

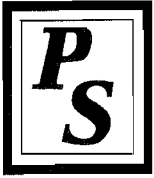
FIRST 5 SAN BERNARDINO

**Basic Financial Statements
with
Independent Auditors' Report**

**For the Year Ended
June 30, 2008**

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Independent Auditors' Report

To the Commissioners of
First 5 San Bernardino

We have audited the accompanying financial statements of the governmental activities and each major fund of First 5 San Bernardino (the Commission), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2008, which collectively comprises the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion 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 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund of First 5 San Bernardino as of June 30, 2008, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 through 6 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2008 on our consideration of First 5 San Bernardino's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of this 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 the 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 read in conjunction with this report in considering the results of our audit.

October 23, 2008

First 5 San Bernardino Management's Discussion and Analysis

The following section of the Children and Families Commission for San Bernardino County (First 5 San Bernardino, the Commission) annual financial statements includes management's insights and analysis of the Commission's financial performance for the fiscal year ended June 30, 2008.

A. Introduction to the Basic Financial Statements

These financial statements consist of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board Statement 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

The basic financial statements include the Statement of Net Assets and the Statement of Activities (the government-wide statements), and the fund financial statements, which include the Balance Sheet and the Statement of Revenues, Expenditures and Changes in Fund Balances for the Commission's two major funds. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Commission as a whole and present a longer-term view of the Commission's finances. The fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Commission's operations in more detail than the government-wide statements by providing information about the Commission's most financially significant funds.

The notes to financial statements and this discussion and analysis support these statements. All sections must be considered together to obtain a complete understanding of the financial picture of the Commission. In addition, to the basic financial statements and accompanying notes, this report also presents combining fund statements.

Statement of Net Assets: The Statement of Net Assets includes all assets and liabilities, reported at their book value on an accrual basis.

Statement of Activities: The Statement of Activities represents the revenues earned and the expenses incurred during the year on an accrual basis.

Analytical Overview-Summary: First 5 San Bernardino's financial position, as a whole, remained steady with increases in revenues and in contract expenditures:

- State allocations which include Proposition 10 revenues, School Readiness (SR) Initiative funds and new this year, Regional Technical Assistance program, increased in 2008 by \$801,041 as a result of receiving TA funds of \$57,875 and an increase in Prop 10 allocations.
- Investment funds pooled within San Bernardino County Treasurer earned a modest increase in its investment earnings over the past year of \$92,965.

**First 5 San Bernardino
Management's Discussion and Analysis**

B. Comparative Analysis of Current and Prior Year Activities and Balances

A summary of key financial statement information is used as a basis for reviewing current year results.

Condensed Financial Statement Information

Statement of Net Assets

	<u>June 30,</u>	
	<u>2008</u>	<u>2007</u>
<u>Assets</u>		
Current assets	\$ 105,950,004	\$ 97,473,759
Capital assets	<u>89,326</u>	<u>109,064</u>
Total assets	<u>\$ 106,039,330</u>	<u>\$ 97,582,823</u>
<u>Liabilities and Net Assets</u>		
Current liabilities	\$ 6,693,626	\$ 3,808,815
Noncurrent liabilities	<u>93,052</u>	<u>95,792</u>
Total liabilities	<u>6,786,678</u>	<u>3,904,607</u>
Invested in capital assets	89,326	109,064
Restricted	366,277	255,779
Unrestricted	<u>98,797,049</u>	<u>93,313,373</u>
Net Assets	<u>99,252,652</u>	<u>93,678,216</u>
Total liabilities and net assets	<u>\$ 106,039,330</u>	<u>\$ 97,582,823</u>

**First 5 San Bernardino
Management's Discussion and Analysis**

B. Comparative Analysis of Current and Prior Year Activities and Balances (Continued)

Condensed Financial Statement Information (Continued)

