

**FIRST 5 KERN  
CHILDREN AND FAMILIES COMMISSION**

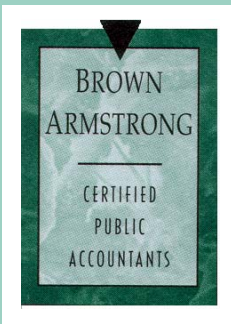
**FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITOR'S REPORT**

**FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005**

**FIRST 5 KERN  
CHILDREN AND FAMILIES COMMISSION  
JUNE 30, 2006 AND 2005**

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Board of Commissioners  
First 5 Kern  
Children and Families Commission  
Bakersfield, California

We have audited the basic financial statements of the First 5 Kern Children and Families Commission (the Commission) as of June 30, 2006 and 2005 and for the years then ended, as listed in the table of contents, which collectively comprise the Commission's basic financial statements. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the First 5 Kern Children and Families Commission as of June 30, 2006 and 2005, and the results of its operations for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The information identified in the table of contents as Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2006 on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying Schedule of Committed Funds is presented for purposes of additional analysis, and is not a required part of the financial statements of the Commission. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

BROWN ARMSTRONG PAULDEN  
McCOWN STARBUCK THORNBURGH & KEETER  
ACCOUNTANCY CORPORATION

A handwritten signature in black ink, appearing to read "S.A. Paulden", is written over the printed name of the auditor.

Bakersfield, California  
August 31, 2006

**FIRST 5 KERN  
CHILDREN AND FAMILIES COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2006**

This section of the First 5 Kern Children and Families Commission (Commission) annual financial report presents our discussion and analysis of the Commission's financial condition and results of operations for the fiscal years ended June 30, 2006 and 2005.

In November 1998, California voters approved Proposition 10, which established the California Children and Families Act (Act). The Act established the California Children and Families Commission as the lead agency and required counties that wish to participate to establish a local county commission that allocates funds to local service providers for programs that promote, support, and improve the early development of children from prenatal through age five and promote children's readiness to enter school. To fund these programs, the Act imposed an additional excise tax on cigarettes and tobacco related products.

On December 15, 1998, the Kern County Board of Supervisors enacted Ordinance G-6565, which created the Kern County Children and Families Commission, established the membership and commission, and authorized the establishment of the Kern County Children and Families Trust Fund. The Commission is also known as First 5 Kern.

The Commission allocates funds for purposes including the Children's Health Initiative, School Readiness, minigrants, and other programs that support early childhood development in Kern County. Kern's Commission has been a leader at the state level and has served as a model for others. A unique funding distribution process was established, whereby the Commission provides an advance to grantees, if requested, and grantees submit quarterly claims with supporting documentation for reimbursement of program costs. Grantees are held to strict standards of financial and program compliance. The Commission also performs site visits to monitor how well providers comply with the requirements of their contracts, and to assist in program evaluation and improvement.

As management of the First 5 Kern Children and Families Commission, we offer readers of the financial statements this narrative overview and analysis of financial activities for the fiscal years ended June 30, 2006 and 2005.

**Fiscal Year 2005-06 Financial Highlights**

- The Commission received \$11,934,532 from the State for revenues collected under the California Children and Families Act.
- During fiscal year 2005-06, the Commission disbursed \$10,066,427 to various contractors.
- The assets of the Commission exceeded its liabilities at the close of the recent fiscal year by \$22,517,264 (net assets). Of this amount, \$2,029,405 (unrestricted net assets) may be used to meet the Commission's ongoing obligation to stakeholders.
- At the close of the current fiscal year, the Commission's governmental funds reported combined ending fund balances of \$22,608,737, an increase of \$1,068,835 in comparison with the prior year. Approximately 9.4% is available for spending at the Commission's discretion (unreserved, undesignated fund balance).

