

**STANISLAUS COUNTY CHILDREN
AND FAMILIES COMMISSION**

FINANCIAL STATEMENTS

**FOR THE YEAR ENDED
JUNE 30, 2011**

**STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

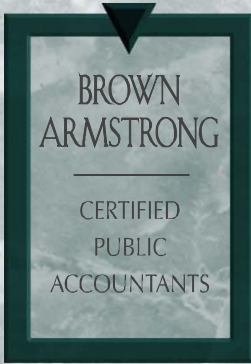
TABLE OF CONTENTS

	<u>Page</u>
Commission Membership.....	i
 <u>FINANCIAL SECTION</u> 	
Independent Auditor's Report	1
Management's Discussion and Analysis (Unaudited).....	3
 <u>Basic Financial Statements</u>	
Government-Wide Financial Statements:	
Statement of Net Assets	9
Statement of Activities.....	10
Fund Financial Statements:	
Major Governmental Fund:	
Balance Sheet – Governmental Fund.....	11
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Fund.....	12
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual (GAAP) – Governmental Fund	13
Notes to Financial Statements	14
 <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>	22
Independent Auditor's Report on State Compliance.....	24
 <u>Supplementary Information</u>	
Supplemental Schedule of First 5 California Funding.....	26

**STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
COMMISSION MEMBERSHIP
AS OF JUNE 30, 2011**

<u>Name</u>	<u>Position</u>	<u>Original Appointment</u>	<u>Term Expires</u>
Christine Applegate	Director, Community Services Agency	April 2011	Permanent
Vicki Bauman	School Representative	June 2005	August 2013
Vito Chiesa	Board of Supervisors	January 2009	December 2011
David Cooper	Community Representative	September 2006	August 2012
Mary Ann Lee	Director, Health Services Agency Chair	November 2007	Permanent
Nelly Paredes-Walsborn, PH.D	Community Representative	September 2004	August 2013
George Skol	Community Representative Vice-Chair	June 2002	August 2011
Dan Souza, LCSW	Community Representative	July 2005	August 2011
John Walker, MD	Health Officer	November 2000	Permanent

FINANCIAL SECTION



BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners of the
Stanislaus County Children and Families Commission
Modesto, California

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We have audited the accompanying financial statements of the governmental activities and general fund of the Stanislaus County Children and Families Commission, a component unit of the County of Stanislaus, as of and for the year ended June 30, 2011, which collectively comprise the Stanislaus County Children and Families Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Stanislaus County Children and Families Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 general fund of the Stanislaus County Children and Families Commission, as of June 30, 2011, the respective changes in financial position thereof and the respective budgetary comparison for the General Fund, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2011, on our consideration of the Stanislaus County Children and Families Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

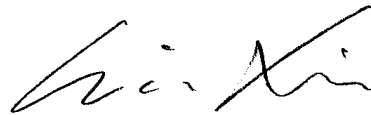


REGISTERED with the Public Company
Accounting Oversight Board and
MEMBER of the American Institute of
Certified Public Accountants

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Stanislaus County Children and Families Commission's financial statements as a whole. The Stanislaus County Children and Families Commission membership is presented for purposes of additional analysis and is not a required part of the financial statements. The Stanislaus County Children and Families Commission membership has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION



Bakersfield, California
October 5, 2011

**STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2011**

This section of the Stanislaus County Children and Families Commission's (Commission) annual financial report presents management's discussion and analysis of the Commission's financial performance for the fiscal year ended June 30, 2011. It is important to read this section in conjunction with the financial statements and notes in this audit.

FISCAL YEAR 2010-2011 FINANCIAL HIGHLIGHTS

In 2011, the Commission completed its 12th year of operations in Stanislaus County promoting the development and well-being of children 0 through 5 years of age. As the Commission expended funds to implement its strategic plan, it also continued to implement a plan to spend down a reserve accumulated when the Commission first began operations. Consequently, the highlights of the 2010-2011 fiscal year tend to reflect these efforts:

- Total revenues decreased approximately \$975,000 (13.9%) from 2010 to 2011 primarily due to fewer tobacco sales, a reduction in reimbursements for the school readiness program, and a reduction in interest earnings resulting from the downturn in the nation's economy.
- Commission expenditures decreased approximately \$1,617,000 (16.7%) primarily due to the elimination of the school readiness program and a training program for childcare providers known as CARES (Comprehensive Approaches to Raising Educational Standards).
- In a planned draw down of reserves, the Commission's expenditures exceeded revenues by approximately \$2,029,753 from 2010 to 2011.
- Legislation enacted by the Legislature and signed into law by the Governor in March of 2011 (AB 99) requires the Commission to send approximately \$8,300,000 of its fund balance to the State General Fund by June 30, 2012. When this amount is subtracted from available reserves, the reserve balance drops dramatically in 2011. (It should be noted that a suit regarding the constitutionality of AB 99 has been filed by eleven counties. An appeal of the trial court's decision could mean it will be years before the matter is finally decided. Until then, the Commission must set aside this \$8,300,000 until a final decision is issued.)

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual financial report consists of two parts:

- Basic financial statements, including government-wide and fund statements and notes to those statements.
- This discussion and analysis of the basic financial statements.

The Commission's financial statements offer key, high-level financial information about its activities.

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 business. These statements provide both long-term and short-term information about the Commission's overall financial status.

The statement of net assets includes information on all of the Commission's assets and liabilities with the difference between assets and liabilities reported as net assets. Changes in net assets may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

The statement of activities presents information showing how the Commission's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related and legal requirements. All of the Commission's activities are accounted for in one fund.