Statement of Activities		
For the Fiscal Year Ended June 30		
	<u>2008</u>	<u>2007</u>
<u>Revenues</u>		
State Allocations	\$ 29,204,950	\$ 28,403,909
Investment Income	4,871,026	4,778,060
Loss on disposal of capital assets	(2,639)	-
Other	10,820	4,426
Total revenues	34,084,157	33,186,395
<u>Expenses</u>		
Salaries and benefits	1,940,090	2,399,825
Services and supplies	1,954,957	2,036,203
Contract payments to agencies	24,588,397	22,690,335
Depreciation	26,277	54,447
Total expenses	28,509,721	27,180,810
<u>Transfers</u>		
Transfer from Child Development Programs	(57,875)	-
Transfer to Regional Technical Assistance (New)	57,875	-
Change in net assets	5,574,436	6,005,585
Net assets, beginning of year	93,678,216	87,672,631
Net assets, end of year	\$ 99,252,652	\$ 93,678,216

- First 5 salaries & benefits were down during the year ended June 30, 2008 because of unanticipated staff turnovers.
- Continual development of the community Engagement area contributed to the decreases in services in supplies
- Contract payments to agencies increased by \$1,898,062, this is a steady increase over the years, as we provide investment opportunities to new and ongoing organizations. FY 07/08 was the first full year of expenses for the 26 Community Investment agencies.

**First 5 San Bernardino
Management's Discussion and Analysis**

C. Budget to Actual Performance

The budget to actual performance presented below is based on the governmental fund's statement of revenues, expenditures and changes in fund balances on Page 11 and is on the modified accrual basis of accounting.

Revenues, Expenditures and Changes in Fund Balance Budget to Actual

	<u>For the Fiscal Year Ended June 30, 2008</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
<u>Revenues</u>			<u>(over) under</u>
Total revenues	\$ 31,664,378	\$ 34,086,796	\$ (2,422,418)
<u>Expenditures</u>			
Program Strategies	36,000,000	22,268,034	13,731,966
School Readiness	3,000,000	2,320,363	679,637
Evaluation	689,000	438,732	250,268
Community Education	1,175,000	621,302	553,698
Operations	3,084,374	2,837,753	246,621
Capital Outlay	-	9,178	(9,178)
Total expenditures	<u>43,948,374</u>	<u>28,495,362</u>	<u>15,453,012</u>
Net increase (decrease)	<u>\$ (12,283,996)</u>	5,591,434	<u>\$ 17,875,430</u>
Fund Balance, beginning of year		<u>93,664,944</u>	
Fund Balance, end of year		<u>\$ 99,256,378</u>	

- Funding sources consist of tobacco taxes, Proposition 10 state initiatives, and investment earnings. The budgeted amount of revenues included investment earnings of \$3,166,975 and actual revenues included investment earnings of \$1,704,051.
- At the time of the budget approval, Commissioners and members of the public were made aware that the \$36 million dollar allocation for Program Strategies was a recommended maximum amount for which we base ongoing and future procurements. Partner agencies benefit from a multi-year investment commitment, while allowing First 5 San Bernardino the flexibility to respond to current conditions and priority needs with on-going procurement opportunities.

First 5 San Bernardino Management's Discussion and Analysis

C. Budget to Actual Performance (Continued)

- Over the past three years, First 5 San Bernardino's evaluation efforts have included a key component of having agencies report on a web based data management system to enhance, centralize and modernize the reporting process. Due to more stringent and complex state and local reporting requirements over time, it was determined that the system we had been utilizing was unable to meet all of First 5 San Bernardino's needs. These challenges prompted staff to conduct in-depth research to find a system that would meet First 5 San Bernardino's needs. Staff gave significant consideration to developing the best approach to identifying and implementing a data system.
- The primary considerations were identifying a system that: 1) aligned with the state reporting requirements; 2) created minimal disruption and a smooth transition for partner agencies; and 3) required minimal customizations. During FY 2006-2007 the former system was phased out and the new system phased in and used throughout FY 2007-2008.

D. Factors Impacting Future Periods

Again this year, the Commission was faced with a barrage of efforts aimed at redirecting Prop 10 dollars to Health Care, eliminating our steady stream of revenue. We are certain that this type of political and economic strategy will continue in the next fiscal year and beyond. County Commissions have joined forces to some degree to adopt a unified position in support of our work and its outcomes and to express a unified message. The Children and Families Commission - First 5 San Bernardino operates with a well designed Long Range Financial Plan which includes a Sustainability Fund. Programs will continue to be funded by drawing from this fund for several years to sustain high program funding levels as tobacco revenues decrease. Our Strategic Plan was recently revised and approved by our Commission. Implementation of these revisions and our continued work per the Prop 10 initiative will ensure that we respond to the priorities identified and meet the needs of our communities.

