

**KERN COUNTY CHILDREN AND FAMILIES COMMISSION**

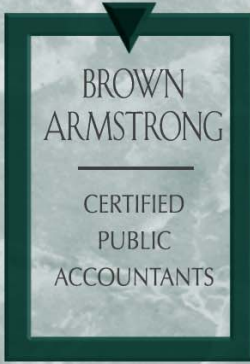
**FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITOR'S REPORT**

**FOR THE FISCAL YEARS ENDED  
JUNE 30, 2016 AND 2015**

**KERN COUNTY CHILDREN AND FAMILIES COMMISSION  
JUNE 30, 2016 AND 2015**

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# BROWN ARMSTRONG

*Certified Public Accountants*

## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the General Fund of the Kern County Children and Families Commission (the Commission), a component unit of Kern County, as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the Commission, as of June 30, 2016 and 2015, and the respective changes in financial position and the respective budgetary comparison for the General Fund for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

As disclosed in Note 1 to the financial statements, during the year ended June 30, 2016, the Commission implemented Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*; GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68*, and *Amendments to Certain Provisions of GASB Statement No. 67 and No. 68*; and GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Our opinion is not modified with respect to this matter.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 6, and 16 through 17, respectively, 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.

## Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2016, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*

Bakersfield, California  
September 12, 2016

**KERN COUNTY CHILDREN AND FAMILIES COMMISSION  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2016 AND 2015**

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, 2016 and 2015.

The management's discussion and analysis (MD&A) is designed to focus on current activities, resulting changes, and currently known facts with respect to the Commission's net position. It should be read in conjunction with the accompanying basic financial statements and related footnotes.

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 to programs supporting early childhood development in Kern County. The funds are allocated in the following four focus areas: Health and Wellness, Parent Education and Support Services, Early Childcare and Education, and Integration of Services. Kern County's Commission is a leader at the state level and serves as a model for others. Contractors are held to strict standards of financial and program compliance. The Commission also performs administrative site visits to monitor contractor compliance with the requirements of their general agreement and to assist in program evaluation, sustainability, and improvement.

**Fiscal Year 2015-16 Financial Highlights**

- The Commission earned \$10,217,280 in program revenues; of this amount, \$10,035,157 was from the State for revenues collected under the Act, \$169,623 was from the Improve and Maximize Programs so All Children Thrive (IMPACT), and \$12,500 from grants and donations.
- During fiscal year 2015-16, the Commission disbursed \$7,750,662 to various programs providing services to children prenatal to five years based on the above focus areas.
- The assets of the Commission exceeded its liabilities at the close of the recent fiscal year by \$19,475,362 (net position). Of this amount, \$9,020,243 is restricted to meet fiscal year 2016-17 contractual obligations and \$10,449,945 represents unrestricted net position.
- At the close of the current fiscal year, the Commission's governmental fund reported an ending fund balance of \$19,604,589, an increase of \$674,527, in comparison with the prior year. This increase is due to the current increase of Proposition 10 revenue and the unanticipated revenue from the First 5 California funded program IMPACT. In prior years, the Commission had set aside \$5,000,000 for emergency situations, but in fiscal year 2010-11 decreased this amount to \$3,000,000 until fiscal year 2019-20.

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

- Actual operating revenues were \$747,280 more than budgeted revenues due to an increase in tobacco tax revenue collection than anticipated in the budget. Additionally, a new program funded by First 5 California, IMPACT, created unanticipated revenue. Contributions to agents were \$356,638 less than budgeted due to contracts being executed under budget.
- Some expenditures were less than budgeted due to the direction of management and an administrative review of costs, including the following:
  - Payroll and employee benefits were under budget by \$62,632 and \$27,056, respectively, due to management's decision not to implement a cost of living raise or fill a vacant position.
  - Administrative Costs (County of Kern) were under budget by \$27,511. The Commission set aside funds for legal counsel to review contracts; however, the actual costs of the review were less than budgeted.

### **Overview of the Financial Statements**

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

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

The Statement of Net Position presents total assets and deferred outflows of resources (if applicable), and total liabilities and deferred inflows of resources (if applicable), with the difference reported as net position. Most of the fund balance was earmarked for Commission approved programs, existing contractual obligations, and Commission approved sustainability funds as of June 30, 2016 and 2015.

**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 the 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 Position.** Net position (assets minus liabilities) may serve over time as a useful indicator of a commission's net position. In the case of the Commission, assets exceeded liabilities by \$19,475,362 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 net position. These factors include changes in services, changes in State funding and law, and changes in the economy.

