

KERN COUNTY CHILDREN AND FAMILIES COMMISSION

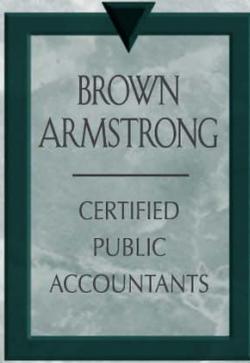
**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT**

**FOR THE FISCAL YEARS
ENDED JUNE 30, 2014 AND 2013**

**KERN COUNTY CHILDREN AND FAMILIES COMMISSION
JUNE 30, 2014 AND 2013**

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BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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Kern County Children and Families Commission
Bakersfield, California

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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), as of and for the years ended June 30, 2014 and 2013, 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.



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

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, 2014 and 2013, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2014, 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 18, 2014

**KERN COUNTY CHILDREN AND FAMILIES COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2014**

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, 2014 and 2013.

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 program site visits to monitor contractor compliance with the requirements of their general agreement and to assist in program evaluation, sustainability, and improvement.

Fiscal Year 2013-14 Financial Highlights

- The Commission earned \$10,035,491 in program revenues; of this amount, \$9,898,051 was from the State for revenues collected under the Act, \$101,440 was from the Child Signature Program (CSP), and \$36,000 from grants and donations.
- During fiscal year 2013-14, the Commission disbursed \$9,900,054 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 \$19,940,902 (Net Position). Of this amount, \$10,313,000 is restricted to meet fiscal year 2014-15 contractual obligations and \$9,611,217 represents unrestricted Net Position.
- At the close of the current fiscal year, the Commission's governmental fund reported an ending fund balance of \$20,026,759 a decrease of \$1,665,219 in comparison with the prior year. This decrease is due to the decline of Proposition 10 revenue and the Commission's decision to spend down the fund balance. In prior years, the Commission had designated a \$5,000,000 reserve balance, but in fiscal year 2010-11 decreased this amount to \$3,000,000 until fiscal year 2018-19.

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

- Actual operating revenues were \$719,491 more than budgeted revenues due to an increase in tobacco tax revenue collection, than anticipated in the budget, and an increase in the birth rates affecting the reimbursement funds to First 5 Kern. Contributions to agents were \$748,946 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 \$84,898 and \$68,697, respectively, due to the elimination of a position.
 - Administrative Costs (County of Kern) were under budget by \$32,414. 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, and total liabilities and deferred inflows of resources, 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, 2014 and 2013.

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 Kern County, assets exceeded liabilities by \$19,940,902 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:

	2014	2013	2012	2014-2013		2013-2012	
				Change	%	Change	%
Assets							
Current Assets	\$ 22,455,999	\$ 23,952,176	\$ 25,033,131	\$ (1,496,177)	-6.25%	\$ (1,080,955)	-4.32%
Capital Assets, Net	16,685	26,836	23,413	(10,151)	-37.83%	3,423	14.62%
Total Assets	<u>22,472,684</u>	<u>23,979,012</u>	<u>25,056,544</u>	<u>(1,506,328)</u>	-6.28%	<u>(1,077,532)</u>	-4.30%
Total Liabilities	<u>2,531,782</u>	<u>2,380,506</u>	<u>2,269,829</u>	<u>151,276</u>	6.35%	<u>110,677</u>	4.88%
Net Assets:							
Net investment in Capital Assets	16,685	26,836	23,413	(10,151)	-37.83%	3,423	14.62%
Restricted	10,313,000	10,661,000	10,752,539	(348,000)	-3.26%	(91,539)	-0.85%
Local Initiatives and Unrestricted	<u>9,611,217</u>	<u>10,910,670</u>	<u>12,010,763</u>	<u>(1,299,453)</u>	-11.91%	<u>(1,100,093)</u>	-9.16%
Total Net Position	<u>\$ 19,940,902</u>	<u>\$ 21,598,506</u>	<u>\$ 22,786,715</u>	<u>\$ (1,657,604)</u>	-7.67%	<u>\$ (1,188,209)</u>	-5.21%

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

At the end of fiscal year 2013-14 and 2012-13, 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 2013-14 and 2012-13 is as follows:

	2014	2013	2012	2014-2013		2013-2012	
				Change	%	Change	%
Program Revenues	\$ 10,035,491	\$ 10,340,243	\$ 11,488,172	\$ (304,752)	-2.95%	\$ (1,147,929)	-9.99%
General Revenues	84,501	118,541	186,432	(34,040)	-28.72%	(67,891)	-36.42%
Total Revenues	10,119,992	10,458,784	11,674,604	(338,792)	-3.24%	(1,215,820)	-10.41%
Expenses	11,777,596	11,646,993	11,663,829	130,603	1.12%	(16,836)	-0.14%
Change in Net Assets	(1,657,604)	(1,188,209)	10,775	(469,395)	39.50%	(1,198,984)	-11127.46%
Extraordinary Item:							
State of California - AB 99	-	-	11,709,156	-	-200.00%	(11,709,156)	-200.00%
Net Position - Beginning of Year	21,598,506	22,786,715	11,066,784	(1,188,209)	-5.21%	11,719,931	105.90%
Net Position - End of Year	\$ 19,940,902	\$ 21,598,506	\$ 22,786,715	\$ (1,657,604)	-7.67%	\$ (1,188,209)	-5.21%

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 2013-14 by \$311,622 over prior year. While Proposition 10 revenue is declining Statewide, the decline is partially offset in Kern County due to Kern County's increasing birth rate.
- Other State income, including the CSP increased by \$870. Fiscal year 2011-12 was the final contract year of the SRI program and the final payment for fiscal year 2011-12 was received in fiscal year 2012-13.
- The Commission received \$34,040 less interest income in fiscal year 2013-14 than in the prior year due to market conditions and a reduction in fund balance.

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

- Contributions to agents were \$103,674 more in fiscal year 2013-14 than those of the prior year due to funded programs utilizing more of their budgets.
- Professional and specialized services decreased \$19,135 in fiscal year 2013-14 from the prior year. In fiscal year 2012-13, the Commission revised a professional consulting service contract, which resulted in lower professional and specialized services expenditures in fiscal year 2013-14.

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, 2014 AND 2013**

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>
Current Assets		
Cash	\$ 20,570,376	\$ 22,010,295
Accounts receivable	1,865,138	1,916,341
Interest receivable	<u>20,485</u>	<u>25,540</u>
Total Current Assets	<u>22,455,999</u>	<u>23,952,176</u>
Capital Assets		
Equipment	81,898	89,254
Less accumulated depreciation	<u>(65,213)</u>	<u>(62,418)</u>
Total Capital Assets, Net of Depreciation	<u>16,685</u>	<u>26,836</u>
TOTAL ASSETS	<u><u>\$ 22,472,684</u></u>	<u><u>\$ 23,979,012</u></u>
 <u>LIABILITIES AND NET POSITION</u>		
LIABILITIES		
Accounts payable and accrued expenses	\$ 2,380,070	\$ 2,260,198
Accrued payroll	49,170	-
Compensated absences	<u>102,542</u>	<u>120,308</u>
TOTAL LIABILITIES	<u>2,531,782</u>	<u>2,380,506</u>
NET POSITION		
Net investment in capital assets	16,685	26,836
Restricted	10,313,000	10,661,000
Unrestricted	<u>9,611,217</u>	<u>10,910,670</u>
TOTAL NET POSITION	<u><u>\$ 19,940,902</u></u>	<u><u>\$ 21,598,506</u></u>

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

**KERN COUNTY CHILDREN AND FAMILIES COMMISSION
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

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	\$ 11,777,596	\$ -	\$ 10,035,491	\$ -
Totals	<u>\$ 11,777,596</u>	<u>\$ -</u>	<u>\$ 10,035,491</u>	<u>\$ -</u>
General Revenues:				
Interest and investment earnings				<u>84,501</u>
Total General Revenue and Transfers				<u>84,501</u>
Change in Net Position				(1,657,604)
Net Position Beginning of Year				<u>21,598,506</u>
Net Position End of Year				<u>\$ 19,940,902</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, 2013**