We do not anticipate significant changes in our organizational structure or operation and expect that we will operate within our established budget for the upcoming fiscal year.

E. Request for Information

The financial report is designed to provide a general overview of the Children and Families Commission of San Bernardino County for all those interested. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to First 5 San Bernardino, 330 North D Street, Suite 500, San Bernardino, California 92415.

BASIC FINANCIAL STATEMENTS

FIRST 5 SAN BERNARDINO

Statement of Net Assets

June 30, 2008

Assets

Cash and cash equivalents	\$ 98,633,623
Due from State of California	
Allocations	4,576,567
Interest	142,862
Due from agencies	1,634,033
Due from County of San Bernardino - interest	962,919
Capital assets, net of accumulated depreciation	<u>89,326</u>
 Total assets	 <u>106,039,330</u>

Liabilities

Due to agencies under contract	5,264,662
Accounts payable	457,935
Due to State of California	850,000
Accrued payroll	121,029
Noncurrent liabilities	
Due within one year	-
Due in more than one year	<u>93,052</u>
 Total liabilities	 <u>6,786,678</u>

Net Assets

Invested in capital assets	89,326
Restricted for:	
School Readiness Program	308,402
Regional Technical Assistance	57,875
Unrestricted	<u>98,797,049</u>
 Total net assets	 <u>\$ 99,252,652</u>

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

FIRST 5 SAN BERNARDINO

Statement of Activities

For the Year Ended June 30, 2008

	Age 0-5 Child Development Programs	School Readiness	Regional Technical Assistance	Total Governmental Funds
Expenses				
Salaries and benefits	\$ 1,940,090	\$ -	\$ -	\$ 1,940,090
Services and supplies	1,954,957			1,954,957
Contract payments to agencies	22,268,034	2,320,363	-	24,588,397
Depreciation	<u>26,277</u>	<u>-</u>	<u>-</u>	<u>26,277</u>
Total expenses	26,189,358	2,320,363	-	28,509,721
Program revenues				
State allocations	<u>26,892,460</u>	<u>2,312,490</u>	<u>-</u>	<u>29,204,950</u>
Net program revenues (expenses)	703,102	(7,873)	-	695,229
General revenues				
Investment income	4,810,530	60,496	-	4,871,026
Loss on disposal of capital assets	(2,639)			(2,639)
Other	10,820		-	10,820
Transfers	<u>(57,875)</u>	<u>-</u>	<u>57,875</u>	<u>-</u>
Total general revenues and transfers	<u>4,760,836</u>	<u>60,496</u>	<u>57,875</u>	<u>4,879,207</u>
Change in net assets	5,463,938	52,623	57,875	5,574,436
Net assets, beginning of year	<u>93,422,437</u>	<u>255,779</u>	<u>-</u>	<u>93,678,216</u>
Net assets, end of year	<u>\$ 98,886,375</u>	<u>\$ 308,402</u>	<u>\$ 57,875</u>	<u>\$ 99,252,652</u>

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

FIRST 5 SAN BERNARDINO

**Balance Sheet
Governmental Funds**

June 30, 2008

	<u>Age 0-5 Child Development Programs</u>	<u>School Readiness</u>	<u>Non Major Regional Technical Assistance</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 95,736,131	\$ 2,897,492	\$ -	\$ 98,633,623
Due from State of California				
Allocations	4,576,567			4,576,567
Interest	142,862			142,862
Due from County of San Bernardino - interest	949,460	13,459		962,919
Due from agencies	1,571,943	62,090		1,634,033
Due from other funds	1,623,323	-	57,875	1,681,198
Total assets	<u>\$ 104,600,286</u>	<u>\$ 2,973,041</u>	<u>\$ 57,875</u>	<u>\$ 107,631,202</u>
Liabilities and Fund Balances				
<u>Liabilities</u>				
Due to agencies under contract	\$ 4,223,346	\$ 1,041,316	\$ -	\$ 5,264,662
Accounts payable	457,935			457,935
Due to State of California	850,000			850,000
Accrued payroll	121,029			121,029
Due to other funds	57,875	1,623,323	-	1,681,198
Total liabilities	<u>5,710,185</u>	<u>2,664,639</u>	<u>-</u>	<u>8,374,824</u>
<u>Fund balances</u>				
Reserved for:				
Encumbrances	30,930,030	7,325,541		38,255,571
School Readiness		308,402		308,402
Regional Technical Assistance			57,875	57,875
Unreserved:				
Designated for local initiatives and program sustainability	30,286,504			30,286,504
Unreserved - undesignated	37,673,567	(7,325,541)	-	30,348,026
Total fund balances	<u>98,890,101</u>	<u>308,402</u>	<u>57,875</u>	<u>99,256,378</u>
Total liabilities and fund balances	<u>\$ 104,600,286</u>	<u>\$ 2,973,041</u>	<u>\$ 57,875</u>	<u>\$ 107,631,202</u>

