

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION**
(a Component Unit of the
County of San Bernardino, California)

Independent Auditors' Reports, Basic Financial Statements, Required
Supplementary Information and Compliance Section

For the Year Ended June 30, 2011

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
FOR THE YEAR ENDED JUNE 30, 2011**

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INDEPENDENT AUDITORS' REPORT

To the Board of Commissioners
First 5 San Bernardino Children and Families Commission
San Bernardino, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the First 5 San Bernardino Children and Families Commission (the Commission), a component unit of the County of San Bernardino, California, as of June 30, 2011 and for the year then ended, which collectively comprise 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 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 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 each major fund of the Commission, as of June 30, 2011, 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.

As described in Note 1 to the financial statements, the Commission has adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective July 1, 2010.

As described in Note 17 to the financial statements, on November 21, 2011, Fresno Superior Court Judge Debra Kazanjian issued a ruling in favor of the County First 5 Commissions' lawsuit challenging Assembly Bill 99 (AB 99).

In accordance with *Government Auditing Standards*, we have issued our report dated December 1, 2011 on our consideration of the Commission'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 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 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 considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 8 and budgetary comparison information on pages 26 through 28 are not a required part of the basic financial statements but are 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 required supplementary information. However, we did not audit the information and express no opinion on it.

Varrinck, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 1, 2011

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

JUNE 30, 2011

On November 3, 1998, California voters approved Proposition 10 – the Children and Families Act of 1998. The Act imposed additional excise tax on cigarettes and tobacco related products to fund programs that promote, support, and improve the early development of children from prenatal through age five. The intent is for all California children to be healthy, to live in a healthy and supportive family environment, and to enter school ready to learn.

The San Bernardino County Board of Supervisors (the County) created the San Bernardino County Children and Families First Trust Fund in December 1998 under the provisions of the Act. The Children and Families First Commission was created by County Ordinance No. 3745 on January 5, 1999. The Commission consists of one member of the Board of Supervisors, the Assistant County Administrator for Human Services and the Director of Public Health or the Health Officer and four members appointed by the Board of Supervisors, pursuant to County Code Section 12.293. The Commission is a public entity legally separate and apart from the County, and, and is considered a component unit of the County due to the operational relationship between the Commission and the County. The First 5 San Bernardino Commission is associated with the County of San Bernardino, but has certain autonomy from the County government to develop budgets, fund programs and approve contracts without the approval of the San Bernardino County Board of Supervisors. First 5 San Bernardino contracts with County departments such as County Counsel, Human Resources and the Auditor/Controller for services.

On 10/12/2002, the Commission approved identifying the program and its activities as First 5 San Bernardino, not only for a readily recognizable and positive image but also signifying the organization's mission and the importance of the first five years of life when a child's brain develops most dramatically.

As management of the Commission, we offer readers of our financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2011.

Financial Highlights

- The Commission received \$24,645,889 from the State of California from revenues collected under the California Children and Families Act (Proposition 10). This amount is \$1,217,041 less than projected due to lower tobacco tax collections at the State level.
- During the current fiscal year, the Commission disbursed \$27,509,572 in grants to various service providers.
- The actual assets of the Commission exceeded its liabilities at the close of the most recent fiscal year by \$43,890,848 (*net assets*), a decrease of \$55,599,718 in comparison with the prior year.
- As a result of AB99 a liability of \$49,818,468 was recorded as Due to State of California.
- At the end of the fiscal year 2010-2011, total Governmental Funds *unassigned fund balance* was \$17,251,438.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to First 5 San Bernardino's basic financial statements. The Commission's basic financial statements are comprised of two components:

- 1) government-wide financial statements and
- 2) fund financial statements

This report also contains other supplementary information in addition to the basic financial statements.

In this report, the government-wide financial statements for the Commission are presented on pages 9 and 10. The fund financial statements can be found on pages 11 through 14.

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

JUNE 30, 2011

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of First 5 San Bernardino's finances, in a manner similar to a private sector business.

The *statement of net assets* presents summary information on all of the Commission's assets and liabilities, with the difference between the two reported as *net assets*.

The *statement of activities* presents information showing how the Commission's net assets changed during the most recent 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*. Thus revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. earned but unused vacation leave).

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 legal requirements. All of the Commission's activities are accounted for in the general and school readiness funds.

Governmental fund financial statements focus on near-term inflows and outflows of spendable resources and on balances of spendable resources available at the end of the year.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and general fund financial statements. The notes to the financial statements can be found on pages 15 through 24 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the First 5 San Bernardino finances. Required supplementary information can be found on pages 26 through 28 of this report.

