

**KERN COUNTY CHILDREN AND
FAMILIES COMMISSION**

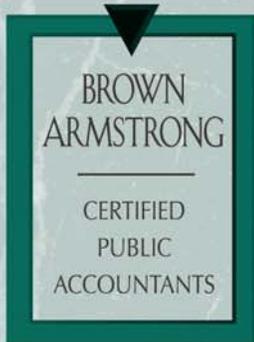
**FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT**

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2019 AND 2018**

**KERN COUNTY CHILDREN AND FAMILIES COMMISSION
JUNE 30, 2019 AND 2018**

TABLE OF CONTENTS

	<u>Page</u>
<u>FINANCIAL SECTION</u>	
Independent Auditor’s Report	1
Management’s Discussion and Analysis.....	3
 <u>Financial Statements</u>	
Government-Wide Financial Statements:	
Statements of Net Position	7
Statements of Activities.....	8
 Fund Financial Statements:	
Major Governmental Fund	
Balance Sheets – Governmental General Fund.....	10
Reconciliation of Governmental General Fund Balance Sheets to the Statements of Net Position	11
Statements of Revenues, Expenditures, and Changes in Fund Balance – Governmental General Fund.....	13
Reconciliation of the Change in Fund Balance to the Change in Net Position	14
Statements of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (GAAP Basis) – Governmental General Fund	16
Notes to Financial Statements	18
 <u>COMPLIANCE SECTION</u>	
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 <i>Government Auditing Standards</i>	28
Independent Auditor’s Report on State Compliance.....	30



BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and major fund of the Kern County Children and Families Commission (the Commission), a component unit of the County of Kern, as of and for the fiscal years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise the Commission's 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.

BAKERSFIELD OFFICE (MAIN OFFICE)

4200 TRUXTUN AVENUE
SUITE 300
BAKERSFIELD, CA 93309
TEL 661.324.4971
FAX 661.324.4997
EMAIL info@bacpas.com

FRESNO OFFICE

10 RIVER PARK PLACE EAST
SUITE 208
FRESNO, CA 93720
TEL 559.476.3592

STOCKTON OFFICE

1919 GRAND CANAL BLVD
SUITE C6
STOCKTON, CA 95207
TEL 888.565.1040

WWW.BACPAS.COM

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Commission as of June 30, 2019 and 2018, 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 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, 2019, 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 solely 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, 2019

**KERN COUNTY CHILDREN AND FAMILIES COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2019 AND 2018**

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, 2019 and 2018.

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 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 the County of Kern (the County) is driven by total tobacco sales tax collections statewide and the number of live births in the County relative to the number of live births statewide.

On December 15, 1998, the 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 the County. The funds are allocated to programs in the following four focus areas: Health and Wellness, Parent Education and Support Services, Early Childcare and Education, and Integration of Services. The 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 2018-19 Financial Highlights

- The Commission earned \$9,555,348 in program revenues; of this amount, \$8,507,914 was from the State for revenues collected under the Act, \$955,005 was from the Improve and Maximize Programs so All Children Thrive (IMPACT) grant, and \$92,429 from grants and donations.
- During fiscal year 2018-19, the Commission disbursed \$8,389,950 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 \$17,375,065 (net position). Of this amount, \$9,538,826 is restricted to meet fiscal year 2019-20 contractual obligations and \$7,824,255 represents unrestricted net position.
- At the close of the current fiscal year, the Commission's governmental fund reported an ending fund balance of \$16,208,746, a decrease of \$1,721,608 in comparison with the prior year. This decrease is mainly due to the delayed receipt of the May and June Proposition 10 revenue allocations from the State.

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

- Actual operating revenues were \$1,335,553 less than budgeted revenues. The decrease is attributable to a decline in State funds as well as the Commission presenting the May and June Proposition 10 apportionments as unearned revenue in 2019 due to the delayed receipts and the revenue not being available within the 60 days after year-end.
- 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 \$1,047,670 less than budgeted due to contracts being executed under budget.
 - Payroll and employee benefits were under budget by \$103,749 and \$36,150, respectively, due to the cost of living allowance not being implemented, and vacant positions.
 - Administrative Costs (County of Kern) were under budget by \$11,897. The Commission set aside funds for legal counsel to review contracts; however, the actual costs of the review were less than budgeted.
 - Professional and specialized services were under budget by \$84,725 due to funds were set aside so the Commission could take advantage of potential systems building and integration of service opportunities.