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

Total fund balance	\$ 99,256,378
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the funds.	89,326
Long-term liabilities, including accrued compensated absences, are not due and payable in the current period and therefore are not reported in the funds.	<u>(93,052)</u>
Net assets of governmental activities	<u>\$ 99,252,652</u>

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

FIRST 5 SAN BERNARDINO

**Statement of Revenues, Expenditures,
and Changes in Fund Balance - Governmental Funds**

For the Year Ended June 30, 2008

	Age 0-5 Child Development Programs	School Readiness	<u>Non</u> <u>Major</u> Regional Technical Assistance	Total Governmental Funds
Revenues				
State allocations	\$ 26,892,460	\$ 2,312,490	\$ -	\$ 29,204,950
Investment income	4,810,530	60,496		4,871,026
Other revenues	10,820	-	-	10,820
Total revenues	<u>31,713,810</u>	<u>2,372,986</u>	<u>-</u>	<u>34,086,796</u>
Expenditures				
Current:				
Salaries and benefits	1,942,830			1,942,830
Service and supplies	1,954,957			1,954,957
Contract payments to agencies	22,268,034	2,320,363		24,588,397
Capital outlay	9,178	-	-	9,178
Total expenditures	<u>26,174,999</u>	<u>2,320,363</u>	<u>-</u>	<u>28,495,362</u>
Excess of revenues over (under) expenditures	5,538,811	52,623	-	5,591,434
Other Financing Sources (Uses)				
Operating transfer	<u>(57,875)</u>	<u>-</u>	<u>57,875</u>	<u>-</u>
Total other financing sources (uses)	<u>(57,875)</u>	<u>-</u>	<u>57,875</u>	<u>-</u>
Excess of revenues over (under) expenditures and other financing sources (uses)	5,480,936	52,623	57,875	5,591,434
Fund balances				
Balances, beginning of year	<u>93,409,165</u>	<u>255,779</u>	<u>-</u>	<u>93,664,944</u>
Balances, end of year	<u>\$ 98,890,101</u>	<u>\$ 308,402</u>	<u>\$ 57,875</u>	<u>\$ 99,256,378</u>

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

Net change in fund balance - total governmental funds	\$ 5,591,434
Governmental funds report 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 and loss on disposal exceeded capital outlay in the current period.	(19,738)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	2,740
Change in net assets of governmental activities	<u>\$ 5,574,436</u>