As a rule, governmental fund financial statements focus on near term inflows and outflows of spendable resources and on balances of spendable resources at the end of the fiscal year.

The Commission adopts an annual appropriated budget for the general fund. A budgetary comparison statement has been provided for this fund to demonstrate compliance with the adopted budget.

The Commission was created as an independent County agency by an ordinance of the Board of Supervisors, who acted under the authority of California State law. A nine member Commission appointed by the Board of Supervisors governs the Commission and authorizes expenditures. Consequently, the Stanislaus County Auditor's Office has designated the Commission as a County agency unit of local government and includes the Commission's basic financial statements in the County of Stanislaus' basic financial statements.

CONDENSED FINANCIAL STATEMENTS

The following tables summarize the Commission's 1) Statement of Activities (change in net assets) and 2) Statement of Net Assets (government-wide financials). Both tables are summarized for the last three fiscal years.

	<u>2009</u>	<u>2010</u>	<u>2011</u>
<u>Revenues</u>			
Program revenues	\$ 7,734,435	\$ 6,811,168	\$ 5,855,098
General revenues	<u>670,244</u>	<u>190,726</u>	<u>171,260</u>
Total revenues	8,404,679	7,001,894	6,026,358
<u>Total Expenditures</u>	<u>9,855,029</u>	<u>9,673,447</u>	<u>8,056,111</u>
Excess (deficiency) of revenues over expenditures	<u>(1,450,350)</u>	<u>(2,671,553)</u>	<u>(2,029,753)</u>
Special item	<u>-</u>	<u>-</u>	<u>(8,308,994)</u>
Change in net assets	(1,450,350)	(2,671,553)	(10,338,747)
Beginning net assets	20,690,017	19,239,667	16,568,114
Prior period adjustment	<u>-</u>	<u>-</u>	<u>(64,582)</u>
Beginning net assets (restated)	<u>20,690,017</u>	<u>19,239,667</u>	<u>16,503,532</u>
Ending net assets	<u><u>\$ 19,239,667</u></u>	<u><u>\$ 16,568,114</u></u>	<u><u>\$ 6,164,785</u></u>

Highlights of the above statement include:

- The Special Item reducing net assets by more than \$8,300,000 sets aside resources to permit the Commission to comply with AB 99 (which requires Stanislaus to deliver these funds to the State General Fund on or before June 30, 2012).
- The Commission is continuing to follow its plan to reduce its reserves. (The Commission's stated policy is to maintain six month's worth of operating costs in its reserve.)

- Total revenues declined by more than \$975,000 in 2011 due to:
 - o A decline in tobacco purchases. Projections for future years anticipate further declines in tobacco tax revenues due to fewer smokers purchasing cigarettes. (Tobacco taxes, which make up a significant portion of the Commission's program revenue, are distributed according to a formula that considers the amount of tobacco purchased in the State and the number of live births in the County of Stanislaus.)
 - o A reduction in reimbursements as a result of the ending of the school readiness program.
 - o Lower investment earnings resulting from lower interest rates and reduced cash balance.
- Total expenses declined from 2010 to 2011 due to a planned reduction in the number of programs receiving Commission support.

	<u>2009</u>	<u>2010</u>	<u>2011</u>
<u>Assets</u>			
Current assets	\$ 20,945,040	\$ 17,991,342	\$ 16,063,979
Capital assets, net	6,386	4,683	2,980
Total assets	<u>\$ 20,951,426</u>	<u>\$ 17,996,025</u>	<u>\$ 16,066,959</u>
<u>Liabilities</u>			
Current liabilities	\$ 1,668,940	\$ 1,373,355	\$ 9,838,764
Long-term liabilities	42,819	54,556	63,410
Total liabilities	<u>1,711,759</u>	<u>1,427,911</u>	<u>9,902,174</u>
<u>Net Assets</u>			
Invested in capital assets	6,386	4,683	2,980
Restricted net assets	19,233,281	16,563,431	6,161,805
Total net assets	<u>19,239,667</u>	<u>16,568,114</u>	<u>6,164,785</u>
Total liabilities and net assets	<u>\$ 20,951,426</u>	<u>\$ 17,996,025</u>	<u>\$ 16,066,959</u>

Highlights of the above statement include:

- Current liabilities increased significantly due to the inclusion of more than \$8,300,000 for AB 99 (the diversion of Commission resources to the State General Fund). Conversely, restricted net assets decreased for two reasons: 1) the AB 99 resources were removed from net assets in order to show the obligation as a liability and 2) the planned expenditure in 2011 of a portion of the Commission's fund balance (approximately \$2,029,753).
- The dramatic decrease in restricted net assets indicates that, in order to maintain a minimum reserve equal to six months of operating costs, the Commission must reduce its support of community programs on July 1, 2012.

OVERALL FINANCIAL POSITION

The vast majority of Commission revenues are generated from a \$.50 per pack tax on tobacco products that is collected by the State of California and distributed to California's 58 counties based on the percentage of live births in each county. Since the creation of the Commission in 1998, tobacco tax revenues have steadily declined an average of 1-2% per year as existing smokers quit smoking. This decline accelerated sharply in 2009-2010 when the federal government imposed higher taxes on tobacco. The increased cost of tobacco products caused users to quit smoking or purchase tobacco products in areas where taxes are not collected (Indian reservations, for example). Although a continuing decline in tobacco tax revenues is expected in future years, the sharp decline noted in 2009-2010 is expected to be a one-time event and future revenue reductions are expected to be more in line with past years' experience.

