

**KERN COUNTY CHILDREN AND FAMILIES COMMISSION**

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

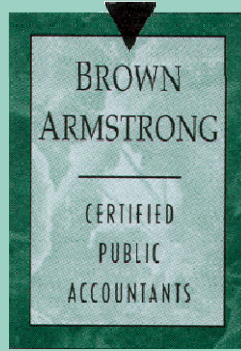
**FOR THE FISCAL YEARS  
ENDED JUNE 30, 2010 AND 2009**

**KERN COUNTY CHILDREN AND FAMILIES COMMISSION  
JUNE 30, 2010 AND 2009**

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## INDEPENDENT AUDITOR'S REPORT

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), a component unit of Kern County, as of June 30, 2010 and 2009, 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.

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, 2010 and 2009, 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 20, 2010, 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.

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 20, 2010

**KERN COUNTY CHILDREN AND FAMILIES COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2010**

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, 2010 and 2009.

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, 2010 and 2009.

**Fiscal Year 2009-10 Financial Highlights**

- The Commission received \$12,256,870 from the State for revenues collected under the California Children and Families Act.
- During fiscal year 2009-10, the Commission disbursed \$9,828,339 to various contractors.
- The assets of the Commission exceeded its liabilities at the close of the recent fiscal year by \$23,403,798 (net assets). Of this amount, \$6,273,960 represents unrestricted net assets.
- At the close of the current fiscal year, the Commission's governmental fund reported an ending fund balance of \$23,418,313, an increase of \$532,131 in comparison with the prior year. The Commission has designated a \$5,000,000 reserve and, along with other reservations of fund balance, approximately 5% is available for spending at the Commission's discretion (unreserved undesignated fund balance).

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

- Actual operating revenues were \$573,964 more than budgeted revenues due to a change in reimbursement method for School Readiness funds and First 5 Kern was 100% on the reimbursement method this fiscal year.
- Contributions to program contractors were \$2,545,952 less than budgeted due to contractor estimates not fully realized and the completion of a 3-year contract cycle.
- Some expenditures were less than budgeted due to the direction of management and strict administrative oversight of costs, including the following:
  - Payroll and employee benefits were under-budget by \$17,201 and \$45,189, respectively, due to staff vacancies not filled and the negotiated rate of the Interim Executive Director.
  - Administrative costs (County of Kern) and travel and transportation costs were \$21,458 and \$13,491, respectively, less than budgeted.

### **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 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, 2010 and 2009.

**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 \$23,403,798 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:

	2010	2009	2008	2010-2009		2009-2008	
				Change	%	Change	%
<b>Assets</b>							
Current Assets	\$ 25,860,941	\$ 25,449,425	\$ 25,078,740	\$ 411,516	1.62%	\$ 370,685	1.48%
Capital Assets	55,713	47,810	31,938	7,903	16.53%	15,872	49.70%
<b>Total Assets</b>	<b>25,916,654</b>	<b>25,497,235</b>	<b>25,110,678</b>	<b>419,419</b>	<b>1.64%</b>	<b>386,557</b>	<b>1.54%</b>
<b>Total Liabilities</b>	<b>2,512,856</b>	<b>2,631,467</b>	<b>2,950,088</b>	<b>(118,611)</b>	<b>-4.51%</b>	<b>(318,621)</b>	<b>-10.80%</b>
<b>Net Assets:</b>							
Invested in Capital Assets	55,713	47,810	31,938	7,903	16.53%	15,872	49.70%
Restricted	17,074,125	17,792,980	17,217,919	(718,855)	-4.04%	575,061	3.34%
Local Initiatives and Unrestricted	6,273,960	5,024,978	4,910,733	1,248,982	24.86%	114,245	2.33%
<b>Total Net Assets</b>	<b>\$ 23,403,798</b>	<b>\$ 22,865,768</b>	<b>\$ 22,160,590</b>	<b>\$ 538,030</b>	<b>2.35%</b>	<b>\$ 705,178</b>	<b>3.18%</b>

Net assets are reported in three different categories. Invested in capital assets relate 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 \$6,273,960, consisting of \$5,000,000 in reserves and \$1,273,960 in unrestricted net assets that may be used to meet the Commission's ongoing obligation.

