: | | | |
| Public Assistance | \$ 143,248,170 | \$ 102,616,530 | \$ (40,631,640) |
| Interest on Long Term Debt | 715,532 | - | (715,532) |
| Total Governmental Activities | <u>\$ 143,963,702</u> | <u>\$ 102,616,530</u> | <u>(41,347,172)</u> |
| GENERAL REVENUES: | | | |
| Local Revenues - Consortium Member Counties | | | <u>33,533,528</u> |
| Total General Revenues | | | <u>33,533,528</u> |
| Change in Net Position | | | (7,813,644) |
| Net Position, Beginning | | | <u>106,675,793</u> |
| Net Position, Ending | | | <u>\$ 98,862,149</u> |

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

CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV**(A Joint Powers Authority)****Balance Sheet - Governmental Fund****General Fund****June 30, 2016****ASSETS**

| | |
|---|----------------------|
| Cash in County of San Bernardino Treasurer's Pool | \$ 8,450,722 |
| Due From Other Governments: | |
| State of California | 2,823,399 |
| Member Counties | 9,065,013 |
| Prepaid Items | 14,305,268 |
| Total Assets | <u>\$ 34,644,402</u> |

LIABILITIES and FUND BALANCELiabilities

| | |
|---------------------------|-------------------|
| Accounts Payable | \$ 16,253,824 |
| Due To Other Governments: | |
| State of California | 2,931,719 |
| County of San Bernardino | 77,800 |
| Member Counties | 812,890 |
| Matured Leases Payable | 194,723 |
| Matured Interest Payable | 68,178 |
| Total Liabilities | <u>20,339,134</u> |

Fund Balance

| | |
|------------------------------------|----------------------|
| Nonspendable for Prepaid Items | <u>14,305,268</u> |
| Total Liabilities and Fund Balance | <u>\$ 34,644,402</u> |

Amounts reported for governmental activities in the statement of net position are different because:

| | |
|--|----------------------|
| Fund Balance - Governmental Fund | \$ 14,305,268 |
| Capital assets, net of accumulated depreciation and amortization, used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 91,197,622 |
| Long-term liabilities consisting of capital leases are not due and payable in the current period and, therefore, are not reported in the funds. | <u>(6,640,741)</u> |
| Net Position of Governmental Activities | <u>\$ 98,862,149</u> |

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

CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A Joint Powers Authority)
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Fund
General Fund
For the Fiscal Year Ended June 30, 2016

REVENUES

| | |
|--|--------------------|
| Intergovernmental - Federal | \$ 63,924,840 |
| Intergovernmental - State | 38,691,690 |
| Intergovernmental - Consortium Member Counties | 33,533,528 |
| Total Revenues | <u>136,150,058</u> |

EXPENDITURES

| | |
|--------------------|--------------------|
| Current: | |
| Public Assistance | 122,341,952 |
| Debt Service: | |
| Principal | 1,981,098 |
| Interest | 715,532 |
| Capital Outlay | 13,804,663 |
| Total Expenditures | <u>138,843,245</u> |

| | |
|---|-------------|
| Excess (Deficiency) of Revenues over (under) Expenditures | (2,693,187) |
|---|-------------|

OTHER FINANCING SOURCES (USES)

| | |
|----------------|------------------|
| Capital Leases | <u>2,977,465</u> |
|----------------|------------------|

| | |
|------------------------|---------|
| Change in Fund Balance | 284,278 |
|------------------------|---------|

FUND BALANCE

| | |
|-------------------------|-----------------------------|
| Fund Balance, Beginning | 14,020,990 |
| Fund Balance, Ending | <u><u>\$ 14,305,268</u></u> |

Amounts reported for governmental activities in the statement of activities are different because:

| | |
|--|------------|
| Change in Fund Balance - Governmental Fund | \$ 284,278 |
|--|------------|

| | |
|---|-------------|
| Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation or amortization expense. This amount may or may not exceed depreciation, amortization, and loss on disposal of capital assets, resulting in a negative or positive number. | (7,106,316) |
|---|-------------|

| | |
|---|------------------|
| The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. | <u>(991,606)</u> |
|---|------------------|

| | |
|---|------------------------------|
| Change in net position of governmental activities | <u><u>\$ (7,813,644)</u></u> |
|---|------------------------------|

