

KERN COUNTY CHILDREN AND FAMILIES COMMISSION

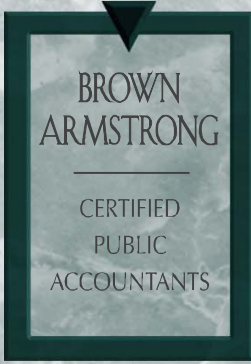
**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT**

**FOR THE FISCAL YEARS
ENDED JUNE 30, 2011 AND 2010**

**KERN COUNTY CHILDREN AND FAMILIES COMMISSION
JUNE 30, 2011 AND 2010**

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BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Commissioners
Kern County Children and Families Commission
Bakersfield, California

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We have audited the accompanying financial statements of the governmental activities and the major fund of the Kern County Children and Families Commission (the Commission), a component unit of Kern County, as of June 30, 2011 and 2010, and for the years then ended, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits 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 audits 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 audits provide a reasonable basis for our opinions.

As discussed in Note 1 to the financial statements, the Commission adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Kern County Children and Families Commission as of June 30, 2011 and 2010, and the respective changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated September 26, 2011, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.



REGISTERED with the Public Company Accounting Oversight Board and MEMBER of the American Institute of Certified Public Accountants

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 through 6 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.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION



Bakersfield, California
September 26, 2011

**KERN COUNTY CHILDREN AND FAMILIES COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

This section of the Kern County Children and Families Commission (the 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, 2011 and 2010.

In November 1998, California voters approved Proposition 10, which established the California Children and Families Act (the 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. Revenue in Kern County is driven by total tobacco sales tax collections statewide and the number of live births in Kern County relative to the number of live births statewide.

On December 15, 1998, the Kern County Board of Supervisors enacted Ordinance G-6565, which created the Commission, established the membership of the 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 Initiative, and other programs that support early childhood development in Kern County. Kern County'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 contractors, if requested, and contractors submit quarterly claims with supporting documentation for reimbursement of program costs. Contractors are held to strict standards of financial and program compliance. The Commission also performs site visits to monitor how well contractors comply with the requirements of their general agreement and to assist in program evaluation sustainability and improvement.

As management of the Commission, we offer readers of the financial statements this narrative overview and analysis of financial activities for the fiscal years ended June 30, 2011 and 2010.

Fiscal Year 2010-11 Financial Highlights

- The Commission received \$11,694,565 from the State for revenues collected under the California Children and Families Act.
- During fiscal year 2010-11, the Commission disbursed \$10,213,288 to various contractors.
- On March 24, 2011, the Governor signed Assembly Bill 99 (AB 99) establishing the Children and Families Health and Human Services Fund (Fund). AB 99 requires \$1 billion of the combined state and local children and families funds to be deposited in the Fund for fiscal year 2011-12. As a result of this new bill, each First 5 commission was required to make a payment (AB 99 payment) representing 50% of the fund balance as of June 30, 2010. The AB 99 payment is due by June 30, 2012. In accordance with the legislation, no fiscal year 2012-13 commission revenues will be paid until the full AB 99 payment is made. Accordingly, the Commission has accrued the AB 99 obligation as a liability at June 30, 2011. The amount determined for First 5 Kern is \$11,709,156 and this is presented in the financial statements as a payable to the State of California – AB 99 and as an extraordinary expense.
- The assets of the Commission exceeded its liabilities at the close of the recent fiscal year by \$11,066,784 (net assets). Of this amount, \$10,998,101 is restricted to meet fiscal year 2011-12 contractual obligations and the remaining \$37,111 represents unrestricted net assets. The decrease in unrestricted net assets is due to the passage of AB 99, which resulted in the accrual of a liability

and reporting an extraordinary expense of \$11,709,156. AB 99 is currently in the courts. Several entities have challenged this bill. If it is found to be unconstitutional, the Commission would not have to make the payment and the unrestricted net assets would increase by the \$11,709,156 and total net assets would increase to \$22,775,940.

- At the close of the current fiscal year, the Commission's governmental fund reported an ending fund balance of \$11,117,629, a decrease of \$12,300,684 in comparison with the prior year. The Commission's policy is to maintain a \$5,000,000 reserve balance. Due to the passage of AB 99 and the establishment of the liability, the Commission was unable to meet the reserve balance at June 30, 2011. In the five-year financial plan approved June 1, 2011, the Commission approved to decrease the reserves to \$3,000,000 for the next three fiscal years ending fiscal year 2013-14. The Commission also discussed rebuilding the fund balance over this period with contracts being executed under budget.