Legislation enacted by the Legislature and signed into law by the Governor in March of 2011 (AB 99) requires the Commission to send approximately \$8,300,000 of its fund balance to the State General Fund by June 30, 2012. And while the constitutionality of the legislation is currently being adjudicated, the Commission must conduct its financial affairs as if AB 99 is a legal action of the Legislature. Consequently, the amount to be sent to the State (more than \$8,300,000) cannot be used as available resources to fund future budgets. Because of AB 99, the Commission must reduce the amount of funds provided to the community beginning with the 2012-2013 fiscal year.

AB 99, and the associated loss of resources, is also causing the Commission to revise its strategic plan. A new Strategic Plan is tentatively scheduled for adoption in December of 2011. A Funding Plan to implement the Strategic Plan, with more detail about Commission priorities and direction, is scheduled for adoption in January of 2012. And to give the community as much time as possible to plan for changes in funding support levels, the Commission plans to adopt its 2012-2013 budget in February of 2012.

The Commission's minimum reserve policy was changed in 2011 from an amount equal to one year's worth of operating costs to six month's worth of operating costs. This change permitted reserves to be utilized by the Commission in the 2011-2012 budget and provided more time for supported programs and the Commission to prepare for reductions expected to be made in the 2012-2013 fiscal year.

ANALYSIS OF THE CHILDREN AND FAMILIES COMMISSION FUND

The Board of Supervisors' ordinance establishing the Stanislaus County Children and Families Commission created a trust fund to record Commission revenues and expenditures. Because the Commission Proposition 10 program utilizes one fund for all its programs, this audit is somewhat unique as only one fund is examined from a "government-wide" and "fund" perspective.

As has been mentioned, fund balance is decreasing as a result of a planned program to decrease the fund balance and as a result of setting aside resources to comply with AB 99.

BUDGET VERSUS ACTUAL VARIATIONS

The following table compares the original budget for the 2010-2011 fiscal year with the final budget. Both budgets can then be compared to actual expenditures for the year. It should be noted that these figures were developed according to modified accrual standards.

	Original Budget	Final Budget	Actual (GAAP Basis)	Variance with Final Budget
Revenues				
Proposition 10 - tobacco tax	\$ 6,006,580	\$ 6,006,580	\$ 5,801,206	\$ (205,374)
School readiness grant	50,000	50,000	48,073	(1,927)
Surplus money investment fund	-	-	3,087	3,087
Investment earnings	249,178	249,178	171,260	(77,918)
Miscellaneous revenue	-	-	2,732	2,732
Total revenues	6,305,758	6,305,758	6,026,358	(279,400)
Expenditures				
Contracts	8,428,541	8,428,541	7,183,469	1,289,848
Evaluations	210,000	210,000	11,918	198,082
Salaries and employee benefits	727,138	727,138	675,947	51,191
Services and supplies	198,061	198,061	174,220	23,841
Total expenditures	9,563,740	9,563,740	8,045,554	1,562,962
Other Financing Uses				
Special Item:				
State of California AB 99 expense	-	-	(8,308,994)	(8,308,994)
Net change in fund balance	\$ (3,257,982)	\$ (3,257,982)	(10,328,190)	\$ (7,025,432)
Fund balance - beginning of year			16,617,987	
Prior period adjustment			(64,582)	
Fund balance - beginning of year (restated)			16,553,405	
Fund balance - end of year			\$ 6,225,215	

Highlights of the above statement include:

- The final 2011 budget estimated approximately \$279,000 more in revenues than was received. The lower revenues were primarily due to a decrease in tobacco sales and lower interest earnings (due to lower than anticipated interest rates and a smaller cash balance).
- Some of the underspending in the Contracts line item in 2011 is due to:
 - o Maximization of State funding sources through the referral of clients to State services and enhanced billing to the Medi-Cal program (Healthy Cubs program).
 - o A Contingency for Contract Adjustments line item was not used.
- The Evaluations line item was underspent because a computerized data gathering system was not purchased. (\$170,000 was budgeted for the purchase.)
- Salaries and Employee Benefits were underspent due to an authorized position being filled only part of the 2010-2011 fiscal year.

- Actual expenditures in the Services and Supplies category were less than budgeted due to reductions in the indirect costs charged by the County of Stanislaus to the Commission.

CAPITAL ASSETS AND LONG-TERM DEBT

The Commission's Funds Invested in Capital Assets line item has decreased by \$1,703 as the value of financed office equipment (the copier, for example) has been depreciated. The significant increase in long-term liabilities is due to the \$8,300,000 liability created by the Legislature's approval of AB 99 (the June 30, 2012, diversion of Commission resources to the State General Fund).

CURRENTLY KNOWN CONDITIONS

The following are facts, decisions, and conditions that could potentially have a significant impact on Commission finances:

- AB 99 requires the Commission to send approximately \$8,300,000 of its fund balance to the State General Fund by June 30, 2012. A court suit to determine the constitutionality of AB 99 is underway. There is speculation that the losing party in the suit will appeal the trial court's decision. An appeal is expected to take up to 2 years before a final decision is rendered. While the court suit is active, the Commission cannot consider resources set aside for AB 99 to be resources available for use in Stanislaus County. Consequently, the Commission must make reductions in its support of community programs beginning with the 2012-2013 fiscal year. Should AB 99 be found to be unconstitutional, the Commission will have to decide whether to reinstate terminated programs or seek new proposals or continue operating high priority programs for a longer period of time.
- Forecasts of State revenues continue to show weak performance by nearly all revenue sources. Continued weak performance may result in automatic "trigger" reductions in the State budget in January of 2012. These reductions in the State budget may result in the Commission receiving mid-year unsolicited funding requests to support local services for the 0-5 population. Weak State revenues may also result in the State Legislature adopting another diversion of Commission resources (similar to AB 99) and/or placing a measure on the ballot seeking voter approval to amend Proposition 10 and divert Commission resources to the State. Any one of these events could significantly impact Commission revenues.
- The Commission will be reviewing its Strategic Plan in the fall of 2011. The new Plan, which is scheduled to be adopted in December of 2011, will focus on reducing the Commission's support of community programs in the 2012-2013 fiscal year. A Funding Plan to implement the new Strategic Plan is scheduled to be adopted by the Commission in January of 2012. These two documents will serve as a guide for evaluating program operations and future proposals. The Commission's 2012-2013 budget, which is scheduled to be adopted in February of 2012, will operationalize the Strategic Plan and the Funding Plan.

ADDITIONAL INFORMATION

This financial report is designed to provide a general overview of the Commission's finances for those with an interest in the Commission's operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director of the Stanislaus County Children and Families Commission, 930 15th Street, Modesto, CA 95354.

BASIC FINANCIAL STATEMENTS

STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
STATEMENT OF NET ASSETS
JUNE 30, 2011

ASSETS

Cash in County treasury	\$ 14,964,434
Due from other agencies	1,052,465
Interest receivable	47,080
Capital assets, net	<u>2,980</u>
 Total assets	 <u><u>\$ 16,066,959</u></u>

LIABILITIES

Accounts payable	\$ 1,509,338
Salaries and benefits payable	20,432
Due to the State of California per AB 99	8,308,994
Long-term liabilities, compensated absences	<u>63,410</u>
 Total liabilities	 <u><u>9,902,174</u></u>

NET ASSETS

Invested in capital assets	2,980
Restricted net assets - children's programs	<u>6,161,805</u>
 Total net assets	 <u><u>6,164,785</u></u>
 Total liabilities and net assets	 <u><u>\$ 16,066,959</u></u>

**STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

Functions/Programs	Expenses	Program Revenues Operating Grants and Contributions	Net (Expense) and Revenues and Change in Net Assets Governmental Activities
Governmental activities:			
Child development services	\$ 8,056,111	\$ 5,855,098	\$ (2,201,013)
Totals	\$ 8,056,111	\$ 5,855,098	(2,201,013)
General revenues:			
Interest and investment earnings			171,260
Special item:			
State of California AB 99 expense			(8,308,994)
Total general revenues and special items:			(8,137,734)
Change in net assets			(10,338,747)
Net assets beginning of year			16,568,114
Prior period adjustment			(64,582)
Net assets beginning of year (restated)			16,503,532
Net assets end of year			\$ 6,164,785

**STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2011**

	<u>General Fund</u>
<u>ASSETS</u>	
Cash in County treasury	\$ 14,964,434
Due from other agencies	1,052,465
Interest receivable	<u>47,080</u>
Total assets	<u><u>\$ 16,063,979</u></u>
<u>LIABILITIES</u>	
Accounts payable	\$ 1,509,338
Salaries and benefits payable	20,432
Due to the State of California per AB 99	<u>8,308,994</u>
Total liabilities	<u>9,838,764</u>
<u>FUND BALANCE</u>	
Committed	
Approved contracts not yet executed	7,482,435
Budget reserve account	<u>1,000,000</u>
Total committed	8,482,435
Unassigned	<u>(2,257,220)</u>
Total fund balance	<u>6,225,215</u>
Total liabilities and fund balance	<u><u>\$ 16,063,979</u></u>
 Reconciliation of the Balance Sheet of the Governmental Fund to the Statement of Net Assets	
Total fund balance	\$ 6,225,215
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund (net of accumulated depreciation of \$14,049).	2,980
Compensated absences (long-term liabilities) are not due in the current period and, therefore, are not included in the fund.	<u>(63,410)</u>
Total net assets - governmental activities	<u><u>\$ 6,164,785</u></u>

**STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2011**

	General Fund
Revenues	
Proposition 10 - tobacco tax	\$ 5,801,206
School readiness grant	48,073
Surplus money investment fund	3,087
Investment earnings	171,260
Miscellaneous revenue	2,732
Total revenues	6,026,358
Expenditures	
Contracts	7,183,469
Program evaluation	11,918
Salaries and employee benefits	675,947
Services and supplies	174,220
Total expenditures	8,045,554
Deficiency of Revenues over Expenditures	(2,019,196)
Special Item:	
State of California AB 99 expense	(8,308,994)
Net change in fund balance	(10,328,190)
Fund balance - beginning of year, as previously reported	16,617,987
Prior period adjustment	(64,582)
Fund balance - beginning of year, as restated	16,553,405
Fund balance - end of year	\$ 6,225,215
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of the Governmental Fund to the Statement of Activities	
Net change in fund balance - governmental fund	\$ (10,328,190)
Governmental fund reports capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation (\$1,703) exceeded capital outlays (\$0) in the current period.	(1,703)
Compensated absences (long-term liabilities) are not due during the current year and, therefore, are not recorded in the governmental fund. This is the amount by which compensated absences increased in the current period.	(8,854)
Change in net assets - governmental activities	\$ (10,338,747)

**STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL (GAAP)
GOVERNMENTAL FUND
FOR THE YEAR ENDED JUNE 30, 2011**

	Original Budget	Final Budget	Actual (GAAP Basis)	Variance with Final Budget
Revenues				
Proposition 10 - tobacco tax	\$ 6,006,580	\$ 6,006,580	\$ 5,801,206	\$ (205,374)
School readiness grant	50,000	50,000	48,073	(1,927)
Surplus money investment fund	-	-	3,087	3,087
Investment earnings	249,178	249,178	171,260	(77,918)
Miscellaneous revenue	-	-	2,732	2,732
Total revenues	6,305,758	6,305,758	6,026,358	(279,400)
Expenditures				
Contracts	8,428,541	8,428,541	7,183,469	1,245,072
Evaluations	210,000	210,000	11,918	198,082
Salaries and employee benefits	727,138	727,138	675,947	51,191
Services and supplies	198,061	198,061	174,220	23,841
Total expenditures	9,563,740	9,563,740	8,045,554	1,518,186
Deficiency of Revenues over Expenditures	<u>(3,257,982)</u>	<u>(3,257,982)</u>	<u>(2,019,196)</u>	<u>1,238,786</u>
Special Item:				
State of California AB 99 expense	-	-	(8,308,994)	(8,308,994)
Net change in fund balance	<u>\$ (3,257,982)</u>	<u>\$ (3,257,982)</u>	(10,328,190)	<u>\$ (7,070,208)</u>
Fund balance - beginning of year			16,617,987	
Prior period adjustment			<u>(64,582)</u>	
Fund balance - beginning of year (restated)			<u>16,553,405</u>	
Fund balance - end of year			<u><u>\$ 6,225,215</u></u>	

**STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Stanislaus County Children and Families Commission (Commission) was established on December 8, 1998, pursuant to Health and Safety Code §130140. The Commission was also established in accordance with the provisions of the California Children and Families First Act of 1998 and by the County of Stanislaus Ordinance #1014. The Commission is funded by surtaxes imposed on the sale of cigarettes and tobacco products. The nine members (as amended by Ordinance #1030) of the Commission are appointed by the County of Stanislaus Board of Supervisors.

The Commission is responsible for the creation and implementation of a comprehensive, collaborative, and integrated system of information and services to enhance early childhood development. Services to enhance early childhood development include early childhood education and health programs.

The financial statements included in this report are intended to present the financial position and results of operations of only the Commission. They are not intended to present the financial position and the results of operations of the County of Stanislaus taken as a whole. For additional information regarding the County of Stanislaus, please refer to the audited financial statements available from the County of Stanislaus.

B. Basis of Presentation and Accounting

The financial statements of the Commission are prepared on the basis of Governmental Accounting Standards Board (GASB) Statement Number 34, *Basic Financial Statements – Management Discussion and Analysis – for State and Local Governments* and related standards. GASB Statement Number 34 established standards for external financial reporting for all state and local government entities which includes a management’s discussion and analysis section, a statement of net assets, a statement of activities, and a statement of cash flows. It requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted.

Government-Wide Statements

The Commission’s government-wide financial statements include a Statement of Net Assets and a Statement of Activities. These statements present summaries of governmental activities for the Commission.

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting. Accordingly, all of the Commission’s assets and liabilities, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balance for all major governmental funds. An accompanying schedule is presented to reconcile and explain the differences in fund balances as presented in these statements to the net assets presented in the government-wide financial statements. The Commission only has one fund, the General Fund. The General Fund is the Commission’s primary operating fund. It accounts for all the financial resources and the legally authorized activities of the Commission.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation and Accounting (Continued)

Governmental Fund Financial Statements (Continued)

All governmental fund types are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheet. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Revenues are recognized when received in cash, except that revenues subject to accrual, generally 180 days after year-end, are recognized when due. Expenditures are recognized in the accounting period in which the related fund liability is incurred. When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, and then unrestricted resources as they are needed.

Adjustments Between Fund Financial Statements and Government-Wide Financial Statements

The government-wide financial statements were adjusted from the modified accrual basis of accounting used on the fund financial statements to the accrual basis of accounting used for the government-wide financial statements. These adjustments included expenses for depreciation during the year related to capital assets and compensated absence obligations.

Non-Exchange Transactions

A non-exchange transaction consists of a government giving or receiving value without directly receiving or giving equal value in return. These transactions include income taxes, sales taxes, property taxes and fines, certain grants, and private donations. Recognition of sales taxes or derived tax revenue transactions assume accrual basis of accounting, per GASB Statement Number 33, except where indicated for revenue recognition.

C. Budgets and Budgetary Accounting

The Commission prepares and legally adopts a final budget on or before August 30th of each fiscal year. The Commission operation, commencing July 1st, is governed by the proposed budget, adopted by the Board of Commissioners in the June of the prior year.

After the budget is approved, the appropriations can be added to, subtracted from or changed only by Commission resolution. All such changes must be within the revenues and reserves estimated as available in the final budget or within revised revenue estimates as approved by the Commission.

An operating budget is adopted each fiscal year on the modified accrual basis. Additionally, encumbrance accounting is utilized to assure effective budgetary control.

Encumbrances outstanding at year-end represent the estimated amount of the expenditures ultimately to result if the unperformed contracts in process at year-end are completed or purchase commitments satisfied. Such year-end encumbrances are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year and included in the subsequent year's budget. Unencumbered appropriations lapse at year-end.

D. Due from Other Agencies

These amounts represent receivables from other governments or contractors. As of June 30, 2011, the Commission was due \$1,052,465 from the State of California and \$47,080 in interest revenues. Management believes its receivables to be fully collectible, and accordingly, no allowance for doubtful accounts is required.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of the asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Equipment – 10 years

F. Compensated Absences – Vacation and Sick Leave

Commission employees earn vacation and sick leave with pay every year. The amount of vacation and sick leave earned is based on the years of continuous service.