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

	2016	2015	2014	2016-2015		2015-2014	
				Change	%	Change	%
<b>Assets</b>							
Current Assets	\$ 21,617,645	\$ 21,172,581	\$ 22,455,999	\$ 445,064	2.10%	\$ (1,283,418)	-5.72%
Capital Assets, Net	5,174	10,525	16,685	(5,351)	-50.84%	(6,160)	-36.92%
<b>Total Assets</b>	<b>21,622,819</b>	<b>21,183,106</b>	<b>22,472,684</b>	<b>439,713</b>	<b>2.08%</b>	<b>(1,289,578)</b>	<b>-5.74%</b>
<b>Liabilities</b>							
Current Liabilities	2,102,453	2,329,515	2,515,846	(227,062)	-9.75%	(186,331)	-7.41%
Long-Term Liabilities	45,004	33,854	15,936	11,150	32.94%	17,918	112.44%
<b>Total Liabilities</b>	<b>2,147,457</b>	<b>2,363,369</b>	<b>2,531,782</b>	<b>(215,912)</b>	<b>-9.14%</b>	<b>(168,413)</b>	<b>-6.65%</b>
<b>Net Position</b>							
Net Investment in Capital Assets	5,174	10,525	16,685	(5,351)	-50.84%	(6,160)	-36.92%
Restricted	9,020,243	8,107,300	10,313,000	912,943	11.26%	(2,205,700)	-21.39%
Local Initiatives and Unrestricted	10,449,945	10,701,912	9,611,217	(251,967)	-2.35%	1,090,695	11.35%
<b>Total Net Position</b>	<b>\$ 19,475,362</b>	<b>\$ 18,819,737</b>	<b>\$ 19,940,902</b>	<b>\$ 655,625</b>	<b>3.48%</b>	<b>\$ (1,121,165)</b>	<b>-5.62%</b>

Net position is reported in three distinct categories: net investment in capital assets represents the portion of the Commission's net position that is comprised of capital assets, restricted net position represents resources that are subject to restrictions on how they may be used, and the remaining balance is local initiatives and unrestricted.

At the end of fiscal years 2015-16 and 2014-15, the Commission was able to report positive balances in all three categories of net position.

**Statement of Activities.** A summary of the Commission's revenues, expenses, and change in net position for fiscal years 2015-16 and 2014-15 is as follows:

	2016	2015	2014	2016-2015		2015-2014	
				Change	%	Change	%
Program Revenues	\$ 10,217,280	\$ 10,014,513	\$ 10,035,491	\$ 202,767	2.02%	\$ (20,978)	-0.21%
General Revenues	138,100	92,015	84,501	46,085	50.08%	7,514	8.89%
<b>Total Revenues</b>	<b>10,355,380</b>	<b>10,106,528</b>	<b>10,119,992</b>	<b>248,852</b>	<b>2.46%</b>	<b>(13,464)</b>	<b>-0.13%</b>
Expenses	9,699,755	11,227,693	11,777,596	(1,527,938)	-13.61%	(549,903)	-4.67%
Change in Net Position	655,625	(1,121,165)	(1,657,604)	1,776,790	-158.48%	536,439	-32.36%
Net Position - Beginning of Year	18,819,737	19,940,902	21,598,506	(1,121,165)	-5.62%	(1,657,604)	-7.67%
Net Position - End of Year	<b>\$ 19,475,362</b>	<b>\$ 18,819,737</b>	<b>\$ 19,940,902</b>	<b>\$ 655,625</b>	<b>3.48%</b>	<b>\$ (1,121,165)</b>	<b>-5.62%</b>

## Revenues

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

- Operating revenue from the State for Proposition 10 distributions increased in fiscal year 2015-16 by \$144,431 over prior year. While Proposition 10 revenue is declining Statewide, the increase this fiscal year was due to an increase in the Board of Equalization's percentage allocation.
- Other State income increased in fiscal year 2015-16 by \$60,836 over prior year. CSP 2 ended last fiscal year and First 5 California launched IMPACT this fiscal year. This is the amount the IMPACT grant will exceed prior year CSP 2 amount.
- The Commission received \$46,085 more interest income in fiscal year 2015-16 than in the prior year due to market conditions.

**Expenses.** Changes in expenses from the prior year are briefly summarized as follows:

- Contributions to agents decreased by \$1,631,755 in fiscal year 2015-16 from those of the prior year. Fiscal year 2015-16 is the first year of the new five year funding cycle, whereby the total amount available for award to the community was reduced resulting in contracts being awarded at a lower amount than in the prior funding cycle. Additionally, program budgets continue to be underspent.
- Professional and specialized services increased \$37,499 in fiscal year 2015-16 from the prior year. In fiscal year 2014-15, the Commission entered into a contract with a new data management company, Persimmony, International, Inc., and payments were made for data transfers. The Commission transitioned from the County's general ledger and there were costs associated with the implementation of the new general ledger software.