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

- Actual operating revenues were \$387,457 less than budgeted revenues due to a decrease in tobacco tax revenue collection and under spent contracts in School Readiness affecting the reimbursement funds to the Commission. Contributions to agents were \$1,958,933 less than budgeted due to contracts being executed under budget.
- Some expenditures were less than budgeted due to the direction of management and an administrative review of costs, including the following:
 - Payroll and employee benefits were under budget by \$30,395 and \$44,530, respectively, due to the negotiated rate of the Executive Director and step increase freeze.
 - Office expense and publications and legal notices were \$13,880 and \$10,931 respectively, less than budgeted due to a decrease in special departmental expenses and the conversion of electronic documents now available on Commission's web site.

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 financial statements. In addition to the basic financial statements, this report also contains other supplementary information and notes explaining some of the information in the basic financial statements and providing 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, 2011 and 2010.

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 Kern County, assets exceeded liabilities by \$11,066,784 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 law, and changes in the economy.

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

	2011	2010	2009	2011-2010		2010-2009	
				Change	%	Change	%
Assets							
Current Assets	\$ 25,462,699	\$ 25,860,941	\$ 25,449,425	\$ (398,242)	-1.54%	\$ 411,516	1.62%
Capital Assets	41,572	55,713	47,810	(14,141)	-25.38%	7,903	16.53%
Total Assets	25,504,271	25,916,654	25,497,235	(412,383)	-1.59%	419,419	1.64%
Total Liabilities	14,437,487	2,512,856	2,631,467	11,924,631	474.54%	(118,611)	-4.51%
Net Assets:							
Invested in Capital Assets	41,572	55,713	47,810	(14,141)	-25.38%	7,903	16.53%
Restricted	10,988,101	17,074,125	17,792,980	(6,086,024)	-35.64%	(718,855)	-4.04%
Local Initiatives and Unrestricted	37,111	6,273,960	5,024,978	(6,236,849)	-99.41%	1,248,982	24.86%
Total Net Assets	\$ 11,066,784	\$ 23,403,798	\$ 22,865,768	\$ (12,337,014)	-52.71%	\$ 538,030	2.35%

Net assets are reported in three different categories. Invested in capital assets relate to the portion of the Commission's net assets that is comprised of capital assets. Restricted net assets represent resources that are subject to restrictions on how they may be used. Unrestricted is the residual amount and reflects amounts that are not subject to restrictions.

At the end of fiscal years 2010-11 and 2009-10, the Commission was able to report positive balances in all three categories of net assets.

Statement of Activities. A summary of the Commission's revenues, expenses, and change in net assets for fiscal years 2010-11 and 2009-10 is as follows:

	2011	2010	2009	2011-2010		2010-2009	
				Change	%	Change	%
Program Revenues	\$ 11,694,565	\$ 12,256,870	\$ 12,285,155	\$ (562,305)	-4.59%	\$ (28,285)	-0.23%
General Revenues	223,745	368,600	694,095	(144,855)	-39.30%	(325,495)	-46.89%
Total Revenues	11,918,310	12,625,470	12,979,250	(707,160)	-5.60%	(353,780)	-2.73%
Expenses	12,546,168	12,087,440	12,274,072	458,728	3.80%	(186,632)	-1.52%
Change in Net Assets	(627,858)	538,030	705,178	(1,165,888)	-216.70%	(167,148)	-23.70%
Extraordinary Item:							
State of California - AB 99	(11,709,156)	-	-	(11,709,156)	-100%	-	0.00%
Net Assets - Beginning of Year	23,403,798	22,865,768	22,160,590	538,030	2.35%	705,178	3.18%
Net Assets - End of Year	\$ 11,066,784	\$ 23,403,798	\$ 22,865,768	\$ (12,337,014)	-52.71%	\$ 538,030	2.35%

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

- Operating revenue from the State for Proposition 10 distributions decreased in fiscal year 2010-11 by \$25,499 over prior year. While Proposition 10 revenue is declining Statewide, the decline is partially offset in Kern County due to Kern County's increasing birth rate.
- Other State income, including the School Readiness Initiative, decreased by \$526,806, which is due to a change in the method of reimbursement from the State in fiscal year 2009-10 that included reconciling payments relating to 2008-09 activity. In fiscal year 2010-11, funded program contracts were executed under budget in School Readiness affecting the reimbursement funds to the Commission.
- The Commission received \$144,855 less interest income in 2010-11 than in the prior year due to market conditions.