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

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A JOINT POWERS AUTHORITY)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Reporting Entity

The California Statewide Automated Welfare System Consortium IV (Authority) was formed in 1998 under California Government Code Section 6500 et seq. The Authority originally included the counties of San Bernardino, Riverside, Merced, and Stanislaus; however, on January 5, 2007, a new joint exercise of powers agreement was approved by the Authority adding thirty-five counties to the original four. The counties have been divided into seven regions and one representative from each region is selected to serve on the board establishing a seven member governing board. The governing board consists of a Chairperson, a Vice Chairperson, a 2nd Vice Chairperson and four members who are charged with the responsibility of governing and administering the Authority.

The Authority was created for the purpose of the design, development, implementation, and on-going operation and maintenance of an automated welfare system to be used by each of the four original counties. The primary objective of the migration project was to provide the Interim Statewide Automated Welfare System (ISAWS) counties and the customers with a viable solution to meet their long term automation needs. The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America as applicable to governments and to general practice within California Joint Powers Authorities.

Management determines the accounting principles to be used in the preparation of the financial statements. A description of the significant accounting policies employed in the preparation of these financial statements follows.

(b) Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Authority. *Governmental activities* are supported by operating grants and member contribution revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues include* grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Revenues that are not classified as program revenues are presented instead as general revenues. Net position is comprised of net investment in capital assets and unrestricted net position.

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A JOINT POWERS AUTHORITY)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

(c) Measurement Focus, Basis of Accounting, and Fund Financial Statement Descriptions

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balance for all major governmental funds. An accompanying schedule is presented to reconcile and explain the differences in fund balance and changes in fund balance as presented in these statements to the net position and changes in net position presented on the government-wide financial statements. The Authority has only one major governmental fund.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are "measurable and available"). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period. The Authority considers items available if received within 9 months of year end, for voluntary non-exchange transactions such as federal and state grants. All other revenues are accrued when their receipt occurs within sixty days after the end of the accounting period, and are recognized as revenues. The Authority reports items as deferred inflows of resources when all eligibility requirements are met except for timing requirements or resources recognized as assets that do not meet the aforementioned availability periods for recognition as revenue in governmental funds.

Expenditures are recorded when a liability is incurred, as under the accrual basis of accounting. However, expenditures related to long-term debt are recorded only when payment is due. Capital asset acquisitions are reported as expenditures. Proceeds of long-term debt and capital leases are reported as other financing sources.

The Authority reports the following major governmental fund:

The General Fund is the primary operating fund of the Authority. It is used to account for all revenues and expenditures not required to be accounted for in another fund.

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A JOINT POWERS AUTHORITY)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

(d) Cash in County of San Bernardino Treasurer's Pool

Pursuant to the Joint Exercise of Powers Agreement, the Treasurer of the County of San Bernardino (County) has custody of all cash for the Authority. The Authority's share of the pooled cash account is separately accounted for in its own operating fund, net of related expenses. The Authority's position in the County's treasury pool is reported at fair value.

(e) Capital Assets

Capital assets, which include computers, software, and computer hardware, are reported in the government-wide financial statements. The Authority defines capital assets as assets with an initial, individual cost of more than \$5,000 for hardware and \$40,000 for software and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or developed. Donated capital assets are recorded at acquisition value (an entry price) at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Capital assets are depreciated and amortized using the straight-line method over the following estimated useful lives:

| | |
|-------------------------------|--------------|
| Computers | 2 to 5 years |
| Servers | 3 to 7 years |
| Software | 3 years |
| Internally Developed Software | 10 years |

(f) Fund Balance Classification

The following fund balance classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

1. Nonspendable – amounts that are not in a spendable form (such as prepaid items and inventories of supplies) or are required to be maintained intact.
2. Restricted – amounts constrained to specific purposes by external parties (such as grantors, bondholders and higher levels of government), through constitutional provisions or by enabling legislation.
3. Committed – amounts constrained to specific purposes by a government itself, using the highest level of decision-making authority (the board of directors); to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.
4. Assigned – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body, or by an official or body to which the governing body delegates the authority.
5. Unassigned – amounts that are for any purpose; only the general fund can report a positive amount of unassigned fund balance.

