KERN COUNTY CHILDREN AND FAMILIES COMMISSION

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

FOR THE FISCAL YEARS ENDED
JUNE 30, 2017 AND 2016

KERN COUNTY CHILDREN AND FAMILIES COMMISSION
JUNE 30, 2017 AND 2016

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BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

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 fiscal years ended June 30, 2017 and 2016, 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 entity'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.

Opinion

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, 2017 and 2016, and the respective changes in its financial position thereof and the General Fund budgetary comparison statements for the fiscal years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2017 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, 2017

KERN COUNTY CHILDREN AND FAMILIES COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017 AND 2016

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, 2017 and 2016.

The management's discussion and analysis (MD&A) is designed to focus on current financial 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 2016-17 Financial Highlights

- The Commission earned $9,637,925 in program revenues; of this amount, $9,116,942 was from the State for revenues collected under the Act, $509,483 was from the Improve and Maximize Programs so All Children Thrive (IMPACT) grant, and $11,500 from grants and donations.
- During fiscal year 2016-17, the Commission disbursed $8,368,753 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 $19,139,565 (net position). Of this amount, $9,115,748 is restricted to meet fiscal year 2017-18 contractual obligations and $10,003,285 represents unrestricted net position.
- At the close of the current fiscal year, the Commission's governmental fund reported an ending fund balance of $19,240,520, a decrease of $364,069 in comparison with the prior year. This decrease is due to the decline of Proposition 10 revenue; the Commission's decision to spend down the fund balance; and the impact of Proposition 56, Cigarette Tax to Fund Healthcare, Tobacco Use Prevention, Research, and Law Enforcement, which became effective April 1, 2017.

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

- Actual operating revenues were $158,834 less than budgeted revenues. In fiscal year 2015-16, IMPACT did not fully expend its budget and this resulted in rollover funds increasing the current IMPACT budget. IMPACT's corresponding request for reimbursement was less than budgeted amount.

- Some expenditures were less than budgeted due to the direction of management and an administrative review of costs, including the following:

  - Contributions to agents were $696,775 less than budgeted due to contracts being executed under budget.

  - Payroll and employee benefits were under budget by $144,608 and $58,177, respectively, due to position vacancies.

  - Administrative Costs (County of Kern) were under budget by $4,771. 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, 2017 and 2016.

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 $19,139,565 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:

	2017	2016	2015	2017-2016 Change	2017-2016 %	2016-2015 Change	2016-2015 %
Assets							
Current Assets	$ 21,268,368	$ 21,617,645	$ 21,172,581	$ (349,277)	-1.62%	$ 445,064	2.10%
Capital Assets, Net	20,532	5,174	10,525	15,358	296.83%	(5,351)	-50.84%
Total Assets	21,288,900	21,622,819	21,183,106	(333,919)	-1.54%	439,713	2.08%
Liabilities							
Current Liabilities	2,121,131	2,102,453	2,329,515	18,678	0.89%	(227,062)	-9.75%
Long-Term Liabilities	28,204	45,004	33,854	(16,800)	-37.33%	11,150	32.94%
Total Liabilities	2,149,335	2,147,457	2,363,369	1,878	0.09%	(215,912)	-9.14%
Net Position							
Net Investment in Capital Assets	20,532	5,174	10,525	15,358	296.83%	(5,351)	-50.84%
Restricted	9,115,748	9,020,243	8,107,300	95,505	1.06%	912,943	11.26%
Local Initiatives and Unrestricted	10,003,285	10,449,945	10,701,912	(446,660)	-4.27%	(251,967)	-2.35%
Total Net Position	$ 19,139,565	$ 19,475,362	$ 18,819,737	$ (335,797)	-1.72%	$ 655,625	3.48%

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 2016-17 and 2015-16, 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 2016-17 and 2015-16 is as follows:

	2017	2016	2015	2017-2016 Change	2017-2016 %	2016-2015 Change	2016-2015 %
Program Revenues	$ 9,637,925	$ 10,217,280	$ 10,014,513	$ (579,355)	-5.67%	$ 202,767	2.02%
General Revenues	204,800	138,100	92,015	66,700	48.30%	46,085	50.08%
Total Revenues	9,842,725	10,355,380	10,106,528	(512,655)	-4.95%	248,852	2.46%
Expenses	10,178,522	9,699,755	11,227,693	478,767	4.94%	(1,527,938)	-13.61%
Change in Net Position	(335,797)	655,625	(1,121,165)	(991,422)	-151.22%	1,776,790	158.48%
Net Position - Beginning of Year	19,475,362	18,819,737	19,940,902	655,625	3.48%	(1,121,165)	-5.62%
Net Position - End of Year	$ 19,139,565	$ 19,475,362	$ 18,819,737	$ (335,797)	-1.72%	$ 655,625	3.48%