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	\$ 11,646,993	\$ -	\$ 10,340,243	\$ -	\$ (1,306,750)
Totals	<u>\$ 11,646,993</u>	<u>\$ -</u>	<u>\$ 10,340,243</u>	<u>\$ -</u>	<u>(1,306,750)</u>
General Revenues:					
Interest and investment earnings					<u>118,541</u>
Total General Revenue and Transfers					<u>118,541</u>
Change in Net Position					(1,188,209)
Net Position Beginning of Year					<u>22,786,715</u>
Net Position End of Year					<u>\$ 21,598,506</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, 2014 AND 2013**

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>
Current Assets		
Cash	\$ 20,570,376	\$ 22,010,295
Accounts receivable	1,865,138	1,916,341
Interest receivable	20,485	25,540
	<u>20,485</u>	<u>25,540</u>
TOTAL ASSETS	<u>\$ 22,455,999</u>	<u>\$ 23,952,176</u>
<u>LIABILITIES AND FUND BALANCE</u>		
LIABILITIES		
Accounts payable and accrued expenses	\$ 2,380,070	\$ 2,260,198
Accrued payroll	49,170	-
	<u>49,170</u>	<u>-</u>
TOTAL LIABILITIES	<u>2,429,240</u>	<u>2,260,198</u>
FUND BALANCE		
Committed	10,313,000	10,661,000
Unassigned	9,713,759	11,030,978
	<u>9,713,759</u>	<u>11,030,978</u>
TOTAL FUND BALANCE	<u>20,026,759</u>	<u>21,691,978</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 22,455,999</u>	<u>\$ 23,952,176</u>

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

**KERN COUNTY CHILDREN AND FAMILIES COMMISSION
RECONCILIATION OF GOVERNMENTAL GENERAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2014**

Total Fund Balance - Governmental Fund \$ 20,026,759

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. 16,685

Compensated absences liability is not reported in the
governmental fund. (102,542)

Total Net Position - Governmental Activities \$ 19,940,902

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, 2013**

Total Fund Balance - Governmental Fund \$ 21,691,978

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. 26,836

Compensated absences liability is not reported in the
governmental fund. (120,308)

Total Net Position - Governmental Activities \$ 21,598,506

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, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
Operating Revenues		
Aid from governmental agencies	\$ 9,898,051	\$ 10,209,673
Other state income	101,440	100,570
Grant awards and other income	<u>36,000</u>	<u>30,000</u>
Total Operating Revenues	<u>10,035,491</u>	<u>10,340,243</u>
Operating Expenditures		
Payroll	1,095,102	1,033,723
Employee benefits	270,303	259,833
Office expense	60,175	57,419
Insurance	17,294	13,814
Professional and specialized services	274,374	293,509
Administrative cost (County of Kern)	12,586	19,209
Publications and legal notice	17,703	11,474
Contribution to agents	9,900,054	9,796,380
Rental and lease	91,498	91,956
Travel and transportation	19,130	13,701
Utilities	14,085	14,745
Telephone	3,601	8,065
Miscellaneous	<u>9,306</u>	<u>15,988</u>
Total Operating Expenditures	<u>11,785,211</u>	<u>11,629,816</u>
Operating Loss	<u>(1,749,720)</u>	<u>(1,289,573)</u>
Nonoperating Revenues		
Interest income	<u>84,501</u>	<u>118,541</u>
Total Nonoperating Revenues	<u>84,501</u>	<u>118,541</u>
Net Change in Fund Balance	(1,665,219)	(1,171,032)
Fund Balance, Beginning of Year	<u>21,691,978</u>	<u>22,863,010</u>
Fund Balance, End of Year	<u><u>\$ 20,026,759</u></u>	<u><u>\$ 21,691,978</u></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, 2014**

Net Change in Fund Balance - Governmental General Fund

Amounts reported for governmental activities in the statement of activities are different because: \$ (1,665,219)

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 (\$9,783) in the period: (9,783)

Loss on sale of assets: (368)

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: 17,766

Total Change in Net Position - Governmental Activities \$ (1,657,604)

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, 2013**

Net Change in Fund Balance - Governmental General Fund

Amounts reported for governmental activities in the statement of activities are different because: \$ (1,171,032)

