

**KERN COUNTY CHILDREN AND FAMILIES COMMISSION**

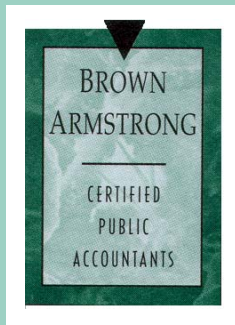
**FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITOR'S REPORT**

**FOR THE FISCAL YEARS  
ENDED JUNE 30, 2009 AND 2008**

**KERN COUNTY CHILDREN AND FAMILIES COMMISSION  
JUNE 30, 2009 AND 2008**

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Commissioners  
Kern County Children and Families Commission  
Bakersfield, California

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) as of June 30, 2009 and 2008 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 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kern County Children and Families Commission as of June 30, 2009 and 2008, and the results of its operations 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 17, 2009, 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.

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.

BROWN ARMSTRONG PAULDEN  
McCOWN STARBUCK THORNBURGH & KEETER  
ACCOUNTANCY CORPORATION

A handwritten signature in black ink, appearing to read "S. T. Stull", is written over the company name.

Bakersfield, California  
September 17, 2009

**KERN COUNTY CHILDREN AND FAMILIES COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2009**

This section of the Kern County 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, 2009 and 2008.

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. 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 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, 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 Kern County 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, 2009 and 2008.

**Fiscal Year 2008-09 Financial Highlights**

- The Commission received \$12,285,155 from the State for revenues collected under the California Children and Families Act.
- During fiscal year 2008-09, the Commission disbursed \$10,022,359 to various contractors.
- The assets of the Commission exceeded its liabilities at the close of the recent fiscal year by \$22,865,768 (net assets). Of this amount, \$5,024,978 represents unrestricted net assets.
- At the close of the current fiscal year, the Commission's governmental funds reported combined ending fund balances of \$22,886,182, an increase of \$703,574 in comparison with the prior year. The Commission has designated a \$5,000,000 reserve, and along with other reservations of fund balance, less than .5% is available for spending at the Commission's discretion (unreserved undesignated fund balance).

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

- Actual operating revenues were \$175,238 less than budgeted revenues due to delay in receiving Health Access funds and a change in reimbursement method for School Readiness funds.
- Contributions to program contractors were \$1,537,939 less than budgeted due to contractor estimates and initiative anticipated but not fully realized.
- Some expenditures were less than budgeted due to direction of management and strict administrative oversight of costs, including the following:
  - Payroll and employee benefits were under-budget by \$266,645 and \$72,514, respectively, due to staff vacancies not filled.
  - Office expense was \$25,596 less than budgeted due to lower office supply and printing 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, 2009 and 2008.

**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 \$22,865,768 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:

	2009	2008	2007	2009-2008		2008-2007	
				Change	%	Change	%
<b>Assets</b>							
Current Assets	\$ 25,449,425	\$ 25,078,740	\$ 25,115,504	\$ 370,685	1.48%	\$ (36,764)	-0.15%
Capital Assets	47,810	31,938	7,573	15,872	49.70%	24,365	321.74%
<b>Total Assets</b>	<b>25,497,235</b>	<b>25,110,678</b>	<b>25,123,077</b>	<b>386,557</b>	<b>1.54%</b>	<b>(12,399)</b>	<b>-0.05%</b>
<b>Total Liabilities</b>	<b>2,631,467</b>	<b>2,950,088</b>	<b>3,274,520</b>	<b>(318,621)</b>	<b>-10.80%</b>	<b>(324,432)</b>	<b>-9.91%</b>
<b>Net Assets:</b>							
Invested in Capital Assets	47,810	31,938	7,573	15,872	49.70%	24,365	321.74%
Restricted	17,792,980	17,217,919	17,928,751	575,061	3.34%	(710,832)	-3.96%
Unrestricted	5,024,978	4,910,733	3,912,233	114,245	2.33%	998,500	25.52%
<b>Total Net Assets</b>	<b>\$ 22,865,768</b>	<b>\$ 22,160,590</b>	<b>\$ 21,848,557</b>	<b>\$ 705,178</b>	<b>3.18%</b>	<b>\$ 312,033</b>	<b>1.43%</b>

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 of \$5,024,978, consisting of \$5,000,000 in reserves and \$24,978 in unrestricted net assets that may be used to meet the Commission's ongoing obligations.