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A JOINT POWERS AUTHORITY)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then unrestricted resources; committed, assigned and unassigned, as they are needed. The Authority designates committed fund balance through board resolution, which is the highest form of decision-making authority.

(g) Prepaid Items

Certain payments to vendors reflecting costs applicable to future accounting periods are recorded as prepaid items and are accounted for as expenses when consumed rather than purchased in both the government-wide and the fund financial statements. \$14,517 of the prepaid item balance is for insurance and the remaining \$14,290,751 is for prepaid software and hardware support.

(h) Receivables and Payables

Generally Accepted Accounting Principles require receivables to be recorded when revenue is earned but not yet received as of fiscal year-end. \$2,823,399 and \$9,065,013 of the due from other governments balance are monies owed from the State of California and member counties, respectively, to settle the current liabilities of the Authority.

The Authority reports accounts payable of \$16,253,824 and \$3,822,409 due to other governments at June 30, 2016. These liabilities relate to the unpaid expenditures incurred to run day to day operations of the Authority.

(i) Matured Leases and Interest Payable

The matured leases payable balance of \$194,723 and the matured interest payable balance of \$68,178 reflect the leases and corresponding interest due as of June 30, 2016. These amounts represent liabilities that have reached their maturity dates. These amounts were unpaid as of June 30, 2016 due to revenues from the state and member counties being received after the fiscal year-end cutoff date for payment processing.

(j) Implemented Accounting Pronouncements

During fiscal year 2016, the Authority adopted the following Governmental Accounting Standards Board (GASB) Statements:

- i) *GASB Statement No. 72, Fair Value Measurement and Application.* The Authority implemented the standard as of July 1, 2015.

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A JOINT POWERS AUTHORITY)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

- ii) *GASB Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68.* The Authority has determined this Statement has no impact on the financial statements.
- iii) *GASB Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* The Authority implemented the standard as of July 1, 2015. The Authority has determined that this Statement does not have a material effect on the financial statements.
- iv) *GASB Statement No. 79, Certain External Investment Pools and Pool Participants.* The Authority implemented the standard as of July 1, 2015. The Authority has determined that this Statement does not have a material effect on the financial statements.

(k) Use of Estimates

The preparation of these financial statements requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets, liabilities, revenues, and expenditures, as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A JOINT POWERS AUTHORITY)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Amounts reported for governmental activities in the statement of net position are different from those reported for governmental funds in the balance sheet. The following provides a reconciliation of those differences:

| | Total Governmental Funds (Page 5) | Long-Term Assets and Liabilities (1) | Statement of Net Position Total (Page 3) |
|--|---|---|--|
| ASSETS | | | |
| Cash in County of San Bernardino Treasurer's Pool | \$ 8,450,722 | \$ - | \$ 8,450,722 |
| Due From Other Governments: | | | |
| State of California | 2,823,399 | - | 2,823,399 |
| Member Counties | 9,065,013 | - | 9,065,013 |
| Prepaid Items | 14,305,268 | - | 14,305,268 |
| Capital Assets, Not Being Depreciated and Amortized | - | 10,368,136 | 10,368,136 |
| Capital Assets, Net of Accumulated Depreciation and Amortization | - | 80,829,486 | 80,829,486 |
| Total Assets | <u>34,644,402</u> | <u>91,197,622</u> | <u>125,842,024</u> |
| LIABILITIES | | | |
| Accounts Payable | 16,253,824 | - | 16,253,824 |
| Due To Other Governments: | | | |
| State of California | 2,931,719 | - | 2,931,719 |
| County of San Bernardino | 77,800 | - | 77,800 |
| Member Counties | 812,890 | - | 812,890 |
| Matured Leases Payable | 194,723 | - | 194,723 |
| Matured Interest Payable | 68,178 | - | 68,178 |
| Non-Current Liabilities | | | |
| Due Within One Year: | | | |
| Capital Leases | - | 2,203,666 | 2,203,666 |
| Due In More Than One Year: | | | |
| Capital Leases | - | 4,437,075 | 4,437,075 |
| Total Liabilities | <u>20,339,134</u> | <u>6,640,741</u> | <u>26,979,875</u> |
| Total Fund Balance/Net Position | <u>\$ 14,305,268</u> | <u>\$ 84,556,881</u> | <u>\$ 98,862,149</u> |