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, 2019 and 2018.

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 as a useful indicator of the Commission's financial health. In the case of the Commission, assets exceeded liabilities by \$17,375,065 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:

	2019	2018	2017	2019-2018		2018-2017	
				Change	%	Change	%
Assets							
Current Assets	\$ 19,870,230	\$ 20,182,136	\$ 21,268,368	\$ (311,906)	-1.55%	\$ (1,086,232)	-5.11%
Capital Assets, Net	11,984	16,258	20,532	(4,274)	-26.29%	(4,274)	-20.82%
Total Assets	19,882,214	20,198,394	21,288,900	(316,180)	-1.57%	(1,090,506)	-5.12%
Liabilities							
Current Liabilities	2,492,241	2,350,083	2,121,131	142,158	6.05%	228,952	10.79%
Long-Term Liabilities	14,908	38,236	28,204	(23,328)	-61.01%	10,032	35.57%
Total Liabilities	2,507,149	2,388,319	2,149,335	118,830	4.98%	238,984	11.12%
Net Position							
Net Investment in Capital Assets	11,984	16,258	20,532	(4,274)	-26.29%	(4,274)	-20.82%
Restricted	9,538,826	9,365,567	9,115,748	173,259	1.85%	249,819	2.74%
Local Initiatives and Unrestricted	7,824,255	8,428,250	10,003,285	(603,995)	-7.17%	(1,575,035)	-15.75%
Total Net Position	\$ 17,375,065	\$ 17,810,075	\$ 19,139,565	\$ (435,010)	-2.44%	\$ (1,329,490)	-6.95%

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 2018-19 and 2017-18, 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 2018-19 and 2017-18 is as follows:

	2019	2018	2017	2019-2018		2018-2017	
				Change	%	Change	%
Program Revenues	\$ 9,555,348	\$ 8,729,316	\$ 9,637,925	\$ 826,032	9.46%	\$ (908,609)	-9.43%
General Revenues	372,249	240,983	204,800	131,266	54.47%	36,183	17.67%
Total Revenues	9,927,597	8,970,299	9,842,725	957,298	10.67%	(872,426)	-8.86%
Expenses	10,362,607	10,299,789	10,178,522	62,818	0.61%	121,267	1.19%
Change in Net Position	(435,010)	(1,329,490)	(335,797)	894,480	-67.28%	(993,693)	295.92%
Net Position - Beginning of Year	17,810,075	19,139,565	19,475,362	(1,329,490)	-6.95%	(335,797)	-1.72%
Net Position - End of Year	\$ 17,375,065	\$ 17,810,075	\$ 19,139,565	\$ (435,010)	-2.44%	\$ (1,329,490)	-6.95%

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 2018-19 by \$753,526 over the prior year. This decline is attributable to the May and June Proposition 10 apportionments delayed receipts from the State. As the funds had not been received as of the date of this report and are past the 60 days from the fiscal year-end, these were presented as unearned revenue.
- Other State income increased in fiscal year 2018-19 by \$250,929 over the prior year. First 5 California awarded the Commission \$105,000 in incentive layer funding for the successfully meeting program goals. In addition, the other increases are attributable to a rise in the IMPACT program costs and subsequent reimbursement from First 5 California.
- The Commission received \$131,266 more interest income in fiscal year 2018-19 than in the prior year due to the market conditions and available cash.

Expenses

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

- Contributions to agents increased by \$48,651 in fiscal year 2018-19 from those of the prior year due to programs spending more of their budgets.
- Professional and specialized services decreased \$17,594 in fiscal year 20178-19 from the prior year. In fiscal year 2018-19, the Commission reduced contractual expenses with various vendors.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets – The Commission’s capital assets for its governmental activities as of June 30, 2019, amounted to \$11,984 and \$16,258 (net of accumulated depreciation) as of June 30, 2019 and 2018, respectively. Capital assets include equipment, and vehicles. Refer to Note 3 for additional details.