**Statement of Activities.** A summary of the Commission's revenues, expenses, and changes in net assets for fiscal years 2008-09 and 2007-08 is as follows:

	2009	2008	2007	2009-2008		2008-2007	
				Change	%	Change	%
Program Revenues	\$ 12,285,155	\$ 12,728,563	\$ 12,478,379	\$ (443,408)	-3.48%	\$ 250,184	2.00%
General Revenues	694,095	1,364,500	1,116,823	(670,405)	-49.13%	247,677	22.18%
<b>Total Revenues</b>	<b>12,979,250</b>	<b>14,093,063</b>	<b>13,595,202</b>	<b>(1,113,813)</b>	<b>-7.90%</b>	<b>497,861</b>	<b>3.66%</b>
Expenses	12,274,072	13,781,030	14,263,909	(1,506,958)	-10.94%	(482,879)	-3.39%
Change in Net Assets	705,178	312,033	(668,707)	393,145	125.99%	980,740	-146.66%
Net Assets - Beginning, July 1	22,160,590	21,848,557	22,517,264	312,033	1.43%	(668,707)	-2.97%
Net Assets - Ending, June 30	<b>\$ 22,865,768</b>	<b>\$ 22,160,590</b>	<b>\$ 21,848,557</b>	<b>\$ 705,178</b>	<b>3.18%</b>	<b>\$ 312,033</b>	<b>1.43%</b>

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

- Operating revenue from the State for Proposition 10 distributions remained relatively stable in 2008-09, increasing slightly by \$57,445 over the prior year. While Proposition 10 revenue is declining statewide, this decline is partially offset in Kern County due to Kern's increasing birth rate.
- Other state income including school readiness decreased by \$100,730 due to a change in method of reimbursement from the State.
- The Commission received \$670,405 less interest income in 2008-09 than in the prior year due to market conditions and the cash balances.

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

- Program contract expenditures were \$1,319,117 less in 2008-09 than those of the prior year due to a decline in new programs and initiatives, minigrants, and community events and sponsorships.
- Professional and specialized services were \$105,718 less in 2008-09. The prior year included a one-time cost of two evaluators for one quarter, which allowed for efficient transition of evaluation services, resulting in a higher expense in the prior year.
- Publication and legal notices were \$10,575 more in 2008-09 due to increased publications as part of a Request for Proposals process.

**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.

**KERN COUNTY CHILDREN AND FAMILIES COMMISSION  
STATEMENT OF NET ASSETS  
JUNE 30, 2009 AND 2008**

<b><u>ASSETS</u></b>	<u>2009</u>	<u>2008</u>
Current Assets		
Cash	\$ 23,252,235	\$ 22,930,855
Accounts receivable	2,042,398	1,869,187
Interest receivable	154,792	274,026
Prepaid expenses	-	4,672
	<hr/>	<hr/>
Total Current Assets	25,449,425	25,078,740
Capital Assets		
Equipment	64,220	38,078
Less accumulated depreciation	(16,410)	(6,140)
	<hr/>	<hr/>
Total Capital Assets, Net of Depreciation	47,810	31,938
<b>TOTAL ASSETS</b>	<b><u><u>\$ 25,497,235</u></u></b>	<b><u><u>\$ 25,110,678</u></u></b>
<b><u>LIABILITIES</u></b>		
LIABILITIES		
Accounts payable and accrued expenses	\$ 2,538,440	\$ 2,846,476
Accrued payroll	24,803	49,656
Long Term Liabilities:		
Compensated absences due within one year	68,224	53,956
	<hr/>	<hr/>
Total Liabilities	2,631,467	2,950,088
<b>NET ASSETS</b>		
Invested in capital assets	47,810	31,938
Restricted		
Encumbrances	4,910,276	5,294,598
Obligations	12,882,704	11,589,517
First 5 California Initiatives	-	333,804
Local initiatives and program sustainability	5,000,000	5,000,000
Unrestricted	24,978	(89,267)
	<hr/>	<hr/>
Total Net Assets	<b><u><u>\$ 22,865,768</u></u></b>	<b><u><u>\$ 22,160,590</u></u></b>

