

**KERN COUNTY CHILDREN AND
FAMILIES COMMISSION**

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

**FOR THE FISCAL YEARS ENDED
JUNE 30, 2022 AND 2021**

**KERN COUNTY CHILDREN AND FAMILIES COMMISSION
JUNE 30, 2022 AND 2021**

TABLE OF CONTENTS

	<u>Page</u>
<u>FINANCIAL SECTION</u>	
Independent Auditor’s Report	1
Management’s Discussion and Analysis.....	4
 <u>Financial Statements</u>	
Government-Wide Financial Statements:	
Statements of Net Position	8
Statements of Activities.....	9
Fund Financial Statements:	
Major Governmental Fund	
Balance Sheets – Governmental General Fund.....	11
Reconciliations of Governmental General Fund Balance Sheets to the Statements of Net Position	12
Statements of Revenues, Expenditures, and Changes in Fund Balance – Governmental General Fund.....	14
Reconciliations of the Change in Fund Balance to the Change in Net Position	15
Statements of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (GAAP Basis) – Governmental General Fund	17
Notes to Financial Statements	19
 <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>	32
Independent Auditor’s Report on State Compliance.....	34

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinions

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, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the Commission's financial statements as listed in the table of contents.

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, 2022 and 2021, and the respective changes in 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.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Commission and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about The Commission's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Commission's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 7 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 October 17, 2022, 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 the effectiveness of the Commission's 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
October 17, 2022

**KERN COUNTY CHILDREN AND FAMILIES COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2022 AND 2021**

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, 2022 and 2021.

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 County.

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 2021-22 FINANCIAL HIGHLIGHTS

- The Commission earned \$9,729,900 in program revenues; of this amount, \$8,810,192 was from the State for revenues collected under the Act, \$579,856 was from other State funded grants, and \$339,852 was from grants and other income.
- The Commission had other financing sources and capital outlay: right-to-use leased assets of \$247,853 relating to the building lease per Governmental Accounting Standards Board (GASB) Statement No. 87.
- During fiscal year 2021-22, the Commission disbursed \$9,690,861 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 \$19,208,951 (net position). Of this amount, \$9,063,925 is restricted to meet fiscal year 2022-23 contractual obligations and \$10,148,742 represents unrestricted net position.
- At the close of the current fiscal year, the Commission's governmental fund reported an ending fund balance of \$19,404,323, an increase of \$229,277 in comparison with the prior year. This increase is mainly due to the prior year's receipt of the May and June Proposition 10 revenue allocations from the State.

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

- Actual revenues and other financing sources were \$454,483 more than budgeted. This increase is attributable to the increase in Proposition 56 apportionments from the State and the recognition of GASB Statement No. 87 Other Financing – Building Lease.
- 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 \$1,331,210 less than budgeted due to contracts being executed under budget. Additionally, due to the lingering limitations of COVID-19, many providers were unable to provide direct services.
 - Payroll and employee benefits were under budget by \$108,042 and \$57,181 respectively, due to the cost of living adjustment being lower than budgeted, and employee benefits increases being lower than anticipated.
 - Capital outlay: right-to-use leased assets were over budget by \$247,853. This is due to the recognition of GASB Statement No. 87 establishing the expenditure for the Building Lease.
 - Travel and transportation were under budget by \$19,539 due to the continuing effects of COVID-19 and the increasing use of teleconferencing.

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 net position was earmarked for Commission approved programs, existing contractual obligations, and Commission approved sustainability funds as of June 30, 2022 and 2021.

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 \$19,208,951 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:

	2022	2021	2020	2022 vs. 2021		2021 vs. 2020	
				Change	%	Change	%
Assets							
Current Assets	\$ 21,219,999	\$ 21,199,157	\$ 19,663,326	\$ 20,842	0.10%	\$ 1,535,831	7.81%
Capital Assets, Net	165,235	3,435	7,710	161,800	4710.33%	(4,275)	-55.45%
Total Assets	21,385,234	21,202,592	19,671,036	182,642	0.86%	1,531,556	7.79%
Liabilities							
Current Liabilities	1,990,969	2,111,067	1,855,373	(120,098)	-5.69%	255,694	13.78%
Long-Term Liabilities	185,314	108,343	74,842	76,971	71.04%	33,501	44.76%
Total Liabilities	2,176,283	2,219,410	1,930,215	(43,127)	-1.94%	289,195	14.98%
Net Position							
Net Investment in Capital Assets	(3,716)	3,435	7,710	(7,151)	-208.18%	(4,275)	-55.45%
Restricted	9,063,925	8,958,658	8,417,789	105,267	1.18%	540,869	6.43%
Local Initiatives and Unrestricted	10,148,742	10,021,089	9,315,322	127,653	1.27%	705,767	7.58%
Total Net Position	\$ 19,208,951	\$ 18,983,182	\$ 17,740,821	\$ 225,769	1.19%	\$ 1,242,361	7.00%

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 2021-22 and 2020-21, the Commission was able to report positive balances in two categories of net position. The negative balance for net investment in capital assets was due to the implementation of GASB Statement No. 87 relating to the building lease.

Statement of Activities. A summary of the Commission's revenues, expenses, and change in net position for fiscal years 2021-22, 2020-21, and 2019-20 is as follows:

	2022	2021	2020	2022 vs. 2021		2021 vs. 2020	
				Change	%	Change	%
Program Revenues	\$ 9,729,900	\$ 10,135,911	\$ 10,118,993	\$ (406,011)	-4.01%	\$ 16,918	0.17%
General Revenues	186,730	215,461	310,464	(28,731)	-13.33%	(95,003)	-30.60%
Total Revenues	9,916,630	10,351,372	10,429,457	(434,742)	-4.20%	(78,085)	-0.75%
Expenses	9,690,861	9,109,011	10,063,701	581,850	6.39%	(954,690)	-9.49%
Change in Net Position	225,769	1,242,361	365,756	(1,016,592)	-81.83%	876,605	239.67%
Net Position - Beginning of Year	18,983,182	17,740,821	17,375,065	1,242,361	7.00%	365,756	2.11%
Net Position - End of Year	\$ 19,208,951	\$ 18,983,182	\$ 17,740,821	\$ 225,769	1.19%	\$ 1,242,361	7.00%

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

- Revenue from the State for Propositions distributions decreased in fiscal year 2021-22 by \$398,998 over the prior year. This decrease is attributable to the anticipated decline in the sale of tobacco products.
- Other State income increased in fiscal year 2021-22 by \$27,649 over the prior year mainly due to an increase in billable charges on the First 5 California funded IMPACT 2020 program.

- Grant awards and other income decreased in fiscal year 2021-22 by \$34,662 over the prior year mainly due to the reduced billings to Kern County Behavioral Health and Recovery Services Help Me Grow Program. Decreases were offset by increased donation income of \$10,000.
- The Commission received \$28,732 less interest income in fiscal year 2021-22 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 \$532,752 in fiscal year 2021-22 from those of the prior year due to increased contractor budgets in year two of the five-year funding cycle.
- Professional and specialized services decreased \$15,826 in fiscal year 2021-22 from the prior year due to a decrease in contractual expenses with various vendors.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. The Commission's capital assets for its governmental activities amounted to \$0 and \$3,435 (net of accumulated depreciation) as of June 30, 2022 and 2021, respectively. Capital assets include equipment and vehicles. The Commission's right-to-use leased assets for its governmental activities amounted to \$165,235 and \$0 (net of accumulated amortization) as of June 30, 2022 and 2021, respectively. Right-to-use leased assets include one building lease. Refer to Note 3 for additional details.

Debt Administration. The Commission's long-term obligations were for compensated absences and lease liabilities. The Commission's compensated absences obligations were in the amount of \$191,656 and \$195,299 as of June 30, 2022 and 2021, respectively. The Commission's lease liabilities obligations were for \$168,951 and \$0 as of June 30, 2022 and 2021, respectively. Refer to Notes 4 and 5 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 1, 2022, and a revised Strategic Plan on April 6, 2022.