After at least six months of County service, most regular employees, upon separation, are entitled to all unused vacation time accumulation. Most regular employees are entitled to a portion of accumulated sick leave after six years of service, depending on age, years of service, and bargaining unit.

At the close of each fiscal year, the balance of this accumulated time at the last pay period is computed for each employee at the current salary range. In the financial statements, these amounts are referred to as “Compensated Absences.”

G. 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 effect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

H. Fund Equity

Beginning with fiscal year 2011, the Commission implemented GASB Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.” This Statement provides more clearly defined balance categories to make the nature and extent of the constraints placed on a government’s fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- **Nonspendable** - Amounts that are not in spendable form (such as inventory) or are required to be maintained intact.
- **Restricted** - Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- **Committed** - Amounts constrained to specific purposes by the Commission itself, using its highest level of decision-making authority (Children and Families Commission). To be reported as committed, amounts cannot be used for any other purpose unless the Commission takes the same highest level action to remove or change the constraint.
- **Assigned** - Amounts the Commission intends to use for a specific purpose. Intent can be expressed by the Commission or by an official or body to which the Board of Commissioners delegates the authority.
- **Unassigned** - Amounts that are available for any purpose. Positive amounts are reported only in the general fund.

Beginning fund balances for the Commission have been restated to reflect the above classifications.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Fund Equity (Continued)

The Commission establishes and modifies or rescinds fund balance commitments by passage of an ordinance or policy. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget as a designation or commitment of the fund, such as approved contracts. Assigned fund balance is established by the Commission through adoption or amendment of the budget or future year budget plan as intended for a specific purpose.

For the Commission’s governmental fund, the Commission strives to maintain a budgeted total fund balance that is in excess of at least half of the prior year actual GAAP basis expenditures.

NOTE 2 – CASH AND INVESTMENTS

The Commission’s cash is invested in the County of Stanislaus cash and investment pool. The County of Stanislaus cash and investment pool is invested in accordance with California State Government Code Section 53600. In addition, the cash and investment pool is further restricted to those investments deemed acceptable per the investment policy guidelines prepared by the County Treasurer and approved by the Board of Supervisors of the County of Stanislaus.

Cash and investments held as of June 30, 2011, were invested in certificate of deposits, commercial paper, money market funds, federal notes, treasury notes and bills, corporate notes, and an external investment pool.

Interest earned on the cash and investment pool is apportioned on a quarterly basis. Per GASB Statement Number 31, investment losses and gains are recorded at market value on the Statement of Net Assets and as income for the period. The changes resulting from investment losses and gains are shared by the various participants of the pool. For further information regarding the cash and investment pool, the audit report of the County of Stanislaus may be obtained by writing the County of Stanislaus, 1010 10th Street, Suite 5100, Modesto, CA 85354.

Cash and investment balances as of June 30, 2011, are as follows: \$ 14,964,434

NOTE 3 – CHANGES IN CAPITAL ASSETS

The following is a summary of changes in the capital assets for the year ended June 30, 2011:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Equipment	\$ 17,029	\$ -	\$ -	\$ 17,029
Less accumulated depreciation	(12,346)	(1,703)	-	(14,049)
Total	<u>\$ 4,683</u>	<u>\$ (1,703)</u>	<u>\$ -</u>	<u>\$ 2,980</u>

Depreciation expense for the year ending June 30, 2011, was \$1,703.

NOTE 4 – ECONOMIC DEPENDENCY

The Commission received the majority of its funding from one source, taxes imposed by Section 30131.2 of the California Tax and Revenue Code. This code imposes additional taxes on the sale of cigarettes and tobacco products. The total amount of funding from the additional taxes was \$5,849,279 or 97.06% of total revenue for the year ending June 30, 2011. The Commission is thus subject to possible risk of reductions in services and/or closure due to potential future changes to Section 30131.2 of the California Tax and Revenue Code.

NOTE 5 – GOVERNMENT-WIDE STATEMENTS, NET ASSETS – CLASSIFICATIONS

The classification of net assets into three components, invested in capital assets, net of related debt; restricted; and unrestricted, is required by GASB Statement Number 34. These classifications are defined as follows:

Net Assets Invested in Capital Assets, Net of Related Debt – Consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of debt issued to finance the acquisition, improvement, or construction of those assets.

Restricted Net Assets – Consists of constraints placed on net asset use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislations.

Unrestricted Net Assets – Consists of funds which are undesignated and available for general operations.

NOTE 6 – FUND FINANCIAL STATEMENTS, FUND BALANCES

As of these financial statements, the Commission has adopted GASB Statement No. 54, which redefined how fund balances of the governmental funds are presented in the financial statements. Fund balances are reserved for amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use. Commitments of fund balance represent uses of funds for a specific purposes that require the Board of Commissioners Action for action, modification and removal. Assignment of fund balance represent management plans that are subject to change. Fund balances have been Committed for the following purposes:

Approved Contracts Not Yet Executed represent amounts that the Commission has authorized and entered into an agreement, but the contract has not been executed.

Budget Reserve Account represents an amount the Commission has established, as a contingency fund, of which no funds will be spent without prior Commission approval.