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A JOINT POWERS AUTHORITY)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS, (CONTINUED)

(1) Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

| | | |
|---|----------------------|------------|
| Computer Hardware | \$ 6,541,716 | |
| Computer Hardware Acquired Through Capital Leases | 22,653,830 | |
| Software | 14,648,353 | |
| Internally Developed Software | 246,270,205 | |
| Internally Developed Software In Progress | 10,368,136 | |
| Accumulated Depreciation and Amortization | <u>(209,284,618)</u> | |
| | | 91,197,622 |

(1) Long-term liabilities that are not due and payable in the current period and, therefore, not reported in the funds.

| | | |
|----------------------------|--------------------|----------------------|
| Capital Leases Obligations | <u>(6,640,741)</u> | <u>(6,640,741)</u> |
| Total | | <u>\$ 84,556,881</u> |

(1) Expenditures for general capital assets and other related adjustments, including current year depreciation/amortization.

| | | |
|---|----------------|-----------------------|
| Computer Hardware | \$ 332,696 | |
| Computer Hardware Acquired Through Capital Leases | 2,977,465 | |
| Internally Developed Software | 4,763,389 | |
| Internally Developed Software In Progress | 5,731,113 | |
| Depreciation and Amortization | (20,668,817) | |
| Other Related Adjustment To Internally Developed Software In Progress | (237,164) | |
| Loss On Disposal | <u>(4,998)</u> | |
| Total | | <u>\$ (7,106,316)</u> |

(1) GASB 34 Conversion Entries

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A JOINT POWERS AUTHORITY)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 – CASH AND INVESTMENTS

As discussed in Note 1 (d), the Authority's cash investments held in the San Bernardino County Treasurer's pool are reported on the basis of \$1, which approximates fair value (equivalent to the investment's net asset value per share), and is not subject to categorization of its fair value measurements in accordance with generally accepted accounting principles. The Authority's participation in the Treasurer's pool is voluntary. The San Bernardino County Treasurer's pool maintains a Treasury Oversight Committee who is responsible for reviewing investment policy. At June 30, 2016, the Authority's cash and investments held in the County Treasurer's pool totaled \$8,450,722.

Additional information regarding the Pool, including the investment portfolio and related interest rate, custodial credit, investment credit and concentration of credit risks, is presented in Note 4 of the San Bernardino County's Comprehensive Annual Financial Statements (CAFR). Information regarding the CAFR can be found at <http://www.sbcounty.gov/atc/> or 268 W. Hospitality Lane, 4th Floor, San Bernardino, CA 92415-0018.

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A JOINT POWERS AUTHORITY)
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 4 - CAPITAL ASSETS

The following is a summary of the changes in capital assets during the year:

| | Beginning Balance | Additions | Deletions | Ending Balance |
|--|----------------------|-----------------------|-----------------------|----------------------|
| Capital Assets, Not Being Depreciated/Amortized: | | | | |
| Internally Developed Software in Progress | \$ 7,264,124 | \$ 5,731,113 | \$ (2,627,101) | \$ 10,368,136 |
| Total Assets, Not Being Depreciated/Amortized | <u>7,264,124</u> | <u>5,731,113</u> | <u>(2,627,101)</u> | <u>10,368,136</u> |
| Capital Assets, Being Depreciated/Amortized: | | | | |
| Computer Hardware | 7,059,600 | 332,696 | (850,580) | 6,541,716 |
| Computer Hardware Acquired under Capital Leases | 21,968,061 | 2,977,465 | (2,291,696) | 22,653,830 |
| Software | 14,648,353 | - | - | 14,648,353 |
| Internally Developed Software | 239,116,879 | 7,153,326 | - | 246,270,205 |
| Total Capital Assets, Being Depreciated/Amortized | <u>282,792,893</u> | <u>10,463,487</u> | <u>(3,142,276)</u> | <u>290,114,104</u> |
| Less: | | | | |
| Accumulated Depreciation/Amortization: | | | | |
| Computer Hardware | 4,654,306 | 877,731 | (850,580) | 4,681,457 |
| Computer Hardware Acquired under Capital Leases | 16,890,374 | 2,026,158 | (2,286,698) | 16,629,834 |
| Software | 14,270,369 | 341,146 | - | 14,611,515 |
| Internally Developed Software | <u>155,938,030</u> | <u>17,423,782</u> | <u>-</u> | <u>173,361,812</u> |
| Total Accumulated Depreciation/Amortization | <u>191,753,079</u> | <u>20,668,817</u> | <u>(3,137,278)</u> | <u>209,284,618</u> |
| Total Capital Assets, Being Depreciated/Amortized, Net | <u>91,039,814</u> | <u>(10,205,330)</u> | <u>(4,998)</u> | <u>80,829,486</u> |
| Total Capital Assets (Net) | <u>\$ 98,303,938</u> | <u>\$ (4,474,217)</u> | <u>\$ (2,632,099)</u> | <u>\$ 91,197,622</u> |

Depreciation/Amortization expense amounted to \$20,668,817 for the year ended June 30, 2016, and is reflected in the statement of activities in the public assistance function.

CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A JOINT POWERS AUTHORITY)
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NOTE 5 - NON-CURRENT LIABILITIES

The following is a summary of the changes in non-current liabilities during the year:

| | Capital Lease Obligations |
|---------------------------|------------------------------|
| Balance at July 1, 2015 | \$ 5,649,135 |
| Additions | 2,977,465 |
| Reductions | (1,985,859) |
| Balance at June 30, 2016 | <u>\$ 6,640,741</u> |
| Due within one year | \$ 2,203,666 |
| Due in more than one year | 4,437,075 |
| Total | <u>\$ 6,640,741</u> |

Capital lease obligations

The Authority has entered into capital lease obligations for computer hardware, included under capital assets with an original cost of \$22,653,830. The following is a schedule of the future minimum lease payments under these capital leases as of June 30, 2016:

| <u>Year ended June 30,</u> | |
|--------------------------------------|---------------------|
| 2017 | \$ 2,869,983 |
| 2018 | 2,330,950 |
| 2019 | 1,448,734 |
| 2020 | 963,650 |
| 2021 | <u>467,759</u> |
| Total minimum obligations | 8,081,076 |
| Less amounts representing interest | <u>(1,440,335)</u> |
| Present value of minimum obligations | <u>\$ 6,640,741</u> |

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NOTE 6 – RELATED PARTIES AND RELATED PARTY TRANSACTIONS

There were sixteen San Bernardino County employees (Contractors) working on behalf of the Authority. These contractors are under the administrative supervision of the San Bernardino County Assistant County Administrator (ACA) for Human Services System. However, for daily operational purposes, these contractors report to and receive their annual performance reviews by the Authority's Chairperson. As of June 30, 2016, the positions of San Bernardino County ACA and Authority Chairperson were held by two individuals.

The County of San Bernardino (a member agency) provides controllership and legal counsel to the Authority which includes accounting services and legal services on a cost reimbursement basis. Total amounts paid and due the County for accounting services amount to \$202,113 and \$69,860 respectively as of June 30, 2016. Total amounts paid and due the County for legal services amount to \$41,623 and \$7,940 respectively as of June 30, 2016.