Debt Administration – At the end of the current fiscal year, the Commission’s long-term obligations were for compensated absences in the amount of \$123,865 and \$136,537 as of June 30, 2019 and 2018, respectively. Refer to Note 4 for additional details.

ECONOMIC FACTORS AND NEXT FISCAL YEAR’S BUDGET

The Commission is committed to building strong and effective systems and programs for the early development of children from the prenatal stage through age five that can be supported for the long-term. The Commission continually reviews and refines the financial plan and assumptions. The Commission adopted a revised Long-Term Financial Plan on June 6, 2018, and a revised Strategic Plan on April 3, 2019.

The following factors are considered in preparing the Commission’s fiscal year 2019-2020 budget:

Administrative expenses are budgeted at 8% or less of the Commission’s operating budget.

California Children and Families Commission State Proposition 10 annual fund projections are based on the Department of Finance birth projections.

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, 2019 AND 2018**

<u>ASSETS</u>	<u>2019</u>	<u>2018</u>
Current Assets		
Cash and cash equivalents	\$ 17,299,973	\$ 18,276,259
Accounts receivable	2,459,630	1,848,178
Interest receivable	105,136	52,986
Prepaid expenses	5,491	4,713
	<u>19,870,230</u>	<u>20,182,136</u>
Capital Assets		
Equipment	67,610	67,610
Less accumulated depreciation	(55,626)	(51,352)
	<u>11,984</u>	<u>16,258</u>
TOTAL ASSETS	<u>\$ 19,882,214</u>	<u>\$ 20,198,394</u>
 <u>LIABILITIES AND NET POSITION</u>		
LIABILITIES		
Accounts payable and accrued expenses	\$ 2,304,253	\$ 2,185,975
Accrued payroll	79,031	65,807
Long-term liabilities		
Due within one year		
Compensated absences	108,957	98,301
Due after one year		
Compensated absences	14,908	38,236
	<u>2,507,149</u>	<u>2,388,319</u>
TOTAL LIABILITIES	<u>2,507,149</u>	<u>2,388,319</u>
NET POSITION		
Net investment in capital assets	11,984	16,258
Restricted	9,538,826	9,365,567
Unrestricted	7,824,255	8,428,250
	<u>17,375,065</u>	<u>17,810,075</u>
TOTAL NET POSITION	<u>17,375,065</u>	<u>17,810,075</u>
TOTAL LIABILITIES AND NET POSITION	<u>\$ 19,882,214</u>	<u>\$ 20,198,394</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, 2019**

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	\$ 10,362,607	\$ -	\$ 9,555,348	\$ -	\$ (807,259)
Totals	<u>\$ 10,362,607</u>	<u>\$ -</u>	<u>\$ 9,555,348</u>	<u>\$ -</u>	<u>\$ (807,259)</u>
General Revenues:					
					Interest and investment earnings <u>372,249</u>
					Total General Revenues <u>372,249</u>
					Change in Net Position (435,010)
					Net Position Beginning of Year <u>17,810,075</u>
					Net Position End of Year <u>\$ 17,375,065</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, 2018**

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	\$ 10,299,789	\$ -	\$ 8,729,316	\$ -	\$ (1,570,473)
Totals	<u>\$ 10,299,789</u>	<u>\$ -</u>	<u>\$ 8,729,316</u>	<u>\$ -</u>	<u>\$ (1,570,473)</u>
General Revenues:					
Interest and investment earnings					<u>240,983</u>
Total General Revenues					<u>240,983</u>
Change in Net Position					(1,329,490)
Net Position Beginning of Year					<u>19,139,565</u>
Net Position End of Year					<u>\$ 17,810,075</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, 2019 AND 2018**