**Statement of Activities.** A summary of the Commission's revenues, expenses, and change in net assets for fiscal years 2009-10 and 2008-09 is as follows:

	2010	2009	2008	2010-2009		2009-2008	
				Change	%	Change	%
Program Revenues	\$ 12,256,870	\$ 12,285,155	\$ 12,728,563	\$ (28,285)	-0.23%	\$ (443,408)	-3.48%
General Revenues	368,600	694,095	1,364,500	(325,495)	-46.89%	(670,405)	-49.13%
<b>Total Revenues</b>	<b>12,625,470</b>	<b>12,979,250</b>	<b>14,093,063</b>	<b>(353,780)</b>	<b>-2.73%</b>	<b>(1,113,813)</b>	<b>-7.90%</b>
Expenses	12,087,440	12,274,072	13,781,030	(186,632)	-1.52%	(1,506,958)	-10.94%
Change in Net Assets	538,030	705,178	312,033	(167,148)	-23.70%	393,145	125.99%
Net Assets - Beginning, July 1	22,865,768	22,160,590	21,848,557	705,178	3.18%	312,033	1.43%
Net Assets - Ending, June 30	<b>\$ 23,403,798</b>	<b>\$ 22,865,768</b>	<b>\$ 22,160,590</b>	<b>\$ 538,030</b>	<b>2.35%</b>	<b>\$ 705,178</b>	<b>3.18%</b>

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

- Operating revenue from the State for Proposition 10 distributions decreased in 2009-10 by \$1,149,734 over prior year. The decline in revenue is in alignment with the projected decrease in revenue based on projections from First 5 California. 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 School Readiness Initiative, increased by \$1,081,449 due to a change in method of reimbursement from the State and a complete fiscal year on the reimbursement method.
- The Commission received \$325,495 less interest income in 2009-10 than in the prior year due to market conditions.

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

- Program contract expenditures were \$194,019 less in 2009-10 than those of the prior year due to a decline in new programs and the close of a 3-year contract cycle.
- Professional and specialized services increased \$78,037 in 2009-10 over prior year due to contractual increase for CS&O Evaluation services and the addition of a consultant for the Medically Vulnerable Infant workgroup.
- Office expense increased \$13,568 in 2009-10 over prior year due to an increase in First 5 California membership fees and fees for computer-server maintenance and off-site backup.

**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, 2010 AND 2009**

<b><u>ASSETS</u></b>	<u>2010</u>	<u>2009</u>
Current Assets		
Cash	\$ 23,353,681	\$ 23,252,235
Accounts receivable	2,431,077	2,042,398
Interest receivable	<u>76,183</u>	<u>154,792</u>
Total Current Assets	<u>25,860,941</u>	<u>25,449,425</u>
Capital Assets		
Equipment	85,333	64,220
Less accumulated depreciation	<u>(29,620)</u>	<u>(16,410)</u>
Total Capital Assets, Net of Depreciation	<u>55,713</u>	<u>47,810</u>
<b>TOTAL ASSETS</b>	<b><u><u>\$ 25,916,654</u></u></b>	<b><u><u>\$ 25,497,235</u></u></b>
 <b><u>LIABILITIES AND NET ASSETS</u></b>		
LIABILITIES		
Accounts payable and accrued expenses	\$ 2,409,730	\$ 2,538,440
Accrued payroll	32,898	24,803
Long term liabilities		
Compensated absences due within one year	<u>70,228</u>	<u>68,224</u>
<b>TOTAL LIABILITIES</b>	<b><u>2,512,856</u></b>	<b><u>2,631,467</u></b>
NET ASSETS		
Invested in capital assets	55,713	47,810
Restricted		
Encumbrances	4,077,660	4,910,276
Obligations	12,996,465	12,882,704
Local initiatives and program sustainability	5,000,000	5,000,000
Unrestricted	<u>1,273,960</u>	<u>24,978</u>
<b>TOTAL NET ASSETS</b>	<b><u><u>\$ 23,403,798</u></u></b>	<b><u><u>\$ 22,865,768</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, 2010**

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	\$ 12,087,440	\$ -	\$ 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  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

<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	\$ 12,274,072	\$ -	\$ 12,285,155	\$ -	\$ 11,083
Totals	<u>\$ 12,274,072</u>	<u>\$ -</u>	<u>\$ 12,285,155</u>	<u>\$ -</u>	<u>11,083</u>
General Revenues:					
					<u>694,095</u>
					705,178
					<u>22,160,590</u>
					<u>\$ 22,865,768</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, 2010 AND 2009**

<b><u>ASSETS</u></b>	<u>2010</u>	<u>2009</u>
Current Assets		
Cash	\$ 23,353,681	\$ 23,252,235
Accounts receivable	2,431,077	2,042,398
Interest receivable	76,183	154,792
	<u>                    </u>	<u>                    </u>
TOTAL ASSETS	<u>\$ 25,860,941</u>	<u>\$ 25,449,425</u>
<b><u>LIABILITIES AND FUND BALANCE</u></b>		
LIABILITIES		
Accounts payable and accrued expenses	\$ 2,409,730	\$ 2,538,440
Accrued payroll	32,898	24,803
	<u>                    </u>	<u>                    </u>
TOTAL LIABILITIES	<u>2,442,628</u>	<u>2,563,243</u>
FUND BALANCE		
Reserved		
Reserved for encumbrances	4,077,660	4,910,276
Reserved for obligations	12,996,465	12,882,704
Unreserved		
Designated for local initiatives and program sustainability	5,000,000	5,000,000
Unreserved undesignated	1,344,188	93,202
	<u>                    </u>	<u>                    </u>
TOTAL FUND BALANCE	<u>23,418,313</u>	<u>22,886,182</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 25,860,941</u>	<u>\$ 25,449,425</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. (70,228)