The following factors are considered in preparing the Commission's fiscal year 2022-23 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, 2022 AND 2021**

<u>ASSETS</u>	<u>2022</u>	<u>2021</u>
Current Assets		
Cash and cash equivalents	\$ 20,163,196	\$ 19,513,253
Accounts receivable - State	866,291	1,214,786
Accounts receivable - Other	65,981	364,306
Interest receivable	50,449	50,624
Prepaid expenses	74,082	56,188
	<hr/>	<hr/>
Total Current Assets	21,219,999	21,199,157
Capital Assets		
Equipment	67,610	67,610
Less accumulated depreciation	(67,610)	(64,175)
Leased Assets		
Right-to-use - Building	247,853	-
Less accumulated amortization	(82,618)	-
	<hr/>	<hr/>
Total Capital Assets and Leased Assets Net of Depreciation and Amortization	165,235	3,435
	<hr/>	<hr/>
TOTAL ASSETS	\$ 21,385,234	\$ 21,202,592
	<hr/> <hr/>	<hr/> <hr/>
<u>LIABILITIES AND NET POSITION</u>		
LIABILITIES		
Accounts payable and accrued expenses	\$ 1,764,777	\$ 1,982,663
Accrued payroll	50,899	41,448
Long-term liabilities		
Due within one year		
Lease liability	82,158	-
Compensated absences	93,135	86,956
Due after one year		
Lease liability	86,793	-
Compensated absences	98,521	108,343
	<hr/>	<hr/>
TOTAL LIABILITIES	2,176,283	2,219,410
	<hr/>	<hr/>
NET POSITION		
Net investment in capital assets	(3,716)	3,435
Restricted	9,063,925	8,958,658
Unrestricted	10,148,742	10,021,089
	<hr/>	<hr/>
TOTAL NET POSITION	19,208,951	18,983,182
	<hr/>	<hr/>
TOTAL LIABILITIES AND NET POSITION	\$ 21,385,234	\$ 21,202,592
	<hr/> <hr/>	<hr/> <hr/>

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, 2022**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Governmental Activities</u>	<u>Net (Expense) and Revenue and Change in Net Position</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>		
Child Development Services	\$ 9,690,861	\$ -	\$ 9,729,900	\$ -	\$ 39,039
Totals	<u>\$ 9,690,861</u>	<u>\$ -</u>	<u>\$ 9,729,900</u>	<u>\$ -</u>	<u>39,039</u>
General Revenues:					
					<u>186,730</u>
					<u>186,730</u>
					225,769
					<u>18,983,182</u>
					<u>\$ 19,208,951</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, 2021**

Functions/Programs	Expenses	Program Revenues		Net (Expense) and Revenue and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
				Governmental Activities
Child Development Services	\$ 9,109,011	\$ -	\$ 10,135,911	\$ -
Totals	<u>\$ 9,109,011</u>	<u>\$ -</u>	<u>\$ 10,135,911</u>	<u>\$ -</u>
General Revenues:				
Interest and investment earnings				<u>215,461</u>
Total General Revenues				<u>215,461</u>
Change in Net Position				1,242,361
Net Position Beginning of Year				<u>17,740,821</u>
Net Position End of Year				<u>\$ 18,983,182</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, 2022 AND 2021**

<u>ASSETS</u>	<u>2022</u>	<u>2021</u>
Current Assets		
Cash and cash equivalents	\$ 20,163,196	\$ 19,513,253
Accounts receivable	866,291	1,214,786
Interest receivable	50,449	50,624
Other receivable	65,981	364,306
Prepaid expenses	<u>74,082</u>	<u>56,188</u>
TOTAL ASSETS	<u><u>\$ 21,219,999</u></u>	<u><u>\$ 21,199,157</u></u>
<u>LIABILITIES AND FUND BALANCE</u>		
LIABILITIES		
Accounts payable and accrued expenses	\$ 1,764,777	\$ 1,982,663
Accrued payroll	<u>50,899</u>	<u>41,448</u>
TOTAL LIABILITIES	<u>1,815,676</u>	<u>2,024,111</u>
FUND BALANCE		
Nonspendable	74,082	56,188
Committed	9,063,925	8,958,658
Unassigned	<u>10,266,316</u>	<u>10,160,200</u>
TOTAL FUND BALANCE	<u>19,404,323</u>	<u>19,175,046</u>
TOTAL LIABILITIES AND FUND BALANCE	<u><u>\$ 21,219,999</u></u>	<u><u>\$ 21,199,157</u></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, 2022**