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

JUNE 30, 2011

Commission-Wide Financial Analysis

The following summarizes the Commission's assets, liabilities and net assets and compares fiscal year 2010-2011 with fiscal year 2009-2010:

	<u>FY 2010-11</u>	<u>FY 2009-10</u>	<u>Change</u>
Assets:			
Current and other assets	\$ 101,304,750	\$ 102,756,790	\$ (1,452,040)
Total Assets	<u>101,304,750</u>	<u>102,756,790</u>	<u>(1,452,040)</u>
Liabilities:			
Current liabilities	7,476,060	3,119,855	4,356,205
Due to State of California - AB99	49,818,468	-	49,818,468
Noncurrent liabilities	<u>119,374</u>	<u>146,369</u>	<u>(26,995)</u>
Total Liabilities	<u>57,413,902</u>	<u>3,266,224</u>	<u>54,147,678</u>
Net Assets:			
Restricted	-	2,050	(2,050)
Unrestricted	<u>43,890,848</u>	<u>99,488,516</u>	<u>(55,597,668)</u>
Total Net Assets	<u>\$ 43,890,848</u>	<u>\$ 99,490,566</u>	<u>\$ (55,599,718)</u>

Net assets. Net assets may serve over time as a useful indicator of the Commission's financial position. In the case of First 5 San Bernardino, assets exceeded liabilities by \$43,890,848 (net assets) at the close of the most recent fiscal year. The total net assets decreased by \$55,599,718.

The most significant portion of the Commission's current assets is its cash balance of \$96,845,047. This represents resources received from State of California from Proposition 10 taxes that have not been expended. Cash and investments are maintained in the County's cash and investment pool where interest earned on the Commission's balance is apportioned to the Commission. Another source of current assets is the Commission's receivables "Due from the State of California" which includes:

- Proposition 10 allocations for May 2011 \$2,023,649;
- Proposition 10 allocations for June 2011 \$2,112,339;
- Surplus Money Investment Fund (SMIF) of \$12,201;

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

JUNE 30, 2011

The following is a summary of the Commission's revenue, expenses and change in net assets comparing fiscal year 2010-2011 with fiscal year 2009-2010:

	<u>FY 2010-11</u>	<u>FY 2009-10</u>	<u>Change</u>
Program Revenues:			
Proposition 10 allocations	\$ 23,013,009	\$ 24,013,021	\$ (1,000,012)
School readiness	1,632,880	1,562,013	70,867
Total Program Revenues	<u>24,645,889</u>	<u>25,575,034</u>	<u>(929,145)</u>
General Revenues:			
Investment income	827,764	1,082,025	(254,261)
Other income	10,979	9,221	1,758
Total Revenues	<u>25,484,632</u>	<u>26,666,280</u>	<u>(1,181,648)</u>
Expenses:			
Salaries and benefits	2,170,890	2,134,395	36,495
Services and supplies	1,585,420	1,604,831	(19,411)
Contract payments to agencies child development	25,526,053	20,698,886	4,827,167
Contract payments to agencies child school readiness	1,983,519	2,344,844	(361,325)
Depreciation /write down of capital assets	-	90,372	(90,372)
Total Expenses	<u>31,265,882</u>	<u>26,873,328</u>	<u>4,392,554</u>
Extraordinary Item:			
AB 99 Obligation	<u>(49,818,468)</u>	<u>-</u>	<u>(49,818,468)</u>
Change in Net Assets	(55,599,718)	(207,048)	(55,392,670)
Net Assets, Beginning of Period	<u>99,490,566</u>	<u>99,697,614</u>	<u>(207,048)</u>
Net Assets, End of Period	<u>\$ 43,890,848</u>	<u>\$ 99,490,566</u>	<u>\$ (55,599,718)</u>

The financial statements for fiscal year 2010-2011 show a decrease of net assets of \$55,599,718 or fifty-six percent (-56%) . This reflects the Commissions intention to use the reserve funds to provide more services in San Bernardino County over the next 4 years and the liability of \$49,818,468 to the State of California due to AB 99.

Revenues. The Commission receives a significant portion of its revenue from the State allocation of Proposition 10 funds or from interest earned from its investments. In the fiscal year ending June 30, 2011, the \$24,645,889 received from the State was a decrease of \$929,145, or four percent (-4%), compared to the prior fiscal year. The Commission invests its funds in the San Bernardino County Treasury and earned \$815,563 in interest. Interest of \$12,201 from surplus money investment funds (SMIF) is included in investment income. Total investment income for FY 2010-2011 is \$827,764, for a decrease of \$254,261, or twenty-three percent (-23%) due to lower returns on the County's investments.

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

JUNE 30, 2011

Expenses. During fiscal year 2010-2011, the Commission expensed \$27,578,637 in program cost which includes \$27,509,570 in disbursement to various service providers within San Bernardino County. This represents an overall increase of \$4,345,129 or nineteen percent (19%) over the prior fiscal year. The Commission authorized an RFP in January of 2010 for contracts that began July 1, 2010. The total contracted amount from this combined RFP was \$32,000,000 for fiscal year 2010-11.