**Total Net Assets - Governmental Activities** \$ 23,403,798

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 absences 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  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
GOVERNMENTAL GENERAL FUND  
FOR THE FISCAL YEARS ENDED JUNE 30, 2010 AND 2009**

	<u>2010</u>	<u>2009</u>
Operating Revenues		
Aid from governmental agencies	\$ 10,429,857	\$ 11,579,591
Other state income	1,787,013	705,564
Grant awards and other income	40,000	-
	<u>12,256,870</u>	<u>12,285,155</u>
Operating Expenditures		
Payroll	855,334	875,175
Employee benefits	184,460	227,679
Office expense	63,986	50,418
Insurance	8,768	8,873
Professional and specialized services	974,145	896,108
Administrative cost (County of Kern)	12,448	19,552
Publications and legal notice	20,302	23,266
Contribution to agents	9,828,339	10,022,359
Rental and lease	84,858	77,221
Travel and transportation	9,009	15,766
Utilities	14,462	13,867
Telephone	9,318	9,538
Miscellaneous	27,910	35,854
	<u>12,093,339</u>	<u>12,275,676</u>
Operating Gain	<u>163,531</u>	<u>9,479</u>
Nonoperating Revenues		
Interest income	<u>368,600</u>	<u>694,095</u>
Total Nonoperating Revenues	<u>368,600</u>	<u>694,095</u>
Net Change in Fund Balance	532,131	703,574
Fund Balance, Beginning of Year	<u>22,886,182</u>	<u>22,182,608</u>
Fund Balance, End of Year	<u>\$ 23,418,313</u>	<u>\$ 22,886,182</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, 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  
RECONCILIATION OF THE CHANGE IN FUND BALANCE  
TO THE CHANGE 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  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL (GAAP)  
GOVERNMENTAL GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>Budgeted Amounts</u>		Actual (GAAP Basis)	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		
Operating Revenues				
Aid from governmental agencies	\$ 10,635,578	\$ 10,635,578	\$ 10,429,857	\$ (205,721)
Other state income	997,328	997,328	1,787,013	789,685
Grant awards and other income	<u>50,000</u>	<u>50,000</u>	<u>40,000</u>	<u>(10,000)</u>
Total Operating Revenues	<u>11,682,906</u>	<u>11,682,906</u>	<u>12,256,870</u>	<u>573,964</u>
Operating Expenditures				
Payroll	872,535	872,535	855,334	17,201
Employee benefits	229,649	229,649	184,460	45,189
Office expense	67,475	67,475	63,986	3,489
Insurance	16,200	16,200	8,768	7,432
Professional and specialized services	951,061	951,061	974,145	(23,084)
Administrative cost (County of Kern)	33,906	33,906	12,448	21,458
Publications and legal notice	29,000	29,000	20,302	8,698
Contribution to agents	12,374,291	12,374,291	9,828,339	2,545,952
Rental and lease	89,150	89,150	84,858	4,292
Travel and transportation	22,500	22,500	9,009	13,491
Utilities	18,000	18,000	14,462	3,538
Telephone	12,000	12,000	9,318	2,682
Miscellaneous	<u>38,200</u>	<u>38,200</u>	<u>27,910</u>	<u>10,290</u>
Total Operating Expenditures	<u>14,753,967</u>	<u>14,753,967</u>	<u>12,093,339</u>	<u>2,660,628</u>
Operating Gain (Loss)	<u>(3,071,061)</u>	<u>(3,071,061)</u>	<u>163,531</u>	<u>3,234,592</u>
Nonoperating Revenues				
Interest income	<u>755,161</u>	<u>755,161</u>	<u>368,600</u>	<u>(386,561)</u>
Total Nonoperating Revenues	<u>755,161</u>	<u>755,161</u>	<u>368,600</u>	<u>(386,561)</u>
Net Change in Fund Balance	(2,315,900)	(2,315,900)	532,131	2,848,031
Fund Balance, Beginning of Year	<u>21,222,282</u>	<u>21,222,282</u>	<u>22,886,182</u>	<u>1,663,900</u>
Fund Balance, End of Year	<u>\$ 18,906,382</u>	<u>\$ 18,906,382</u>	<u>\$ 23,418,313</u>	<u>\$ 4,511,931</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, 2010**

**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.

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 Statements**

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 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.