NOTE 7 – COMMITMENTS AND CONTINGENCIES

Grants

The Authority recognizes as revenue grant monies received as reimbursement for costs incurred. Although the Authority's grant programs are being audited through June 30, 2016, in accordance with the provisions of the Single Audit Act of 1996, these programs are still subject to financial and compliance audits and resolution of previously identified questioned costs. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Authority expects no such amounts.

Commitments

The Authority contracts with a prime development contractor, a prime implementation contractor and a quality assurance contractor for the majority of its expenditures related to maintenance and operations and the development and implementation of the C-IV welfare automated integrated system for the 4 original counties and the 35 migration counties. The Authority disburses funds to the contractors based upon fixed price deliverables, monthly expenditures, performance reports, equipment, software, facilities and network charges received from the contractors. Payments for services and retentions under the contracts are contingent upon approval and acceptance by the Authority and appropriate state and federal agencies.

In addition, payments under the contracts are contingent upon the availability of county, state, and federal funding. If funding to make payments under the terms of the contract is not forthcoming from the state legislature or the federal government for the project, or is not allocated to the Authority by the State Department of Finance for payment in the current or any future fiscal period, then the obligations of the Authority to make payments after the effective

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NOTE 7 – COMMITMENTS AND CONTINGENCIES, (CONTINUED)

date of such non-allocation or non-funding will cease and terminate in accordance with contract termination terms and conditions.

The total future commitment under existing contracts is approximately \$321,557,224.

LEADER Replacement System (LRS)

On July 29, 2011, the State of California (“State”) issued a letter to federal agencies which outlined and requested approval for its strategy to consolidate the State’s eligibility systems, which was approved on April 5, 2012. Subsequently, the State Legislature enacted Chapter 13 of 2011-2012 Assembly Bill No. 16, Blumenfield, which will decrease the number of SAWS systems to two and migrates the 39 C-IV counties into a system jointly designed with Los Angeles County under the LEADER Replacement System (“LRS”). This effort will result in a combined 40-county system, which will be known as the California Automated Consortium Eligibility System (CalACES).

Planning began in January 2013, with C-IV staff participating with Los Angeles County in the design, development, and implementation of the LRS and continued in January 2014, with the formation of the LRS/C-IV Executive Leadership, which was established in January 2014. Joint efforts are underway to establish the CalACES Joint Powers Authority that will become effective on July 1, 2017.

NOTE 8 – NEW ACCOUNTING PRONOUNCEMENTS

GASB 74 – Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

In June 2015, GASB issued Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The Statement is effective for the fiscal year ending June 30, 2017. This Statement will have no impact on the financial statements.

GASB 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions

In June 2015, GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for OPEB. This Statement replaces the requirements of Statements No. 45 and No. 57. The Statement is effective for the

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NOTE 8 – NEW ACCOUNTING PRONOUNCEMENTS, (CONTINUED)

fiscal year ending June 30, 2018. This Statement will have no impact on the financial statements.

GASB 77 – Tax Abatement Disclosures

In August 2015, GASB issued Statement No. 77 – *Tax Abatement Disclosures*. The objective of this Statement is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs. The Statement is effective for the fiscal year ending June 30, 2017. This Statement will have no impact on the financial statements.

GASB 78 – Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans

In December 2015, GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. The Statement is effective for the fiscal year ending June 30, 2017. This Statement will have no impact on the financial statements.

GASB 80 – Blending Requirements for Certain Component Units (an amendment of GASB Statement No. 14)

In January 2016, GASB issued Statement No. 80, Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The Statement is effective for the fiscal year ending June 30, 2017. This Statement will have no impact on the financial statements.

GASB 81 – Irrevocable Split-Interest Agreements

In March 2016, GASB issued Statement No. 81, Irrevocable Split-Interest Agreements. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The Statement is effective for the fiscal year ending June 30, 2018. The Authority has not determined the effect of this Statement.