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 \$21,750 exceed depreciation expense (\$13,804) in the period: 7,946

Loss on sale of assets: (4,523)

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: (20,600)

Total Change in Net Position - Governmental Activities \$ (1,188,209)

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, 2014**

	<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	\$ 9,898,051	\$ 698,051
Other state income	86,000	86,000	101,440	15,440
Grant awards and other income	<u>30,000</u>	<u>30,000</u>	<u>36,000</u>	<u>6,000</u>
Total Operating Revenues	<u>9,316,000</u>	<u>9,316,000</u>	<u>10,035,491</u>	<u>719,491</u>
Operating Expenditures				
Payroll	1,180,000	1,180,000	1,095,102	84,898
Employee benefits	339,000	339,000	270,303	68,697
Office expense	81,500	91,250	60,175	31,075
Insurance	16,500	19,750	17,294	2,456
Professional and specialized services	320,000	294,000	274,374	19,626
Administrative cost (County of Kern)	41,000	45,000	12,586	32,414
Publications and legal notice	21,000	21,000	17,703	3,297
Contribution to agents	10,646,000	10,649,000	9,900,054	748,946
Rental and lease	94,000	94,000	91,498	2,502
Travel and transportation	19,000	25,000	19,130	5,870
Utilities	23,000	23,000	14,085	8,915
Telephone	10,000	10,000	3,601	6,399
Miscellaneous	<u>24,000</u>	<u>24,000</u>	<u>9,306</u>	<u>14,694</u>
Total Operating Expenditures	<u>12,815,000</u>	<u>12,815,000</u>	<u>11,785,211</u>	<u>1,029,789</u>
Operating Loss	<u>(3,499,000)</u>	<u>(3,499,000)</u>	<u>(1,749,720)</u>	<u>1,749,280</u>
Nonoperating Revenues				
Interest income	<u>80,000</u>	<u>80,000</u>	<u>84,501</u>	<u>4,501</u>
Total Nonoperating Revenues	<u>80,000</u>	<u>80,000</u>	<u>84,501</u>	<u>4,501</u>
Net Change in Fund Balance	(3,419,000)	(3,419,000)	(1,665,219)	1,753,781
Fund Balance, Beginning of Year	<u>21,691,978</u>	<u>21,691,978</u>	<u>21,691,978</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 18,272,978</u>	<u>\$ 18,272,978</u>	<u>\$ 20,026,759</u>	<u>\$ 1,753,781</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, 2013**

	Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget
	Original	Final		
Operating Revenues				
Aid from governmental agencies	\$ 9,658,000	\$ 9,658,000	\$ 10,209,673	\$ 551,673
Other state income	350,000	455,000	100,570	(354,430)
Grant awards and other income	30,000	60,000	30,000	(30,000)
Total Operating Revenues	<u>10,038,000</u>	<u>10,173,000</u>	<u>10,340,243</u>	<u>167,243</u>
Operating Expenditures				
Payroll	1,154,000	1,154,000	1,033,723	120,277
Employee benefits	264,500	264,500	259,834	4,666
Office expense	76,000	73,500	57,419	16,081
Insurance	15,200	15,200	13,813	1,387
Professional and specialized services	325,000	316,500	293,509	22,991
Administrative cost (County of Kern)	40,400	40,400	19,209	21,191
Publications and legal notice	21,000	21,000	11,474	9,526
Contribution to agents	10,402,329	10,578,329	9,796,380	781,949
Rental and lease	92,800	92,800	91,956	844
Travel and transportation	17,000	17,000	13,701	3,299
Utilities	19,000	19,000	14,745	4,255
Telephone	12,800	12,800	8,065	4,735
Miscellaneous	22,500	22,500	15,988	6,512
Total Operating Expenditures	<u>12,462,529</u>	<u>12,627,529</u>	<u>11,629,816</u>	<u>997,713</u>
Operating Loss	<u>(2,424,529)</u>	<u>(2,454,529)</u>	<u>(1,289,573)</u>	<u>1,164,956</u>
Nonoperating Revenues				
Interest income	135,000	135,000	118,541	(16,459)
Total Nonoperating Revenues	<u>135,000</u>	<u>135,000</u>	<u>118,541</u>	<u>(16,459)</u>
Net Change in Fund Balance	(2,289,529)	(2,319,529)	(1,171,032)	1,148,497
Fund Balance, Beginning of Year	<u>22,863,010</u>	<u>22,863,010</u>	<u>22,863,010</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ 20,573,481</u></u>	<u><u>\$ 20,543,481</u></u>	<u><u>\$ 21,691,978</u></u>	<u><u>\$ 1,148,497</u></u>