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

- Professional and specialized services decreased \$25,211 in fiscal year 2010-11 over the prior year. In fiscal year 2009-10, The Commission funded the Medically Vulnerable Care Coordination Project (MVCCP) pilot and these expenditures were coded to professional and specialized services. Due to the success of the MVCCP pilot, this project received funding and as a funded program, the expenditures were coded to contributions to agents in fiscal year 2010-11.

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, Kern County Children and Families Commission, 2724 L Street, Bakersfield, California 93301.

BASIC FINANCIAL STATEMENTS

**KERN COUNTY CHILDREN AND FAMILIES COMMISSION
STATEMENT OF NET ASSETS
JUNE 30, 2011 AND 2010**

<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
Current Assets		
Cash	\$ 22,916,803	\$ 23,353,681
Accounts receivable	2,504,158	2,431,077
Interest receivable	41,738	76,183
	<u>25,462,699</u>	<u>25,860,941</u>
Capital Assets		
Equipment	90,793	85,333
Less accumulated depreciation	(49,221)	(29,620)
	<u>41,572</u>	<u>55,713</u>
Total Capital Assets, Net of Depreciation	<u>41,572</u>	<u>55,713</u>
TOTAL ASSETS	<u><u>\$ 25,504,271</u></u>	<u><u>\$ 25,916,654</u></u>
 <u>LIABILITIES AND NET ASSETS</u>		
LIABILITIES		
Accounts payable and accrued expenses	\$ 2,602,510	\$ 2,409,730
Accrued payroll	33,404	32,898
Due to the State of California - AB 99	11,709,156	-
Long-term liabilities		
Compensated absences due within one year	92,417	70,228
	<u>14,437,487</u>	<u>2,512,856</u>
TOTAL LIABILITIES	<u>14,437,487</u>	<u>2,512,856</u>
NET ASSETS		
Invested in capital assets	41,572	55,713
Restricted	10,988,101	17,074,125
Unrestricted	37,111	6,273,960
	<u>11,066,784</u>	<u>23,403,798</u>
TOTAL NET ASSETS	<u><u>\$ 11,066,784</u></u>	<u><u>\$ 23,403,798</u></u>

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

**KERN COUNTY CHILDREN AND FAMILIES COMMISSION
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Functions/Programs	Expenses	Program Revenues			Net (Expense) and Revenue and Change in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Child Development Services	\$ 12,546,168	\$ -	\$ 11,694,565	\$ -	\$ (851,603)
Totals	<u>\$ 12,546,168</u>	<u>\$ -</u>	<u>\$ 11,694,565</u>	<u>\$ -</u>	<u>(851,603)</u>
General Revenues:					
Interest and investment earnings					<u>223,745</u>
Change in Net Assets					(627,858)
Extraordinary Item: State of California - AB 99					(11,709,156)
Net Assets Beginning of Year					<u>23,403,798</u>
Net Assets End of Year					<u>\$ 11,066,784</u>

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

**KERN COUNTY CHILDREN AND FAMILIES COMMISSION
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) and Revenue and Change 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	\$ 12,087,440	\$ -	\$ 12,256,870	\$ -	\$ 169,430
Totals	<u>\$ 12,087,440</u>	<u>\$ -</u>	<u>\$ 12,256,870</u>	<u>\$ -</u>	<u>169,430</u>
General Revenues:					
Interest and investment earnings					<u>368,600</u>
Change in Net Assets					538,030
Net Assets Beginning of Year					<u>22,865,768</u>
Net Assets End of Year					<u>\$ 23,403,798</u>

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

**KERN COUNTY CHILDREN AND FAMILIES COMMISSION
BALANCE SHEET
GOVERNMENTAL GENERAL FUND
JUNE 30, 2011 AND 2010**

<u>ASSETS</u>	<u>2011</u>	<u>2010</u>
Current Assets		
Cash	\$ 22,916,803	\$ 23,353,681
Accounts receivable	2,504,158	2,431,077
Interest receivable	41,738	76,183
	<u> </u>	<u> </u>
TOTAL ASSETS	<u>\$ 25,462,699</u>	<u>\$ 25,860,941</u>
<u>LIABILITIES AND FUND BALANCE</u>		
LIABILITIES		
Accounts payable and accrued expenses	\$ 2,602,510	\$ 2,409,730
Due to the State of California - AB 99	11,709,156	-
Accrued payroll	33,404	32,898
	<u> </u>	<u> </u>
TOTAL LIABILITIES	<u>14,345,070</u>	<u>2,442,628</u>
FUND BALANCE		
Reserved		
Nonspendable	41,572	55,713
Committed	10,988,101	17,074,125
Unassigned	87,956	6,288,475
	<u> </u>	<u> </u>
TOTAL FUND BALANCE	<u>11,117,629</u>	<u>23,418,313</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 25,462,699</u>	<u>\$ 25,860,941</u>