Revenues

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

- Operating revenue from the State for Proposition 10 distributions decreased in fiscal year 2016-17 by $918,215 over prior year. This decline is attributable to the passage of Proposition 56. The increase in tobacco taxes resulted in lower sales that ultimately reduced the May and June 2017 Proposition 10 revenue distribution.

- Other State income increased in fiscal year 2016-17 by $339,860 over prior year. This is the first full year of implementation for the First 5 California funded grant IMPACT.

- The Commission received $66,700 more interest income in fiscal year 2016-17 than in the prior year due to market conditions and available cash.

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

- Contributions to agents increased by $618,091 in fiscal year 2016-17 from those of the prior year due to programs spending more of their budgets.

- Professional and specialized services decreased $34,665 in fiscal year 2016-17 from the prior year. In fiscal year 2015-16, the Commission entered into a contract with a new data management company, Persimmony, International, Inc., and payments were made for data transfers, which is not applicable to future years of the contract. Additionally, initial costs were incurred in fiscal year 2015-16 when the Commission transitioned from the County's general ledger and implemented 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, 2017 AND 2016

ASSETS	2017	2016
Current Assets		
Cash and cash equivalents	$ 20,070,030	$ 19,599,978
Accounts receivable	1,127,641	1,969,613
Interest receivable	64,514	45,646
Prepaid expenses	6,183	2,408
Total Current Assets	21,268,368	21,617,645
Capital Assets		
Equipment	67,610	67,988
Less accumulated depreciation	(47,078)	(62,814)
Total Capital Assets, Net of Depreciation	20,532	5,174
TOTAL ASSETS	$ 21,288,900	$ 21,622,819

LIABILITIES AND NET POSITION		
LIABILITIES		
Accounts payable and accrued expenses	$ 2,006,096	$ 1,967,588
Accrued payroll	21,752	45,468
Long-term liabilities		
Due within one year		
Compensated absences	93,283	89,397
Due after one year		
Compensated absences	28,204	45,004
TOTAL LIABILITIES	2,149,335	2,147,457
NET POSITION		
Net investment in capital assets	20,532	5,174
Restricted	9,115,748	9,020,243
Unrestricted	10,003,285	10,449,945
TOTAL NET POSITION	$ 19,139,565	$ 19,475,362

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, 2017

		Program Revenues			Net (Expense) and Revenue and Change in Net Position
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Child Development Services	$ 10,178,522	$ -	$ 9,637,925	$ -	$ (540,597)
Totals	$ 10,178,522	$ -	$ 9,637,925	$ -	(540,597)
	General Revenues:				
	Interest and investment earnings				204,800
	Total General Revenues				204,800
	Change in Net Position				(335,797)
	Net Position Beginning of Year				19,475,362
	Net Position End of Year				$ 19,139,565

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: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) and Revenue and Change in Net Position: Governmental Activities
Child Development Services	$ 9,699,755	$ -	$ 10,217,280	$ -	$ 517,525
Totals	$ 9,699,755	$ -	$ 10,217,280	$ -	517,525
General Revenues:					
Interest and investment earnings					138,100
Total General Revenues					138,100
Change in Net Position					655,625
Net Position Beginning of Year					18,819,737
Net Position End of Year					$ 19,475,362

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

KERN COUNTY CHILDREN AND FAMILIES COMMISSION
BALANCE SHEETS
GOVERNMENTAL GENERAL FUND
JUNE 30, 2017 AND 2016

ASSETS	2017	2016
Current Assets		
Cash and cash equivalents	$ 20,070,030	$ 19,599,978
Accounts receivable	1,127,641	1,969,613
Interest receivable	64,514	45,646
Prepaid expenses	6,183	2,408
TOTAL ASSETS	$ 21,268,368	$ 21,617,645