### **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.



## **FINANCIAL STATEMENTS**

**KERN COUNTY CHILDREN AND FAMILIES COMMISSION  
STATEMENTS OF NET POSITION  
JUNE 30, 2016 AND 2015**

<b><u>ASSETS</u></b>	<u>2016</u>	<u>2015</u>
Current Assets		
Cash and cash equivalents	\$ 19,599,978	\$ 19,391,858
Accounts receivable	1,969,613	1,715,410
Interest receivable	45,646	29,790
Prepaid expenses	<u>2,408</u>	<u>35,523</u>
Total Current Assets	<u>21,617,645</u>	<u>21,172,581</u>
Capital Assets		
Equipment	67,988	67,988
Less accumulated depreciation	<u>(62,814)</u>	<u>(57,463)</u>
Total Capital Assets, Net of Depreciation	<u>5,174</u>	<u>10,525</u>
<b>TOTAL ASSETS</b>	<b><u><u>\$ 21,622,819</u></u></b>	<b><u><u>\$ 21,183,106</u></u></b>
 <b><u>LIABILITIES AND NET POSITION</u></b>		
LIABILITIES		
Accounts payable and accrued expenses	\$ 1,967,588	\$ 2,202,367
Accrued payroll	45,468	40,152
Long-term liabilities		
Due within one year		
Compensated absences	89,397	86,996
Due after one year		
Compensated absences	<u>45,004</u>	<u>33,854</u>
TOTAL LIABILITIES	<u>2,147,457</u>	<u>2,363,369</u>
NET POSITION		
Net investment in capital assets	5,174	10,525
Restricted	9,020,243	8,107,300
Unrestricted	<u>10,449,945</u>	<u>10,701,912</u>
<b>TOTAL NET POSITION</b>	<b><u><u>\$ 19,475,362</u></u></b>	<b><u><u>\$ 18,819,737</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, 2016**

Functions/Programs	Expenses	Program Revenues		Net (Expense) and Revenue and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
				Governmental Activities
Child Development Services	\$ 9,699,755	\$ -	\$ 10,217,280	\$ -
Totals	<u>\$ 9,699,755</u>	<u>\$ -</u>	<u>\$ 10,217,280</u>	<u>\$ -</u>
General Revenues:				
Interest and investment earnings				<u>138,100</u>
Total General Revenues				<u>138,100</u>
Change in Net Position				655,625
Net Position Beginning of Year				<u>18,819,737</u>
Net Position End of Year				<u>\$ 19,475,362</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, 2015**

Functions/Programs	Expenses	Program Revenues		Net (Expense) and Revenue and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
				Governmental Activities
Child Development Services	\$ 11,227,693	\$ -	\$ 10,014,513	\$ -
Totals	<u>\$ 11,227,693</u>	<u>\$ -</u>	<u>\$ 10,014,513</u>	<u>\$ -</u>
General Revenues:				
Interest and investment earnings				<u>92,015</u>
Total General Revenue				<u>92,015</u>
Change in Net Position				(1,121,165)
Net Position Beginning of Year				<u>19,940,902</u>
Net Position End of Year				<u>\$ 18,819,737</u>

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

**KERN COUNTY CHILDREN AND FAMILIES COMMISSION  
BALANCE SHEETS  
GOVERNMENTAL GENERAL FUND  
JUNE 30, 2016 AND 2015**

<b><u>ASSETS</u></b>	<u>2016</u>	<u>2015</u>
Current Assets		
Cash and cash equivalents	\$ 19,599,978	\$ 19,391,858
Accounts receivable	1,969,613	1,715,410
Interest receivable	45,646	29,790
Prepaid expenses	<u>2,408</u>	<u>35,523</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 21,617,645</u></b>	<b><u>\$ 21,172,581</u></b>
<b><u>LIABILITIES AND FUND BALANCE</u></b>		
LIABILITIES		
Accounts payable and accrued expenses	\$ 1,967,588	\$ 2,202,367
Accrued payroll	<u>45,468</u>	<u>40,152</u>
<b>TOTAL LIABILITIES</b>	<b><u>2,013,056</u></b>	<b><u>2,242,519</u></b>
FUND BALANCE		
Nonspendable	2,408	35,523
Committed	9,020,243	8,107,300
Unassigned	<u>10,581,938</u>	<u>10,787,239</u>
<b>TOTAL FUND BALANCE</b>	<b><u>19,604,589</u></b>	<b><u>18,930,062</u></b>
 <b>TOTAL LIABILITIES AND FUND BALANCE</b>	 <b><u>\$ 21,617,645</u></b>	 <b><u>\$ 21,172,581</u></b>

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 POSITION  
JUNE 30, 2016**

**Total Fund Balance - Governmental Fund** \$ 19,604,589

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

Capital assets used for governmental activities are not  
reported as assets in the governmental fund. 5,174

Compensated absences liability is not reported in the  
governmental fund. (134,401)

**Total Net Position - Governmental Activities** \$ 19,475,362

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 POSITION  
JUNE 30, 2015**

**Total Fund Balance - Governmental Fund** \$ 18,930,062

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

Capital assets used for governmental activities are not  
reported as assets in the governmental fund. 10,525

Compensated absences liability is not reported in the  
governmental fund. (120,850)