<u>ASSETS</u>	<u>2019</u>	<u>2018</u>
Current Assets		
Cash and cash equivalents	\$ 17,299,973	\$ 18,276,259
Accounts receivable	2,411,361	1,848,178
Interest receivable	105,136	52,986
Other receivable	48,269	-
Prepaid expenses	5,491	4,713
	<u>5,491</u>	<u>4,713</u>
TOTAL ASSETS	<u>\$ 19,870,230</u>	<u>\$ 20,182,136</u>
<u>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE</u>		
LIABILITIES		
Accounts payable and accrued expenses	\$ 2,304,253	\$ 2,185,975
Accrued payroll	79,031	65,807
	<u>79,031</u>	<u>65,807</u>
TOTAL LIABILITIES	<u>2,383,284</u>	<u>2,251,782</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable Revenue	1,278,200	-
	<u>1,278,200</u>	<u>-</u>
FUND BALANCE		
Nonspendable	5,491	4,713
Committed	9,538,826	9,365,567
Unassigned	6,664,429	8,560,074
	<u>6,664,429</u>	<u>8,560,074</u>
TOTAL FUND BALANCE	<u>16,208,746</u>	<u>17,930,354</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCE	<u>\$ 19,870,230</u>	<u>\$ 20,182,136</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, 2019**

Total Fund Balance - Governmental Fund \$ 16,208,746

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. 11,984

As the focus of the governmental fund is on short-term financing, some assets will not be available to pay for current expenditures. those assets (receivables) are offset by unavailable revenue in the governmental fund. 1,278,200

Compensated absences liability is not reported in the governmental fund. (123,865)

Total Net Position - Governmental Activities \$ 17,375,065

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, 2018**

Total Fund Balance - Governmental Fund \$ 17,930,354

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. 16,258

Compensated absences liability is not reported in the
governmental fund. (136,537)

Total Net Position - Governmental Activities \$ 17,810,075

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, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
Operating Revenues		
Aid from governmental agencies	\$ 7,229,714	\$ 7,983,240
Other state income	955,005	704,076
Grant awards and other income	<u>92,429</u>	<u>42,000</u>
Total Operating Revenues	<u>8,277,148</u>	<u>8,729,316</u>
Operating Expenditures		
Payroll	1,146,251	1,098,862
Employee benefits	284,850	293,571
Office expense	66,106	63,214
Insurance	29,861	29,791
Professional and specialized services	283,775	301,369
Administrative cost (County of Kern)	10,103	9,531
Publications and legal notice	7,897	2,060
Contribution to agents	8,389,950	8,341,299
Rental and lease	89,803	77,250
Travel and transportation	24,297	25,775
Utilities	17,933	17,968
Telephone	11,121	11,378
Miscellaneous	<u>9,058</u>	<u>8,397</u>
Total Operating Expenditures	<u>10,371,005</u>	<u>10,280,465</u>
Operating Loss	<u>(2,093,857)</u>	<u>(1,551,149)</u>
Nonoperating Revenues		
Interest income	<u>372,249</u>	<u>240,983</u>
Total Nonoperating Revenues	<u>372,249</u>	<u>240,983</u>
Net Change in Fund Balance	(1,721,608)	(1,310,166)
Fund Balance, Beginning of Year	<u>17,930,354</u>	<u>19,240,520</u>
Fund Balance, End of Year	<u>\$ 16,208,746</u>	<u>\$ 17,930,354</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, 2019**

Net Change in Fund Balance - Governmental General Fund \$ (1,721,608)

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) exceeded depreciation expense (\$4,274) in the period: (4,274)

Revenues in the governmental fund 's statement that do not provide current financial resources are not reported as revenue in the fund. 1,278,200

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 earned exceeded the vacation used by: 12,672

Total Change in Net Position - Governmental Activities \$ (435,010)

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, 2018**

Net Change in Fund Balance - Governmental General Fund \$ (1,310,166)

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) exceeded depreciation expense (\$4,274) in the period: (4,274)

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 earned exceeded the vacation used by: (15,050)

Total Change in Net Position - Governmental Activities \$ (1,329,490)

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 BASIS)
GOVERNMENTAL GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