The \$27,509,570 disbursement to providers includes \$1,983,519 in expenditures to providers for the School Readiness State program. This represents a decrease of \$361,325 or sixteen percent (16%) less than prior year. This is because 7 of the 12 contracts ended June 30, 2010.

Total 2010-2011 expenses of \$81,084,350 increased over the prior fiscal year by \$54,211,022, or two hundred and two percent (202%). This was primarily due to the State Legislature's passage of AB 99 that requires County First 5 Commissions to pay the State one-half of the FY09-10 Fund Balance by June 30, 2012. This amount for First 5 San Bernardino is \$49,818,468 and is accrued as due to the State of California and is reported in the financial statements as an extraordinary item. Expenses before this extraordinary item increased over the prior fiscal year by \$4,392,554, or sixteen percent (16%). Administrative costs were 9.5% of total costs.

Financial Analysis of the Commissions Governmental Funds

As noted earlier, fund accounting is used by the Commission to ensure and demonstrate compliance with finance-related legal requirements.

For the year ended June 30, 2011, the Commission governmental funds reported an ending fund balance of \$44,022,459, a decrease of \$55,614,476 or fifty-six percent (-56%), from the prior year. A significant portion of the decrease was due to an obligation of \$49,818,468 to the State of California a result of the passage of AB 99 and a use of the existing fund balance to meet current obligations of \$4,392,554.

General Fund Budgetary Highlights

Total Revenues were less than budgeted by \$1,450,651, or six percent (6%), and total expenditures were more than budgeted by \$40,107,631, or ninety-nine percent (99%). The decrease in total revenues was due to less than anticipated State tobacco tax revenue. Total expenses were more than budgeted largely to the obligation to the State of California as a result of the passage of to AB99.

Debt Administration

The Commission's long-term debt consists of compensated absences payable in the amount of \$131,611.

Economic Factors and Next Year's Budget

Again this year, the Commission was faced with efforts aimed at redirecting Prop.10 dollars. AB 99 legislation was enacted into law on March 24, 2011 allowing the State to sweep \$1 billion from First 5 Commissions -- \$950 million from county commissions and \$50 million from the State commission. In a controversial move, the Legislature authorized the take-away with a 2/3 vote, rather than sending the issue to the ballot for the voters to decide. For the Children and Families Commission First 5 San Bernardino, the loss of funds is just under \$50 million and is due to the State by June 30, 2012. AB 99 removes individual commission control of local tobacco tax dollars and sets the stage for possibly further reducing or eliminating future revenues.

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS**

JUNE 30, 2011

First 5 San Bernardino operates with a well designed Long Range Financial Plan. It is a 5 year plan which was last adopted on June 15, 2011. Previous financial plans and budget adoptions have included reference to a distinct Sustainability Fund which was separate from the general fund.

Subsequent to the loss of \$50 million with the passage of AB 99, and the regular structuring of the FY 2011/12 budget for First 5 San Bernardino, the Commission took action to address future funding issues. The separate Sustainability Fund was combined with General Fund monies and is now simply the Fund Balance. First 5 programs will continue to be funded by drawing from this general fund balance, according to the adopted Strategic Plan allocation to sustain program funding levels as tobacco revenues decrease and First 5 San Bernardino, under the Prop 10 Initiative, strives to meet the needs of our communities based on the priorities identified.

Due to AB 99, more than 70 multi-year contracts were cut a year short of their cycle to allow the Commission to adjust and reprioritize in response to the loss of \$50 million in funds. Newly defined, data driven priorities will guide the development of a new Request for Proposals to be released late 2011 for funding effective with fiscal year 2012/2013.

First 5 staff responsibilities continue to evolve and become more unified and structured to allow for continual quality improvement, maximum accountability and the highest level of integrity within our program and partnerships to ensure delivery of all services.

Although we do not anticipate significant changes in our organizational structure or operations, the current administrative cap policy on our operating budget may need amendment to mitigate reductions in the area of essential staffing and resource allocation.

On November 21, 2011, Fresno Superior Court Judge Debra Kazanjian issued a ruling in favor of the County First 5 Commissions' lawsuit challenging Assembly Bill 99 (AB 99).

Requests for Information

This financial report is designed to provide a general overview of the First 5 San Bernardino finances for all those interested. Questions concerning, any of the information provided in this report or requests for additional financial information should be addressed to the First 5 San Bernardino at 330 North D Street, 5th Floor, San Bernardino, California 92415. We can be reached at 909-386-7706 or www.first5sanbernardino.org.