Total Fund Balance - Governmental Fund \$ 19,404,323

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

Right-to-use leased assets used for governmental activities are not
reported as assets in the governmental fund. 165,235

Lease liability is not reported in the governmental fund. (168,951)

Compensated absences liability is not reported in the
governmental fund. (191,656)

Total Net Position - Governmental Activities \$ 19,208,951

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, 2021**

Total Fund Balance - Governmental Fund \$ 19,175,046

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. 3,435

Compensated absences liability is not reported in the
governmental fund. (195,299)

Total Net Position - Governmental Activities \$ 18,983,182

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, 2022 AND 2021**

	<u>2022</u>	<u>2021</u>
Revenues		
Aid from governmental agencies	\$ 8,810,192	\$ 9,209,190
Other State income	579,856	552,207
Grant awards and other income	339,852	374,514
Interest income	186,730	215,461
	<u>9,916,630</u>	<u>10,351,372</u>
Expenditures		
Payroll	1,271,958	1,199,380
Employee benefits	298,819	270,319
Office expense	34,017	58,532
Insurance	30,905	27,656
Professional and specialized services	336,494	352,320
Administrative cost (County of Kern)	4,161	3,177
Publications and legal notice	5,235	2,126
Contribution to agents	7,552,950	7,020,196
Rental and lease	93,374	89,948
Travel and transportation	3,961	1,754
Utilities	19,239	19,478
Telephone	12,221	11,938
Miscellaneous	24,019	17,252
Capital outlay:		
Right-to-use leased assets	<u>247,853</u>	<u>-</u>
	<u>9,935,206</u>	<u>9,074,076</u>
Total Expenditures		
Excess (deficiency) of revenues over (under) expenditures	<u>(18,576)</u>	<u>1,277,296</u>
Other financing sources		
Lease financing	<u>247,853</u>	<u>-</u>
Total other financing sources	<u>247,853</u>	<u>-</u>
Net Change in Fund Balance	229,277	1,277,296
Fund Balance, Beginning of Year	<u>19,175,046</u>	<u>17,897,750</u>
Fund Balance, End of Year	<u>\$ 19,404,323</u>	<u>\$ 19,175,046</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, 2022**

Net Change in Fund Balance - Governmental General Fund	\$	229,277
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>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 (\$3,435) in the period:</p>		(3,435)
<p>Lease amortization expense does not use current financial resources but has an effect on net position.</p>		(82,618)
<p>Lease principal payments on long-term debt use current financial resources but have no effect on net position.</p>		78,902
<p>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 vacation used exceeded amounts earned by:</p>		<u>3,643</u>
Total Change in Net Position - Governmental Activities	\$	<u>225,769</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, 2021**

Net Change in Fund Balance - Governmental General Fund \$ 1,277,296

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 (\$4,275) in the period: (4,275)

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: (30,660)

Total Change in Net Position - Governmental Activities \$ 1,242,361

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, 2022**

	<u>Budgeted Amounts</u>		Actual (GAAP Basis)	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		
Revenues				
Aid from governmental agencies	\$ 8,362,000	\$ 8,362,000	\$ 8,810,192	\$ 448,192
Other State income	726,000	726,000	579,856	(146,144)
Grant awards and other income	452,000	482,000	339,852	(142,148)
Interest income	140,000	140,000	186,730	46,730
Total Revenues	<u>9,680,000</u>	<u>9,710,000</u>	<u>9,916,630</u>	<u>206,630</u>
Expenditures				
Payroll	1,380,000	1,380,000	1,271,958	108,042
Employee benefits	356,000	356,000	298,819	57,181
Office expense	77,000	77,000	34,017	42,983
Insurance	38,000	38,000	30,905	7,095
Professional and specialized services	353,000	393,000	336,494	56,506
Administrative cost (County of Kern)	10,000	10,000	4,161	5,839
Publications and legal notice	13,000	5,000	5,235	(235)
Contribution to agents	8,924,160	8,884,160	7,552,950	1,331,210
Rental and lease	96,000	96,000	93,374	2,626
Travel and transportation	28,000	23,500	3,961	19,539
Utilities	24,000	24,000	19,239	4,761
Telephone	14,000	14,000	12,221	1,779
Miscellaneous	17,000	29,500	24,019	5,481
Capital outlay:				
Right-to-use leased assets	-	-	247,853	(247,853)
Total Expenditures	<u>11,330,160</u>	<u>11,330,160</u>	<u>9,935,206</u>	<u>1,394,954</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,650,160)</u>	<u>(1,620,160)</u>	<u>(18,576)</u>	<u>1,601,584</u>
Other financing sources				
Lease financing	-	-	247,853	247,853
Total other financing sources	<u>-</u>	<u>-</u>	<u>247,853</u>	<u>247,853</u>
Net Change in Fund Balance	<u>(1,650,160)</u>	<u>(1,620,160)</u>	<u>229,277</u>	<u>1,849,437</u>
Fund Balance, Beginning of Year	<u>19,175,046</u>	<u>19,175,046</u>	<u>19,175,046</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 17,524,886</u>	<u>\$ 17,554,886</u>	<u>\$ 19,404,323</u>	<u>\$ 1,849,437</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, 2021**