## **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 Governmental Accounting Standards Board Statement No. 34, the fund equity 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. The Commission did not have any outstanding debt at June 30, 2010. 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.

### F. Fund Balance Reserves

Reservations of the ending fund balance indicate the portions of fund balance not appropriable 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 that 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 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.

### H. 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.

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

I. Cash

The Commission maintains its cash account with the Kern County 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. 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.

M. Reclassifications

Certain reclassifications have been made to the 2009 financial statements as previously presented to be consistent and comparable to the 2010 presentation. Net income and net assets remain unchanged due to these classifications.

**NOTE 2 – CASH**

Cash as of June 30, 2010 and 2009, consisted of the following:

	<u>2010</u>	<u>2009</u>
Cash in Kern County Investment Pool	<u>\$ 23,353,681</u>	<u>\$ 23,252,235</u>
Total Interest Income from Kern County	<u>\$ 368,600</u>	<u>\$ 694,095</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)**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:

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	\$ -	\$ -	\$ -

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	\$ -	\$ -	\$ -

**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, 2010 or 2009.

**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 does not require disclosure as to credit risk:

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

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

**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, 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	64,220	27,075	(5,962)	85,333
Less accumulated depreciation for:				
Vehicles	(8,830)	(2,850)	-	(11,680)
Equipment	(7,580)	(10,608)	248	(17,940)
Total accumulated depreciation	(16,410)	(13,458)	248	(29,620)
Total Capital Assets, Net	<u>\$ 47,810</u>	<u>\$ 13,617</u>	<u>\$ (5,714)</u>	<u>\$ 55,713</u>

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

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	<u>38,078</u>	<u>26,142</u>	<u>-</u>	<u>64,220</u>
Less accumulated depreciation for:				
Vehicles	(3,784)	(5,046)	-	(8,830)
Equipment	(2,356)	(5,224)	-	(7,580)
Total accumulated depreciation	<u>(6,140)</u>	<u>(10,270)</u>	<u>-</u>	<u>(16,410)</u>
Total Capital Assets, Net	<u>\$ 31,938</u>	<u>\$ 15,872</u>	<u>\$ -</u>	<u>\$ 47,810</u>

Depreciation expense at June 30, 2010 and 2009, was \$13,458 and \$10,270, respectively.

**NOTE 4 – CHANGES IN COMPENSATED ABSENCES**

A schedule of changes in long-term debt for the years ended June 30, 2010 and 2009, was as follows:

	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>

	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>

**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 \$79,950 and \$70,645 for the years ended June 30, 2010 and 2009, respectively. Future minimum lease payments are as follows:

Year Ending June 30,	
2011	\$ 83,946
2012	42,996
Total	<u>\$ 126,942</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, 2010 and 2009, was \$4,077,660 and \$14,878,415, respectively.

#### **NOTE 7 – 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, 2010 and 2009, were \$81,454 and \$80,402, 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 five 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 were \$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 \$5 million 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 \$4,077,660 and \$4,910,276 at June 30, 2010 and 2009, respectively.

**NOTE 9 – EXCESS EXPENDITURES OVER APPROPRIATIONS**

For the year ended June 30, 2010, 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.

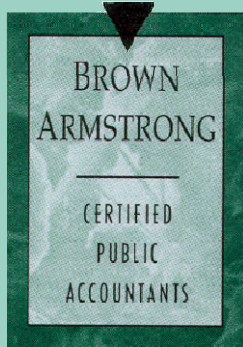
The over expenditures were funded from current year Proposition 10 and other current year revenue.

**NOTE 10 – PROGRAM EVALUATION**

The Commission spent \$871,561 and \$853,764 on program evaluation for the fiscal years ended 2009-10 and 2008-09, 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

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, 2010, and have issued our report thereon dated September 20, 2010. 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 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. 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*.

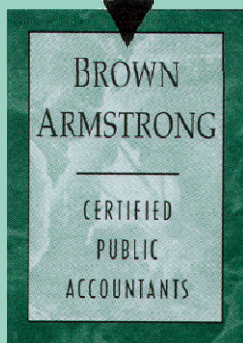
This report is intended solely for the information and use of the Commissioners, the County Commission, the State Commission, the State Controller's office, federal agencies and pass-through entities, and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

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

Bakersfield, California  
September 20, 2010

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## INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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, 2010, and have issued our report thereon dated September 20, 2010.

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 First 5 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 California 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  
ACCOUNTANCY CORPORATION



Bakersfield, California  
September 20, 2010