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

**KERN COUNTY CHILDREN AND FAMILIES COMMISSION
RECONCILIATION OF GOVERNMENTAL GENERAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011**

Total Fund Balance - Governmental Fund	\$ 11,117,629
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.	41,572
Compensated absences liability is not reported in the governmental fund.	<u>(92,417)</u>
Total Net Assets - Governmental Activities	<u><u>\$ 11,066,784</u></u>

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

**KERN COUNTY CHILDREN AND FAMILIES COMMISSION
RECONCILIATION OF GOVERNMENTAL GENERAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010**

Total Fund Balance - Governmental Fund	\$ 23,418,313
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.	55,713
Compensated absences liability is not reported in the governmental fund.	<u>(70,228)</u>
Total Net Assets - Governmental Activities	<u><u>\$ 23,403,798</u></u>

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

**KERN COUNTY CHILDREN AND FAMILIES COMMISSION
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL GENERAL FUND
FOR THE FISCAL YEARS ENDED JUNE 30, 2011 AND 2010**

	<u>2011</u>	<u>2010</u>
Operating Revenues		
Aid from governmental agencies	\$ 10,404,358	\$ 10,429,857
Other state income	1,260,207	1,787,013
Grant awards and other income	<u>30,000</u>	<u>40,000</u>
Total Operating Revenues	<u>11,694,565</u>	<u>12,256,870</u>
Operating Expenditures		
Payroll	893,605	855,334
Employee benefits	209,205	184,460
Office expense	56,970	63,986
Insurance	9,825	8,768
Professional and specialized services	948,934	974,145
Administrative cost (County of Kern)	18,713	12,448
Publications and legal notice	17,269	20,302
Contribution to agents	10,213,288	9,828,339
Rental and lease	89,794	84,858
Travel and transportation	12,913	9,009
Utilities	13,848	14,462
Telephone	10,916	9,318
Miscellaneous	<u>14,558</u>	<u>27,910</u>
Total Operating Expenditures	<u>12,509,838</u>	<u>12,093,339</u>
Operating Gain (Loss)	<u>(815,273)</u>	<u>163,531</u>
Nonoperating Revenues		
Interest income	<u>223,745</u>	<u>368,600</u>
Total Nonoperating Revenues	<u>223,745</u>	<u>368,600</u>
Net Change in Fund Balance	(591,528)	532,131
Extraordinary Item		
State of California - AB 99	<u>(11,709,156)</u>	<u>-</u>
Fund Balance, Beginning of Year	<u>23,418,313</u>	<u>22,886,182</u>
Fund Balance, End of Year	<u>\$ 11,117,629</u>	<u>\$ 23,418,313</u>

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

**KERN COUNTY CHILDREN AND FAMILIES COMMISSION
RECONCILIATION OF THE CHANGE IN FUND BALANCE
TO THE CHANGE IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Net Change in Fund Balance - Governmental General Fund \$ (591,528)

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 by which additions to capital outlay \$5,460 exceed depreciation expense (\$19,602) in the period: (14,141)

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 paid exceeded the vacation accrued by: (22,189)

Total Change in Net Assets - Governmental Activities \$ (627,858)

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

**KERN COUNTY CHILDREN AND FAMILIES COMMISSION
RECONCILIATION OF THE CHANGE IN FUND BALANCE
TO THE CHANGE IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Net Change in Fund Balance - Governmental General Fund \$ 532,131

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 by which additions to capital outlay \$27,075 exceed depreciation expense (\$13,458) in the period: 13,617

Loss on sale of assets: (5,714)

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 paid exceeded the vacation accrued by: (2,004)