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
Statement of Net Assets**

June 30, 2011

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 96,845,047
Due from State of California:	
Allocations	4,135,988
Interest	12,201
Due from agencies, net of allowance	79,388
Due from County of San Bernardino - interest	199,130
Prepays	32,996
Total Assets	<u>101,304,750</u>
LIABILITIES	
Contracts payable	7,229,139
Accounts payable	52,833
Due to the County of San Bernardino	8,664
Due to the State of California	49,903,940
Accrued payroll	87,715
Noncurrent liabilities:	
Due within one year	12,237
Due in more than one year	119,374
Total Liabilities	<u>57,413,902</u>
NET ASSETS	
Unrestricted	43,890,848
Total Net Assets	<u><u>\$ 43,890,848</u></u>

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

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
Statement of Activities**

June 30, 2011

	Governmental Activities
EXPENSES	
Child development	\$ 31,265,882
Total Expenses	31,265,882
 PROGRAM REVENUES	
Operating Grants and Contributions:	
Proposition 10 Allocations	23,013,009
School readiness	1,632,880
Total Program Revenues	24,645,889
 Net program revenues (expenses)	 (6,619,993)
 GENERAL REVENUES	
Investment income	827,764
Other	10,979
Total General Revenues	838,743
 EXTRAORDINARY ITEM	
AB 99 obligation	(49,818,468)
Total General Revenues and Extraordinary Item	(48,979,725)
 Change in Net assets	 (55,599,718)
 Net Assets, Beginning of Period	 99,490,566
 Net Assets, End of Period	 \$ 43,890,848

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

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
Balance Sheet
Governmental Funds**

June 30, 2011

	General Fund	School Readiness	Total Governmental Funds
ASSETS			
Cash and investments	\$ 93,989,214	\$ 2,855,833	\$ 96,845,047
Due from State of California			
Allocations	4,135,988	-	4,135,988
Interest	12,201	-	12,201
Due from agencies, net of allowances	79,388	-	79,388
Due from County of San Bernardino - interest	192,556	6,574	199,130
Prepays	32,996	-	32,996
Due from other funds	2,584,038	417,292	3,001,330
Total Assets	\$ 101,026,381	\$ 3,279,699	\$ 104,306,080
LIABILITIES AND FUND BALANCES			
Liabilities:			
Contracts payable	\$ 6,533,478	\$ 695,661	\$ 7,229,139
Accounts payable	52,833	-	52,833
Due to the County of San Bernardino	8,664	-	8,664
Due to the State of California	49,903,940	-	49,903,940
Accrued payroll	87,715	-	87,715
Due to other funds	417,292	2,584,038	3,001,330
Total Liabilities	57,003,922	3,279,699	60,283,621
Fund balances:			
Nonspendable	32,996	-	32,996
Committed	1,799,852	-	1,799,852
Assigned	24,938,173	-	24,938,173
Unassigned	17,251,438	-	17,251,438
Total Fund Balances	44,022,459	-	44,022,459
Total Liabilities and Fund Balances	\$ 101,026,381	\$ 3,279,699	\$ 104,306,080

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

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
Reconciliation of Governmental Fund Balance Sheet
to the Statement of Net Assets**

June 30, 2011

Fund Balances of Governmental Funds	\$ 44,022,459
Amounts reported for governmental activities in the Statement of Net Assets are different because the compensated absences liability is not reported or not required in the fund financial statements.	<u>(131,611)</u>
Net Assets of Governmental Activities	<u>\$ 43,890,848</u>

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

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION**
Statement of Revenues, Expenditures
and Changes in Fund Balances – Governmental Funds

For the Year Ended June 30, 2011

	General Fund	School Readiness	Total Governmental Funds
REVENUES			
State allocations	\$ 23,013,009	\$ 1,632,880	\$ 24,645,889
Investment income	796,874	30,890	827,764
Other revenues	10,979	-	10,979
Total Revenues	23,820,862	1,663,770	25,484,632
EXPENDITURES			
Current:			
Salaries and benefits	2,185,648	-	2,185,648
Services and supplies	1,585,420	-	1,585,420
Contract payments to agencies	25,526,053	1,983,519	27,509,572
Total Expenditures	29,297,121	1,983,519	31,280,640
Excess/(deficiency) of revenues over (under) expenditures	(5,476,259)	(319,749)	(5,796,008)
OTHER FINANCING SOURCES (USES)			
Transfer out	(417,292)		(417,292)
Transfer in		417,292	417,292
Total other financing sources and uses	(417,292)	417,292	-
EXTRAORDINARY ITEMS			
AB-99 obligation	(49,818,468)	-	(49,818,468)
Total Extraordinary Item	(49,818,468)	-	(49,818,468)
Net Change in Fund Balance	(55,712,019)	97,543	(55,614,476)
Fund Balances, Beginning of Period	99,734,478	(97,543)	99,636,935
Fund Balances, End of Period	\$ 44,022,459	\$ -	\$ 44,022,459

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

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balance
to the Statement of Activities**

For the Year Ended June 30, 2011

Net Change in Fund Balance - Total Governmental Funds \$ (55,614,476)

Amounts reported for governmental activities in the Statement of Activities differs from the amounts reported in the Statement of Revenues, Expenditures and Changes in Fund Balance because compensated absence expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as an expenditure in governmental funds. This amount represents the net change in the compensated absences liability.