**Total Net Position - Governmental Activities** \$ 18,819,737

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

**KERN COUNTY CHILDREN AND FAMILIES COMMISSION  
STATEMENTS OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
GOVERNMENTAL GENERAL FUND  
FOR THE FISCAL YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Operating Revenues		
Aid from governmental agencies	\$ 10,035,157	\$ 9,890,726
Other state income	169,623	108,787
Grant awards and other income	<u>12,500</u>	<u>15,000</u>
Total Operating Revenues	<u>10,217,280</u>	<u>10,014,513</u>
Operating Expenditures		
Payroll	1,057,368	1,011,921
Employee benefits	302,944	267,923
Office expense	61,382	56,831
Insurance	27,772	15,977
Professional and specialized services	333,617	296,118
Administrative cost (County of Kern)	14,489	18,069
Publications and legal notice	4,315	13,257
Contribution to agents	7,750,662	9,382,417
Rental and lease	77,781	91,547
Travel and transportation	16,513	18,897
Utilities	14,629	14,234
Telephone	10,861	7,248
Miscellaneous	<u>8,520</u>	<u>8,786</u>
Total Operating Expenditures	<u>9,680,853</u>	<u>11,203,225</u>
Operating Income (Loss)	<u>536,427</u>	<u>(1,188,712)</u>
Nonoperating Revenues		
Interest income	<u>138,100</u>	<u>92,015</u>
Total Nonoperating Revenues	<u>138,100</u>	<u>92,015</u>
Net Change in Fund Balance	674,527	(1,096,697)
Fund Balance, Beginning of Year	<u>18,930,062</u>	<u>20,026,759</u>
Fund Balance, End of Year	<u>\$ 19,604,589</u>	<u>\$ 18,930,062</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 POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2016**

**Net Change in Fund Balance - Governmental General Fund** \$ 674,527

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 (\$0) exceed depreciation expense (\$5,351) in the period: (5,351)

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: (13,551)

**Total Change in Net Position - Governmental Activities** \$ 655,625

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 POSITION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

**Net Change in Fund Balance - Governmental General Fund** \$ (1,096,697)

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 (\$0) exceed depreciation expense (\$6,160) in the period: (6,160)

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: (18,308)

**Total Change in Net Position - Governmental Activities** \$ (1,121,165)

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, 2016**

	<u>Budgeted Amounts</u>		Actual (GAAP Basis)	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		
Operating Revenues				
Aid from governmental agencies	\$ 9,400,000	\$ 9,400,000	\$ 10,035,157	\$ 635,157
Other state income	50,000	50,000	169,623	119,623
Grant awards and other income	20,000	20,000	12,500	(7,500)
Total Operating Revenues	<u>9,470,000</u>	<u>9,470,000</u>	<u>10,217,280</u>	<u>747,280</u>
Operating Expenditures				
Payroll	1,121,000	1,120,000	1,057,368	62,632
Employee benefits	329,000	330,000	302,944	27,056
Office expense	75,000	78,500	61,382	17,118
Insurance	26,000	32,000	27,772	4,228
Professional and specialized services	325,000	325,000	333,617	(8,617)
Administrative cost (County of Kern)	42,000	42,000	14,489	27,511
Publications and legal notice	21,000	8,500	4,315	4,185
Contribution to agents	8,107,300	8,107,300	7,750,662	356,638
Rental and lease	81,000	81,000	77,781	3,219
Travel and transportation	24,000	24,000	16,513	7,487
Utilities	20,000	20,000	14,629	5,371
Telephone	10,000	12,000	10,861	1,139
Miscellaneous	24,000	25,000	8,520	16,480
Total Operating Expenditures	<u>10,205,300</u>	<u>10,205,300</u>	<u>9,680,853</u>	<u>524,447</u>
Operating Income (Loss)	<u>(735,300)</u>	<u>(735,300)</u>	<u>536,427</u>	<u>1,271,727</u>
Nonoperating Revenues				
Interest income	60,000	60,000	138,100	78,100
Total Nonoperating Revenues	<u>60,000</u>	<u>60,000</u>	<u>138,100</u>	<u>78,100</u>
Net Change in Fund Balance	(675,300)	(675,300)	674,527	1,349,827
Fund Balance, Beginning of Year	<u>18,930,062</u>	<u>18,930,062</u>	<u>18,930,062</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 18,254,762</u>	<u>\$ 18,254,762</u>	<u>\$ 19,604,589</u>	<u>\$ 1,349,827</u>

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

**KERN COUNTY CHILDREN AND FAMILIES COMMISSION  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL (GAAP)  
GOVERNMENTAL GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2015**