Total Change in Net Assets - Governmental Activities \$ 538,030

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

**KERN COUNTY 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, 2011**

	<u>Budgeted Amounts</u>		Actual (GAAP Basis)	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		
Operating Revenues				
Aid from governmental agencies	\$ 10,776,414	\$ 10,776,414	\$ 10,404,358	\$ (372,056)
Other state income	1,285,608	1,285,608	1,260,207	(25,401)
Grant awards and other income	<u>20,000</u>	<u>20,000</u>	<u>30,000</u>	<u>10,000</u>
Total Operating Revenues	<u>12,082,022</u>	<u>12,082,022</u>	<u>11,694,565</u>	<u>(387,457)</u>
Operating Expenditures				
Payroll	930,000	924,000	893,605	30,395
Employee benefits	247,735	253,735	209,205	44,530
Office expense	75,850	70,850	56,970	13,880
Insurance	16,500	12,500	9,825	2,675
Professional and specialized services	953,271	958,271	948,934	9,337
Administrative cost (County of Kern)	16,000	19,600	18,713	887
Publications and legal notice	31,000	28,200	17,269	10,931
Contribution to agents	12,172,221	12,172,221	10,213,288	1,958,933
Rental and lease	91,900	91,900	89,794	2,106
Travel and transportation	18,000	18,000	12,913	5,087
Utilities	18,000	18,000	13,848	4,152
Telephone	8,200	11,400	10,916	484
Miscellaneous	<u>24,500</u>	<u>24,500</u>	<u>14,558</u>	<u>9,942</u>
Total Operating Expenditures	<u>14,603,177</u>	<u>14,603,177</u>	<u>12,509,838</u>	<u>2,093,339</u>
Operating Gain (Loss)	<u>(2,521,155)</u>	<u>(2,521,155)</u>	<u>(815,273)</u>	<u>1,705,882</u>
Nonoperating Revenues				
Interest income	<u>669,081</u>	<u>669,081</u>	<u>223,745</u>	<u>(445,336)</u>
Total Nonoperating Revenues	<u>669,081</u>	<u>669,081</u>	<u>223,745</u>	<u>(445,336)</u>
Net Change in Fund Balance	(1,852,074)	(1,852,074)	(591,528)	1,260,546
Extraordinary Item				
State of California - AB 99	<u>-</u>	<u>-</u>	<u>(11,709,156)</u>	<u>(11,709,156)</u>
Fund Balance, Beginning of Year	<u>23,418,313</u>	<u>23,418,313</u>	<u>23,418,313</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ 21,566,239</u></u>	<u><u>\$ 21,566,239</u></u>	<u><u>\$ 11,117,629</u></u>	<u><u>\$ (10,448,610)</u></u>

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

**KERN COUNTY CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

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

The Commission has been determined to be a blended component unit of the County under accounting principles generally accepted in the United States of America (GAAP). As such, the results of its operations are also included in the County's Comprehensive Annual Financial Report.

B. New Accounting Pronouncements

For the fiscal year ended June 30, 2011, the Commission implemented Governmental Accounting Standards Board Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*. The requirements of this statement are effective for financial statement periods beginning after June 15, 2010.

GASB 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied, and it clarifies the existing governmental fund type definitions. It establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. These classifications are described in the Fund Equity section of this footnote.

GASB 54 also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements. The definitions of the General Fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are also clarified by the provisions in this statement. The Commission's implementation of GASB 54 was not as involved as it only has one fund.

C. Basis of Presentation

In accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the financial statements consisted of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation (Continued)

1. Government-Wide Financial Statements

The government-wide financial statements consist of the statement of net assets and the statement of activities. The government-wide financial statements distinguish programs of the Commission that are principally supported by intergovernmental revenues (governmental activities) from programs that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Commission include: Child Care and Early Education, Parent Education and Support Services, Health and Wellness, and Integration of Services and Administration. There were no business-type activities for the Commission for the years ended June 30, 2011 or 2010.

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, not classified as program revenues, are presented as general revenues of the Commission with certain limited exceptions.

2. Fund Financial Statements

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.

D. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. 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.

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 balance section on the statement 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. 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. 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.

G. Fund Balance

In the fund financial statements, governmental funds report fund balances as nonspendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the Commission is bound to honor constraints on how specific amounts can be spent.

- *Nonspendable fund balance*—amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- *Restricted fund balance*—amounts with constraints placed on their use that are either (a) externally imposed creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.
- *Committed fund balance*—amounts that can only be used for specific purposes determined by formal action of the Commission's highest level of decision-making authority (the Board of Commissioners) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- *Assigned fund balance*—amounts that are constrained by the Commission's intent to be used for specific purposes. The intent can be established at either the highest level of decision making, or by a body or an official designated for that purpose.
- *Unassigned fund balance*—the residual classification for the Commission's General Fund that includes amounts not contained in the other classifications.

The Board of Commissioners establishes, modifies, or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the year.

The Commission's policy is to first apply committed resources and then assigned when an expenditure is incurred for purposes for which any amounts in any of these unrestricted fund value classifications could be used.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Budgeting Procedures

Each year management of the Commission prepares a proposed budget that is presented to the Board of Commissioners. The annual budget is legally enacted through adoption of the budget by the Commission. It is then entered in the Kern County 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 noncurrent portions 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 Kern County 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 depreciates 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. Reclassifications

Due to the implementation of GASB 54, the ending fund balances for fiscal year 2010 were reclassified as nonspendable, restricted, committed, assigned, or unassigned for comparative purposes.