	Budgeted Amounts		Actual (GAAP Basis)	Variance with Final Budget
	Original	Final		
Revenues				
Aid from governmental agencies	\$ 7,925,000	\$ 7,925,000	\$ 9,209,190	\$ 1,284,190
Other State income	672,000	672,000	552,207	(119,793)
Grant awards and other income	288,000	604,156	374,514	(229,642)
Interest income	290,000	290,000	215,461	(74,539)
Total Revenues	9,175,000	9,491,156	10,351,372	860,216
Expenditures				
Payroll	1,380,000	1,380,000	1,199,380	180,620
Employee benefits	356,000	356,000	270,319	85,681
Office expense	77,000	78,000	58,532	19,468
Insurance	38,000	38,000	27,656	10,344
Professional and specialized services	358,000	358,000	352,320	5,680
Administrative cost (County of Kern)	23,000	21,000	3,177	17,823
Publications and legal notice	19,000	13,000	2,126	10,874
Contribution to agents	8,417,789	8,727,945	7,020,196	1,707,749
Rental and lease	94,000	94,000	89,948	4,052
Travel and transportation	28,000	28,000	1,754	26,246
Utilities	23,000	23,000	19,478	3,522
Telephone	14,000	14,000	11,938	2,062
Miscellaneous	15,000	22,000	17,252	4,748
Total Expenditures	10,842,789	11,152,945	9,074,076	2,078,869
Excess (deficiency) of revenues over (under) expenditures	(1,667,789)	(1,661,789)	1,277,296	2,939,085
Net Change in Fund Balance	(1,667,789)	(1,661,789)	1,277,296	2,939,085
Fund Balance, Beginning of Year	17,897,750	17,897,750	17,897,750	-
Fund Balance, End of Year	\$ 16,229,961	\$ 16,235,961	\$ 19,175,046	\$ 2,939,085

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

**KERN COUNTY CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022**

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 Annual Comprehensive Financial Report.

B. Basis of Presentation, Basis of Accounting, and Measurement Focus

In accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Financial Statements and Management's Discussion and Analysis for State and Local Governments*, the financial statements consist 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, 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 Tri Counties Bank (TCB) 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 TCB up to \$250,000. Additionally, the principal amount of \$2,500,000 is collateralized at 110% of the deposit.

TCB participates in the local agency security program allowing TCB to accept public funds. As required by the California Government Code, TCB pledges collateral for the portion of public funds on deposit that exceeds the FDIC insurance amount. The market value of the securities TCB 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 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 fiscal year-end is included in capital assets. The Commission depreciates equipment over 5 years.

G. Lease Assets

Right-to-use leased assets are recorded at the amount of the initial measurement of the lease liabilities and modified by any lease payment made to the lessor at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term along with any initial direct costs that are ancillary charges necessary to place the lease assets into service.

Right-to-use leased assets are amortizing using the straight-line method over the shorter of the lease term or the useful life on the underlying asset, unless the lease contains a purchase option that the Commission has determined is reasonably certain of being exercised.

H. 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 is reported on the government-wide financial statements when incurred.

I. 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 \$9,063,925 and \$8,958,658 of restricted net position for the fiscal years ended June 30, 2022 and 2021, respectively, for funded programs, new program funding, and other events.