	<u>Budgeted Amounts</u>		Actual (GAAP Basis)	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		
Operating Revenues				
Aid from governmental agencies	\$ 8,629,000	\$ 8,629,000	\$ 7,229,714	\$ (1,399,286)
Other state income	869,000	941,053	955,005	13,952
Grant awards and other income	<u>30,000</u>	<u>42,648</u>	<u>92,429</u>	<u>49,781</u>
Total Operating Revenues	<u>9,528,000</u>	<u>9,612,701</u>	<u>8,277,148</u>	<u>(1,335,553)</u>
Operating Expenditures				
Payroll	1,250,000	1,250,000	1,146,251	103,749
Employee benefits	321,000	321,000	284,850	36,150
Office expense	75,000	89,000	66,106	22,894
Insurance	35,000	35,000	29,861	5,139
Professional and specialized services	377,000	368,500	283,775	84,725
Administrative cost (County of Kern)	22,000	22,000	10,103	11,897
Publications and legal notice	21,000	13,500	7,897	5,603
Contribution to agents	9,365,567	9,437,620	8,389,950	1,047,670
Rental and lease	94,000	94,000	89,803	4,197
Travel and transportation	26,000	28,000	24,297	3,703
Utilities	23,000	23,000	17,933	5,067
Telephone	14,000	14,000	11,121	2,879
Miscellaneous	<u>14,000</u>	<u>14,000</u>	<u>9,058</u>	<u>4,942</u>
Total Operating Expenditures	<u>11,637,567</u>	<u>11,709,620</u>	<u>10,371,005</u>	<u>1,338,615</u>
Operating Loss	<u>(2,109,567)</u>	<u>(2,096,919)</u>	<u>(2,093,857)</u>	<u>3,062</u>
Nonoperating Revenues				
Interest income	<u>150,000</u>	<u>150,000</u>	<u>372,249</u>	<u>222,249</u>
Total Nonoperating Revenues	<u>150,000</u>	<u>150,000</u>	<u>372,249</u>	<u>222,249</u>
Net Change in Fund Balance	(1,959,567)	(1,946,919)	(1,721,608)	225,311
Fund Balance, Beginning of Year	<u>17,930,354</u>	<u>17,930,354</u>	<u>17,930,354</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ 15,970,787</u></u>	<u><u>\$ 15,983,435</u></u>	<u><u>\$ 16,208,746</u></u>	<u><u>\$ 225,311</u></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 BASIS)
GOVERNMENTAL GENERAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

	<u>Budgeted Amounts</u>		Actual (GAAP Basis)	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		
Operating Revenues				
Aid from governmental agencies	\$ 7,900,000	\$ 7,900,000	\$ 7,983,240	\$ 83,240
Other state income	771,000	771,000	704,076	(66,924)
Grant awards and other income	11,000	11,000	42,000	31,000
Total Operating Revenues	<u>8,682,000</u>	<u>8,682,000</u>	<u>8,729,316</u>	<u>47,316</u>
Operating Expenditures				
Payroll	1,181,000	1,181,000	1,098,862	82,138
Employee benefits	313,000	313,000	293,571	19,429
Office expense	75,000	81,000	63,214	17,786
Insurance	35,000	35,000	29,791	5,209
Professional and specialized services	371,000	362,000	301,369	60,631
Administrative cost (County of Kern)	20,000	21,000	9,531	11,469
Publications and legal notice	18,000	11,000	2,060	8,940
Contribution to agents	9,115,748	9,115,748	8,341,299	774,449
Rental and lease	80,000	80,000	77,250	2,750
Travel and transportation	24,000	31,000	25,775	5,225
Utilities	20,000	22,000	17,968	4,032
Telephone	14,000	14,000	11,378	2,622
Miscellaneous	14,000	14,000	8,397	5,603
Total Operating Expenditures	<u>11,280,748</u>	<u>11,280,748</u>	<u>10,280,465</u>	<u>1,000,283</u>
Operating Loss	<u>(2,598,748)</u>	<u>(2,598,748)</u>	<u>(1,551,149)</u>	<u>1,047,599</u>
Nonoperating Revenues				
Interest income	150,000	150,000	240,983	90,983
Total Nonoperating Revenues	<u>150,000</u>	<u>150,000</u>	<u>240,983</u>	<u>90,983</u>
Net Change in Fund Balance	(2,448,748)	(2,448,748)	(1,310,166)	1,138,582
Fund Balance, Beginning of Year	<u>19,240,520</u>	<u>19,240,520</u>	<u>19,240,520</u>	<u>-</u>
Fund Balance, End of Year	<u><u>\$ 16,791,772</u></u>	<u><u>\$ 16,791,772</u></u>	<u><u>\$ 17,930,354</u></u>	<u><u>\$ 1,138,582</u></u>