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

**KERN COUNTY CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2014**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

In November of 1998, California voters approved Proposition 10, which levied a 50-cent tax on each pack of cigarettes sold. Revenues generated from the tobacco tax are used to fund local health, child care, and education programs that promote early childhood development. These programs target children during their first five years of life and focus on anti-tobacco education programs.

On December 15, 1998, the Kern County Board of Supervisors, in accordance with Proposition 10, passed and adopted an urgency ordinance, which created the Kern County Children and Families Commission (the Commission), established the membership and commission, and authorized the establishment of the Kern County Children and Families Trust Fund.

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

B. Accounting Pronouncements Implemented

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

Statement No. 65	<i>Items Previously Reported as Assets And Liabilities</i>	Establishes accounting and financial reporting standards that classify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. There was no effect on the Commission's accounting or financial reporting as a result of implementing this standard.
Statement No. 66	<i>Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62</i>	Improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of GASB Statements No. 10 and No. 62. There was no effect on the Commission's accounting or financial reporting as a result of implementing this standard.
Statement No. 67	<i>Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25</i>	The provisions of this statement are effective for financial statements for fiscal years beginning after June 15, 2013. There was no effect on the Commission's accounting or financial reporting as a result of implementing this standard.
Statement No. 70	<i>Accounting and Financial Reporting for Nonexchange Financial Guarantees</i>	The provisions of this statement are effective for financial statements for periods beginning after June 15, 2013. There was no effect on the Commission's accounting or financial reporting as a result of implementing this standard.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Basis of Presentation

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 Child Care and Early 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.

2. Fund Financial Statements

The Commission's governmental fund is accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reflects the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the fund financial statements for the governmental fund.

General Fund

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

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, and in the presentation of expenses versus expenditures. Revenues from grants and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Accounting Policies

Non-Exchange Transactions

Non-exchange transactions, in which the Commission gives or receives value without directly receiving or giving equal value in exchange, include Proposition 10 tax increments and other grants. On an accrual basis of accounting, revenue from taxes is recognized in the fiscal year for which the taxes are levied or assessed. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

F. Net Position

Net position represent the residual interest in the Commission’s assets after liabilities are deducted. In accordance with GASB Statement No. 34, the fund balance section on the statement of net 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 are unrestricted. The Commission’s policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

G. Fund Balance

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

- *Nonspendable fund balance*—amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- *Restricted fund balance*—amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.
- *Committed fund balance*—amounts that can only be used for specific purposes determined by formal action of the Commission’s highest level of decision-making authority (the 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 \$10,313,000 and \$10,661,000 as of June 30, 2014 and 2013, respectively. The details of these amounts are shown below:

	<u>2014</u>	<u>2013</u>
Funded Programs	\$ 10,143,000	\$ 10,491,000
Community Events and Program Outreach	30,000	30,000
New Program Funding	<u>140,000</u>	<u>140,000</u>
Total	<u>\$ 10,313,000</u>	<u>\$ 10,661,000</u>

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Fund Balance (Continued)

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

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

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

H. 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.

I. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of the Commission. The current and noncurrent portions of the liabilities are not reported in the Commission's General Fund. The entire compensated absences liability is reported on the government-wide financial statements.

J. Cash

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

K. Accounts Receivable

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

L. Capital Assets

The Commission's policy is to capitalize purchases of property and equipment above \$5,000. Purchases of furniture and equipment under \$5,000 are expensed as incurred. The Commission maintains an inventory list to track furniture and equipment purchased with a value of less than \$5,000. Depreciation expense is calculated using the straight-line method and accumulated depreciation at year-end is included in capital assets. The Commission depreciates equipment over 5 years.

M. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 – CASH

Cash as of June 30, 2014 and 2013, consisted of the following:

	<u>2014</u>	<u>2013</u>
Cash in Kern County Investment Pool	<u>\$ 20,570,376</u>	<u>\$ 22,010,295</u>
Total Interest Income from Kern County	<u>\$ 84,501</u>	<u>\$ 118,541</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.

NOTE 2 – CASH (Continued)

Cash on Hand and in Banks (Continued)

Information about the sensitivity of the fair values of the Commission’s investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Commission’s investments by maturity:

2014		Remaining Maturity			
Investment Type	Amount	12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
County Investment Pool	\$ 20,570,376	\$ 20,570,376	\$ -	\$ -	\$ -

2013		Remaining Maturity			
Investment Type	Amount	12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
County Investment Pool	\$ 22,010,295	\$ 22,010,295	\$ -	\$ -	\$ -

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:

2014		Minimum Legal Rating	Exempt From Disclosure	Rating as of Year-End	
Investment Type	Amount			AAA	Not Rated
County Investment Pool	\$ 20,570,376	N/A	\$ -	\$ -	\$ 20,570,376

2013		Minimum Legal Rating	Exempt From Disclosure	Rating as of Year-End	
Investment Type	Amount			AAA	Not Rated
County Investment Pool	\$ 22,010,295	N/A	\$ -	\$ -	\$ 22,010,295

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.

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

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

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

Investment in County Investment Pool

The Commission is a participant in the 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.

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2014, was as follows:

	<u>Balances</u> <u>June 30, 2013</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>June 30, 2014</u>
Capital assets, being depreciated:				
Vehicles	\$ 25,228	\$ -	\$ -	\$ 25,228
Equipment	64,026	-	(7,356)	56,670
Total assets being depreciated	<u>89,254</u>	<u>-</u>	<u>(7,356)</u>	<u>81,898</u>
Less accumulated depreciation for:				
Vehicles	(25,228)	-	-	(25,228)
Equipment	(37,190)	(9,783)	6,988	(39,985)
Total accumulated depreciation	<u>(62,418)</u>	<u>(9,783)</u>	<u>6,988</u>	<u>(65,213)</u>
Total capital assets, net	<u>\$ 26,836</u>	<u>\$ (9,783)</u>	<u>\$ (368)</u>	<u>\$ 16,685</u>

NOTE 3 – CAPITAL ASSETS (Continued)

Capital asset activity for the year ended June 30, 2013, was as follows:

	Balances June 30, 2012	Additions	Deletions	Balances June 30, 2013
Capital assets, being depreciated:				
Vehicles	\$ 25,228	\$ -	\$ -	\$ 25,228
Equipment	65,565	21,750	(23,289)	64,026
Total assets being depreciated	<u>90,793</u>	<u>21,750</u>	<u>(23,289)</u>	<u>89,254</u>
Less accumulated depreciation for:				
Vehicles	(23,968)	(1,260)	-	(25,228)
Equipment	(43,412)	(12,544)	18,766	(37,190)
Total accumulated depreciation	<u>(67,380)</u>	<u>(13,804)</u>	<u>18,766</u>	<u>(62,418)</u>
Total capital assets, net	<u>\$ 23,413</u>	<u>\$ 7,946</u>	<u>\$ (4,523)</u>	<u>\$ 26,836</u>

Depreciation expense at June 30, 2014 and 2013, was \$9,783 and \$13,804, respectively.