14,758

Change in Net Assets of Governmental Activities

\$ (55,599,718)

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

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The First 5 San Bernardino Children and Families Commission (Commission) formerly known as San Bernardino County Children and Families First Commission, was established on January 5, 1999 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 San Bernardino County Ordinance No. 3745. The Commission is a public entity legally separate and apart from the County of San Bernardino (the County). The purpose of the Commission is to develop, adopt, promote and implement early childhood development and readiness for school programs in the County of San Bernardino consistent with the goals and objectives of the Act. The Commission's programs are funded primarily by taxes levied by the State of California on tobacco products.

A governing board of seven members - three mandatory standing members by statute and four appointed by the County Board of Supervisors pursuant to County Code Section 12.293 oversees the Commission. The mandatory members consist of one member of the Board of Supervisors, the Assistant County Administrator for Human Services and the Director of Public Health or the Health Officer. Other members are considered at-large. The members of the Commission shall serve for two (2) years, except for the Board of Supervisors representation, the Assistant County Administrator for Human Services, and the Public Health Director or Officer who shall serve for the duration of their employment in that position. Officers of the Commission are Chair and Vice-Chair which are elected by the voting members of the Commission. The terms of these officers are one year, commencing upon the adjournment of the meeting at which they are elected. All officers shall hold office until their successors are duly elected. The members of the Commission shall serve at the pleasure of the Board of Supervisors. Any Commissioner may be removed from office at any time by a majority vote of the Board of Supervisors favoring such removal. As a result, the Commission is considered a component unit of the County of San Bernardino.

Upon termination of the Commission, all assets of the Commission shall be returned to the State of California. The liabilities of the Commission shall not become liabilities of the County upon either termination of the Commission or the liquidation or disposition of the Commission's remaining assets.

Basis of Accounting Measurement Focus

The basic financial statements of the Commission are composed of the following:

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

Government-wide Financial Statements

Government-wide financial statements consist of the statement of net assets and the statement of activities. These statements are presented on an economic resources measurement focus. All economic resources and obligations of the reporting government are reported in the financial statements.

The government-wide financial statements have been prepared on the accrual basis of accounting. Under the accrual basis of accounting all assets and liabilities of the Commission are included on the statement of net assets. The difference between the Commission's assets and liabilities is net assets. Net assets represent the resources the Commission has available for use in providing services. The Commission's net assets are classified as follows:

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Unrestricted – This category represents neither restrictions or invested in capital assets and may be used by the Commission for any purpose though they may not be necessarily liquid.

Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

Fund Financial Statements

The fund financial statements consist of the balance sheet and the statement of revenues, expenditures and changes in fund balance of the Commission’s general fund. These statements are presented on a current financial resources measurement focus. Generally, only current assets and current liabilities are included on the balance sheet. The statement of revenues, expenditures and changes in fund balance for the governmental fund generally presents increases (revenues) and decreases (expenditures) in net current assets. The Commission has two major governmental funds. The general fund is used to account for the Commission’s regular revenue and expenditures. The School Readiness Fund is used to account for the revenue received from the State of California and the allowable expenditures for the School Readiness program. The funds received in the School Readiness Fund are restricted to activities related to preparing children for school and preparing schools for children as part of the statewide School Readiness program.

The fund financial statements have been prepared on 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 considered available if they are received within 60 days after year-end. Revenues susceptible to accrual include tax revenues, grant revenues and investment income. Expenditures are recognized in the accounting period in which the fund liability is incurred except for compensated absences, which are recognized when due and payable at year-end.

Adjustments Between Fund Financial Statements and Government-Wide Financial Statements

Long-Term Liabilities

As of June 30, 2011, the Commission estimated its liability for vested compensated absences to be \$131,611. Compensated absence obligations are considered long-term in nature and are reported in the fund financial statements as expenditures in the period paid or when due and payable at year-end under the modified accrual basis of accounting. The compensated absences have been accrued in the government wide financial statements and are included in long-term liabilities. The compensated absences decreased by \$14,758 during the year. The compensated absences are liquidated by the general fund.

Cash and Investments

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 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, which approximates fair value.

