



California SAWS
Consortium IV



FINANCIAL STATEMENTS

For the Year Ended June 30, 2010

**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, 2010**

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities and the general fund of the California Statewide Automated Welfare System Consortium IV (the "Authority") as of and for the year ended June 30, 2010, which collectively comprises the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 California Statewide Automated Welfare System Consortium IV as of June 30, 2010, and the respective changes in financial position, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the Authority adopted the provisions of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, in 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2011 on our consideration of the California Statewide Automated Welfare System Consortium IV's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The budgetary comparison information on page 19 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Authority has not presented management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although is not required to be part of, the basic financial statements.

Vavrinik, Trine, Day & Co. LLP

Rancho Cucamonga, California

March 22, 2011

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A JOINT POWERS AUTHORITY)**

**Statement of Net Assets
June 30, 2010**

	<u>Governmental Activities</u>
ASSETS	
Cash in County of San Bernardino Treasurer's Pool	\$ 1,314,958
Receivables	
State of California	9,929,231
Member Counties	1,033,253
Prepaid	32,669
Capital Assets, Net of Accumulated Depreciation and Amortization	118,908,698
Total Assets	<u>131,218,809</u>
LIABILITIES	
Accounts Payable	6,958,881
Payables	
County of San Bernardino	16,318
Member Counties	2,587,362
Matured Leases and Interest Payable	391,396
Unearned Revenue	50,425
Non-current Liabilities	
Due Within One Year	
Capital Leases	2,551,934
Retention Payable	1,882,975
State of California	4,849
Due In More Than One Year	
Capital Leases	7,508,570
State of California	417,905
Total Liabilities	<u>22,370,615</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	<u>108,848,194</u>
Total Net Assets	<u><u>\$ 108,848,194</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, 2010**

<u>FUNCTION/PROGRAM</u>	<u>Expenses</u>	<u>PROGRAM REVENUES</u>	<u>NET (EXPENSE)/REVENUE AND CHANGES IN NET ASSETS</u>
		Operating Grants	Governmental Activities
Governmental Activities:			
Public Assistance	\$ 147,131,025	\$ 132,705,430	\$ (14,425,595)
Interest on Long Term Debt	<u>985,059</u>		<u>(985,059)</u>
Total Governmental Activities	<u>\$ 148,116,084</u>	<u>\$ 132,705,430</u>	<u>\$ (15,410,654)</u>
 GENERAL REVENUES:			
Local Revenues - Consortium Member Counties			<u>20,044,529</u>
Total General Revenues			<u>20,044,529</u>
Change in Net Assets			4,633,875
Net Assets, Beginning as restated			<u>104,214,319</u>
Net Assets, Ending			<u>\$ 108,848,194</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

June 30, 2010

ASSETS

Cash in County of San Bernardino Treasurer's Pool	\$	1,314,958
Receivables		
State of California		9,929,231
Member Counties		615,348
Prepaid Expense		32,669
		32,669
Total Assets	\$	11,892,206

LIABILITIES and FUND BALANCE

Liabilities

Accounts Payables	\$	6,958,881
Retentions Payable		1,882,975
Matured Leases Payable		271,437
Matured Interest Payable		119,959
Payables		
State of California		4,849
County of San Bernardino		16,318
Member Counties		2,587,362
Unearned Revenue		50,425
		50,425
Total Liabilities		11,892,206

Fund Balance

Unreserved		-
Total Liabilities and Fund Balance	\$	11,892,206

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

Long-term assets, net of corresponding liabilities, includes due from the State of California and member counties that are not available to pay for current-period expenditures and, therefore, are not reported in the governmental funds.		417,905
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Capital assets, net of accumulated depreciation and amortization, used in governmental activities are not financial resources and, therefore, are not reported in the funds.		118,908,698
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Long-term liabilities, net of corresponding assets including capital leases, and advance due the State of California, and retention payable are not due and payable in the current period and therefore are not reported in the funds.		(10,478,409)
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Net Assets of Governmental Activities	\$	108,848,194
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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, 2010**