GASB 82 – Pension Issues (an amendment of GASB Statements No. 67, No. 68, and No. 73)

In March 2016, GASB issued Statement No. 82, Pension Issues. The objective of this Statement is to address certain issues that have been raised with respect to GASB 67, *Financial Reporting for Pension Plans*, GASB 68, *Accounting and Financial Reporting for*

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JUNE 30, 2016**

NOTE 8 – NEW ACCOUNTING PRONOUNCEMENTS, (CONTINUED)

Pensions, and GASB 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and Amendments to Certain Provisions of GASBs 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 the 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. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. This Statement will have no impact on the financial statements.

GASB 83 – *Certain Asset Retirement Obligations*

In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The Statement is effective for the fiscal year ending June 30, 2019. The Authority has not determined the effect of this Statement.

GASB 84 – *Fiduciary Activities*

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The Statement is effective for the fiscal year ending June 30, 2020. The Authority has not determined the effect of this Statement.

Required Supplementary Information

CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A Joint Powers Authority)
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual General Fund
(Budgetary Basis) - Unaudited
For the Year Ended June 30, 2016

| | Budget Amounts | | | Variance with Final Budget - Positive (Negative) |
|--|------------------------|---------------------|----------------------|---|
| | <u>Original</u> | <u>Final</u> | <u>Actual</u> | |
| Revenues | | | | |
| Intergovernmental | \$ 123,192,581 | \$ 138,860,743 | \$ 131,041,625 | \$ (7,819,118) |
| Expenditures | | | | |
| Current: | | | | |
| Service and supplies | 111,144,559 | 118,995,850 | 119,440,608 | (444,758) |
| Capital outlay | 8,408,656 | 16,339,124 | 9,597,742 | 6,741,382 |
| Debt service, principal and interest | 3,639,366 | 3,525,769 | 2,642,454 | 883,315 |
| Total expenditures | 123,192,581 | 138,860,743 | 131,680,804 | 7,179,939 |
| Excess of revenues over (under) expenditures | \$ - | \$ - | \$ (639,179) | \$ (639,179) |

Budgetary Basis/GAAP Reconciliation

The budget as reported in the Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual is reported using the budgetary basis method of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles (GAAP). This method does not recognize receivables, payables, capital lease payments as a reduction of debt service and interest expense, or the capitalization of certain cost related to software development. The budget includes State approved activities for SAWS, member county purchases, administrative costs, and various grant related activities. A reconciliation between the budgetary basis and GAAP basis follows:

| | <u>Actual (Budgetary Basis)</u> | <u>Actual (GAAP Basis)</u> | <u>Difference</u> |
|---|--|---------------------------------------|--------------------------|
| <u>Intergovernmental revenues</u> | | | |
| Conversion from budgetary basis to GAAP basis | \$ 131,041,625 | \$ 136,150,058 | \$ 5,108,433 |
| Conversion from budgetary basis to GAAP basis and reclassification to capital expenditures and debt service | | | |
| <u>Service and supplies</u> | (119,440,608) | (122,341,952) | (2,901,344) |
| <u>Capital outlay</u> | (9,597,742) | (13,804,663) | (4,206,921) |
| <u>Debt service</u> | | | |
| Principal | (1,935,847) | (1,981,098) | (45,251) |
| Interest | (706,607) | (715,532) | (8,925) |
| <u>Other Financing Sources (Uses)</u> | | | |
| Capital Leases | - | 2,977,465 | 2,977,465 |
| Net change budgetary basis to GAAP basis | \$ (639,179) | \$ 284,278 | \$ 923,457 |

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A JOINT POWERS AUTHORITY)
NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016**

Budgets and Budgetary Accounting

An annual budget must be adopted in accordance with section 2.09 of the Authority's Joint Exercise of Powers Agreement. The Authority's Governing Board satisfied this requirement. The fiscal year 2016 budget was approved by the Authority's Governing Board and is reported using the budgetary basis method of accounting.

Budgetary integration was employed as a management control device during the year for the budgeted fund. The Authority employs budget control by major object code.

Actual services and supplies were higher than the final budget mainly due to a reclassification of capital outlay to services and supplies for noncapitalizable expenditures related to modifications to the Authority's automated welfare system.



**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM
CONSORTIUM IV**

11290 Pyrites Way, Ste 150
Rancho Cordova, CA 95670