Variances between the Commission's budgeted and actual amounts included the following:

- Actual operating revenues exceeded budgeted revenues by \$400,313 due to higher than anticipated monthly Proposition 10 distributions from the State.
- Contributions to program contractors were \$5,794,134 less than budgeted due to contractor initiatives anticipated but not fully launched.
- Publications and legal notices were \$119,873 less than budgeted due to strict administrative oversight and lower than anticipated production of publications.
- Professional and specialized services were \$363,392 less than budgeted due to strict administrative oversight and lower than anticipated consultant and evaluation costs.

## Overview of the Financial Statements

The Commission's basic financial statements include (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. In addition to the basic financial statements, this report also contains other supplementary information and notes that explain some of the information in the basic financial statements and provide more detailed data.

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

The Statement of Net Assets presents assets and liabilities, with the difference between the two reported as net assets. Most of the fund balance was earmarked for Commission approved programs, existing contractual obligations, and Commission approved sustainability funds as of June 30, 2006 and 2005.

**Fund Financial Statements.** A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commission, like local governments, uses fund accounting to ensure compliance with finance-related legal requirements. Fund financial statements report essentially the same functions as those reported in the government-wide financial statements. However, unlike the government-wide financial statements, fund financial statements focus on near-term inflows and outflows of spending resources, as well as on balances of spendable resources available at the end of the fiscal year. The Commission adopts an annual appropriated budget for its governmental fund. A budgetary comparison statement has been provided for this fund to demonstrate compliance with the budget.

**Notes to Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

## Commission-Wide Financial Analysis

**Statement of Net Assets.** Net assets may serve over time as a useful indicator of a commission's financial position. In the case of First 5 Kern, assets exceeded liabilities by \$22,517,264 at the close of the most recent fiscal year. However, financial statement users need to consider other factors, both financial and non-financial, in assessing the Commission's financial position. These factors include changes in services, changes in state funding, and changes in the economy.

Changes in the Commission's net assets were as follows:

	2006	2005	Change	%
Assets				
Current Assets	\$ 25,035,665	\$ 23,943,045	\$ 1,092,620	4.56%
Capital Assets	11,900	16,227	(4,327)	-26.67%
Total Assets	<u>25,047,565</u>	<u>23,959,272</u>	<u>1,088,293</u>	<u>4.54%</u>
Total Liabilities	<u>2,530,301</u>	<u>2,496,604</u>	<u>33,697</u>	<u>1.35%</u>
Net Assets:				
Invested in Capital Assets	11,900	16,227	(4,327)	-26.67%
Restricted	15,475,959	13,470,776	2,005,183	14.89%
Unrestricted	7,029,405	7,975,665	(946,260)	-11.86%
Total Net Assets	<u><u>\$ 22,517,264</u></u>	<u><u>\$ 21,462,668</u></u>	<u><u>\$ 1,054,596</u></u>	<u><u>4.91%</u></u>

Net assets are reported in three different categories. Invested in capital assets relates to the portion of the Commission's equity that is comprised of capital assets. Restricted net assets represent resources that are subject to restrictions on how they may be used. The remaining balance is unrestricted net assets, consisting of \$5,000,000 in reserves and \$2,029,405 that may be used to meet the Commission's ongoing obligations.

At the end of the current fiscal year, the Commission is able to report positive balances in all three categories of net assets. The same held true for the prior fiscal year.

**Statement of Activities.** A summary of the Commission's revenues, expenses, and changes in net assets for fiscal years 2005-06 and 2004-05 is as follows:

	2006	2005	Change	%
Program Revenues	\$ 12,329,434	\$ 13,029,855	\$ (700,421)	-5.38%
General Revenues	809,534	647,384	162,150	25.05%
Total Revenues	<u>13,138,968</u>	<u>13,677,239</u>	<u>(538,271)</u>	<u>-3.94%</u>
Expenses	<u>12,084,372</u>	<u>11,143,019</u>	<u>941,353</u>	<u>8.45%</u>
Change in Net Assets	1,054,596	2,534,220	(1,479,624)	-58.39%
Net Assets - Beginning, July 1	<u>21,462,668</u>	<u>18,928,448</u>	<u>2,534,220</u>	<u>13.39%</u>
Net Assets - Ending, June 30	<u><u>\$ 22,517,264</u></u>	<u><u>\$ 21,462,668</u></u>	<u><u>\$ 1,054,596</u></u>	<u><u>4.91%</u></u>

**Revenues.** In addition to Proposition 10 revenues, the Commission has been successful at securing ongoing funding from both public and private funders to diversify and strengthen its funding stream.