NOTE 2 – CASH

Cash as of June 30, 2011 and 2010, consisted of the following:

	<u>2011</u>	<u>2010</u>
Cash in Kern County Investment Pool	<u>\$ 22,916,803</u>	<u>\$ 23,353,681</u>
Total Interest Income from Kern County	<u>\$ 223,745</u>	<u>\$ 368,600</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)

Cash on Hand and in Banks (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:

2011		Remaining Maturity (in Months)			
Investment Type	Amount	12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
County Investment Pool	\$ 22,916,803	\$ 22,916,803	\$ -	\$ -	\$ -

2010		Remaining Maturity (in Months)			
Investment Type	Amount	12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
County Investment Pool	\$ 23,353,681	\$ 23,353,681	\$ -	\$ -	\$ -

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 Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3*, does not require disclosure as to credit risk:

2011		Minimum Legal Rating	Exempt From Disclosure	Rating as of Year-End		
Investment Type	Amount			AAA	Aa	Not Rated
County Investment Pool	\$22,916,803	N/A	\$ -	\$ -	\$ -	\$22,916,803

2010		Minimum Legal Rating	Exempt From Disclosure	Rating as of Year-End		
Investment Type	Amount			AAA	Aa	Not Rated
County Investment Pool	\$23,353,681	N/A	\$ -	\$ -	\$ -	\$23,353,681

NOTE 2 – CASH (Continued)

Cash on Hand and in Banks (Continued)

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.

Investment in County Investment Pool

The Commission is a participant in the Kern County Investment Pool. 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 Kern 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 Kern County, which are recorded on an amortized cost basis.

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, was as follows:

	<u>Balances</u> <u>June 30, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>June 30, 2011</u>
Capital assets, being depreciated:				
Vehicles	\$ 25,228	\$ -	\$ -	\$ 25,228
Equipment	60,105	5,460	-	65,565
Total assets being depreciated	<u>85,333</u>	<u>5,460</u>	<u>-</u>	<u>90,793</u>
Less accumulated depreciation for:				
Vehicles	(11,680)	(7,242)	-	(18,922)
Equipment	(17,940)	(12,359)	-	(30,299)
Total accumulated depreciation	<u>(29,620)</u>	<u>(19,601)</u>	<u>-</u>	<u>(49,221)</u>
Total capital assets, net	<u>\$ 55,713</u>	<u>\$ (14,141)</u>	<u>\$ -</u>	<u>\$ 41,572</u>

NOTE 3 – CAPITAL ASSETS (Continued)

Capital asset activity for the year ended June 30, 2010, was as follows:

	Balances June 30, 2009	Additions	Deletions	Balances June 30, 2010
Capital assets, being depreciated:				
Vehicles	\$ 25,228	\$ -	\$ -	\$ 25,228
Equipment	38,992	27,075	(5,962)	60,105
Total assets being depreciated	<u>64,220</u>	<u>27,075</u>	<u>(5,962)</u>	<u>85,333</u>
Less accumulated depreciation for:				
Vehicles	(8,830)	(2,850)	-	(11,680)
Equipment	(7,580)	(10,608)	248	(17,940)
Total accumulated depreciation	<u>(16,410)</u>	<u>(13,458)</u>	<u>248</u>	<u>(29,620)</u>
Total capital assets, net	<u>\$ 47,810</u>	<u>\$ 13,617</u>	<u>\$ (5,714)</u>	<u>\$ 55,713</u>

Depreciation expense at June 30, 2011 and 2010, was \$19,601 and \$13,458, respectively.

NOTE 4 – STATE OF CALIFORNIA LIABILITY – AB 99

The amount for the Commission payable to the State of California is \$11,709,156.

On March 24, 2011, the Governor signed Assembly Bill 99 (AB 99) establishing the Children and Families Health and Human Services Fund (Fund). AB 99 expropriates \$1 billion from First 5 trust fund reserves; \$50 million from First 5 California and \$950 million from the trust fund reserves of First 5 Counties. This money is shifted from First 5 to pay the State's preexisting Medi-Cal obligations for children 0-5 years old. The amount required from each First 5 commission (AB 99 payment) represents 50% of the fund balance as of June 30, 2010. The AB 99 payment is due by June 30, 2012. In accordance with the legislation, no fiscal year 2012-13 commission revenues will be paid until the full AB 99 payment is made. Accordingly, the Commission has accrued the AB 99 obligation as a liability at June 30, 2011. The amount for the Commission is \$11,709,156 and this is presented in the financial statements as a payable to the State of California – AB 99 and as an extraordinary expense.