J. 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Fund Balance (Continued)

1. *Nonspendable fund balance*—amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact. The Commission’s General Fund nonspendable balance represents prepaid expenditures.
2. *Restricted fund balance*—amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions or enabling legislation.
3. *Committed fund balance*—amounts that can only be used for specific purposes determined by formal action of the Commission’s highest level of decision-making authority (the Commissioners) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.

The aggregate balance of the Commission’s General Fund committed balance was \$9,063,925 and \$8,958,658 as of June 30, 2022 and 2021, respectively. The details of these amounts are shown below:

	<u>2022</u>	<u>2021</u>
Funded Programs	\$ 8,246,925	\$ 8,141,658
Community Events and Program Outreach	37,000	37,000
Program Support	30,000	30,000
New Program Funding	300,000	300,000
Other Funded Programs	<u>450,000</u>	<u>450,000</u>
Total	<u>\$ 9,063,925</u>	<u>\$ 8,958,658</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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. 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 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.

L. 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 California Department of Tax and Fee Administration 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.

M. Use of Estimates

The preparation of financial statements in conformity with GAAP 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.

N. New Accounting Pronouncements Implemented

The Commission implemented the following GASB Statements.

Statement No. 87	<i>Leases</i>	The provisions of this statement are effective for reporting periods beginning after June 15, 2021. The Commission has implemented this statement and the provisions are contained within the financial statements.
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, 2020. This statement did not impact the financial statements or disclosures of the Commission as the Commission does not have these type of transactions.
Statement No. 92	<i>Omnibus 2020</i>	The requirements of this statement related to intra-entity transfers of assets and those related to the applicability of GASB Statements No. 73 and No. 74, application of GASB Statement No. 84 to post employment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities, and the measurement of liabilities (and assets, if any) associated with asset retirement obligations in a government acquisition are effective for reporting periods ending June 30, 2022. This statement did not impact the financial statements or disclosures of the Commission as the Commission does not have these type of transactions.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. New Accounting Pronouncements Implemented (Continued)

Statement No. 93	<i>Replacement of Interbank Offered Rates</i>	The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All other requirements of this statement are effective for reporting periods ending June 30, 2022. This statement did not impact the financial statements or disclosures of the Commission as the Commission does not have these type of transactions.
Statement No. 97	<i>Certain Component Units Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an Amendment to GASB Statements No. 14 and No. 84 and a Supersession of GASB Statement No. 32</i>	The requirements in paragraph 4 as it applies to defined contribution plans, defined contribution other post employment benefits (OPEB) plans, other employee benefit plans, and paragraph 5 are effective immediately. All other requirements are applicable for reporting periods beginning after June 15, 2021. This statement 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, 2022 and 2021, consisted of the following:

	<u>2022</u>	<u>2021</u>
Cash in the Banks	\$ 953,510	\$ 1,917,354
Cash in Kern County Investment Pool	<u>19,209,686</u>	<u>17,595,899</u>
Total Cash and Cash Equivalents	<u>\$ 20,163,196</u>	<u>\$ 19,513,253</u>
Total Interest Income	<u>\$ 186,730</u>	<u>\$ 215,461</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:

2022		<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>\$ 19,209,686</u>	<u>\$ 19,209,686</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
2021		<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>\$ 17,595,899</u>	<u>\$ 17,595,899</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 or 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:

2022		Minimum Legal Rating	Exempt From Disclosure	Rating as of Year-End	
Investment Type	Amount			AAA	Not Rated
County Investment Pool	<u>\$ 19,209,686</u>	<u>N/A</u>	<u>N/A</u>	<u>\$ -</u>	<u>\$ 19,209,686</u>

2021		Minimum Legal Rating	Exempt From Disclosure	Rating as of Year-End	
Investment Type	Amount			AAA	Not Rated
County Investment Pool	<u>\$ 17,595,899</u>	<u>N/A</u>	<u>N/A</u>	<u>\$ -</u>	<u>\$ 17,595,899</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: \$738,341 and \$1,682,953 of the Commission’s deposits with financial institutions were in excess of FDIC limits and were held in collateralized accounts as of June 30, 2022 and 2021, respectively.