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

FIRST 5 SAN BERNARDINO

**Statement of Revenues, Expenditures,
and Changes in Fund Balance - Budget and Actual - Governmental Funds**

For the Year Ended June 30, 2008

	Age 0-5 Child Development Programs			Variance with Final Budget - Positive (Negative)
	Budgeted Amounts			
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
State allocations	\$ 25,476,403	\$ 25,476,403	\$ 26,892,460	\$ 1,416,057
Investment income	3,166,975	3,166,975	4,810,530	1,643,555
Other revenues	<u>21,000</u>	<u>21,000</u>	<u>10,820</u>	<u>(10,180)</u>
	<u>28,664,378</u>	<u>28,664,378</u>	<u>31,713,810</u>	<u>3,049,432</u>
Expenditures				
Current:				
Salaries and benefits	2,360,474	2,360,474	1,942,830	417,644
Service and supplies	2,587,900	2,587,900	1,954,957	632,943
Contract payments to agencies	36,000,000	36,000,000	22,268,034	13,731,966
Capital outlay	<u>-</u>	<u>-</u>	<u>9,178</u>	<u>(9,178)</u>
Total expenditures	<u>40,948,374</u>	<u>40,948,374</u>	<u>26,174,999</u>	<u>14,773,375</u>
Excess of revenues over (under) expenditures	(12,283,996)	(12,283,996)	5,538,811	17,822,807
Other Financing Sources (Uses)				
Operating transfer in			-	-
Operating transfer out	<u>-</u>	<u>-</u>	<u>(57,875)</u>	<u>(57,875)</u>
Excess of revenues over (under) expenditures and other financing sources (uses)	<u>(12,283,996)</u>	<u>(12,283,996)</u>	<u>5,480,936</u>	<u>\$ 17,764,932</u>
Fund balances				
Balances, beginning of year	<u>89,323,537</u>	<u>89,323,537</u>	<u>93,409,165</u>	
Balances, end of year	<u>\$ 77,039,541</u>	<u>\$ 77,039,541</u>	<u>\$ 98,890,101</u>	

School Readiness			Variance with Final Budget - Positive (Negative)
Budgeted Amounts			
<u>Original</u>	<u>Final</u>	<u>Actual</u>	
\$ 3,000,000	\$ 3,000,000	\$ 2,312,490	\$ (687,510)
		60,496	60,496
-	-	-	-
<u>3,000,000</u>	<u>3,000,000</u>	<u>2,372,986</u>	<u>(627,014)</u>
3,000,000	3,000,000	2,320,363	679,637
-	-	-	-
<u>3,000,000</u>	<u>3,000,000</u>	<u>2,320,363</u>	<u>679,637</u>
-	-	52,623	52,623
-	-	-	-
-	-	-	-
-	-	<u>52,623</u>	<u>\$ 52,623</u>
<u>1,161,472</u>	<u>1,161,472</u>	<u>255,779</u>	
<u>\$ 1,161,472</u>	<u>\$ 1,161,472</u>	<u>\$ 308,402</u>	

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

FIRST 5 SAN BERNARDINO **Notes to Financial Statements**

1. Summary of Operations and Significant Accounting Policies

Reporting Entity

The Children and Families Commission for San Bernardino County (the Commission), a component unit of the County of San Bernardino, was formed in 1998 under the California Health and Safety Code Section 10110, Chapter 29 of Title 1 of the San Bernardino County Code, and the California Children and Families First Act of 1998. The Commission was renamed First 5 San Bernardino during the year ended June 30, 2003. The Commission was created for the purpose of promoting, supporting and improving the early development of children from the prenatal stage to five years of age and to be funded by allocations of California Proposition 10 Tobacco Tax. The accounting policies of the Commission conform to accounting principles generally accepted in the United States of America as applicable to governments.

Accounting principles generally accepted in the United States of America require that these financial statements present the accounts of the Commission and any of its component units. Component units are legally separate entities for which the Commission is considered to be financially accountable or otherwise has a relationship, which is such that the exclusion of the entity would cause the financial statements to be misleading. Blended component units are considered, in substance, part of the Commission's operations, so the accounts of these entities are to be combined with the data of the Commission. Component units, which do not meet these requirements, are reported in the financial statements as discrete units to emphasize their separate legal status. However, the Commission has determined that it is not financially accountable for, nor has any other relationship with, any other organization, which would require its inclusion in these financial statements. Nevertheless, the Commission meets the requirement of GASB 39 to be treated as a component unit of the County of San Bernardino.

The preparation of these financial statements requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets, liabilities, revenues, and expenditures (expenses), as well as the disclosure of contingent assets and liabilities. Actual results could differ from those estimates. Management also determines the accounting principles to be used in the preparation of the financial statements. A description of the significant accounting policies employed in the preparation of these financial statements follows:

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the Commission. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately, compared to *business-type activities*, which rely to a significant extent on fees and charges for support. The Commission currently has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues include* 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*. Major individual governmental funds are reported as separate columns in the fund financial statements.