NOTE 7 – COMMITMENTS

Operating Lease, Building – The Commission entered into a building lease agreement to house the operations of the Commission at 930 15th Street, Modesto, California. The lease commenced on December 7, 2010, and will terminate on December 6, 2013. The lease has an option to renew for an additional three years at the end of the first lease period. Monthly lease payments are \$3,360 for the first 12 months, \$3,520 for the following 12 months and \$3,712 for the remaining 12 month period. Lease expense for the year ending June 30, 2011, was \$45,520.

Operating Lease, Copier – The Commission entered into a lease agreement for use of copier equipment from Mo-Cal Office Solutions. The lease commenced on August 9, 2006, and will terminate on September 9, 2011. The lease has an option to purchase the equipment for fair market value, return the equipment or renew for successive month to month terms at the end of first lease period. Monthly lease payments are \$308 for 60 months. Lease expense for the year ending June 30, 2011, was \$3,969.

Future minimum payments for the years ending June 30th are as follows:

	<u>2012</u>	<u>2013</u>	<u>2014</u>
Building lease	\$ 41,440	\$ 43,584	\$ 18,560
Copier lease	924	-	-
Total	<u>\$ 42,364</u>	<u>\$ 43,584</u>	<u>\$ 18,560</u>

NOTE 8 – RISK MANAGEMENT

The Commission is exposed to various levels of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission participates in the County of Stanislaus risk management insurance. Insurance covered under the County of Stanislaus’ risk management includes general liability, unemployment, worker’s compensation, professional liability, health insurance, and other benefits.

No claims were outstanding during the year under audit ending June 30, 2011. Audit reports of the County of Stanislaus listing further details of the County of Stanislaus’ insurance coverage may be obtained by writing the County of Stanislaus, 1010 10th Street, Suite 5100, Modesto, CA 95354.

Risk management expenditures during the fiscal year are as follows:

	<u>2011</u>
General liability insurance	\$ 700
Unemployment insurance	1,950
Worker’s compensation insurance	490
Health insurance	89,895
Other insurance	<u>1,377</u>
Total risk management expenditures	<u>\$ 94,412</u>

NOTE 9 – EMPLOYEE RETIREMENT SYSTEM

The Commission’s employees participate in the County of Stanislaus retirement system. The County of Stanislaus is a major participant of the Stanislaus County Employees’ Retirement Association (StanCERA). StanCERA was established under the County Retirement Act of 1937 under California State Government Code Section 31450. StanCERA is a cost-sharing multiple-employer public employee retirement system.

Membership to StanCERA is required of all full-time employees and permanent part-time (50% or more of the regular hours) on the first day of employment. Employees eligible for retirement benefits are vested after 5 years of service except for Plan 3 which requires 10 years of service. Employees who have reached the age of 50 or employees with 30 years of service, regardless of age, are eligible to retire. Benefits are calculated as a percentage of the employee’s monthly final average salary per year of service, depending upon age of retirement. An independent actuary provides an actuarial valuation of the system annually.

In addition to the retirement benefits, StanCERA provides post employment benefits which include medical, dental, and vision insurance along with death benefits for eligible retirees. These benefits are funded from excess earnings of StanCERA. The County of Stanislaus does not contribute to these post employment benefits. The Board of Retirement may eliminate the benefit by giving 90 days notice to retirees.

For further information regarding the retirement system and to obtain audit reports of StanCERA, write to PO Box 3150, 832 12th Street, Suite 600, Modesto, CA 95353.

Retirement and post employment benefit expenditures during the fiscal year ended June 30, 2011, were \$69,894.

NOTE 10 – RELATED PARTY TRANSACTIONS

During the fiscal year ended June 30, 2011, the Commission paid the County of Stanislaus, a related party, \$3,094,809 for the following costs: \$47,703 in accounting, legal and administrative services and \$3,047,106 for program services. The Commission is a special revenue fund of the County of Stanislaus.

During the fiscal year ended June 30, 2011, the Commission incurred expenses to Turlock Unified School District, a related party, of \$184,101 for funding a child development program. As of June 30, 2011, a balance of \$64,197 was due and payable to Turlock Unified School District for services rendered. Mr. John Sims, Executive Director of the Commission, is also a member of the Turlock High School Board of Trustees.

NOTE 11 – SECTION 30131.4 OF THE CALIFORNIA TAX AND REVENUE CODE CERTIFICATION

The Commission has certified that the supplant requirement stated in Section 30131.4 of the California Tax and Revenue Code has been met.

NOTE 12 – PROGRAM EVALUATION

The Commission spent \$138,024 on program evaluation during fiscal year ended June 30, 2011, which consisted of \$11,918 in contracted program evaluation and \$126,105 of Commission salaries, benefits, services, and supplies based on time study allocations.

NOTE 13 – PRIOR PERIOD ADJUSTMENT

During the fiscal year ending June 30, 2011, it was determined that the Commission had received an excess funding in the amount of \$64,582, which was to be paid in full and returned back to the State Children and Families Commission. It was determined that program funding for the School Readiness Program had been received in excess of qualified program expenditures, and improperly recorded as revenue in prior periods. As such, a prior period adjustment of \$64,582 was recorded to properly lower fund balance to account for the excess funding received and refunded back during the year-ending June 30, 2011.

NOTE 14 – ENCUMBRANCES

The Commission utilizes encumbrance accounting in its governmental fund. Encumbrances are recognized as a valid and proper charge against a budget appropriation in the year in which a purchase order, contract, or other commitment is issued. Generally, all unencumbered appropriations lapse at year end. Certain open encumbrances at fiscal year-end are included in restricted, committed, or assigned fund balance, as appropriate.

Total encumbrances for the Commission as of June 30, 2011, were \$329,322. Of this amount, \$260,146 was committed for Commission Program Contracts, \$27,220 was committed for future building lease rental payments, and \$41,957 was committed for administration related expenses.