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 County Treasury Oversight Committee.

NOTE 2 – CASH (Continued)Cash on Hand and in Banks (Continued)**Investment in County Investment Pool** (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 Annual Comprehensive Financial Report. The County's Annual Comprehensive Financial Report can be obtained either from the County's website 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 GAAP. 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, 2022 and 2021:

- 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, 2022, was as follows:

	<u>Balances</u> <u>June 30, 2021</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances</u> <u>June 30, 2022</u>
Capital assets, being depreciated:				
Vehicles	\$ 25,228	\$ -	\$ -	\$ 25,228
Equipment	42,382	-	-	42,382
Total capital 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	(38,947)	(3,435)	-	(42,382)
Total accumulated depreciation	<u>(64,175)</u>	<u>(3,435)</u>	<u>-</u>	<u>(67,610)</u>
Right-to-use leased assets, amortizable:				
Buildings	-	247,853	-	247,853
Total right-to-use leased assets being amortized	<u>-</u>	<u>247,853</u>	<u>-</u>	<u>247,853</u>
Less accumulated amortization for:				
Buildings	-	(82,618)	-	(82,618)
Total accumulated amortization	<u>-</u>	<u>(82,618)</u>	<u>-</u>	<u>(82,618)</u>
Total capital and right-to-use leased assets, net	<u>\$ 3,435</u>	<u>\$ 161,800</u>	<u>\$ -</u>	<u>\$ 165,235</u>

NOTE 3 – CAPITAL ASSETS (Continued)

Capital asset activity for the fiscal year ended June 30, 2021, was as follows:

	Balances June 30, 2020	Additions	Deletions	Balances June 30, 2021
Capital assets, being depreciated:				
Vehicles	\$ 25,228	\$ -	\$ -	\$ 25,228
Equipment	42,382	-	-	42,382
Total capital assets being depreciated	67,610	-	-	67,610
Less accumulated depreciation for:				
Vehicles	(25,228)	-	-	(25,228)
Equipment	(34,672)	(4,275)	-	(38,947)
Total accumulated depreciation	(59,900)	(4,275)	-	(64,175)
Total capital assets, net	<u>\$ 7,710</u>	<u>\$ (4,275)</u>	<u>\$ -</u>	<u>\$ 3,435</u>

Depreciation expense for the fiscal years ended June 30, 2022 and 2021, was \$3,435 and \$4,275, respectively. Amortization for right-of-use leased assets for the fiscal years ended June 30, 2022 and 2021, was \$82,618 and \$0, respectively.

NOTE 4 – CHANGES IN COMPENSATED ABSENCES

A schedule of changes in compensated absences for the fiscal years ended June 30, 2022 and 2021, was as follows:

	June 30, 2021	Additions	Deletions	June 30, 2022	Due Within One Year
Compensated Absences, Net	<u>\$ 195,298</u>	<u>\$ 132,372</u>	<u>\$ (136,014)</u>	<u>\$ 191,656</u>	<u>\$ 93,135</u>
	June 30, 2020	Additions	Deletions	June 30, 2021	Due Within One Year
Compensated Absences, Net	<u>\$ 164,639</u>	<u>\$ 111,287</u>	<u>\$ (80,628)</u>	<u>\$ 195,298</u>	<u>\$ 86,956</u>

NOTE 5 – LONG-TERM LIABILITIES

On July 1, 2021, the Commission entered into a 36 month lease as Lessee for the use of 2724 L Street. An initial lease liability was recorded in the amount of \$247,853 on July 1, 2021. As of June 30, 2022, the value of the lease liability is \$165,235. The Commission is required to make monthly fixed payments of \$7,450. The Commission is utilizing an incremental borrowing rate of 5.5%.

Fiscal Year Ending June 30,	Principal	Interest
2023	\$ 82,158	\$ 7,242
2024	86,793	2,607
Total	<u>\$ 168,951</u>	<u>\$ 9,849</u>

NOTE 6 – CONTRACTED PROGRAMS

The Commission had agreements with various contractors for the child development program and the terms of these contracts ended June 30, 2020. Beginning July 1, 2020, the Commission entered into a new five-year funding cycle for the contracted obligation of \$37,544,000. Additional contracts have since been approved increasing the contracted obligation to \$39,801,609. The new funding cycle will end on June 30, 2025. 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, 2022 and 2021, was \$23,405,118 and \$31,546,776, 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, allowing 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, 2022 and 2021, were \$130,588 and \$126,212, 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 on July 1, 2020, with Persimmony International, Inc., for data management services through June 30, 2025. The balance was \$291,005 and \$384,228 as of June 30, 2022 and 2021, respectively.