FIRST 5 SAN BERNARDINO
Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants including “state allocations” from Proposition 10 tobacco taxes and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are “measurable and available”). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period. The Commission considers all revenues available if they are collected within 60 days after year-end. Investment income is susceptible to accrual. Expenditures are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The Commission reports the following major governmental funds:

The *Special Revenue Fund* is used to account for the receipt of tax revenues imposed by Section 30131.2 under Proposition 10 that is legally restricted to expenditures for a specified purpose:

- Age 0-5 Child Development programs
- School Readiness program
- Regional Technical Assistance program

When both restricted and unrestricted resources are available for use, it is the Commission’s policy to use restricted resources first, then, unrestricted resources, as they are needed.

Budgets and Budgetary Accounting

By state law, the Commission’s Governing Board must approve a tentative budget no later than July 1 and adopt a final budget no later than September 30. A public hearing must be conducted to receive comments prior to adoption. The Commission’s Governing Board satisfied these requirements. Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental fund types.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g. purchase orders or contracts) outstanding at year-end do not constitute expenditures or liabilities because the commitments will lapse and be re-appropriated and honored during the subsequent year.

FIRST 5 SAN BERNARDINO
Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies (Continued)

Cash and Cash Equivalents

The Commission's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. State statutes mandate the Commission maintain substantially all of its cash in the San Bernardino County Treasury. The County's investment pool operates in accordance with appropriate state laws and regulations. The fair value of the Commission's position in the pool is not the same as the value of the pooled shares. The method used to determine the value of participants' equity withdrawn is based on the book value, amortized cost plus accrued interest, multiplied by the Commission's percentage at the date of such withdrawal.

The County Treasurer's investments, including U.S. Treasury and Agency securities, are carried at fair value based on current market prices. Repurchase agreements are carried at fair value based on quoted market prices, except for repurchase agreements maturing within 90 days of June 30, 2008, which are carried at cost. Commercial paper is carried at amortized cost.

Interfund Balances and Transfers

Activity between funds that are representative of lending/borrowing arrangements outstanding at year-end are referred to as due to/from other funds (i.e. current portion of interfund loans). Interfund transfers can occur because the Commission receives funds in one fund and transfers these funds to another fund as expenditures are incurred or due to contractual requirements.

Capital Assets

Capital assets, which include computers and office equipment, are reported in the government-wide financial statements. Capital assets are defined by the Commission as assets with an initial, individual cost of more than \$100 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets are depreciated using the straight-line method over the estimated useful lives varying from 5 to 10 years.

Compensated Absences

It is the Commission's policy to permit employees to accumulate earned but unused vacation, sick and holiday pay benefits. Vacation pay that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. Amounts not expected to be liquidated with expendable available financial resources are reported in the government-wide financial statements. All accumulated benefits are expected to be liquidated with expendable resources.

FIRST 5 SAN BERNARDINO
Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies (Continued)

Revenues

Revenue consists of receipts collected pursuant to the taxes imposed by Section 30131.2 of the California Revenue and Taxation Code. The California Children and Families Trust Fund allocates 80% of these receipts to participating California counties, including San Bernardino County, based on the annual number of live births and the county of residence of the mother.

Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of a fund balance not available for expenditures or amounts legally segregated for a specific future use. Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period. The Commission has a reservation of fund balance for the California State Commission's School Readiness Program including interest earnings thereon and has designated fund balances including interest earnings thereon for future economic conditions if Proposition 10 Tobacco Funds taxes are reduced or eliminated and for contracts encumbered at year-end that have lapsed and will be re-encumbered in the following year.

2. Reconciliation of Government-wide and Fund Financial Statements

Explanation of certain differences between the governmental funds balance sheet and the government-wide statement of net assets:

Capital assets	\$ 302,264
Accumulated depreciation	<u>(212,938)</u>
Net capital assets	<u>\$ 89,326</u>
Compensated absences to be paid in future years	<u>\$ (93,052)</u>

Explanation of certain differences between the governmental funds statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities:

Capital outlay	\$ 9,178
Depreciation expense	(26,277)
Loss on disposal	<u>(2,639)</u>
Net change in capital assets	<u>\$ (19,738)</u>
Net change in compensated absences	<u>\$ 32,740</u>

3. Cash and Cash Equivalents

Cash and cash equivalents consisted of the following at June 30, 2007:

San Bernardino County External Investment Pool – Age 0-5	\$ 65,754,872
San Bernardino County External Investment Pool – Reserves	29,980,759
San Bernardino County External Investment Pool – School Readiness	2,897,492
Petty cash	<u>500</u>
Total cash and cash equivalents	<u>\$ 98,633,623</u>

FIRST 5 SAN BERNARDINO
Notes to Financial Statements

3. Cash and Cash Equivalents (Continued)

Credit Risk – Investments

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.