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Due from State of California

Due from State of California represents receivables from the State. Management has determined the Commission's receivables are fully collectable. Accordingly, no allowance for doubtful accounts has been made.

Due from Agencies

Due from agencies represents receivables from contracted agencies and is reported net of allowance for doubtful accounts.

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 residence of the mother.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Budget and Budgetary Reporting

The Commission is required by County ordinance to prepare a budget each year based on estimates of revenues and expected expenditures. The Commission's Board of Commissioners adopted an annual budget for the General and School Readiness Funds of expenditures for the year ended June 30, 2011, which is prepared on the modified accrual basis of accounting.

Encumbrances

The Commission utilizes an encumbrance system as a management control technique to assist in controlling expenditures. The encumbrances as of June 30, 2011 are \$24,938,173 is assigned and \$899,926 is committed.

Restricted Net Assets

When an expenditure is incurred for purposes for which both restricted and unrestricted net assets is available, it is presumed that restricted funds are spent first.

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Classification

The Commission adopted the provision of Governmental Accounting Standards Board No. 54 as of July 1, 2010. The new standard implements a five-tier fund balance classification hierarchy that depicts the extent to which a government is bound by spending constraints imposed on the use of its resources. The five classifications, discussed in more detail below, are Nonspendable, Restricted, Committed, Assigned, and Unassigned.

- *Nonspendable:* portion of net resources that cannot be spent because they are not in an expendable form (e.g., Prepaid Expense or Inventory), or portion of net resources that cannot be spent because they must be maintained intact (e.g., revolving fund or the principal of an endowment).
- *Restricted:* amounts or limitations constrained to specific purposes by their providers (such as creditors, grantors, contributors, or laws and regulations of other governments - e.g., funds granted by First 5 CA under specific agreements for services such as matching funds for specific initiatives).
- *Committed:* limitation imposed at the highest level of decision- making that require the same formal action by agenda item at the same level to remove or modify. The highest level of decision-making is the appointed Commissioners by ordinance approved in a board agenda item by the San Bernardino County Board of Supervisors on December 15, 1998.
- *Assigned:* amounts or limitations are constrained by the Commission’s intent to be used for a specific purpose. The Commission’s Board is responsible for assigning fund balance.
- *Unassigned:* resources in the fund balance that cannot be reported in any other classification or negative fund balance of special revenue funds.

The Commission has not established a policy for its use of unrestricted funds. In accordance with GASB 54, when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, it is presumed that restricted funds are spent first.

When an expenditure is incurred for purposes for which amounts in any unrestricted fund balances could be used, it is presumed that the committed amounts are spent first, then the assigned amounts, then the unassigned amounts.

NOTE 2 – COMPENSATED ABSENCES

Compensated absences represent the liability for unpaid vacation leave, holidays and other compensated absences with similar characteristics. Changes in the liability for the 2010-11 fiscal year are summarized as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Amount Due within one year
Compensated Absences	\$ 146,369	\$136,328	\$(151,086)	\$ 131,611	\$ 12,237

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 3 – CASH AND INVESTMENTS

Cash and investments are classified in the Governmental Activities and Governmental Funds financial statements as follows:

Cash and investments in County Treasury	<u>\$ 96,845,047</u>
Total Cash and Investments	<u>\$ 96,845,047</u>

The Commission maintains all of its cash and investments with the San Bernardino County Treasurer in a cash and investment pool. On a quarterly basis, the Treasurer allocates interest to participants based upon their average daily balances. Required disclosure information regarding the categorization of investments and other deposit and investment risk disclosures can be found in the County's Comprehensive Annual Financial Report (CAFR). The County of San Bernardino's financial statements may be obtained by contacting the County of San Bernardino's Auditor-Controller/Treasurer/Tax Collector's office at 222 W. Hospitality Lane, San Bernardino, California 92415-0018. The San Bernardino County Treasury Oversight Committee oversees the Treasurer's investments and policies.

The Commission had no deposit or investment policy that addressed a specific type of risk. Investments held in the County's investment pool are available on demand and are stated at cost plus accrued interest, which approximates fair value.

NOTE 4 – INTERFUND RECEIVABLES/PAYABLES AND TRANSFERS

The following is a summary of the interfund receivables and payables at June 30, 2011:

Due from fund	Amount	Due to Fund
School Readiness	\$2,584,038	General
General	\$ 417,292	School Readiness

Interfund transfers occurred when the School Readiness Fund had a shortage of cash. Contractor payments were then made from the General Fund on behalf of the School Readiness Fund. There was an operating transfer accrual from the General Fund to the School Readiness fund in the amount of \$417,292 in order to offset deficit fund balance. The School Readiness Fund will be closed in FY 2011/12 at which time the cash will be transferred to the General Fund.