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

**KERN COUNTY CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019**

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 the County of Kern (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. Basis of Presentation, Basis of Accounting, and Measurement Focus

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

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

1. Government-Wide Financial Statements

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

1. Government-Wide Financial Statements (Continued)

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. Non-exchange transactions, in which the Commission gives (or receives) value without directly receiving (or giving) equal value in exchange, include Proposition 10 allocations, grants and donations. Revenues from Proposition 10 allocations are recognized when all eligibility requirements are met, which coincides with when the State apportions Proposition 10 tax revenues from the Commission. Revenues from grants and similar items are recognized as revenue as soon as all eligibility requirements have been satisfied.

2. Fund Financial Statements

The accounts of the Commission are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The Commission's governmental fund is accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reflects the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources. Therefore, revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Proposition 10 apportionments, and grant revenues are recognized when their receipt occurs within 60 days after the end of the accounting period so as to be both measurable and available. 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.

C. General Fund

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

D. 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 by 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.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Cash (Continued)

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.

E. 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.

F. 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.

G. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities by 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.

H. 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 \$9,538,826 and \$9,365,567 of restricted net position for the fiscal years ended June 30, 2019 and 2018, respectively, for funded programs, new program funding, and other events.

I. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Fund Balance (Continued)

The aggregate balance of the Commission's General Fund committed balance was \$9,538,826 and \$9,365,567 as of June 30, 2019 and 2018, respectively. The details of these amounts are shown below:

	<u>2019</u>	<u>2018</u>
Funded Programs	\$ 9,171,826	\$ 9,088,567
Community Events and Program Outreach	37,000	37,000
Cost Benefit Analysis	-	30,000
Program Support	30,000	-
Systems Expansion	-	70,000
New Program Funding	<u>300,000</u>	<u>140,000</u>
Total	<u>\$ 9,538,826</u>	<u>\$ 9,365,567</u>

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

Stabilization Arrangements

In June 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 balance classifications could be used.

J. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. Proposition 10 Allocation

The Children and Families Trust Fund (the Fund) was created by the California Children and Families Act of 1998 (Proposition 10). Effective January 1, 1999, Section 30131.2 of the Revenue and Taxation Code authorized the Fund to Collect 50 cents for each cigarette pack and distributed an additional surtax for other tobacco products. The State Board of Equalization collects and deposits this cigarette tax and the additional surtax into the Fund. These monies are allocated and appropriated 20% to the State Commission and 80% to the County Commissions. Each County Commission receives a portion of the monies equal to the percentage of the number of live births recorded in California for the same period. The Commission is economically dependent on these funds.

L. Use of Estimates

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

M. New Accounting Pronouncements Implemented

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

Statement No. 83	<i>Certain Asset Retirement Obligations</i>	The requirements of this statement are effective for periods beginning after June 15, 2018. This standard did not impact the financial statements or disclosures of the Commission as the Commission does not have these type of transactions.
Statement No. 88	<i>Certain Disclosures Related to Debt, including Direct Borrowing and Direct Placements</i>	The requirements of this statement are effective for reporting periods beginning after June 15, 2018. This standard did not impact the financial statements or disclosures of the Commission as the Commission does not have these type of transactions.

NOTE 2 – CASH

Cash as of June 30, 2019 and 2018, consisted of the following:

	<u>2019</u>	<u>2018</u>
Cash in the Banks	\$ 2,006,038	\$ 1,925,172
Cash in Kern County Investment Pool	<u>15,293,935</u>	<u>16,351,087</u>
Total Cash and Cash Equivalents	<u>\$ 17,299,973</u>	<u>\$ 18,276,259</u>
Total Interest Income	<u>\$ 357,950</u>	<u>\$ 240,983</u>

NOTE 2 – CASH (Continued)

Cash on Hand and in Banks

Investments Authorized by the California Government Code and the Commission’s Investment Policy