Changes in revenue from the prior year are briefly summarized as follows:

- Other income was \$462,164 less in 2005-06 due to discontinuance in fiscal year 2004-05 of the Central Valley Evaluation collaborative in which five other commissions participated and reimbursed First 5 Kern for their proportionate share of costs.
- The Commission received \$162,150 more in interest income in 2005-06 than in the prior year.

**Expenditures.** Changes in expenditures from the prior year are briefly summarized as follows:

- Program contract expenditures in 2005-06 exceeded those of the prior year by \$1,750,723.
- Professional and specialized services were \$704,557 less in 2005-06 than in the prior year due to strict administrative oversight and lower evaluation and consulting costs.
- Office expense and publications and legal notices were \$23,561 and \$54,323 less, respectively, in 2005-06 than in 2004-05 due to strict administrative oversight and lower expenses for office expenses and publications.

### Requests for Information

This financial report is designed to provide an overview of the Commission's finances and to demonstrate the Commission's accountability for funds received. Questions concerning information provided in this report or requests for additional financial information should be addressed to the Executive Director, First 5 Kern, 2724 L Street, Bakersfield, California 93301.

**FIRST 5 KERN  
CHILDREN AND FAMILIES COMMISSION  
STATEMENT OF NET ASSETS  
JUNE 30, 2006 AND 2005**

<u><b>ASSETS</b></u>	2006	2005
Current Assets		
Cash	\$ 22,674,535	\$ 21,899,862
Accounts receivable	2,160,846	1,908,302
Interest receivable	200,284	134,881
	25,035,665	23,943,045
Capital Assets		
Equipment	21,636	21,636
Less accumulated depreciation	(9,736)	(5,409)
	11,900	16,227
<b>TOTAL ASSETS</b>	<b>\$ 25,047,565</b>	<b>\$ 23,959,272</b>
 <u><b>LIABILITIES</b></u>		
LIABILITIES		
Accounts payable and accrued expenses	\$ 2,383,470	\$ 2,373,133
Accrued payroll	43,458	30,010
Compensated absences	103,373	93,461
	2,530,301	2,496,604
<b>NET ASSETS</b>		
Invested in capital assets	11,900	16,227
Restricted		
Encumbrances	7,667,892	12,653,850
Obligations	7,367,098	259,755
First 5 California Initiatives	440,969	557,171
Unrestricted		
Local initiatives and program sustainability	5,000,000	5,000,000
Unrestricted	2,029,405	2,975,665
	2,029,405	2,975,665
<b>Total Net Assets</b>	<b>\$ 22,517,264</b>	<b>\$ 21,462,668</b>

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

**FIRST 5 KERN  
CHILDREN AND FAMILIES COMMISSION  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

<u>Functions/ Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) and Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Child Development Services	\$ 12,084,372	\$ -	\$ 12,329,434	\$ -	\$ 245,062
Totals	<u>\$ 12,084,372</u>	<u>\$ -</u>	<u>\$ 12,329,434</u>	<u>\$ -</u>	<u>245,062</u>
General Revenues:					
					809,534
					<u>1,054,596</u>
					<u>21,462,668</u>
					<u>\$ 22,517,264</u>

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

**FIRST 5 KERN  
CHILDREN AND FAMILIES COMMISSION  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

Functions/ Programs	Expenses	Program Revenues			Net (Expense) and Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Child Development Services	\$ 11,143,019	\$ -	\$ 13,029,855	\$ -	\$ 1,886,836
<b>Totals</b>	<b><u>\$ 11,143,019</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 13,029,855</u></b>	<b><u>\$ -</u></b>	<b><u>1,886,836</u></b>
General Revenues:					
Interest and investment earnings					<u>647,384</u>
Change in Net Assets					2,534,220
Net Assets Beginning of Year					<u>18,928,448</u>
Net Assets End of Year					<u><u>\$ 21,462,668</u></u>