LIABILITIES AND FUND BALANCE		
LIABILITIES		
Accounts payable and accrued expenses	$ 2,006,096	$ 1,967,588
Accrued payroll	21,752	45,468
TOTAL LIABILITIES	2,027,848	2,013,056
FUND BALANCE		
Nonspendable	6,183	2,408
Committed	9,115,748	9,020,243
Unassigned	10,118,589	10,581,938
TOTAL FUND BALANCE	19,240,520	19,604,589
TOTAL LIABILITIES AND FUND BALANCE	$ 21,268,368	$ 21,617,645

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, 2017

Total Fund Balance - Governmental Fund	$ 19,240,520
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.	20,532
Compensated absences liability is not reported in the governmental fund.	(121,487)
Total Net Position - Governmental Activities	$ 19,139,565

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
STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL GENERAL FUND
FOR THE FISCAL YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Operating Revenues		
Aid from governmental agencies	$ 9,116,942	$ 10,035,157
Other state income	509,483	169,623
Grant awards and other income	11,500	12,500
Total Operating Revenues	9,637,925	10,217,280
Operating Expenditures		
Payroll	1,046,392	1,057,368
Employee benefits	271,823	302,944
Office expense	50,960	61,382
Insurance	25,684	27,772
Professional and specialized services	298,952	333,617
Administrative cost (County of Kern)	9,229	14,489
Publications and legal notice	3,794	4,315
Contribution to agents	8,368,753	7,750,662
Rental and lease	77,704	77,781
Travel and transportation	9,211	16,513
Utilities	16,067	14,629
Telephone	11,037	10,861
Miscellaneous	17,188	8,520
Total Operating Expenditures	10,206,794	9,680,853
Operating Income (Loss)	(568,869)	536,427
Nonoperating Revenues		
Interest income	204,800	138,100
Total Nonoperating Revenues	204,800	138,100
Net Change in Fund Balance	(364,069)	674,527
Fund Balance, Beginning of Year	19,604,589	18,930,062
Fund Balance, End of Year	$ 19,240,520	$ 19,604,589

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, 2017

Net Change in Fund Balance - Governmental General Fund	$	(364,069)
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 ($21,372) exceed depreciation expense ($4,301) in the period:		17,071
Loss on disposal of assets:		(1,713)
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:		12,914
Total Change in Net Position - Governmental Activities	$	(335,797)

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
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL (GAAP)
GOVERNMENTAL GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Budgeted Amounts			
	Original	Final	Actual (GAAP Basis)	Variance with Final Budget
Operating Revenues				
Aid from governmental agencies	$ 9,100,000	$ 9,100,000	$ 9,116,942	$ 16,942
Other state income	686,759	686,759	509,483	(177,276)
Grant awards and other income	10,000	10,000	11,500	1,500
Total Operating Revenues	9,796,759	9,796,759	9,637,925	(158,834)
Operating Expenditures				
Payroll	1,191,000	1,191,000	1,046,392	144,608
Employee benefits	330,000	330,000	271,823	58,177
Office expense	88,000	72,000	50,960	21,040
Insurance	32,000	32,000	25,684	6,316
Professional and specialized services	310,000	330,000	298,952	31,048
Administrative cost (County of Kern)	19,000	14,000	9,229	4,771
Publications and legal notice	21,000	12,000	3,794	8,206
Contribution to agents	9,056,528	9,065,528	8,368,753	696,775
Rental and lease	81,000	81,000	77,704	3,296
Travel and transportation	24,000	18,000	9,211	8,789
Utilities	18,000	18,000	16,067	1,933
Telephone	13,000	13,000	11,037	1,963
Miscellaneous	14,000	21,000	17,188	3,812
Total Operating Expenditures	11,197,528	11,197,528	10,206,794	990,734
Operating Income (Loss)	(1,400,769)	(1,400,769)	(568,869)	831,900
Nonoperating Revenues				
Interest income	92,000	92,000	204,800	112,800
Total Nonoperating Revenues	92,000	92,000	204,800	112,800
Net Change in Fund Balance	(1,308,769)	(1,308,769)	(364,069)	944,700
Fund Balance, Beginning of Year	19,604,589	19,604,589	19,604,589	-
Fund Balance, End of Year	$ 18,295,820	$ 18,295,820	$ 19,240,520	$ 944,700