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

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

2019		<u>Remaining Maturity</u>			
<u>Investment Type</u>	<u>Amount</u>	<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More Than 60 Months</u>
County Investment Pool	<u>\$ 15,293,935</u>	<u>\$ 15,293,935</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
2018		<u>Remaining Maturity</u>			
<u>Investment Type</u>	<u>Amount</u>	<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More Than 60 Months</u>
County Investment Pool	<u>\$ 16,351,087</u>	<u>\$ 16,351,087</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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:

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year-End	
				AAA	Not Rated
County Investment Pool	<u>\$ 15,293,935</u>	<u>N/A</u>	<u>N/A</u>	<u>\$ -</u>	<u>\$ 15,293,935</u>
2018					
Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	AAA	Not Rated
County Investment Pool	<u>\$ 16,351,087</u>	<u>N/A</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,351,087</u>

Custodial Credit Risk

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

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

GASB Statement No. 40 requires that the following disclosure be made with respect to custodial credit risks relating to deposits and investments: \$1,756,385 of the Commission’s deposits with financial institutions were in excess of federal depository insurance limits and were held in collateralized accounts as of June 30, 2019.

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.

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

Disclosures in accordance with GASB Statements, including interest rate risk, credit risk, concentration of credit risk, 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

GASB Statement No. 72 improved the measuring of fair value for financial reporting purposes and enhanced disclosures about the fair value hierarchy as established by accounting principles generally accepted in the United States of America. The Commission categorizes its fair value measurements within the fair value hierarchy. 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, 2019:

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

NOTE 3 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2019, was as follows:

	Balances June 30, 2018	Additions	Deletions	Balances June 30, 2019
Capital assets, being depreciated:				
Vehicles	\$ 25,228			\$ 25,228
Equipment	42,382	-	-	42,382
Total assets being depreciated	<u>67,610</u>	<u>-</u>	<u>-</u>	<u>67,610</u>
Less accumulated depreciation for:				
Vehicles	(25,228)	-	-	(25,228)
Equipment	(26,124)	(4,274)	-	(30,398)
Total accumulated depreciation	<u>(51,352)</u>	<u>(4,274)</u>	<u>-</u>	<u>(55,626)</u>
Total capital assets, net	<u>\$ 16,258</u>	<u>\$ (4,274)</u>	<u>\$ -</u>	<u>\$ 11,984</u>

Capital asset activity for the year ended June 30, 2018, was as follows:

	Balances June 30, 2017	Additions	Deletions	Balances June 30, 2018
Capital assets, being depreciated:				
Vehicles	\$ 25,228	\$ -	\$ -	\$ 25,228
Equipment	42,382	-	-	42,382
Total assets being depreciated	<u>67,610</u>	<u>-</u>	<u>-</u>	<u>67,610</u>
Less accumulated depreciation for:				
Vehicles	(25,228)	-	-	(25,228)
Equipment	(21,850)	(4,274)	-	(26,124)
Total accumulated depreciation	<u>(47,078)</u>	<u>(4,274)</u>	<u>-</u>	<u>(51,352)</u>
Total capital assets, net	<u>\$ 20,532</u>	<u>\$ (4,274)</u>	<u>\$ -</u>	<u>\$ 16,258</u>

Depreciation expense at June 30, 2019 and 2018, was \$4,274.

NOTE 4 – CHANGES IN COMPENSATED ABSENCES

A schedule of changes in long-term debt for the fiscal years ended June 30, 2019 and 2018, was as follows:

	<u>June 30, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2019</u>	<u>Due Within One Year</u>
Compensated Absences, Net	<u>\$ 136,537</u>	<u>\$ 104,804</u>	<u>\$ (117,476)</u>	<u>\$ 123,865</u>	<u>\$ 108,957</u>
	<u>June 30, 2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2018</u>	<u>Due Within One Year</u>
Compensated Absences, Net	<u>\$ 121,487</u>	<u>\$ 104,200</u>	<u>\$ (89,150)</u>	<u>\$ 136,537</u>	<u>\$ 98,301</u>

NOTE 5 – OPERATING LEASE

The Commission leases approximately 5,078 gross square feet consisting of the building, parking area, and landscaping located at 2724 L Street, Bakersfield, California. The three year lease began July 1, 2018, and ends on June 30, 2021. Required payments on the lease are \$7,166 per month.