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

**FIRST 5 KERN  
CHILDREN AND FAMILIES COMMISSION  
BALANCE SHEET  
GOVERNMENTAL GENERAL FUND  
JUNE 30, 2006 AND 2005**

<b><u>ASSETS</u></b>	<u>2006</u>	<u>2005</u>
Current Assets		
Cash	\$ 22,674,535	\$ 21,899,862
Accounts receivable	2,160,846	1,908,302
Interest receivable	200,284	134,881
	<hr/>	<hr/>
TOTAL ASSETS	<b><u>\$ 25,035,665</u></b>	<b><u>\$ 23,943,045</u></b>
<b><u>LIABILITIES AND FUND BALANCE</u></b>		
LIABILITIES		
Accounts payable and accrued expenses	\$ 2,383,470	\$ 2,373,133
Accrued payroll	43,458	30,010
	<hr/>	<hr/>
Total Liabilities	<u>2,426,928</u>	<u>2,403,143</u>
FUND BALANCE		
Reserved		
Reserved for Encumbrances	7,667,892	12,653,850
Reserved for Obligations	7,367,098	259,755
Reserved for First 5 California Initiatives	440,969	557,171
Unreserved		
Designated for Local Initiatives and Program Sustainability	5,000,000	5,000,000
Unreserved Undesignated	2,132,778	3,069,126
	<hr/>	<hr/>
Total Fund Balance	<u>22,608,737</u>	<u>21,539,902</u>
TOTAL LIABILITIES AND FUND BALANCE	<b><u>\$ 25,035,665</u></b>	<b><u>\$ 23,943,045</u></b>

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

**FIRST 5 KERN  
CHILDREN AND FAMILIES COMMISSION  
RECONCILIATION OF GOVERNMENTAL GENERAL FUND BALANCE  
SHEET TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2006**

<b>Total Fund Balance - Governmental Fund</b>	\$ 22,608,737
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used for governmental activities are not reported as assets in the governmental fund.	11,900
Compensated absence liability is not reported in the governmental fund.	<u>(103,373)</u>
<b>Total Net Assets - Governmental Activities</b>	<u><u>\$ 22,517,264</u></u>

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

**FIRST 5 KERN  
CHILDREN AND FAMILIES COMMISSION  
RECONCILIATION OF GOVERNMENTAL GENERAL FUND BALANCE  
SHEET TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2005**

**Total Fund Balance - Governmental Fund** \$ 21,539,902

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

Capital assets used for governmental activities are not reported as assets in the governmental fund. 16,227

Compensated absence liability is not reported in the governmental fund. (93,461)

**Total Net Assets - Governmental Activities** \$ 21,462,668

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

**FIRST 5 KERN  
CHILDREN AND FAMILIES COMMISSION  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
GOVERNMENTAL GENERAL FUND  
FOR THE FISCAL YEARS ENDED JUNE 30, 2006 AND 2005**

	2006	2005
Operating Revenues		
Aid from governmental agencies	\$ 11,278,678	\$ 11,640,628
Other state income	725,756	602,063
Grant awards and other income	325,000	787,164
	<u>12,329,434</u>	<u>13,029,855</u>
 Operating Expenditures		
Payroll	738,018	737,176
Employee benefits	140,707	153,734
Office expense	47,058	70,619
Insurance	8,786	15,453
Professional and specialized services	917,557	1,622,114
Administrative cost (County of Kern)	29,497	28,451
Publications and legal notice	15,127	69,450
Contribution to agents	10,066,427	8,315,704
Rental and lease	53,978	52,707
Travel and transportation	22,861	25,986
Utilities	12,823	12,250
Telephone	14,024	15,769
Miscellaneous	3,270	3,711
	<u>12,070,133</u>	<u>11,123,124</u>
 Operating Gain (Loss)	<u>259,301</u>	<u>1,906,731</u>
 Nonoperating Revenues		
Interest income	809,534	647,384
	<u>809,534</u>	<u>647,384</u>
 Excess (Deficiency) of Revenues over Expenditures	<u>1,068,835</u>	<u>2,554,115</u>
 Fund Balance, Beginning of Year	<u>21,539,902</u>	<u>18,985,787</u>
 Fund Balance, End of Year	<u>\$ 22,608,737</u>	<u>\$ 21,539,902</u>