The County Treasurer’s investments consist of 57.7% federal agencies, 18.0% certificates of deposit, 12.2% commercial paper, 0.3% U.S. treasuries, 2.3% repurchase agreements, 5.0% money market funds and 4.5% corporate notes. The credit ratings for these investments include AAA, AA, A-1+, A-1 and non-rated for Certificates of Deposit. The carrying value and market value as of June 30, 2008 for the Commission’s pooled investments with the County Treasurer was \$98,545,789 and \$98,633,123, respectively.

Custodial Credit Risk – Deposits

The Commission is not subject to custodial credit risk since it has no deposits in financial institutions.

Interest Rate Risk – Investments

The Commission is not subject to interest rate risk since its investments are held in an external investment pool with the County of San Bernardino’s Treasury.

4. Interfund Receivables/Payables

The following is a summary of the interfund receivables and payables at June 30, 2008:

Due from Fund	Amount	Due to Fund
School Readiness	\$ 1,623,323	Child Development
Child Development	\$ 57,875	Regional Technical Assistance

5. Capital Assets

A schedule of changes in capital assets for the year ended June 30, 2008 is shown below:

<u>Furniture and Computer Equipment</u>	
Balance, July 1, 2007	\$ 300,500
Additions	9,178
Disposals	<u>(7,414)</u>
	302,264
Less: accumulated depreciation	<u>(212,938)</u>
Balance, June 30, 2008	<u>\$ 89,326</u>

Depreciation expense and loss on disposal amounted to \$26,277 and \$2,639, respectively, for the year ended June 30, 2008.

FIRST 5 SAN BERNARDINO
Notes to Financial Statements

6. Noncurrent liabilities

A schedule of changes in noncurrent liabilities for the year ended June 30, 2008 is shown below:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Change</u>	<u>Balance</u> <u>June 30, 2008</u>	<u>Due Within</u> <u>One Year</u>
Compensated absences	<u>\$ 95,792</u>	<u>\$ (2,740)</u>	<u>\$ 93,052</u>	<u>\$ -</u>

7. Operating Leases

The Commission has one noncancellable lease with initial terms of one year or more for office space which expired December 16, 2007. On August 6, 2008, the Commission approved a new seven-year lease agreement expiring December 31, 2015. The minimum future lease payments at June 30, 2008 are as follows:

For year ending June 30,

2009	\$ 201,786
2010	210,958
2011	210,958
2012	210,958
2013	210,958
Thereafter	<u>527,396</u>
Total	<u>\$ 1,573,014</u>

Rent expense for the year ended June 30, 2008 amounted to \$208,059.

8. Transactions with the County of San Bernardino

The County of San Bernardino (the County) provides administrative responsibilities for the Commission at a specified rate per transaction. Amount paid to the County for these services per MOU was \$271,966 for the year ended June 30, 2008. Amount due the County at June 30, 2008 was \$3,299. Also, amounts reimbursed to the Board of Supervisors for reimbursement of staff salaries and benefits amounted to \$27,140 for the year ended June 30, 2008. Amount due certain Board of Supervisors staff at June 30, 2008 was \$7,177.

9. Program Evaluation

The Commission spent \$438,732 on program evaluation during the year ended June 30, 2008.

10. Economic Dependency

The Commission is entirely dependent upon the allocation of Proposition 10 tobacco funds. If these taxes were no longer collected and allocated to the Commission it would have a serious and significant impact on the Commission's operations and financial condition.

FIRST 5 SAN BERNARDINO
Notes to Financial Statements

11. Retirement Plan

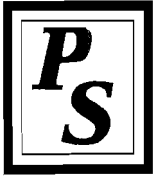
The Commission's employees are contract employees of the County of San Bernardino and therefore are also participants in the San Bernardino County Employees' Retirement Association (SBCERA) cost-sharing multiple-employer defined benefit pension plan (the Plan) operating under the California County Employees' Retirement Act of 1937 (1937 Act). It provides retirement, death, and disability benefits to members. The Plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of employment and become fully vested after 5 years. The SBCERA is controlled by its own board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. SBCERA publishes its own Comprehensive Annual Financial Report and receives a separate independent audit, which may be obtained by contacting the Board of Retirement, 348 W. Hospitality Lane, Third Floor, San Bernardino, California 92415-0014.