REVENUES	
Intergovernmental - Federal	\$ 76,663,911
Intergovernmental - State and Local Grants	<u>78,136,361</u>
Total Revenues	<u>154,800,272</u>
EXPENDITURES	
Current:	
Public Assistance	137,417,841
Debt Service:	
Principal	2,567,895
Interest	985,059
Capital Outlay	<u>17,559,738</u>
Total Expenditures	<u>158,530,533</u>
Excess of Revenues over (under) Expenditures	(3,730,261)
OTHER FINANCING SOURCES (USES):	
Capital Lease Agreements	<u>3,730,261</u>
Change in Fund Balances	-
FUND BALANCE	
Balance, Beginning of Period	-
Balance, End of Period	<u><u>\$ -</u></u>
Amounts reported for governmental activities in the statement of activities are different because:	
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 is the amount by which capital outlay exceeds depreciation, amortization and loss on disposal of capital assets.	5,704,354
Revenues in the statement of activities do not provide current financial resources and, therefore, are not reported as revenues in the governmental funds.	(2,050,313)
Expenses in the statement of activities do not provide current financial resources and, therefore, are not reported as expenditures in the governmental funds.	2,142,200
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 assets.	<u>(1,162,366)</u>
Change in net assets of governmental activities	<u><u>\$ 4,633,875</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, 2010**

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 is 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.

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. Management also 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 assets and the statement of activities) report information on all of the nonfiduciary activities of the Authority. *Governmental activities*, which normally are supported by operating grants and member contribution revenues, are reported separately, compared to *business-type activities*, which rely to a significant extent on fees and charges for support. The Authority currently has no business-type activities.

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 assets are comprised of capital assets net of related debt.

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A JOINT POWERS AUTHORITY)**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010**

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 Balances for all major governmental funds. An accompanying schedule is presented to reconcile and explain the differences in fund balances and changes in fund balances as presented in these statements to the net assets and changes in net assets presented on the government-wide financial statements. The Authority has only one major 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 revenue.

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.

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 financial resources of the Authority.

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 as they are needed.

(d) Budgets and Budgetary Accounting

By state law, the Authority's Governing Board must approve a final budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The Authority's Governing Board satisfied these requirements. Amendments were made to the original budget adopted during the year due to changes in funding at the state level.

Formal budgetary integration was employed as a management control device during the year for the budgeted fund. The Authority employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object code. Additional information on the Authority's budget and budgetary accounting can be found on page 20.

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A JOINT POWERS AUTHORITY)**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010**

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

(e) Cash in County of San Bernardino’s Treasurer 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, net of related expenses.

(f) 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 estimated fair market value 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

(g) Prepaid Items

Certain payments to vendors reflecting costs applicable to future accounting periods are recorded as prepaid expenses in both the government-wide and the fund financial statements.

\$14,313 of the prepaid expense balance is for prepaid insurance and the other \$18,356 is for a lease payment.

(h) Receivables

\$9,929,231 and \$615,348 of the accounts receivable balance on the fund financial statements are monies owed from the State of California and member counties, respectively, to settle the current liabilities of the Authority.

(i) Matured Leases and Interest Payable

The matured leases payable balance of \$271,437 and the matured interest payable balance of \$119,959 reflect the leases and corresponding interest due as of June 30, 2010. These accounts represent liabilities that have reached their maturity dates.

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A JOINT POWERS AUTHORITY)**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010**

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

(j) Unearned Revenue

In the fund financial statements, the unearned revenue balance of \$50,425 reflects unearned revenue received by the Authority. The unearned revenue received from the member counties is to pay for expenditures incurred in future periods.

\$14,313 is for an insurance payment, \$17,756 is for member county payments received before they were earned, and \$18,356 is for early receipts to prepay a lease obligation.

(k) Implemented Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 51

During fiscal year 2010, the Authority adopted the provisions of Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. Refer to Note 8 for impact on the financial statements.

Governmental Accounting Standards Board Statement No. 53

During fiscal year 2010, the County adopted the provisions of Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement had no impact to the financial statements.

Governmental Accounting Standards Board Statement No. 58

During fiscal year 2010, the County adopted the provisions of Governmental Accounting Standards Board Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. This statement had no impact to the financial statements.

NOTE 2 – CASH AND INVESTMENTS

As discussed in Note 1 (e), the Authority's cash and investments are held in the San Bernardino County Treasurer's pool. The County Treasurer's pool is AAA rated by credit rating agencies. At June 30, 2010, the Authority's cash and investments held in the County Treasurer's pool totaled \$1,314,958.