	<u>Budgeted Amounts</u>		Actual (GAAP Basis)	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		
Operating Revenues				
Aid from governmental agencies	\$ 9,200,000	\$ 9,200,000	\$ 9,890,726	\$ 690,726
Other state income	90,000	90,000	108,787	18,787
Grant awards and other income	<u>20,000</u>	<u>20,000</u>	<u>15,000</u>	<u>(5,000)</u>
Total Operating Revenues	<u>9,310,000</u>	<u>9,310,000</u>	<u>10,014,513</u>	<u>704,513</u>
Operating Expenditures				
Payroll	1,121,000	1,121,000	1,011,921	109,079
Employee benefits	327,000	328,000	267,923	60,077
Office expense	75,000	80,000	56,831	23,169
Insurance	22,000	22,000	15,977	6,023
Professional and specialized services	318,000	342,000	296,118	45,882
Administrative cost (County of Kern)	57,000	27,000	18,069	8,931
Publications and legal notice	21,000	21,000	13,257	7,743
Contribution to agents	10,303,000	10,303,000	9,382,417	920,583
Rental and lease	94,000	94,000	91,547	2,453
Travel and transportation	22,000	25,000	18,897	6,103
Utilities	23,000	20,000	14,234	5,766
Telephone	10,000	10,000	7,248	2,752
Miscellaneous	<u>24,000</u>	<u>24,000</u>	<u>8,786</u>	<u>15,214</u>
Total Operating Expenditures	<u>12,417,000</u>	<u>12,417,000</u>	<u>11,203,225</u>	<u>1,213,775</u>
Operating Loss	<u>(3,107,000)</u>	<u>(3,107,000)</u>	<u>(1,188,712)</u>	<u>1,918,288</u>
Nonoperating Revenues				
Interest income	<u>88,000</u>	<u>88,000</u>	<u>92,015</u>	<u>4,015</u>
Total Nonoperating Revenues	<u>88,000</u>	<u>88,000</u>	<u>92,015</u>	<u>4,015</u>
Net Change in Fund Balance	(3,019,000)	(3,019,000)	(1,096,697)	1,922,303
Fund Balance, Beginning of Year	<u>20,026,759</u>	<u>20,026,759</u>	<u>20,026,759</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ 17,007,759</u></u>	<u><u>\$ 17,007,759</u></u>	<u><u>\$ 18,930,062</u></u>	<u><u>\$ 1,922,303</u></u>

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

**KERN COUNTY CHILDREN AND FAMILIES COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2016**

**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), also doing business as First 5 Kern County, established the membership and commission, and authorized the establishment of the Kern County Children and Families Trust Fund.

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

B. Accounting Pronouncements Implemented

The Commission implemented the following Governmental Accounting Standards Board (GASB) Statements in the current financial statements.

Statement No. 72	<i>Fair Value Measurement and Application</i>	Improves the measuring of fair value for financial reporting purposes and enhanced disclosures about fair value hierarchy as established by GAAP. The requirements for this statement are effective for financial statements for reporting periods beginning after June 15, 2015.
Statement No. 73	<i>Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68.</i>	The Commission does not have pension plans that fall under GASB Statement No. 73, therefore, the implementation of this statement did not have an impact on the financial statements of the Commission.
Statement No. 76	<i>The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments</i>	The provisions of this statement are effective for financial statements for periods beginning after June 15, 2015.

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

### **C. Basis of Presentation, Basis of Accounting, and Measurement Focus**

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

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

#### **1. Government-Wide Financial Statements**

The government-wide financial statements consist of the statement of net position and the statement of activities. The government-wide financial statements distinguish programs of the Commission that are principally supported by intergovernmental revenues (governmental activities) from programs that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Commission include Early Child Care and Education, Parent Education and Support Services, Health and Wellness, and Integration of Services and Administration.

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

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. The government-wide financial statements are reported using the economic financial resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met, except for the timing requirement.

#### **2. Fund Financial Statements**

The accounts of the Commission are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The Commission's governmental fund is accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. 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. Therefore, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Commission, in general, considers revenues available if they are collected within 180 days after year-end. Grants and similar grants are recognized as revenue as soon as all eligibility requirements have been satisfied. Expenditures that meet the accrual criteria are recorded when the related fund liability is incurred, except for certain liabilities such as compensated absences, which are recognized when payment is due. 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 reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for the governmental fund.

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

C. Basis of Presentation, Basis of Accounting, and Measurement Focus (Continued)

**2. Fund Financial Statements** (Continued)

General Fund

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

D. Proposition 10 Tax Increments and 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 of accounting, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed.

E. Net Position

Net position represents the residual interest in the Commission's assets after liabilities are deducted. In accordance with GASB Statement No. 34, the fund balance section on the statement of net position was combined to report total net position and present it in three broad components: net investment in capital assets; restricted; and unrestricted. Net investment in capital assets include capital assets net of accumulated depreciation. Net position is restricted when constraints are imposed by third parties or by law through constitutional provisions or enabling legislation. All other net position is 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 position are available. The Commission reported \$9,020,243 and \$8,107,300 of restricted net position for the fiscal years ended June 30, 2016 and 2015, respectively, for funded programs, new program funding, and other events.

F. Fund Balance

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

1. *Nonspendable fund balance*—amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact. The Commission's General Fund nonspendable balance represents prepaid expenses.
2. *Restricted fund balance*—amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.

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

F. Fund Balance (Continued)

3. *Committed fund balance*—amounts that can only be used for specific purposes determined by formal action of the Commission’s highest level of decision-making authority (the Commissioners) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.