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 5 – DUE FROM STATE OF CALIFORNIA

The due from State of California account represents amounts due to the Commission from the California Children and Families Commission (“State Commission”) for Prop 10 related revenues and other governmental agencies. The amounts due to the Commission at June 30, 2011, were as follows:

Due from State Commission:	
Prop 10 revenue for:	
May 2011	\$ 2,023,649
June 2011	2,112,339
Surplus Money Investment Fund Allocations	<u>12,201</u>
Total Due from State of California	<u>\$ 4,148,189</u>

NOTE 6 – DUE FROM AGENCIES

The due from agencies of \$79,388 is net of allowance for doubtful accounts of \$121,095. Total receivables of \$200,483 represent advances or overpayments to contractors and are currently in San Bernardino County’s Collections.

NOTE 7 – OPERATING LEASE

The Commission leases office space from a third party under a long-term operating lease, which expires in December 31, 2015 and a copy machine lease that expires on July 31, 2012. The future minimum rental payments due under the leases are as follows:

Year Ended June 30,	
<u>2012</u>	\$ 217,500
2013	214,814
2014	220,128
2015	226,248
Thereafter	<u>114,654</u>
	<u>\$ 993,344</u>

Rent expense was \$224,733 for the year ended June 30, 2011.

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 8 – GRANTEE PAYABLES

The Commission’s primary expenditures consist of funding to various governmental and non-profit agencies that provide services directly to children ages 0-5 and their families. The Commission pays on a monthly reimbursement to the providers. The providers are required to file monthly expenditure reports detailing how much of the funding was used. At year end a payable generally exists depending on the actual level of expenditures by the grantee. At June 30, 2011 the following was owed to providers and is included in contracts payable:

Contracts Payable by Focus Areas:	
Health	\$ 2,471,904
Family	1,926,209
Education	1,947,841
Commission Responsive Initiatives	795,700
Evaluation	87,485
Total Contracts Payable	<u>\$ 7,229,139</u>

NOTE 9 – CONTINGENCIES

The Commission is involved in various legal proceedings from time to time in the normal course of business. In management's opinion, the Commission is not involved in any legal proceeding that will have a material adverse effect on financial position or changes in financial position of the Commission. Refer to additional information at Note 14.

NOTE 10 – RELATED PARTY TRANSACTIONS

The required composition of the Board of Commissioners includes members from the County and other local governments, community based organizations which serve children. Many of the programs funded by the Commission are operated by organizations represented by the Commissioners. Commissioners must abstain from voting on issues directly related to their respective organizations. The following table shows the contracts awarded in FY 2011, whereby certain Commissioners were required to abstain from voting:

Organization	Award Amount
Children’s Fund SART	\$ 883,887
Children’s Fund Community Engagement	342,764
Inland Regional Center	500,001
County of San Bernardino Arrowhead Regional Medical Center	372,021
Save the Children Federation, Inc.	2,292,102
Total	<u>\$ 4,390,775</u>

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 10 – RELATED PARTY TRANSACTIONS (Continued)

The Commission also contracts with the County to provide accounting, banking and investment, purchasing, human resources, risk management and other administrative services. The Commission participates in the County's risk management programs (commercial and self-insurance programs) for general and automobile liability insurance, public official liability, rental interruption, personal property, worker's compensation, group health indemnified plans, group salary continuance plan, group dental plan and unemployment benefit plan. The Commission incurred expenses totaling \$525,578 for all other County services provided during the year ended June 30, 2011.

NOTE 11 – PROGRAM EVALUATION

In accordance with the *Standards and Procedures for Audits of California Counties Participating in the California Children and Families Program*, issued by the California State Controller, the Commission is required to disclose the amounts expended during the fiscal year on program evaluation. Program evaluation costs pertain to those activities undertaken to support the collection, production, analysis and presentation of evaluation information for Commission management, Commissioners and other interested parties.

For the year ended June 30, 2011, the Commission expended \$467,073 for program evaluation.

NOTE 12 – FUND BALANCE

General Fund:

Nonspendable fund balance of \$32,996 consists of prepaid expenses of insurance payment and annual membership to First 5 Association of California.

Committed fund balance of \$1,799,852 consists of the State Program Cares Plus Match.

Assigned fund balance of \$24,938,173 consists of the following:

Contract for Evaluation Services	\$ 501,617
Contracts for Operation Services	228,800
Contracts for Program Services	<u>24,207,756</u>
Total Assigned Fund Balance	<u>\$ 24,938,173</u>

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 13 – DEFINED BENEFIT PENSION 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 \$303,753 for the year ended June 30, 2011.

Information is not available separately for the Commission as to the funding policy, annual pension cost, and required supplementary information related to funding progress and trend information. Refer to the County’s basic financial statements for further information.