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

	Budgeted Amounts			
	Original	Final	Actual (GAAP Basis)	Variance with Final Budget
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	9,470,000	9,470,000	10,217,280	747,280
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	10,205,300	10,205,300	9,680,853	524,447
Operating Income (Loss)	(735,300)	(735,300)	536,427	1,271,727
Nonoperating Revenues				
Interest income	60,000	60,000	138,100	78,100
Total Nonoperating Revenues	60,000	60,000	138,100	78,100
Net Change in Fund Balance	(675,300)	(675,300)	674,527	1,349,827
Fund Balance, Beginning of Year	18,930,062	18,930,062	18,930,062	-
Fund Balance, End of Year	$ 18,254,762	$ 18,254,762	$ 19,604,589	$ 1,349,827

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

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 of the 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. 74	*Financial Reporting for Postemployment Benefits Other than Pension Plans*	This standard replaces GASB Statement No. 43. It addresses the financial reporting for defined benefit other postemployment benefit (OPEB) plans that are administered through trusts that meet specified criteria. The implementation of this standard did not impact the financial statements or disclosures of the Commission.
Statement No. 77	*Tax Abatement Disclosures*	This statement establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The statement requires disclosure of tax abatement information resulting from (1) agreements that are entered into by the reporting governments and (2) agreements that are entered into by other governments that reduce the reporting government's tax revenues. The implementation of this standard did not impact the financial statements or disclosures of the Commission.
Statement No. 78	*Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*	This statement amends the scope and applicability of Statement No. 68 to exclude certain pensions provided to employees of state or local governments employers through a cost-sharing multiple-employer defined benefit pension plan and assists governments that participate in certain private or federally sponsored multiple-employer defined benefit pension plans. The implementation of this standard did not impact the financial statements or disclosures of the Commission.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Accounting Pronouncements Implemented (Continued)

Statement No. 79	*Certain Investment Pools and Pool Participants*	The provisions of this statement were partially effective for reporting periods beginning after December 15, 2015 (fiscal year 2016); except for the provisions in paragraphs 18, 19, 23-26, and 40, which are effective for reporting periods beginning after December 15, 2015 (fiscal year 2017). This standard addresses accounting and financial reporting for certain external investment pools and pool participants. This standard allows many state and local government external investment pools to continue to qualify for amortized cost accounting. There was no significant impact on the financial statements of the Commission as a result of the implementation of this standard.
Statement No. 80	*Blending Requirements for Certain Component Units – an Amendment of GASB Statement No. 14*	This standard provides clarification on how certain component units incorporated as not-for-profit corporations should be presented in a state or local government's financial statements. There was no effect on the Commission's financial statements as a result of implementation of this standard.
Statement No. 82	*Pensions Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*	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. There was no effect on the Commission's financial statements as a result of implementation of this standard.

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

NOTE 1 – <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u> (Continued)

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

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 measureable 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 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 reconciliations with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for the governmental fund.

<u>General Fund</u>

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)

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 includes 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 $9,115,748 and $9,020,243 of restricted net position for the fiscal years ended June 30, 2017 and 2016, 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 expenditures.

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.

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 $9,115,748 and $9,020,243 as of June 30, 2017 and 2016, respectively. The details of these amounts are shown below:

	2017	2016
Funded Programs	$ 8,893,748	$ 8,698,243
Community Events and Program Outreach	32,000	32,000
Cost Benefit Analysis	50,000	50,000
Help Me Grow Pilot	-	100,000
New Program Funding	140,000	140,000
Total	$ 9,115,748	$ 9,020,243

F. Fund Balance (Continued)

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 2017, the Commissioners approved Action Item Number 9. 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.

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 Commissioners. 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

The Commission maintains up to $2,500,000 at Valley Republic Bank (VRB) to process accounts payable and payroll. This amount is replenished as needed from amounts invested at the County. The Federal Deposit Insurance Corporation (FDIC) insures cash balances held at VRB up to $250,000. Additionally, the principal amount of $2,500,000 is collateralized at 110% of the deposit.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Cash (Continued)

VRB participates in the local agency security program allowing VRB to accept public funds. As required by the California Government Code, VRB pledges collateral for the portion of public funds on deposit that exceeds the FDIC insurance amount. The market value of the securities VRB pledges has a market value of at least 110% of the secured deposits. This provides protection for the uninsured portion of these deposits.