NOTE 4 – CHANGES IN COMPENSATED ABSENCES

A schedule of changes in long-term debt for the years ended June 30, 2014 and 2013 was as follows:

	June 30, 2013	Additions	Deletions	June 30, 2014	Due Within One Year
Compensated Absences, Net	<u>\$ 120,308</u>	<u>\$ 90,822</u>	<u>\$ (108,588)</u>	<u>\$ 102,542</u>	<u>\$ 102,542</u>
	June 30, 2012	Additions	Deletions	June 30, 2013	Due Within One Year
Compensated Absences, Net	<u>\$ 99,708</u>	<u>\$ 98,904</u>	<u>\$ (78,304)</u>	<u>\$ 120,308</u>	<u>\$ 120,308</u>

NOTE 5 – OPERATING LEASE

The Commission leases approximately 5,236 gross square feet consisting of the building, parking area, and landscaping located at 2724 L Street, Bakersfield, California. From January 1, 2010, through December 31, 2010 rental expense was \$6,825 per month, and \$7,166 from January 1, 2011, through December 31, 2011. The Commission entered into a lease agreement to continue leasing the property from January 1, 2012, until June 30, 2015, at the amount of \$7,166 per month.

Rent expense under these agreements was \$85,992 and \$85,992 for the years ended June 30, 2014 and 2013, respectively. Future minimum lease payments are as follows:

Year Ending June 30,	
2015	<u>\$ 85,992</u>
Total	<u>\$ 85,992</u>

NOTE 6 – CONTRACTED PROGRAMS

The Commission has agreements with various contractors for the child development program. The Commission is obligated to reimburse the contractors for all necessary and reasonable expenses incurred in accordance with the project budget for providing the services on behalf of the Commission. The remaining balance of the contracts as of June 30, 2014 and 2013 was \$10,143,000 and \$20,892,034, respectively.

NOTE 7 – PENSION PLAN

On February 15, 2000, the Commission established a deferred compensation plan administered by California Public Employees' Retirement System. The plan covers substantially all of its employees. The Commission contributes up to 15% of gross pay per year. Contributions for the years ended June 30, 2014 and 2013 were \$113,815 and \$111,888, respectively.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

The Commission contracts with various service providers for data management services and for evaluation and reporting services. On July 1, 2014, the Commission entered into two separate one-year agreements with the following:

- Mosaic Network, Inc., for data management services for \$107,250 for the next fiscal-year contract.
- Dr. Jianjun Wang to provide evaluation and reporting services for \$96,720 for the next fiscal year contract.
- Marc Thibault for consulting services for \$27,000 for the next fiscal-year contract.

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

In addition to the above, the Commission had outstanding encumbrances of \$2,370,741 and \$2,243,375 at June 30, 2014 and 2013, respectively.

NOTE 9 – PROGRAM EVALUATION

The Commission spent \$395,680 and \$454,719 on program evaluation for the fiscal years 2013-14 and 2012-13, respectively.

NOTE 10 – SUBSEQUENT EVENTS

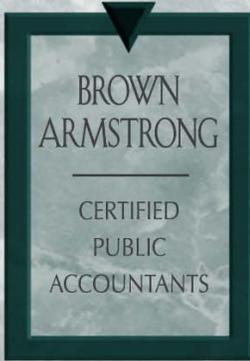
Subsequent events were reviewed through September 18, 2014, which was the date the financial statements were available to be issued.

NOTE 11 – FUTURE ACCOUNTING PRONOUNCEMENTS

GASB Statements Numbers 68-69 and 71 listed below will be implemented in future financial statements.

Statement No. 68	<i>Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27</i>	The provisions of this statement are effective for financial statements for fiscal years beginning after June 15, 2014.
Statement No. 69	<i>Government Combinations and Disposals of Government Operations</i>	The provisions of this statement are effective for financial statements for periods beginning after December 15, 2013.
Statement No. 71	<i>Pension Transition for Contributions Made Subsequent to the Measurement Date- an amendment of GASB Statement No. 68</i>	The provisions of this statement will be applied simultaneously with the provisions of GASB Statement No. 68.

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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Bakersfield, California

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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, 2014, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated September 18, 2014.

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.



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

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*.

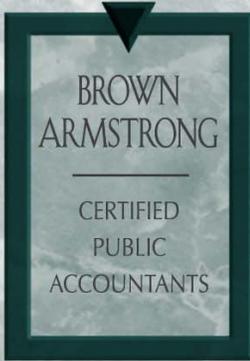
Purpose of this Report

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 18, 2014



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, 2014.

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 compliance audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, issued by the State Controller's Office. Those standards and the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a 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 are applicable to the statutory requirements listed above for the year ended June 30, 2014.

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 18, 2014