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 6 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 222 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, 2010**

NOTE 3 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

	Total Governmental Funds (Page 4)	Long-Term Assets and Liabilities (1)	Statement of Net Assets Total (Page 2)
ASSETS			
Cash in County of San Bernardino Treasurer's Pool	\$ 1,314,958	\$ -	\$ 1,314,958
Receivables			
State of California	9,929,231	-	9,929,231
Member Counties	615,348	417,905	1,033,253
Prepaid	32,669	-	32,669
Capital Assets, Net of Accumulated Depreciation and Amortization	-	118,908,698	118,908,698
	-	118,908,698	118,908,698
Total Assets	\$ 11,892,206	\$ 119,326,603	\$ 131,218,809
LIABILITIES			
Accounts Payables	\$ 6,958,881	\$ -	\$ 6,958,881
Matured Leases Payable	271,437		271,437
Matured Interest Payable	119,959		119,959
Payables			
State of California	4,849	-	4,849
County of San Bernardino	16,318	-	16,318
Member Counties	2,587,362	-	2,587,362
Deferred Revenue	50,425	-	50,425
Non-Current Liabilities			
Due Within One Year			
Capital Leases	-	2,551,934	2,551,934
Retention Payable	1,882,975		1,882,975
Due In More Than One Year			
Capital Leases	-	7,508,570	7,508,570
Due to the State of California	-	417,905	417,905
	11,892,206	10,478,409	22,370,615
Total Liabilities	11,892,206	10,478,409	22,370,615
Total Fund Balance/Net Assets	\$ -	\$108,848,194	\$108,848,194

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A JOINT POWERS AUTHORITY)**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010**

**NOTE 3 – 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	\$ 3,295,351	
Computer Hardware under Capital Leases	23,457,672	
Software	13,406,157	
Internally Developed Software	193,022,473	
Internally Developed Software In Progress	3,034,011	
Accumulated Depreciation and Amortization	<u>(117,306,966)</u>	
		\$ 118,908,698

(1) Other long-term assets that are not available to pay for current-period expenditures and, therefore, are not reported in the governmental funds.

Receivables - Member Counties		417,905
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(1) Long-term liabilities that are not due and payable in the current period and, therefore, not reported in the funds.

Payables		
State of California	(417,905)	
Capital Leases Obligations	<u>(10,060,504)</u>	
		<u>(10,478,409)</u>

Total Net Assets		<u>\$ 108,848,194</u>
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(1) GASB 34 Conversion Entries

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A JOINT POWERS AUTHORITY)**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 4 – CAPITAL ASSETS

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

	Beginning Balance Restated	Additions	Deletions	Ending Balance
Computer Hardware	\$ 1,167,957	\$ 2,157,777	\$ (30,383)	\$ 3,295,351
Computer Hardware under Capital Leases	23,138,336	3,730,261	(3,410,925)	23,457,672
Software, as restated	12,855,513	550,644	-	13,406,157
Internally Developed Software, as restated	136,511,565	56,510,908	-	193,022,473
Internally Developed Software in Progress, as restated	47,826,136	1,877,088	(46,669,213)	3,034,011
Total Capital Assets	<u>221,499,507</u>	<u>64,826,678</u>	<u>(50,110,521)</u>	<u>236,215,664</u>
Less:				
Accumulated Depreciation/Amortization				
Computer Hardware	590,880	342,032	(30,380)	902,532
Computer Hardware under Capital Leases	13,084,450	3,591,570	(2,905,088)	13,770,932
Software, as restated	6,573,113	2,618,295	-	9,191,408
Internally Developed Software, as restated	88,138,607	5,303,487	-	93,442,094
Total Accumulated Depreciation/Amortization	<u>108,387,050</u>	<u>11,855,384</u>	<u>(2,935,468)</u>	<u>117,306,966</u>
Total Capital Assets (Net)	<u>\$ 113,112,457</u>	<u>\$ 52,971,294</u>	<u>\$ (47,175,053)</u>	<u>\$ 118,908,698</u>

Depreciation expense amounted to \$11,855,384 for the year ended June 30, 2010, and is reflected in the Statement of Activities in the Public Assistance Function.

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A JOINT POWERS AUTHORITY)**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 5 – NON-CURRENT LIABILITIES

Capital lease obligations

The Authority has entered into capital lease obligations for computer hardware, included under capital assets with an original cost of \$23,457,672. The following is a schedule of the future minimum lease payments under these capital leases as of June 30, 2010:

<u>Year ended June 30,</u>	
2011	\$ 3,470,775
2012	3,221,046
2013	2,966,208
2014	2,128,172
2015	<u>426,557</u>
Total minimum obligations	12,212,758
Less amounts representing interest	<u>(2,152,254)</u>
Present value of minimum obligations	<u>\$ 10,060,504</u>

Amortization expense included with depreciation expense on the statement of activities amounted to \$3,591,570 for the year ended June 30, 2010.