The aggregate balance of the Commission’s General Fund committed balance was \$9,020,243 and \$8,107,300 as of June 30, 2016 and 2015, respectively. The details of these amounts are shown below:

	<u>2016</u>	<u>2015</u>
Funded Programs	\$ 8,698,243	\$ 7,937,300
Community Events and Program Outreach	32,000	30,000
Cost Benefit Analysis	50,000	-
Help Me Grow Pilot	100,000	-
New Program Funding	<u>140,000</u>	<u>140,000</u>
Total	<u>\$ 9,020,243</u>	<u>\$ 8,107,300</u>

4. *Assigned fund balance*—amounts that are constrained by the Commission’s intent to be used for specific purposes. The intent can be established at either the highest level of decision-making authority, by a governing body, or an official designated for that purpose.
5. *Unassigned fund balance*—the residual classification for the Commission’s General Fund that includes amounts not contained in the other classifications.

**Stabilization Arrangements**

In June 2016, the Commission approved Action Item Number 10. Under the formal action, a portion of the fund balance of the General Fund is set aside for emergency situations, such as revenue shortages or budgetary imbalances. The Commission’s policy is to maintain a \$3 million reserve in its five-year financial plan to provide for contingencies such as:

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

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

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



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

G. Budgeting Procedures

Each year management of the Commission prepares a proposed budget that is presented to the 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's General Fund. The entire compensated absences liability when incurred is reported on the government-wide financial statements.

I. Cash

Cash balances held in banks are insured up to \$250,000 by the Federal Deposit Insurance Corporation (FDIC). The Commission maintains substantially all of its cash with the Kern County Treasurer-Tax Collector. This is an interest bearing account. The County pools these funds with those of other agencies in the County and invests the cash. These pooled funds are carried at cost, which approximates fair value.

J. Accounts Receivable

The Commission only accrues revenues it deems collectible within one year of the Balance Sheet date; 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 depreciates 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.

## NOTE 2 – CASH

Cash as of June 30, 2016 and 2015, consisted of the following:

	<u>2016</u>	<u>2015</u>
Cash in the Banks	\$ 100,100	\$ 100,100
Cash in Kern County Investment Pool	19,499,878	19,291,758
Total Cash and Cash Equivalents	<u>\$ 19,599,978</u>	<u>\$ 19,391,858</u>
Total Interest Income	<u>\$ 138,100</u>	<u>\$ 92,015</u>

### Cash on Hand and in Banks

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

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers' 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.

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:

**NOTE 2 – CASH** (Continued)

Cash on Hand and in Banks (Continued)

2016		Remaining Maturity			
Investment Type	Amount	12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
County Investment Pool	<u>\$ 19,499,878</u>	<u>\$ 19,499,878</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

2015		Remaining Maturity			
Investment Type	Amount	12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
County Investment Pool	<u>\$ 19,291,758</u>	<u>\$ 19,291,758</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**Disclosures Relating to Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Commission’s investment policy, and the actual rating as of year-end for each investment type. The column marked “exempt from disclosure” identifies those investment types for which GASB Statement No. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3*, does not require disclosure as to credit risk:

2016		Minimum Legal Rating	Exempt From Disclosure	Rating as of Year-End	
Investment Type	Amount			AAA	Not Rated
County Investment Pool	<u>\$ 19,499,878</u>	<u>N/A</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,499,878</u>

2015		Minimum Legal Rating	Exempt From Disclosure	Rating as of Year-End	
Investment Type	Amount			AAA	Not Rated
County Investment Pool	<u>\$ 19,291,758</u>	<u>N/A</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,291,758</u>

**Custodial Credit Risk**

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party.

The California Government Code and the Commission’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies.

**NOTE 2 – CASH** (Continued)Cash on Hand and in Banks (Continued)**Custodial Credit Risk** (Continued)

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 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 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. Interest earned on pooled investments is credited to the Commission based on the Commission's average daily deposit balance during the allocation period with all remaining interest deposited with the County. The Commission's investments and policies are overseen by the Kern County Treasury Oversight Committee. Disclosures in accordance with GASB Statements, including interest rate risk, credit risk, concentration, rating as well as custodial credit risk and GASB Statement No. 72 disclosures for the County's Investment Pool, are included in the County's Comprehensive Annual Financial Report (CAFR). The County's CAFR can be obtained either from the County's web-site at [www.co.kern.ca.us](http://www.co.kern.ca.us) or from the County Auditor-Controller's Office located at 1115 Truxtun Avenue, 2<sup>nd</sup> Floor, Bakersfield, California 93301.