NOTE 5 – CHANGES IN COMPENSATED ABSENCES

A schedule of changes in long-term debt for the years ended June 30, 2011 and 2010, was as follows:

	June 30, 2010	Additions	Deletions	June 30, 2011	Due Within One Year
Compensated Absences, Net	<u>\$ 70,228</u>	<u>\$ 77,495</u>	<u>\$ (55,306)</u>	<u>\$ 92,417</u>	<u>\$ 92,417</u>
	June 30, 2009	Additions	Deletions	June 30, 2010	Due Within One Year
Compensated Absences, Net	<u>\$ 68,224</u>	<u>\$ 2,004</u>	<u>\$ -</u>	<u>\$ 70,228</u>	<u>\$ 70,228</u>

NOTE 6 – OPERATING LEASE

On January 1, 2006, the Commission entered a lease agreement to lease approximately 5,236 gross square feet consisting of a building, parking area, and landscaping located at 2724 L Street, Bakersfield, California. The lease expired on December 31, 2008, with monthly payments in the amount of \$5,300 during the last year of the agreement. On January 1, 2009, the Commission entered a lease agreement to continue leasing the property with monthly payments in the amount of \$6,500 from January 1, 2009, through December 31, 2009; \$6,825 from January 1, 2010, through December 31, 2010; and \$7,166 from January 1, 2011, through December 31, 2011. The amount reported as lease expense was \$83,946 and \$79,950 for the years ended June 30, 2011 and 2010, respectively. Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	
2012	<u>\$ 42,996</u>
Total	<u><u>\$ 42,996</u></u>

The Commission entered negotiations to extend the lease for three years ending December 31, 2015. The anticipated amount of lease expense for January 1, 2012, through June 30, 2012, is \$42,996. The terms, while verbally agreed upon are not contractually obligated as of September 11, 2011.

NOTE 7 – 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, 2011 and 2010, was \$10,539,741 and \$4,077,660, respectively.

NOTE 8 – PENSION PLAN

On February 15, 2000, the Commission established a deferred compensation plan administered by California Public Employees' Retirement System. 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, 2011 and 2010, were \$90,356 and \$81,454, respectively.

NOTE 9 – COMMITMENTS AND CONTINGENCIES

The Commission contracts with various service providers for data management services and for evaluation and reporting services. On July 1, 2011, the Commission entered into two separate three-year agreements with the following:

- Mosaic Network, Inc., for data management services for \$382,750 for the three-year contract.
- Dr. Jianjun Wang to provide evaluation and reporting services for \$290,160 for the three-year contract.

The Commission's policy is to maintain a \$5 million 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 9 – COMMITMENTS AND CONTINGENCIES (Continued)

Due to the passage of AB 99 and the accrual of the liability (refer to Note 4 – State of California Liability – AB 99 for further details), the Commission was unable to meet the reserve balance as of June 30, 2011. In the five-year financial plan, which was approved June 1, 2011, the Commission decreased the reserves to \$3 million for the next three fiscal years ending fiscal year 2013-14. The Commission also discussed rebuilding the fund balance over this period with contracts being executed under budget.

In addition to the above, the Commission had outstanding encumbrances of \$2,589,861 and \$4,077,660 at June 30, 2011 and 2010, respectively.

NOTE 10 – EXCESS EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2011, expenditures exceeding appropriations are indicated as negative variances in the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – on page 16.

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

NOTE 11 – PROGRAM EVALUATION

The Commission spent \$889,235 and \$871,561 on program evaluation for the fiscal years ended 2010-11 and 2009-10, respectively.

NOTE 12 – SUBSEQUENT EVENTS/AB 99

As discussed in Note 4 – State of California Liability – AB 99, the passage of this legislation requires the Commission to shift (pay) 50% of the June 30, 2010, fund balance to the State. This legislation is currently being challenged by several commissions and the outcome/settlement amount (if applicable) is unknown at this point. However, the Commission has accrued the liability in the financial statements.

Subsequent events were reviewed through September 26, 2011, which was the date the financial statements were available to be issued.