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

**FIRST 5 KERN  
CHILDREN AND FAMILIES COMMISSION  
RECONCILIATION OF THE CHANGES IN FUND BALANCE  
TO THE CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

**Net Change in Fund Balance - Governmental General Fund** \$ 1,068,835

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

Capital outlays are reported in the governmental fund as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense in the period (4,327)

In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental fund, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts paid). This year amounts earned exceeded the vacation used by: (9,912)

**Total Change in Net Assets - Governmental Activities** \$ 1,054,596

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

**FIRST 5 KERN  
CHILDREN AND FAMILIES COMMISSION  
RECONCILIATION OF THE CHANGES IN FUND BALANCE  
TO THE CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2005**

**Net Change in Fund Balance - Governmental General Fund** \$ 2,554,115

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

Capital outlays are reported in the governmental fund as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of depreciation expense in the period (4,327)

In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental fund, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts paid). This year amounts earned exceeded the vacation used by: (15,568)

**Total Change in Net Assets - Governmental Activities** \$ 2,534,220

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

**FIRST 5 KERN  
CHILDREN AND FAMILIES COMMISSION  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL (GAAP)  
GOVERNMENTAL GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Operating Revenues				
Aid from governmental agencies	\$ 10,432,084	\$ 10,432,084	\$ 11,278,678	\$ 846,594
Other state income	1,172,037	1,172,037	725,756	(446,281)
Grant awards and other income	325,000	325,000	325,000	-
Total Operating Revenues	11,929,121	11,929,121	12,329,434	400,313
Operating Expenditures				
Payroll	710,174	710,174	738,018	(27,844)
Employee benefits	213,939	213,939	140,707	73,232
Office expense	74,699	74,699	47,058	27,641
Insurance	9,202	9,202	8,786	416
Professional and specialized services	1,280,949	1,280,949	917,557	363,392
Administrative cost (County of Kern)	46,300	46,300	29,497	16,803
Publications and legal notice	135,000	135,000	15,127	119,873
Contribution to agents	15,860,561	15,860,561	10,066,427	5,794,134
Rental and lease	57,720	57,720	53,978	3,742
Travel and transportation	29,200	29,200	22,861	6,339
Utilities	15,360	15,360	12,823	2,537
Telephone	16,253	16,253	14,024	2,229
Miscellaneous	6,900	6,900	3,270	3,630
Total Operating Expenditures	18,456,257	18,456,257	12,070,133	6,386,124
Operating Gain (Loss)	(6,527,136)	(6,527,136)	259,301	6,786,437
Nonoperating Revenues				
Interest income	400,800	400,800	809,534	408,734
Excess (Deficiency) of Revenues over Expenditures	(6,126,336)	(6,126,336)	1,068,835	7,195,171
Fund Balance, Beginning of Year	21,539,902	21,539,902	21,539,902	-
Fund Balance, End of Year	\$ 15,413,566	\$ 15,413,566	\$ 22,608,737	\$ 7,195,171

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

**FIRST 5 KERN  
CHILDREN AND FAMILIES COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
FOR THE FISCAL YEARS ENDED JUNE 30, 2006**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

In November of 1998, California voters approved Proposition 10, which levied a 50-cent tax on each pack of cigarettes sold. Revenues generated from the tobacco tax are used to fund local health, child care and education programs that promote early childhood development. These programs target children during their first five years of life and focus on anti-tobacco education programs.