**NOTE 3 – CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2016, was as follows:

	Balances June 30, 2015	Additions	Deletions	Balances June 30, 2016
Capital assets, being depreciated:				
Vehicles	\$ 25,228	\$ -	\$ -	\$ 25,228
Equipment	42,760	-	-	42,760
Total assets being depreciated	<u>67,988</u>	<u>-</u>	<u>-</u>	<u>67,988</u>
Less accumulated depreciation for:				
Vehicles	(25,228)	-	-	(25,228)
Equipment	(32,235)	(5,351)	-	(37,586)
Total accumulated depreciation	<u>(57,463)</u>	<u>(5,351)</u>	<u>-</u>	<u>(62,814)</u>
Total capital assets, net	<u>\$ 10,525</u>	<u>\$ (5,351)</u>	<u>\$ -</u>	<u>\$ 5,174</u>

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

Capital asset activity for the year ended June 30, 2015, was as follows:

	Balances June 30, 2014	Additions	Deletions	Balances June 30, 2015
Capital assets, being depreciated:				
Vehicles	\$ 25,228	\$ -	\$ -	\$ 25,228
Equipment	56,670	-	(13,910)	42,760
Total assets being depreciated	<u>81,898</u>	<u>-</u>	<u>(13,910)</u>	<u>67,988</u>
Less accumulated depreciation for:				
Vehicles	(25,228)	-	-	(25,228)
Equipment	(39,985)	(6,160)	13,910	(32,235)
Total accumulated depreciation	<u>(65,213)</u>	<u>(6,160)</u>	<u>13,910</u>	<u>(57,463)</u>
Total capital assets, net	<u>\$ 16,685</u>	<u>\$ (6,160)</u>	<u>\$ -</u>	<u>\$ 10,525</u>

Depreciation expense at June 30, 2016 and 2015, was \$5,351 and \$6,160, respectively.

**NOTE 4 – CHANGES IN COMPENSATED ABSENCES**

A schedule of changes in long-term debt for the years ended June 30, 2016 and 2015, was as follows:

	June 30, 2015	Additions	Deletions	June 30, 2016	Due Within One Year
Compensated Absences, Net	<u>\$ 120,850</u>	<u>\$ 99,058</u>	<u>\$ (85,507)</u>	<u>\$ 134,401</u>	<u>\$ 89,397</u>
	June 30, 2014	Additions	Deletions	June 30, 2015	Due Within One Year
Compensated Absences, Net	<u>\$ 102,542</u>	<u>\$ 92,404</u>	<u>\$ (74,096)</u>	<u>\$ 120,850</u>	<u>\$ 86,996</u>

**NOTE 5 – OPERATING LEASE**

The Commission leases approximately 5,078 gross square feet consisting of the building, parking area, and landscaping located at 2724 L Street, Bakersfield, California. The three year lease began July 1, 2015, and ends on June 30, 2018. Required payments on the lease are \$6,000 per month.

Rent expense under these agreements was \$72,000 and \$85,992 for the years ended June 30, 2016 and 2015, respectively. Future minimum lease payments are as follows:

Year Ending June 30,	
2017	\$ 72,000
2018	<u>72,000</u>
Total	<u>\$ 144,000</u>

**NOTE 6 – CONTRACTED PROGRAMS**

The Commission has agreements with various contractors for the child development program and the term of these contracts end June 30, 2020. 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, 2016 and 2015, was \$36,073,830 and \$0, respectively.

**NOTE 7 – DEFERRED COMPENSATION 457 PLAN**

On February 15, 2000, the Commission established a deferred compensation plan administered by California Public Employees' Retirement System. The plan is a voluntary savings program that allows employees to defer any amount, subject to annual limits, from each paycheck on a pre-tax basis. 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, 2016 and 2015, were \$109,723 and \$108,633, respectively. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Amounts accumulated under the plan have been invested in several investment options at the direction of the employees.

**NOTE 8 – COMMITMENTS AND CONTINGENCIES**

The Commission contracts with various service providers for data management services and for evaluation and reporting services. The Commission entered into the following agreements:

1. Carney's Business Technology Center for network management services for \$50,220 from July 1, 2016, to June 30, 2019.
2. Dr. Jianjun Wang to provide evaluation and reporting services for \$290,160 from July 1, 2015, to June 30, 2018; the balance on the contract at June 30, 2016, is \$193,440.
3. Persimmony International, Inc., for data management services from April 1, 2015, to June 30, 2020, for \$480,816; the balance on the contract at June 30, 2016, is \$370,941.

In addition to the above, the Commission had outstanding encumbrances of \$2,367,990 and \$2,990,307 at June 30, 2016 and 2015, respectively.

**NOTE 9 – PROGRAM EVALUATION**

The Commission spent \$490,707 and \$388,167 on program evaluation for the fiscal years 2015-16 and 2014-15, respectively.

**NOTE 10 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

For the year ended June 30, 2016, expenditures exceeded appropriations in the General Fund as follows:

<u>Appropriations Category</u>	<u>Expenditure</u>
General Fund	
Professional and specialized services	\$ 8,617

**NOTE 11 – SUBSEQUENT EVENTS**

Subsequent events were reviewed through September 12, 2016, which was the date the financial statements were available to be issued.

## **NOTE 12 – FUTURE ACCOUNTING PRONOUNCEMENTS**

GASB Statement Numbers 74-82 listed below will be implemented in future financial statements.