NOTE 13 – RESERVE REQUIREMENT AND IMPACT OF AB 99

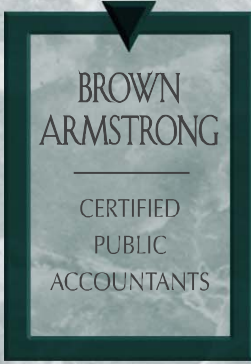
On March 24, 2011, the Governor signed Assembly Bill 99 (AB 99) establishing the Children and Families Health and Human Services Fund (Fund). AB 99 requires \$1 billion of the combined state and local children and families funds to be deposited in the Fund for fiscal year 2011-12. The amount required from each First 5 commission (AB 99 payment) represents 50% of the fund balance as of June 30, 2010. The AB 99 payment is due by June 30, 2012. In accordance with the legislation, no fiscal year 2012-13 commission revenues will be paid until the full AB 99 payment is made. Accordingly, the Commission has accrued the AB 99 obligation as a liability at June 30, 2011. The amount for the Commission is \$11,709,156 and this is presented in the financial statements as payable to the State of California – AB 99 and as an extraordinary expense.

The assets of the Commission exceeded its liabilities at the close of the recent fiscal year by \$11,066,784 (net assets). Of this amount, \$10,998,101 is committed to meet fiscal year 2011-12 contractual obligations and \$37,111 represents unrestricted net assets. The decrease in unrestricted net assets is due to the passage of AB 99 and the extraordinary expense of \$11,709,156. If AB 99 is defeated in court, then unrestricted net assets will increase by the \$11,709,156 to \$11,746,267 and total net assets will increase to \$22,775,940 thus meeting the reserve requirement.

NOTE 13 – RESERVE REQUIREMENT AND IMPACT OF AB 99 (Continued)

At the close of the current fiscal year, the Commission's governmental fund reported an ending fund balance of \$11,117,629, a decrease of \$12,300,684 in comparison with the prior year. The Commission has designated a \$5,000,000 reserve balance. Due to the passage of AB 99, the Commission is unable to meet the reserve balance and the amount in unassigned fund balance is \$37,111. In the five-year financial plan approved June 1, 2011, the Commission approved to decrease the reserves to \$3 million for the next three fiscal years ending fiscal year 2013-14. The Commission discussed rebuilding the fund balance over this period with contracts being executed under budget.

COMPLIANCE SECTION



BROWN ARMSTRONG

Certified Public Accountants

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

To the Commissioners
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We have audited the basic financial statements of the governmental activities and the major fund of the Kern County Children and Families Commission (the Commission), a component unit of Kern County, as of and for the year ended June 30, 2011, and have issued our report thereon dated September 26, 2011. 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 Commission’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission’s internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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. Such provisions include those provisions of laws and regulations identified in the State of California’s *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, issued by the State Controller’s Office. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.



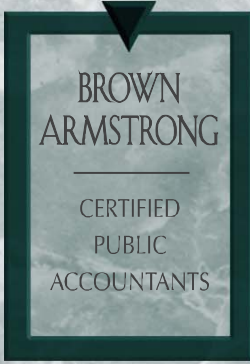
REGISTERED with the Public Company Accounting Oversight Board and MEMBER of the American Institute of Certified Public Accountants

This report is intended solely for the information and use of the Commissioners, the County Commission, the State Commission, the State Controller's office, federal agencies, and pass-through entities, 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
ACCOUNTANCY CORPORATION

A handwritten signature in black ink, appearing to read 'BA', is positioned below the company name.

Bakersfield, California
September 26, 2011



BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

To the Commissioners
 Kern County Children and Families Commission
 Bakersfield, California

We have audited the basic financial statements of the Kern County Children and Families Commission (the Commission), a component unit of Kern County, as of and for the year ended June 30, 2011, and have issued our report thereon dated September 26, 2011. 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. We have also audited the Commission's compliance with the requirements specified in the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, issued by the State Controller's Office, applicable to the Commission's statutory requirements identified below for the year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of the Commission's management. Our responsibility is to express an opinion on the Commission's compliance based on our audit.

We conducted our compliance audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, issued by the State Controller's Office. Those standards and the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the statutory requirements listed below occurred. An audit includes examining on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Commission's compliance with those requirements.

In connection with the audit referred to above, we selected and tested transactions and records to determine the Commission's compliance with the state laws and regulations applicable to the following items:

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

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In our opinion, the Kern County California Children and Families Commission complied, in all material respects, with the compliance requirements referred to above that are applicable to the statutory requirements listed above for the year ended June 30, 2011.

This report is intended solely for the information of the Commissioners, the County Commission, the State Commission, the State Controller's office, and management of the Kern County Children and Families Commission 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
ACCOUNTANCY CORPORATION



Bakersfield, California
September 26, 2011