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, 2009**

		Program Revenues			Net (Expense) and Revenue and Changes in Net Assets
Functions/ Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Child Development Services	\$ 12,274,072	\$ -	\$ 12,285,155	\$ -	\$ 11,083
Totals	\$ 12,274,072	\$ -	\$ 12,285,155	\$ -	11,083
General Revenues:					
Interest and investment earnings					694,095
Change in Net Assets					705,178
Net Assets Beginning of Year					22,160,590
Net Assets End of Year					\$ 22,865,768

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, 2008**

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	\$ 13,781,030	\$ -	\$ 12,728,563	\$ -	\$ (1,052,467)
Totals	<u>\$ 13,781,030</u>	<u>\$ -</u>	<u>\$ 12,728,563</u>	<u>\$ -</u>	<u>(1,052,467)</u>
General Revenues:					
Interest and investment earnings					<u>1,364,500</u>
Change in Net Assets					312,033
Net Assets Beginning of Year					<u>21,848,557</u>
Net Assets End of Year					<u>\$ 22,160,590</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, 2009 AND 2008**

<b><u>ASSETS</u></b>	<u>2009</u>	<u>2008</u>
Current Assets		
Cash	\$ 23,252,235	\$ 22,930,855
Accounts receivable	2,042,398	1,869,187
Interest receivable	154,792	274,026
Prepaid expenses	-	4,672
	<u>                    </u>	<u>                    </u>
TOTAL ASSETS	<u>\$ 25,449,425</u>	<u>\$ 25,078,740</u>
<b><u>LIABILITIES AND FUND BALANCE</u></b>		
LIABILITIES		
Accounts payable and accrued expenses	\$ 2,538,440	\$ 2,846,476
Accrued payroll	24,803	49,656
	<u>                    </u>	<u>                    </u>
Total Liabilities	<u>2,563,243</u>	<u>2,896,132</u>
FUND BALANCE		
Reserved		
Reserved for encumbrances	4,910,276	5,294,598
Reserved for obligations	12,882,704	11,589,517
Reserved for First 5 California Initiatives	-	333,804
Unreserved		
Designated for local initiatives and program sustainability	5,000,000	5,000,000
Unreserved undesignated	93,202	(35,311)
	<u>                    </u>	<u>                    </u>
Total Fund Balance	<u>22,886,182</u>	<u>22,182,608</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 25,449,425</u>	<u>\$ 25,078,740</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, 2009**

**Total Fund Balance - Governmental Fund** \$ 22,886,182

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. 47,810

Compensated absence liability is not reported in the  
governmental fund. (68,224)

**Total Net Assets - Governmental Activities** \$ 22,865,768

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, 2008**

**Total Fund Balance - Governmental Fund** \$ 22,182,608

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. 31,938

Compensated absence liability is not reported in the  
governmental fund. (53,956)

**Total Net Assets - Governmental Activities** \$ 22,160,590

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, 2009 AND 2008**

	2009	2008
Operating Revenues		
Aid from governmental agencies	11,407,797	\$ 11,350,352
Other state income	877,358	978,088
Grant awards and other income	-	400,090
	12,285,155	12,728,530
 Operating Expenditures		
Payroll	875,175	990,492
Employee benefits	227,679	253,256
Office expense	49,754	63,300
Insurance	8,873	15,069
Professional and specialized services	896,108	1,001,826
Administrative cost (County of Kern)	27,443	46,695
Publications and legal notice	23,266	12,691
Contribution to agents	10,022,359	11,341,476
Rental and lease	77,221	68,529
Travel and transportation	15,766	17,909
Utilities	13,867	12,401
Telephone	9,538	14,775
Miscellaneous	28,627	35,339
	12,275,676	13,873,758
 Operating Gain (Loss)	9,479	(1,145,228)
 Nonoperating Revenues		
Interest income	694,095	1,364,500
Miscellaneous other income	-	33
	694,095	1,364,533
 Excess (Deficiency) of Revenues over Expenditures	703,574	219,305
 Fund Balance, Beginning of Year	22,182,608	21,963,303
 Fund Balance, End of Year	\$ 22,886,182	\$ 22,182,608