NOTE 15 – SPECIAL ITEM - STATE OF CALIFORNIA - AB 99

On March 24, 2011, the Governor of the State of California approved and filed with the Secretary of State Assembly Bill No. 99, an act to add Sections 130156, 130157, and 130158 to the Health and Safety Code, relating to health and human services, and declaring the urgency thereof, to take effect immediately. This bill established the Children and Families Health and Human Services fund, which required specified amounts of State and Local Children and Families Commission funds to be deposited in the fund during the 2011-12 fiscal year, as specified. The State Children and Families Commission was to deposit a total of \$50,000,000 into the Children and Families Health and Human Services fund, while \$950,000,000 was to be deposited from the combined balances of all the County Children and Families Trust funds, including reserve funds.

NOTE 15 – SPECIAL ITEM - STATE OF CALIFORNIA - AB 99 (Continued)

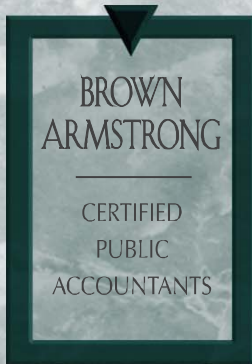
The share of the amount required of each County commission was 50 percent of its County commission funding, which includes total reserved, total unreserved-designated, and total unreserved-undesignated local Children and Families Trust Funds as of June 30, 2010. Any County Commission that received less than \$600,000 in Children and Families Trust Fund revenues in the 2009-10 fiscal year is exempt and is not required to deposit funds into the Children and Families Health and Human Services Fund. In addition, County Commission payments for deposit shall not cause any Commission's fund balance to fall below the amount received by the County Commission from the California Children and Families Trust Fund in the 2009-10 fiscal year. Full payments shall be made within the 2011-12 fiscal year, otherwise no 2012-13 allocation shall occur until the full payment is made.

The shared amount required of the Stanislaus County Children and Families Commission to be paid prior to the end of the 2011-12 fiscal year, based on the requirements of the bill, is \$8,308,994. This item was booked as a special item expense as of June 30, 2011, and is still payable to the State of California in full, as of June 30, 2011.

NOTE 16 – DEFICIT UNASSIGNED FUND BALANCE

The Commission's governmental fund had a deficit unassigned fund balance at June 30, 2011, of \$(2,257,220). This deficit will be financed through future revenues of the fund.

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

To the Board of Commissioners of the
Stanislaus County Children and Families Commission
Modesto, California

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We have audited the financial statements of the governmental activities and general fund of the Stanislaus County Children and Families Commission, a component unit of the County of Stanislaus, as of and for the year ended June 30, 2011, which collectively comprise the Stanislaus County Children and Families Commission’s basic financial statements and have issued our report thereon dated October 5, 2011. We conducted our audit 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Stanislaus County Children and Families Commission’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Stanislaus County Children and Families Commission’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Stanislaus County Children and Families Commission’s internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



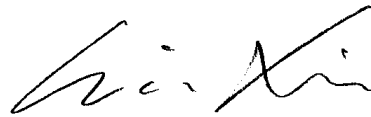
REGISTERED with the Public Company
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MEMBER of the American Institute of
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Compliance and Other Matters

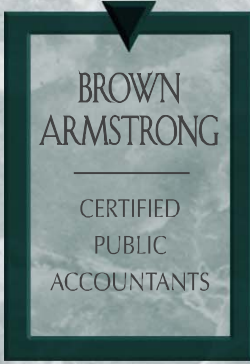
As part of obtaining reasonable assurance about whether Stanislaus County Children and Families Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions include those provisions of laws and regulations identified 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. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the County Board of Supervisors, the County Commission, the State Commission, the State Controller's Office, federal agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION



Bakersfield, California
October 5, 2011



BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

To the Board of Commissioners of the
Stanislaus County Children and Families Commission
Modesto, California

We have audited the Stanislaus County Children and Families Commission's (the Commission), a component unit of Stanislaus County, as of and for the year ended June 30, 2011, and have issued our report thereon dated October 5, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. We have also audited the Commission's compliance with the requirements specified in the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, issued by the State Controller's Office, applicable to the Commission's statutory requirements identified below for the year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of the Commission's management. Our responsibility is to express an opinion on the Commission's compliance 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 Program* 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 material effect on the statutory requirements listed below occurred. 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. 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:

<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

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

In our opinion, the Stanislaus County Children and Families Commission complied, in all material respects, with the compliance requirements referred to above that are applicable to the statutory requirements listed above for the year ended June 30, 2011.

This report is intended solely for the information and use of the County Board of Supervisors, the County Commission, the State Commission, and the State Controller's Office and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION



Bakersfield, California
October 5, 2011

SUPPLEMENTARY INFORMATION

**STANISLAUS COUNTY CHILDREN AND FAMILIES COMMISSION
 SUPPLEMENTAL SCHEDULE OF
 FIRST 5 CALIFORNIA (F5CA) FUNDING
 FOR THE YEAR ENDED JUNE 30, 2011**

Program or Project Title		REVENUE F5CA FUNDS	EXPENDITURES	CHANGE IN NET ASSETS	NET ASSETS BEGINNING OF YEAR (RESTATED)	NET ASSETS END OF FY
School Readiness Program	F5CA Program Funds	48,073	48,073	-	-	-
	County, Local Funds		51,927			
TOTAL SCHOOL READINESS FUNDS		48,073	100,000	-	-	-