Due to State of California

The consortium migration counties collectively are required to contribute 5% of the application development costs of the Statewide Automated Welfare System. The State of California has been fully funding these application development costs and upon implementation of the system, each migration county will be required to repay the State for their 5% share. The determination of each migration county's share is proportionate to the county's individual caseload compared to total consortium caseload upon execution of the original contract for application development.

The State offered the migration counties two options of paying the 5%. Counties could pay "now" or opt to defer repayment until completion of the implementation phase. Some migration counties have opted to not defer the amount and the State has invoiced these counties their share. As of June 30, 2010, not all counties choosing this option have paid; therefore, a current liability exists. The amount due by the other counties is considered a non-current liability. As the Authority is considered the pass-through entity for this transaction, a corresponding receivable is recorded equal to the current liability.

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A JOINT POWERS AUTHORITY)**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 5 – NON-CURRENT LIABILITIES, (CONTINUED)

Retention Payable

Deliverables of the development and implementation phase are subject to two different holdback amounts of 10% and 7.5%. The Authority pays 90% of the invoiced amounts for development deliverables, migration services and other migration project tasks performed prior to final migration deployments. The Authority pays 92.5% of invoiced amounts for implementation deliverables which have received acceptance. As of June 30, 2010, the vendor holdbacks amount to \$1,882,975. Holdback payments will be released when each agreed upon milestone is complete.

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

	<u>Capital Lease Obligations</u>	<u>Due to State of California</u>	<u>Retention Payable</u>	<u>Total</u>
Balance at July 1, 2009	\$ 8,898,138	\$ 494,559	\$ 3,953,370	\$ 13,346,067
Additions	3,730,261	7,009	2,418,709	6,155,979
Reductions	<u>(2,567,895)</u>	<u>(78,814)</u>	<u>(4,489,104)</u>	<u>(7,135,813)</u>
Balance at June 30, 2010	<u>\$ 10,060,504</u>	<u>\$ 422,754</u>	<u>\$ 1,882,975</u>	<u>\$ 12,366,233</u>
Due within one year	\$ 2,551,934	\$ 4,849	\$ 1,882,975	\$ 4,439,758
Due in more than one year	7,508,570	417,905	-	7,926,475
Total	<u>\$ 10,060,504</u>	<u>\$ 422,754</u>	<u>\$ 1,882,975</u>	<u>\$ 12,366,233</u>

NOTE 6 – RELATED PARTIES AND RELATED PARTY TRANSACTIONS

There are ten 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 Chairman. As of June 30, 2010, the positions of San Bernardino County ACA and Authority Chairman were held by two individuals.

The County of San Bernardino (a member agency) provides controllership services to the Authority which includes accounting services on a cost reimbursement basis. Total amounts paid and due the County for these services amount to \$180,470 and \$16,318 respectively as of June 30, 2010.

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A JOINT POWERS AUTHORITY)**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 7 – COMMITMENTS AND CONTINGENCIES

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, 2010 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 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 such amounts, if any, to be immaterial.

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 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 \$240,000,000.

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
(A JOINT POWERS AUTHORITY)**

**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 8 - RESTATEMENT OF NET ASSETS

Intangible Assets

Net Assets as of June 30, 2009 have been restated as a result of the implementation of GASB 51, *Accounting and Financial Reporting for Intangible Assets*. Those assets that meet the definition of intangible assets as defined by GASB 51 are reported as capital assets based on the similar nature and usage of such assets. Those assets previously capitalized as intangible assets that do not meet the GASB 51 criteria have been expensed. The effect of adopting this pronouncement was a \$30,838,494 decrease to net assets at July 1, 2009. A summary of restated amounts related to the implementation of GASB 51 is provided below.

<u>Net Assets</u>	<u>Balance at July 1, 2009</u>
Beginning net assets, as previously reported	\$ 135,052,813
Decrease	(30,838,494)
Beginning net assets, as restated	<u>\$ 104,214,319</u>
<u>Software</u>	
Beginning software, as previously reported	\$ 6,027,127
Increase	6,828,386
Beginning software, as restated	<u>\$ 12,855,513</u>
<u>Internally Developed Software</u>	
Beginning internally developed software, as previously reported	\$ 138,324,227
Decrease	(1,812,662)
Beginning internally developed software, as restated	<u>\$ 136,511,565</u>
<u>Internally Developed Software in Progress</u>	
Beginning internally developed software in progress, as previously reported	\$ 82,882,549
Decrease	(35,056,413)
Beginning internally developed software in progress, as restated	<u>\$ 47,826,136</u>
<u>Software Amortization</u>	
Beginning software amortization, as previously reported	\$ 5,573,901
Increase	999,212
Beginning software amortization, as restated	<u>\$ 6,573,113</u>
<u>Internally Developed Software Amortization</u>	
Beginning internally developed software amortization, as previously reported	\$ 88,340,014
Decrease	(201,407)
Beginning internally developed software amortization, as restated	<u>\$ 88,138,607</u>

**CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM CONSORTIUM IV
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**NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 9 – NEW ACCOUNTING PRONOUNCEMENTS:

GASB 54 – FUND BALANCE AND GOVERNMENTAL FUND TYPE DEFINITIONS

The GASB issued Statement No. 54, Fund Balance and Reporting and Governmental Fund Type Definitions. The statement is intended to improve the usefulness of reported fund balance information by addressing the diversity of practice and the resulting lack of consistency that had evolved in fund balance reporting. The statement guidance is to distinguish fund balance between amounts that are considered non-spendable. Fund balance amounts will be reported in the following category: Restricted, Committed, Assigned, and Unassigned. The new standard also clarifies the definitions of individual governmental fund types. The requirements of this statement are effective for financial statements for reporting periods beginning after June 15, 2010. The authority has not determined its effect on the financial statements.

GASB 59 – ACCOUNTING AND FINANCIAL REPORTING OF FINANCIAL INSTRUMENTS OMNIBUS

The GASB issued Statement No. 59, Accounting and Financial Reporting for Financial Instruments Omnibus. The statement establishes accounting and financial reporting requirements to improve financial reporting and disclosures of certain financial instruments and external investment pools. The statement provides more complete information, by improving consistency of measurements, and by providing clarifications of existing standards. The provisions of this Statement are effective for financial statement periods beginning after June 15, 2010. The authority has not determined its effect on the financial statements.

NOTE 10 – CHANGE IN ACCOUNTING ESTIMATE

The addition of the 35 migration counties required increased capacity and upgrades to the C-IV system. As a result, the useful life to Internally Developed Software was extended five years to June 30, 2020. Consequently, amortization for fiscal year 2010 is \$4,136,487 less than it would have been under the prior useful life estimate.

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, 2010**

	Budget Amounts		<u>Actual</u>	Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues				
Intergovernmental	\$ 151,938,732	\$ 151,184,699	\$ 171,584,522	\$ 20,399,823
Expenditures				
Service and supplies	135,673,359	134,077,672	152,429,820	(18,352,148)
Capital outlay	13,326,070	13,630,066	14,346,405	(716,339)
Debt service, principal and interest	<u>2,939,303</u>	<u>3,476,961</u>	<u>3,498,230</u>	<u>(21,269)</u>
	<u>151,938,732</u>	<u>151,184,699</u>	<u>170,274,455</u>	<u>(19,089,756)</u>
Excess of revenues over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,310,067</u>	<u>\$ 1,310,067</u>

Cash Basis/GAAP Reconciliation

The budget as reported in the Statement 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 only State approved activities for SAWS. The budget variance of \$19,089,756 reflects expenditures outside state approved activities such as County only obligations and other items. A reconciliation of Actual on a budgetary basis to the Statement of Revenues, Expenditures and Changes in Fund Balance is shown as follows:

	Actual (Budgetary Basis)	Actual (Fund Financial)	Change
<u>Intergovernmental revenues</u>			
Conversion from cash basis to accrual basis	\$ 171,584,522	\$ 154,800,272	\$ (16,784,250)
<u>Service and supplies</u>			
Conversion from cash basis to accrual basis and reclassification to capital expenditures and debt service	(152,429,820)	(137,417,841)	15,011,979
<u>Capital outlay</u>	(14,346,405)	(17,559,738)	(3,213,333)
<u>Debt service</u>			
Principal	(2,592,404)	(2,567,895)	24,509
Interest	(905,826)	(985,059)	(79,233)
<u>Other Financing Sources (Uses)</u>			
Capital Lease Agreements	<u>-</u>	<u>3,730,261</u>	<u>3,730,261</u>
Net change budget basis to GAAP basis	<u>\$ 1,310,067</u>	<u>\$ -</u>	<u>\$ (1,310,067)</u>



CALIFORNIA STATEWIDE AUTOMATED WELFARE SYSTEM

CONSORTIUM IV

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