On December 15, 1998, the County of Kern Board of Supervisors, in accordance with Proposition 10, passed and adopted an urgency ordinance, which created the First 5 Kern (the Commission), established the membership and commission, and authorized the establishment of the Kern County Children and Families Trust Fund.

**B. Basis of Presentation**

The Commission's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

**1. Government-wide Financial Statement**

The statement of net assets and the statement of activities display information about the Commission as a whole. The statement of net assets presents the financial condition of the governmental activities of the Commission at fiscal year end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the Commission's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues, which are not classified as program revenues are presented as general revenues of the Commission, with certain limited exceptions.

**2. Fund Financial Statement**

The Commission's governmental fund is accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reflects the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for the governmental fund.

**General Fund**

The General Fund is the general operating fund of the Commission and accounts for all revenues and expenditures of the Commission.

## NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### C. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, and in the presentation of expenses versus expenditures. Revenues from grants and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

### D. Accounting Policies

#### Non-exchange Transactions

*Non-exchange transactions*, in which the Commission gives or receives value without directly receiving or giving equal value in exchange, include Proposition 10 tax increments and other grants. On an accrual basis, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

### E. Change In Accounting Principle

In June 1999, The Governmental Accounting Standards Board (GASB) unanimously approved Statement no. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. GASB 34 significantly changes the way state and local governments report their financial information to the public. As a result of GASB 34, state and local governments are required to report financial information using both fund-based and government-wide financial statement presentations. Fund-based statements continue to use the modified accrual basis of accounting, but the government-wide statement uses full accrual basis of accounting. In addition to the change in the financial statement presentation, GASB 34 requires the reporting of capital assets and long-term obligations on the government-wide financial statements. The preparation of a Management Discussion and Analysis to clarify the Commission’s financial activities is also required by GASB 34. The Commission also adopted GASB Statement No. 38 (GASB 38), *Certain Financial Statement Note Disclosures*.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The Commission implemented the general provisions of the statement in the prior year.

### F. Net Assets

Net assets represent the residual interest in the Commission’s assets after liabilities are deducted. In accordance with GASB Statement No. 34, the Fund Equity section on the Statements of Net Assets was combined to report total net assets and present it in three broad components: invested in capital assets, net of related debt; restricted; and unrestricted. Net assets invested in capital assets, net of related debt include capital assets net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets. The Commission did not have any outstanding debt at June 30, 2006. The Commission’s policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Net assets are restricted when constraints are imposed by third parties or by law through constitutional provisions or enabling legislation. All other net assets are unrestricted.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

G. Fund Balance Reserves

Reservations of the ending fund balance indicate the portions of fund balance not appropriate for expenditure or amounts legally segregated for a specific future use. The reserves are shown in the governmental fund balance sheet. These amounts are not available for appropriation and expenditure at the balance sheet date.

H. Budgeting Procedures

Each year management of the Commission prepares a proposed budget which is presented to the Commission's Board of Commissioners. The annual budget is legally enacted through adoption of the budget by the Commission. It is then entered in the County of Kern Auditor Controller's Financial Management System.

Budgets are prepared on the modified accrual basis of accounting. Operating budgets that have not been encumbered lapse at the end of the fiscal year.

I. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of the Commission. The current and non-current portion of the liabilities are not reported in the Commission general fund. The entire compensated absences liability is reported on the government-wide financial statements.

J. Cash

The Commission maintains its cash account with the County of Kern Treasurer – Tax Collector. This is an interest bearing account.

K. Accounts Receivable

Accounts receivable are considered to be fully collectable, accordingly, no allowance for doubtful accounts is required.

L. Capital Assets

The Commission's policy is to capitalize purchases of property and equipment above \$5,000. Purchases of furniture and equipment under \$5,000 are expensed as incurred. The Commission maintains an inventory list to track furniture and equipment purchased with a value of less than \$5,000. Depreciation expense is calculated using the straight-line method and accumulated depreciation at year-end is included in capital assets. The Commission capitalizes equipment over 5 years.

M. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

N. Reclassification

Certain amounts in the financial statements have been reclassified to be consistent and comparable from year to year.

## NOTE 2 – CASH

Cash as of June 30, 2006 consisted of the following:

	<u>2006</u>	<u>2005</u>
Cash in County of Kern Treasury	<u>\$ 22,674,535</u>	<u>\$ 21,899,862</u>
Total Interest Income from County of Kern	<u>\$ 720,350</u>	<u>\$ 455,755</u>

### Cash on Hand and in Banks

### **Investments Authorized by the California Government Code and the Commission's Investment Policy**

The table below identifies the **investment types** that are authorized for the Commission by the California Government Code (or the Commission's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the Commission's investment policy, where more restrictive) that address **interest rate risk**, **credit risk**, and **concentration of credit risk**.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Negotiable Certificates of Deposit	5 years	None	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	None	None
Medium-Term Notes	5 years	None	None
Mutual Funds	N/A	None	None
Money Market Mutual Funds	N/A	None	None
Mortgage Pass-Through Securities	5 years	None	None
County Pooled Investment Funds	N/A	100%	None
Local Agency Investment Fund (LAIF)	N/A	None	None

### **Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

**NOTE 2 – CASH** (Continued)

**Disclosures Relating to Interest Rate Risk** (Continued)

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

Investment Type	Amount	Remaining Maturity (in Months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
County Investment Pool	<u>\$22,674,535</u>	<u>\$22,674,535</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations**

The Commission’s investments were not considered to be highly sensitive to interest rate fluctuations as of June 30, 2006 or 2005.

Cash on Hand and Cash in Banks

**Disclosures Relating to Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Commission’s investment policy, and the actual rating as of year end for each investment type. The column marked “exempt from disclosure” identifies those investment types for which GASB No. 40 does not require disclosure as to credit risk:

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End		
				AAA	Aa	Not Rated
County Investment Pool	<u>\$22,674,535</u>	<u>N/A</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$22,674,535</u>

**Custodial Credit Risk**

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Commission’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.

GASB Statement No. 40 requires that the following disclosure be made with respect to custodial credit risks relating to deposits and investments: none of the Commission’s deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

**NOTE 2 – CASH** (Continued)

**Investment in County Investment Pool**

The Commission is a participant in the Kern County Investment Fund. The fair value of the Commission's investment in this pool is reported in the accompanying financial statements at amounts based upon the Commission's pro-rata share of the fair value provided by the County for the entire County portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County, which are recorded on an amortized cost basis.

**NOTE 3 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Balances June 30, 2005</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances June 30, 2006</u>
Capital assets, being depreciated				
Vehicles	<u>\$ 21,636</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,636</u>
Less accumulated depreciation for:				
Vehicles	<u>(5,409)</u>	<u>(4,327)</u>	<u>-</u>	<u>(9,736)</u>
Total Capital Assets, Net	<u>\$ 16,227</u>	<u>\$ (4,327)</u>	<u>\$ -</u>	<u>\$ 11,900</u>

	<u>Balances June 30, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances June 30, 2005</u>
Capital assets, being depreciated				
Vehicles	<u>\$ 21,636</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,636</u>
Less accumulated depreciation for:				
Vehicles	<u>(1,082)</u>	<u>(4,327)</u>	<u>-</u>	<u>(5,409)</u>
Total Capital Assets, Net	<u>\$ 20,554</u>	<u>\$ (4,327)</u>	<u>\$ -</u>	<u>\$ 16,227</u>

Depreciation expense at June 30, 2006 and 2005 was \$4,327 and \$4,327, respectively.