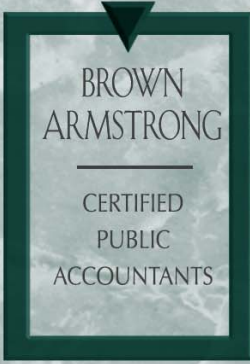
Statement No. 74	<i>Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans</i>	The provisions of this statement are effective for financial statements for periods beginning after June 15, 2016. The Commission believes this statement will not apply as the Commission does not offer Postemployment Benefit Plans Other Than Pension Plans.
Statement No. 75	<i>Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions</i>	The provisions of this statement are effective for financial statements for periods beginning after June 15, 2017. The Commission believes this statement will not apply as the Commission does not offer Postemployment Benefit Plans Other Than Pension Plans.
Statement No. 77	<i>Tax Abatement Disclosures</i>	The provisions of this statement are effective for reporting periods beginning after December 15, 2015. The Commission has not determined the impact, if any, upon implementation of this statement.
Statement No. 78	<i>Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans</i>	The provisions of this statement are effective for reporting periods beginning after December 15, 2015. The Commission has not determined the impact, if any, upon implementation of this statement.
Statement No. 79	<i>Certain Investment Pools and Pool Participants</i>	The provisions of this statement are effective for reporting periods beginning after December 15, 2015. The Commission has not determined the impact, if any, upon implementation of this statement.
Statement No. 80	<i>Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14</i>	The provisions of this statement are effective for reporting periods beginning after June 15, 2016. The Commission has not determined the impact, if any, upon implementation of this statement.
Statement No. 81	<i>Irrevocable Split-Interest Agreements</i>	The provisions of this statement are effective for reporting periods beginning after December 15, 2016. The Commission has not determined the impact, if any, upon implementation of this statement.

**NOTE 12 – FUTURE ACCOUNTING PRONOUNCEMENTS** (Continued)

Statement No. 82	<i>Pensions Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73</i>	The provisions of this statement are effective for reporting periods beginning after June 15, 2016 except for the requirements of paragraph 7 in circumstances in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements of paragraph 7 are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The Commission has not determined the impact, if any, upon implementation of this statement.
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**COMPLIANCE SECTION**



BROWN ARMSTRONG  
Certified Public Accountants

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

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

We have audited, 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, the financial statements of the governmental activities and General Fund of the Kern County Children and Families Commission (the Commission), a component unit of Kern County, as of and for the year ended June 30, 2016, which collectively comprise the Commission’s basic financial statements and have issued our report thereon dated September 12, 2016.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Commission’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Commission’s internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Commission’s financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

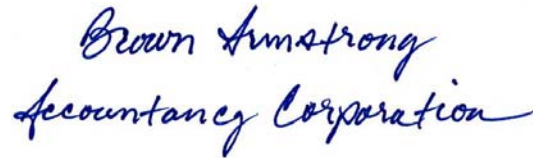
## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from 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*.

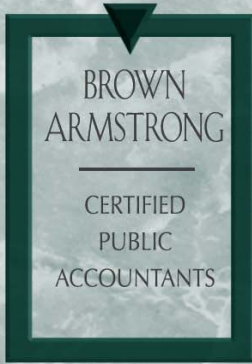
## Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive style and is positioned below the printed name of the firm.

Bakersfield, California  
September 12, 2016



# BROWN ARMSTRONG

*Certified Public Accountants*

## INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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

### Compliance

We have audited the Kern County Children and Families Commission's (the Commission), a component unit of Kern County, compliance with the requirements specified in the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, issued by the State Controller's Office, applicable to the Commission's statutory requirements identified below for the year ended June 30, 2016.

### Management's Responsibility

Management is responsible for compliance with the requirements of the laws and regulations applicable to the California Children and Families Act.

### Auditor's Responsibility

Our responsibility is to express an opinion on the Commission's compliance with the requirements referred to above, based on our audit. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, issued by the State Controller's Office. Those standards and the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a direct and material effect on the statutory requirements listed below. An audit includes examining on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance. However, our audit does not provide a legal determination of the Commission's compliance with those requirements. In connection with the audit referred to above, we selected and tested transactions and records to determine the Commission's compliance with the state laws and regulations applicable to the following items:

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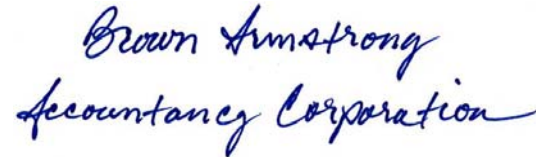
<u>Description</u>	<u>Audit Guide Procedures</u>	<u>Procedures Performed</u>
Contracting and Procurement	6	Yes
Administrative Costs	3	Yes
Conflict of Interest	3	Yes
County Ordinance	4	Yes
Long-Range Financial Plans	2	Yes
Financial Condition of the Commission	1	Yes
Program Evaluation	3	Yes
Salaries and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

**Opinion**

In our opinion, the Commission complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the California Children and Families Program for the year ended June 30, 2016.

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 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



*Brown Armstrong  
Accountancy Corporation*

Bakersfield, California  
September 12, 2016