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

**KERN COUNTY CHILDREN AND FAMILIES COMMISSION  
RECONCILIATION OF THE CHANGES IN FUND BALANCE  
TO THE CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**Net Change in Fund Balance - Governmental General Fund** \$ 703,574

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 \$26,142 exceed depreciation expense (\$10,270) in the period: 15,872

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: (14,268)

**Total Change in Net Assets - Governmental Activities** \$ 705,178

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

**KERN COUNTY CHILDREN AND FAMILIES COMMISSION  
RECONCILIATION OF THE CHANGES IN FUND BALANCE  
TO THE CHANGES IN NET ASSETS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

**Net Change in Fund Balance - Governmental General Fund** \$ 219,305

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 \$38,078 exceed depreciation expense (\$6,861) in the period: 31,217

Loss on disposal of asset. (6,852)

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: 68,363

**Total Change in Net Assets - Governmental Activities** \$ 312,033

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, 2009**

	<u>Budgeted Amounts</u>		Actual (GAAP Basis)	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
Operating Revenues				
Aid from governmental agencies	\$ 11,150,423	\$ 11,150,423	\$ 11,407,797	\$ 257,374
Other state income	<u>1,309,970</u>	<u>1,309,970</u>	<u>877,358</u>	<u>(432,612)</u>
Total Operating Revenues	<u>12,460,393</u>	<u>12,460,393</u>	<u>12,285,155</u>	<u>(175,238)</u>
Operating Expenditures				
Payroll	1,141,820	1,141,820	875,175	266,645
Employee benefits	300,193	300,193	227,679	72,514
Office expense	75,350	75,350	49,754	25,596
Insurance	19,232	19,232	8,873	10,359
Professional and specialized services	892,037	892,037	896,108	(4,071)
Administrative cost (County of Kern)	48,789	48,789	27,443	21,346
Publications and legal notice	20,000	20,000	23,266	(3,266)
Contribution to agents	11,560,298	11,560,298	10,022,359	1,537,939
Rental and lease	80,800	80,800	77,221	3,579
Travel and transportation	27,500	27,500	15,766	11,734
Utilities	18,000	18,000	13,867	4,133
Telephone	20,000	20,000	9,538	10,462
Miscellaneous	<u>31,700</u>	<u>31,700</u>	<u>28,627</u>	<u>3,073</u>
Total Operating Expenditures	<u>14,235,719</u>	<u>14,235,719</u>	<u>12,275,676</u>	<u>1,960,043</u>
Operating Gain (Loss)	<u>(1,775,326)</u>	<u>(1,775,326)</u>	<u>9,479</u>	<u>1,784,805</u>
Nonoperating Revenues				
Interest income	<u>815,000</u>	<u>815,000</u>	<u>694,095</u>	<u>(120,905)</u>
Total Nonoperating Revenues	<u>815,000</u>	<u>815,000</u>	<u>694,095</u>	<u>(120,905)</u>
Excess (Deficiency) of Revenues over Expenditures	(960,326)	(960,326)	703,574	1,663,900
Fund Balance, Beginning of Year	<u>22,182,608</u>	<u>22,182,608</u>	<u>22,182,608</u>	-
Fund Balance, End of Year	<u>\$ 21,222,282</u>	<u>\$ 21,222,282</u>	<u>\$ 22,886,182</u>	<u>\$ 1,663,900</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, 2009**

**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 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.

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. 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, 2009. 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.

F. 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.

G. 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.

H. 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.

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

I. Cash

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

J. Accounts Receivable

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

K. 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.

L. Reclassifications

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

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.