**NOTE 4 – OPERATING LEASE**

On January 1, 2006, the Commission entered a lease agreement to lease approximately 5,700 gross square feet consisting of a building, parking area and landscaping located at 2724 L Street, Bakersfield, California. The lease expires on December 31, 2008 with a monthly payment in the amount of \$4,600. The amount reported as lease expense was \$48,059 and \$52,200 for the years ended June 30, 2006 and 2005, respectively. Future minimum lease payments are as follows as of June 30, 2006:

<u>Year Ending June 30,</u>	
2007	\$ 57,900
2008	62,100
2009	<u>31,800</u>
Total	<u>\$ 151,800</u>

#### **NOTE 5 – CONTRACTED PROGRAMS**

The Commission has agreements with various contractors for the child development program. The Commission is obligated to reimburse the contractors for all necessary and reasonable expenses incurred in accordance with the project budget for providing the services on behalf of the Commission. The remaining balance of the contracts as of June 30, 2006 and 2005 was \$15,034,990 and \$17,217,638, respectively.

#### **NOTE 6 – PENSION PLAN**

On February 15, 2000, the Commission established a deferred compensation plan administered by CalPERS. The plan covers substantially all of its employees. The Commission contributes up to 15% of gross pay per year. Contributions for the years ended June 30, 2006 and 2005 were \$82,337 and \$84,332, respectively.

#### **NOTE 7 – COMMITMENTS AND CONTINGENCIES**

The Commission entered into a thirteen-month agreement with the Applied Research Center (ARC) of California State University, Bakersfield on May 1, 2001 to provide evaluation research and associated consulting services in support of the Commission's Proposition 10 responsibilities. The services focus on developing comprehensive baseline information on a wide range of child and family public health issues, and then clear measures of agency performance and their resultant impact on the children and families they serve. For the year ended June 30, 2006, \$650,000 was budgeted for professional and specialized services under this contract. On February 15, 2006, the contract was extended for a one-year term with an estimated cost of \$650,000.

The Commission entered into a one-year agreement with Corporation for Standards and Outcomes (CS&O) on July 1, 2001. CS&O offers an Outcomes Collection, Evaluation and Reporting Service that combines an array of secure and confidential Internet application "modules", expert consultation services, and a variety of computer hosting services into a customized, perspective, outsourcing service for customers. CS&O is in the process of configuring a system that will enable service providers designated by the Commission to input information regarding children (age birth to 5 years) into a centralized, secure and confidential database. The database will allow expert consultation that will enable the Commission to analyze the impact of funded projects as determined from the available database information. On July 1, 2004 the Commission entered into a three-year agreement with CS&O at an estimated annual cost of \$265,932. For the year ended June 30, 2006, \$265,932 was budgeted for professional and specialized services under this contract.

The Commission maintains a \$5M reserve in its Five Year Financial Plan to provide for contingencies such as:

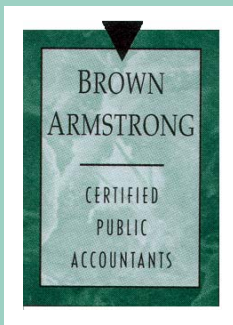
- Cushion against unanticipated revenue losses
- Increase support for successful programs
- Fund new programs or initiatives
- Use as matching funds
- Honor contractual obligations during closeout in the event of a repeal of Proposition 10

#### **NOTE 8 – EXCESS EXPENDITURES OVER APPROPRIATIONS**

For the year ended June 30, 2006, expenditures exceeding appropriations are indicated as negative variances in the Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual - on page 15.

The over expenditures were funded from current year Proposition 10 and other current year revenue.

**OTHER REPORT**



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

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Amanda Fedewa, CPA

Board of Commissioners  
First 5 Kern  
Children and Families Commission  
Bakersfield, California

We have audited the financial statements of the First 5 Kern as of and for the year ended June 30, 2006, and have issued our report thereon dated August 31, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the First 5 Kern Children and Families Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the First 5 Kern Children and Families Commission's financial statements are free of 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*.

This report is intended solely for the information and use of the Board of Commissioners, the State of California First 5 Children and Families Commission, and management 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.

BROWN ARMSTRONG PAULDEN  
McCOWN STARBUCK THORNBURGH & KEETER  
ACCOUNTANCY CORPORATION



Bakersfield, California  
August 31, 2006