In addition to the above, the Commission had outstanding encumbrances of \$1,744,190 and \$1,902,484 at June 30, 2022 and 2021, respectively.

NOTE 9 – PROGRAM EVALUATION

The Commission spent \$459,169 and \$409,126 on program evaluation for the fiscal years ended June 30, 2022 and 2021, respectively.

NOTE 10 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 17, 2022, which is the date the financial statements were issued.

NOTE 11 – FUTURE ACCOUNTING PRONOUNCEMENTS

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

Statement No. 91	<i>Conduit Debt Obligations</i>	The requirements of this statement are effective for the fiscal year that ends December 31, 2022. The Commission has not fully judged the impact of implementation of this standard on the financial statements.
Statement No. 94	<i>Public-Private and Public-Public Partnerships and Availability Payment Arrangements</i>	The requirements of this statement are effective for reporting periods ending June 30, 2023. The Commission has not fully judged the impact of implementation of this standard on the financial statements.
Statement No. 96	<i>Subscription-Based Information Technology Arrangements</i>	The requirements of this statement are effective for reporting periods beginning after June 15, 2022. The Commission has not fully judged the impact of implementation of this standard on the financial statements.
Statement No. 97	<i>Certain Component Units Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an Amendment to GASB Statements No. 14 and No. 84 and a Supersession of GASB Statement No. 32</i>	The requirements in paragraph 4 as it applies to defined contribution plans, defined contribution other post employment benefits (OPEB) plans, other employee benefit plans, and paragraph 5 are effective immediately. All other requirements are applicable for reporting periods beginning after June 15, 2021. This statement did not impact the financial statements or disclosures of the Commission as the Commission does not have these type of transactions.
Statement No. 99	<i>Omnibus 2022</i>	The requirements related to the extension of the use of LIBOR, accounting for supplemental nutrition assistance program (SNAP) distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in GASB Statement No. 34, as amended, and terminology updates related to GASB Statement No. 53 and GASB Statement No. 63 are effective upon issuance. The requirements related to leases, public-private and public-public partnerships (PPPs), and subscription-based information technology arrangements (SBITAs) are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of GASB Statement No. 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter.

NOTE 11 – FUTURE ACCOUNTING PRONOUNCEMENTS (Continued)

Statement No. 100 *Accounting Changes and Error Corrections—an Amendment of GASB Statement No. 62*

The requirements of this statement are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

Statement No. 101 *Compensated Absences*

The requirements of this statement are effective for fiscal years beginning after December 15, 2023, and all reporting periods thereafter. Earlier application is encouraged.

COMPLIANCE SECTION

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

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

We have audited, in accordance with the 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 County of Kern, as of and for the fiscal year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated October 17, 2022.

Report on 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) as a basis for designing 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 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 entity'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 or significant deficiencies may exist that were not identified.

Report on 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 financial statements. 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
October 17, 2022

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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

Opinion

We have audited the Kern County Children and Families First Commission's (the Commission), a component unit of County of Kern, 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, 2022.

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, 2022.

Basis for Opinion

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); 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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Commission and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. Our audit does not provide a legal determination of the Commission's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above, and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the California Children and Families Program.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Commission's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in

accordance with GAAS, *Government Auditing Standards*, and the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Commission's compliance with the requirements of the California Children and Families Program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit;
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Commission's compliance with the compliance requirements referred to above and performing such other procedures as we consider necessary in the circumstances;
- Obtain an understanding of the Commission's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal controls over compliance. Accordingly, we express no such opinion; and
- Select and test transactions and records to determine the Commission's compliance with the state laws and regulations applicable to the following items:

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

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identify during the audit.

Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit, we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*. Accordingly, this report is not suitable for any other purpose.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

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

Bakersfield, California
October 17, 2022