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 vehicles 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, 2017 and 2016, consisted of the following:

	2017	2016
Cash in the Banks	$ 425,195	$ 100,100
Cash in Kern County Investment Pool	19,644,835	19,499,878
Total Cash and Cash Equivalents	$ 20,070,030	$ 19,599,978
Total Interest Income	$ 204,800	$ 138,100

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**.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
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:

2017

		Remaining Maturity			
Investment Type	Amount	12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
County Investment Pool	$ 19,644,835	$ 19,644,835	$ -	$ -	$ -

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	$ 19,499,878	$ 19,499,878	$ -	$ -	$ -

NOTE 2 – CASH (Continued)

Cash on Hand and in Banks (Continued)

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:

2017		Minimum	Exempt	Rating as of Year-End	
		Legal	From		Not
Investment Type	Amount	Rating	Disclosure	AAA	Rated
County Investment Pool	$ 19,644,835	N/A	$ -	$ -	$ 19,644,835

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

Custodial Credit Risk

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

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

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

NOTE 2 – CASH (Continued)

Cash on Hand and in Banks (Continued)

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 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 or from the County Auditor-Controller's Office located at 1115 Truxtun Avenue, 2nd Floor, Bakersfield, California 93301.

Fair Value Measurements

The Commission categorizes its fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Commission has the following recurring fair value measurements as of June 30, 2017:

- County Investment Pool is valued using significant other observable inputs (Level 2).

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017, was as follows:

	Balances June 30, 2016	Additions	Deletions	Balances June 30, 2017
Capital assets, being depreciated:				
Vehicles	$ 25,228	$ -	$ -	$ 25,228
Equipment	42,760	21,372	(21,750)	42,382
Total assets being depreciated	67,988	21,372	(21,750)	67,610
Less accumulated depreciation for:				
Vehicles	(25,228)	-	-	(25,228)
Equipment	(37,586)	(4,301)	20,037	(21,850)
Total accumulated depreciation	(62,814)	(4,301)	20,037	(47,078)
Total capital assets, net	$ 5,174	$ 17,071	$ (1,713)	$ 20,532

NOTE 3 – CAPITAL ASSETS (Continued)

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	67,988	-	-	67,988
Less accumulated depreciation for:				
Vehicles	(25,228)	-	-	(25,228)
Equipment	(32,235)	(5,351)	-	(37,586)
Total accumulated depreciation	(57,463)	(5,351)	-	(62,814)
Total capital assets, net	$ 10,525	$ (5,351)	$ -	$ 5,174

Depreciation expense at June 30, 2017 and 2016, was $4,301 and $5,351, respectively.

NOTE 4 – CHANGES IN COMPENSATED ABSENCES

A schedule of changes in long-term debt for the years ended June 30, 2017 and 2016, was as follows:

	June 30, 2016	Additions	Deletions	June 30, 2017	Due Within One Year
Compensated Absences, Net	$ 134,401	$ 107,331	$ (120,245)	$ 121,487	$ 93,283

	June 30, 2015	Additions	Deletions	June 30, 2016	Due Within One Year
Compensated Absences, Net	$ 120,850	$ 99,058	$ (85,507)	$ 134,401	$ 89,397

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 $72,000 for the years ended June 30, 2017 and 2016, respectively. Future minimum lease payments are as follows:

Year Ending June 30,	
2018	$ 72,000
Total	$ 72,000

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, 2017 and 2016, was $27,307,120 and $36,073,830, 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, 2017 and 2016, were $102,939 and $109,723, 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; the balance on the contract at June 30, 2017, is $33,480.

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, 2017, is $96,720.

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, 2017, is $276,856.

In addition to the above, the Commission had outstanding encumbrances of $2,469,434 and $2,367,990 at June 30, 2017 and 2016, respectively.

NOTE 9 – PROGRAM EVALUATION

The Commission spent $388,871 and $490,707 on program evaluation for the fiscal years 2016-17 and 2015-16, respectively.

NOTE 10 – SUBSEQUENT EVENTS

Subsequent events were reviewed through September 12, 2017, which was the date the financial statements were available to be issued.

NOTE 11 – FUTURE ACCOUNTING PRONOUNCEMENTS

GASB Statements listed below will be implemented in future financial statements.