Rent expense under this agreement was \$85,992 for both of the fiscal years ended June 30, 2019 and 2018. Future minimum lease payments are as follows:

<u>Year Ending June 30,</u>	
2020	\$ 85,992
2021	<u>85,992</u>
Total	<u>\$ 171,984</u>

NOTE 6 – CONTRACTED PROGRAMS

The Commission has agreements with various contractors for the child development program and the term of these contracts end June 30, 2020. The Commission is obligated to reimburse the contractors for all necessary and reasonable expenses incurred in accordance with the project budget for providing the services on behalf of the Commission. The remaining balance of the contracts as of June 30, 2019 and 2018, was \$9,538,826 and \$18,534,714, 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 fiscal years ended June 30, 2019 and 2018, were \$118,673 and \$113,604, 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 an agreement with 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, 2019, is \$91,395.

In addition to the above, the Commission had outstanding encumbrances of \$2,283,412 and \$2,169,740 at June 30, 2019 and 2018, respectively.

NOTE 9 – PROGRAM EVALUATION

The Commission spent \$385,295 and \$383,542 on program evaluation for the fiscal years ended June 30, 2019 and 2018, respectively.

NOTE 10 – SUBSEQUENT EVENTS

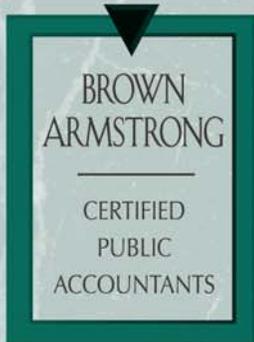
Subsequent events were reviewed through September 18, 2019, which was the date the financial statements were available to be issued.

NOTE 11 – FUTURE ACCOUNTING PRONOUNCEMENTS

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

Statement No. 84	<i>Fiduciary Activities</i>	The provisions of this statement are effective for reporting periods beginning after December 15, 2018. The Commission believes this statement will not apply.
Statement No. 87	<i>Leases</i>	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.
Statement No. 89	<i>Accounting for Interest Cost Incurred Before the End of a Construction Period</i>	The requirements 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.
Statement No. 90	<i>Majority Equity Interest</i>	An Amendment of GASB Statement No. 14 and No. 61. The requirements 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.

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

BAKERSFIELD OFFICE (MAIN OFFICE)

4200 TRUXTUN AVENUE
SUITE 300
BAKERSFIELD, CA 93309
TEL 661.324.4971
FAX 661.324.4997
EMAIL info@bacpas.com

FRESNO OFFICE

10 RIVER PARK PLACE EAST
SUITE 208
FRESNO, CA 93720
TEL 559.476.3592

STOCKTON OFFICE

1919 GRAND CANAL BLVD
SUITE C6
STOCKTON, CA 95207
TEL 888.565.1040

WWW.BACPAS.COM

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 the major 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, 2019, 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 18, 2019.

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*.

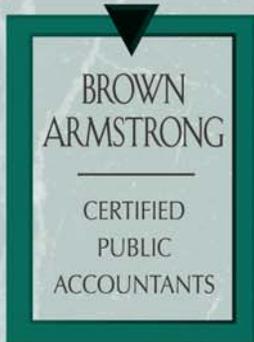
Purpose of this Report

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 18, 2019



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 fiscal year ended June 30, 2019.

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:

BAKERSFIELD OFFICE

(MAIN OFFICE)

4200 TRUXTUN AVENUE
SUITE 300
BAKERSFIELD, CA 93309
TEL 661.324.4971
FAX 661.324.4997
EMAIL info@bacpas.com

FRESNO OFFICE

10 RIVER PARK PLACE EAST
SUITE 208
FRESNO, CA 93720
TEL 559.476.3592

STOCKTON OFFICE

1919 GRAND CANAL BLVD
SUITE C6
STOCKTON, CA 95207
TEL 888.565.1040

WWW.BACPAS.COM

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

Opinion

In our opinion, the Commission complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the California Children and Families Program for the fiscal year ended June 30, 2019.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

*Brown Armstrong
Accountancy Corporation*

Bakersfield, California
September 18, 2019