Employees are required by statute to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry in the Plan. Employee contribution rates vary according to age and classification. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. The County contributes approximately 7% of an employee's covered salary, as determined pursuant to Section 31453 of the 1937 Act. Pension expense was \$260,880 for the year ended June 30, 2008.

12. Commitments and Contingencies

The Commission is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Commission's legal counsel the resolution of these matters will not have a material adverse effect on the financial condition of the Commission.

OTHER INDEPENDENT AUDITORS' REPORTS SECTION



**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 of
First 5 San Bernardino

We have audited the basic financial statements of First 5 San Bernardino (the Commission), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2008 and have issued our report thereon dated October 23, 2008. 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 the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatement on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United State of America such that there is more than a remote likelihood that a misstatement of the Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control. We consider the following deficiencies to be significant deficiencies in internal control.

Finding

A system of internal control over financial reporting includes controls over financial statement preparation, including footnote disclosures. The Commission does not have a person with the skills and knowledge to prepare financial statements that include all the disclosures required by accounting principles generally accepted in the United States of America.

Recommendation

We recommend that the Commission consider developing personnel in-house or employing the expertise necessary to prepare the financial statements including footnote disclosures.

Management's Response

Management does not believe that the cost of employing this level of expertise warrants the associated costs at this time.

Finding

A system of internal control over financial reporting includes controls over the general ledger including journal entries. The Commission does not have a system in place to ensure that the general ledger (San Bernardino County FAS system) accurately reflects the transactions of the Commission, including adjustments for the previous year not posted and reflected as of the beginning of the year. As a result, the general ledger does not reflect actual information during the year if needed to evaluate the status of revenues and expenditures to those charged with governance, and requires significant adjustment before the financial information can be audited.

Recommendation

We recommend that management immediately implement the San Bernardino County closing process included in its *Year-End Closing Manual*. Although the Commission is not required to use this feature of the FAS system, because it is an independent entity, use of this feature would ensure that the general ledger is up to date and ready for audit. We also recommend that the Commission provide the Auditor-Controller Recorder Office (ACR) with the current yearend journal entries that it has approved as soon as possible.

Management's Response

Historically, First 5 San Bernardino has not followed San Bernardino County's established accrual process as our internal process satisfied CFC requirements. As of FY 08-09, First 5 San Bernardino will begin to follow the county's accrual process so that the accruals will be reflected through the financial accounting system (FAS) at the end of each fiscal year.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Commission's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered material weaknesses. However, we believe that the significant deficiencies described above are material weaknesses.

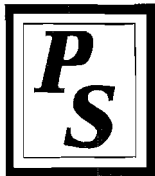
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported herein under *Government Auditing Standards* issued by the Comptroller General of the United States.

This report is intended solely for the information of the County Board of Supervisors, the Commission of First 5 San Bernardino and the State Controller's Office and is not intended to be and should not be used by anyone other than these specified parties.



October 23, 2008



Independent Auditors' Report on State Compliance

To the Commissioners of
 First 5 San Bernardino

We have audited the basic financial statements of First 5 San Bernardino (the Commission), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2008 and have issued our report thereon dated October 23, 2008.

Our audit was made in accordance with auditing standards generally accepted in the United States of America; the standards for 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 California Counties Participating in the California Children and Families Program*, issued by the State Controller's Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and 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 opinion.

The Commission's management is responsible for the Commission's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the Commission's compliance with the laws and regulations applicable to the following:

<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

Based on our audit, we found that, for the items tested, the Commission complied with the laws and regulations of the items referred to above. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the Commission had not complied with the laws and regulations of the California Children and Families Program.

This report is intended solely for the information of the County Board of Supervisors, the Commission of First 5 San Bernardino and the State Controller's Office and is not intended to be and should not be used by anyone other than these specified parties.

Lowell & Spafford, LLP

October 23, 2008