Statement No. 75	*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*	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. 81	*Irrevocable Split-Interest Agreements*	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.
Statement No. 83	*Certain Asset Retirement Obligations*	The provisions of this statement are effective for reporting periods beginning after June 15, 2018. The Commission has not determined the impact, if any, upon implementation of this statement.
Statement No. 84	*Fiduciary Activities*	The provisions of this statement are effective for reporting periods beginning after December 15, 2018. The Commission has not determined the impact, if any, upon implementation of this statement.
Statement No. 85	*Omnibus 2017*	The provisions of this statement are effective for reporting periods beginning after June 15, 2017. The Commission has not determined the impact, if any, upon implementation of this statement.
Statement No. 86	*Certain Debt Extinguishment Issues*	The provisions of this statement are effective for reporting periods beginning after June 15, 2017. The Commission has not determined the impact, if any, upon implementation of this statement.
Statement No. 87	*Leases*	The provisions of this statement are effective for reporting periods beginning after December 15, 2019. The Commission has not determined the impact, if any, upon implementation of this statement.

COMPLIANCE SECTION

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BROWN ARMSTRONG
Certified Public Accountants

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

To the Commissioners
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 fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated September 12, 2017.

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

Brown Armstrong
Accountancy Corporation

Bakersfield, California
September 12, 2017

BROWN ARMSTRONG
CERTIFIED PUBLIC ACCOUNTANTS

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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 fiscal year ended June 30, 2017.

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:

Description	Audit Guide Procedures	Procedures Performed
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, 2017.

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, 2017

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

We have audited the financial statements of the governmental activities and the General Fund of the Kern County Children and Families Commission (the Commission) for the fiscal year ended June 30, 2017. Professional standards require that we provide you with information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated February 6, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices
Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Commission are described in Note 1 to the financial statements. The Commission implemented Governmental Accounting Standards Board (GASB) Statement No. 74, *Financial Reporting for Postemployment Benefits Other than Pension Plans*; GASB Statement No. 77, *Tax Abatement Disclosures*; GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*; GASB Statement No. 79, *Certain Investment Pools and Pool Participants*; GASB Statement No. 80, *Blending Requirements for Certain Component Units – and Amendment of GASB Statement No. 14*; and GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*. The implementation of these standards did not have a significant impact on the financial statements or disclosures of the Commission. We noted no transactions entered into by the Commission during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the Commission's financial statements was:

> Management's estimate of the fund balance commitments, including approved contracts not yet executed and budget reserve, is based on future contracts and possible provisions and changes on contracts and their payment schedules. We evaluated the key factors and assumptions used to develop the estimate in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of fund balance commitments in Note 1F Summary of Significant Accounting Policies – Fund Balance as described above.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit
We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements
Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. There were no such misstatements.

Disagreements with Management
For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations
We have requested certain representations from management that are included in the management representation letter dated September 12, 2017.

Management Consultations with Other Independent Accountants
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Commission's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Commission's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to management's discussion and analysis, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Restriction on Use

This information is intended solely for the information and use of the Kern County Children and Families Commission and is not intended to be, and should not be, used by anyone other than this specified party.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
September 12, 2017

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AGREED UPON CONDITIONS REPORT DESIGNED TO INCREASE EFFICIENCY, INTERNAL CONTROLS, AND/OR FINANCIAL REPORTING

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

We have audited the financial statements of the Kern County Children and Families Commission (the Commission) for the fiscal year ended June 30, 2017, and have issued our report thereon dated September 12, 2017. In planning and performing our audit of the financial statements of the Commission, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

We did not identify any recommendations in the current year. We are providing the disposition of our prior year recommendations.

Current Year Conditions and Recommendations

None.

Status of Prior Year Conditions and Recommendations

Condition 1 – 700 Form Reporting

Condition

Management does not have a formal process in place to track 700 Form reporting to ensure filers complete the forms by the April 1 deadline.

Recommendation

Management should establish a formal process to track and follow up on outstanding 700 Form filers. We recommend the Commission consider implementing a log that documents the date of follow up. The Commission should establish the frequency of the follow up, i.e., 30 days prior to the deadline and then 10 days prior, if still outstanding. All follow up should be documented in the log and supporting documentation of the follow up be kept including emails, letters, etc.

Management Response

Management concurs with the recommendation.

Current Year Status

The Commission approved a change to the employee handbook eliminating the requirement to file a Form 700 by April 1st for all employees, excluding the Executive Director.

The requirement is to have a Form 700 on file for the Executive Director and each appointed Commissioner and Alternate Commissioner by April 1st.

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This information is intended solely for the use of the Commissioners 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.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Brown Armstrong
Accountancy Corporation

Bakersfield, California
September 12, 2017