**NOTE 2 – CASH**

Cash as of June 30, 2009 consisted of the following:

	<u>2009</u>	<u>2008</u>
Cash in County of Kern Treasury	<u>\$ 23,252,235</u>	<u>\$ 22,930,855</u>
Total Interest Income from County of Kern	<u>\$ 665,930</u>	<u>\$ 1,303,934</u>

**NOTE 2 – CASH** (Continued)

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:

2009		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	\$ 23,252,235	\$ 23,252,235	\$ -	\$ -	\$ -

2008		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	\$ 22,930,855	\$ 22,930,855	\$ -	\$ -	\$ -

**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, 2009 or 2008.

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:

2009		Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End		
Investment Type	Amount			AAA	Aa	Not Rated
County Investment Pool	\$ 23,252,235	N/A	\$ -	\$ -	\$ -	\$ 23,252,235

2008		Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End		
Investment Type	Amount			AAA	Aa	Not Rated
County Investment Pool	\$ 22,930,855	N/A	\$ -	\$ -	\$ -	\$ 22,930,855

**NOTE 2 – CASH** (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 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, 2009 was as follows:

	Balances June 30, 2008	Additions	Deletions	Balances June 30, 2009
Capital assets, being depreciated				
Vehicles	\$ 25,228	\$ -	\$ -	\$ 25,228
Equipment	12,850	26,142	-	38,992
Total assets being depreciated	38,078	26,142	-	64,220
Less accumulated depreciation for:				
Vehicles	(3,784)	(5,046)	-	(8,830)
Equipment	(2,356)	(5,224)	-	(7,580)
Total assets being depreciated	(6,140)	(10,270)		(16,410)
Total Capital Assets, Net	\$ 31,938	\$ 15,872	\$ -	\$ 47,810

**NOTE 3 – CAPITAL ASSETS** (Continued)

	Balances June 30, 2007	Additions	Deletions	Balances June 30, 2008
Capital assets, being depreciated				
Vehicles	\$ 21,636	\$ 25,228	\$ (21,636)	\$ 25,228
Equipment	-	12,850	-	12,850
Total assets being depreciated	<u>21,636</u>	<u>38,078</u>	<u>(21,636)</u>	<u>38,078</u>
Less accumulated depreciation for:				
Vehicles	(14,063)	(4,505)	14,784	(3,784)
Equipment	-	(2,356)	-	(2,356)
Total assets being depreciated	<u>(14,063)</u>	<u>(6,861)</u>	<u>14,784</u>	<u>(6,140)</u>
Total Capital Assets, Net	<u>\$ 7,573</u>	<u>\$ 31,217</u>	<u>\$ (6,852)</u>	<u>\$ 31,938</u>

Depreciation expense at June 30, 2009 and 2008 was \$10,270 and \$6,861, respectively.

**NOTE 4 – CHANGES IN COMPENSATED ABSENCES**

A schedule of changes in long-term debt for the years ended June 30, 2009 and 2008 was as follows:

	June 30, 2008	Additions	Deletions	June 30, 2009	Due Within One Year
Compensated Absences, Net	<u>\$ 53,956</u>	<u>\$ 63,862</u>	<u>\$ (49,594)</u>	<u>\$ 68,224</u>	<u>\$ 68,224</u>

	June 30, 2007	Additions	Deletions	June 30, 2008	Due Within One Year
Compensated Absences, Net	<u>\$ 122,319</u>	<u>\$ 30,566</u>	<u>\$ (98,929)</u>	<u>\$ 53,956</u>	<u>\$ 53,956</u>

**NOTE 5 – 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 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 \$70,645 and \$60,917 for the years ended June 30, 2009 and 2008, respectively. Future minimum lease payments are as follows:

Year Ending June 30,	
2010	\$ 79,950
2011	83,946
2012	<u>42,996</u>
Total	<u>\$ 206,892</u>

#### **NOTE 6 – 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, 2009 and 2008 was \$14,878,415 and \$16,884,115, respectively.

#### **NOTE 7 – 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, 2009 and 2008 were \$80,402 and \$108,825, respectively.

#### **NOTE 8 – COMMITMENTS AND CONTINGENCIES**

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 designed a system that enables 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 allows expert consultation that enables the Commission to analyze the impact of funded projects as determined from the available database information.

On July 1, 2007, the Commission entered into a three-year agreement with CS&O for data management services at an estimated cost of \$228,905, \$229,791, and \$229,384 for the years ended June 30, 2008, 2009, and 2010, respectively. On December 3, 2008, the agreement was amended, extending the term to June 30, 2011; the estimated cost for the year ended June 30, 2011 is \$237,319.

On July 1, 2007, the Commission also entered into a three-year agreement with CS&O to provide evaluation and reporting services. The services focus on utilizing 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 years ended June 30, 2008, 2009, and 2010, estimated costs under this agreement are \$617,560, 621,446, and \$642,177, respectively. On December 3, 2008, the agreement was amended extending the term to June 30, 2011; the estimated cost for the year ended June 30, 2011 is \$651,916.

The Commission maintains a \$5M reserve in its Six 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

In addition to the above, the Commission had outstanding encumbrances of \$4,910,276 and \$5,294,598 at June 30, 2009 and 2008, respectively.

**NOTE 9 – EXCESS EXPENDITURES OVER APPROPRIATIONS**

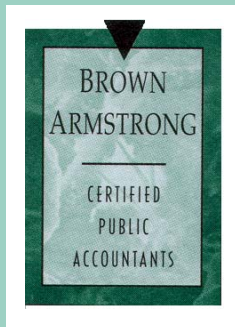
For the year ended June 30, 2009, expenditures exceeding appropriations are indicated as negative variances in the Statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – on page 16.

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

**NOTE 10 – PROGRAM EVALUATION**

The Commission spent \$853,764 and \$995,535 on program evaluation for the fiscal years ended 2008-09 and 2007-08, respectively.

## **COMPLIANCE SECTION**



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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**

Commissioners  
Kern County Children and Families Commission  
Bakersfield, California

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Lynn R. Krausse, CPA, MST  
Rosalva Flores, CPA  
Connie M. Perez, CPA  
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Amanda Dickerson, CPA  
Jialan Su, CPA  
Ariadne S. Prunes, CPA  
Samuel O. Newland, CPA  
Brooke N. DeCuir, CPA  
Kenneth J. Witham, CPA  
Clint W. Baird, CPA  
Adrian Rich, CPA  
Craig Rickett, CPA

We have audited the basic financial statements of the Kern County Children and Families Commission (the Commission) as of and for the year ended June 30, 2009, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated September 17, 2009. 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Commission's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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

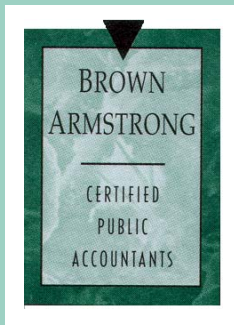
As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 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 PAULDEN  
McCOWN STARBUCK THORNBURGH & KEETER  
ACCOUNTANCY CORPORATION



Bakersfield, California  
September 17, 2009



**BROWN ARMSTRONG PAULDEN**  
**McCOWN STARBUCK THORNBURGH & KEETER**  
**Certified Public Accountants**

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**INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE**

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 Kenneth J. Witham, CPA  
 Clint W. Baird, CPA  
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 Craig Rickett, CPA

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), as of and for the year ended June 30, 2009, and have issued our report thereon dated September 17, 2009.

Our audit was conducted 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 California Counties Participating in the California Children and Families Program*, issued by the State Controller's Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 the 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.

The Commission's management is responsible for the Commission's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the Commission's compliance with the 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

Based on our audit we found that, for the items tested, the Kern County Children and Families Commission complied with the laws and regulations of the items referred to above. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the Commission had not complied with the laws and regulations of the First 5 program.

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 PAULDEN  
McCOWN STARBUCK THORNBURGH & KEETER  
ACCOUNTANCY CORPORATION

A handwritten signature in black ink, appearing to read "S. A. Paulden", written in a cursive style.

Bakersfield, California  
September 17, 2009