The Commission’s actual and County required contributions for the current year and two preceding years were as follows:

Fiscal Year Ending	Annual Required Contributions (ARC)	Percentage of ARC Contributed
6/30/2009	\$ 287,097	100.00%
6/30/2010	296,882	100.00%
6/30/2011	303,753	100.00%

NOTE 14 – EXTRAORDINARY ITEM/DUE TO STATE OF CALIFORNIA

On March 24, 2011, the Governor signed Assembly Bill 99 (AB99) into law. AB 99 established the Children and Families Health and Human Services Fund (Fund). As specified in the legislation, the Fund will be used, upon appropriation, by the California State Legislature for Health and Human Services. The bill requires \$1 billion of the combined state and local Children and Families Funds to be deposited in the Fund for the 2011-12 fiscal year. The amount required from each First 5 Commission (AB99 payment) represents 50% of the fund balance as of June 30, 2010. For First 5 San Bernardino, this amount was \$49,818,468. The AB 99 payment is due by June 30, 2012. In accordance with the legislation, no 2012-2013 commission revenues will be paid until the full AB 99 payment is made. Accordingly, the Commission has accrued the AB 99 obligation as a liability at June 30, 2011.

A lawsuit has been filed by Commissions against the State challenging that the bill violates the intent of Proposition 10. Refer to Note 17 for more information.

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 15 – RISK MANAGEMENT

The Commission is part of the County of San Bernardino's insurance programs which includes risk management and auto liability; however, the Commission holds its own general liability providing limits of \$5,000,000 per occurrence.

The employees at the Commission are considered to be contract employees of the County of San Bernardino and are covered by the County's workers' compensation program. The County's workers' compensation program is a combination of self-insurance and excess insurance providing statutory limits coverage as required by the State of California.

During the year ending June 30, 2011, the Commission has no settlements exceeding insurance coverage for these categories of risk. For the past three years, settlements or judgments amounts have not exceeded insurance provided for Commission.

NOTE 16 - NEW ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) releases new accounting and financial reporting standards which may have a significant impact on the Commission's financial reporting process. Future new standards which may impact the Commission include the following:

GASB Statement No. 61 – *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No.34*, improves financial reporting for governmental financial reporting entities. This Statement modifies certain requirements for inclusion of component units in the financial reporting entity and amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. The requirements of this Statement are effective for the fiscal year ending June 30, 2013. The Commission has not determined its effect on the financial statements.

GASB Statement No. 62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in various pronouncements (FASB Statements and Interpretations, APBO, AICPA ARBs) issued on or before November 30, 1989 which does not conflict with or contradict GASB pronouncements. This statement is effective for the fiscal year ending June 30, 2013. The Commission has not determined its effect on the financial statements.

GASB Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The requirements of this Statement are effective for the fiscal year ending June 30, 2013. The Commission has not determined its effect on the financial statements.

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 17 – SUBSEQUENT EVENT

On November 21, 2011, Fresno Superior Court Judge Debra Kazanjian issued a ruling in favor of the County First 5 Commissions' lawsuit challenging Assembly Bill 99 (AB 99). The immediate impact of the ruling on county commission funding may be limited since it is anticipated that the State will appeal the trial court decision. The Commissions that filed the original lawsuit will continue to defend the ruling if challenged by the State. Due to the uncertainty with any final ruling, the Commission has not recorded an adjustment to the liability balance recorded as an extraordinary item.

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION**
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual – Governmental Fund

For the Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
State allocations	\$ 23,739,659	\$ 23,739,659	\$ 23,013,009	\$ (726,650)
Investment income	1,281,854	1,281,854	796,874	(484,980)
Other revenues	250,000	250,000	10,979	(239,021)
Total Revenues	25,271,513	25,271,513	23,820,862	(1,450,651)
EXPENDITURES				
Current:				
Salaries and benefits	2,478,109	2,478,109	2,185,648	292,461
Services and supplies	1,980,500	1,980,500	1,585,420	395,080
Contract payments to agencies	36,000,000	36,000,000	25,526,053	10,473,947
Total Expenditures	40,458,609	40,458,609	29,297,121	11,161,488
Excess/(deficiency) of revenues over (under) expenditures	(15,187,096)	(15,187,096)	(5,476,259)	9,710,837
OTHER FINANCING SOURCES (USES)				
Operating Transfer	-	-	(417,292)	(417,292)
Total other financing sources (uses)	-	-	(417,292)	(417,292)
EXTRAORDINARY ITEM				
AB 99 obligation	-	-	(49,818,468)	(49,818,468)
Net Change in Fund Balance	(15,187,096)	(15,187,096)	(55,712,019)	(40,524,923)
Fund Balances, beginning of period	99,721,457	99,721,457	99,734,478	
Fund Balances, end of period	\$ 84,534,361	\$ 84,534,361	\$ 44,022,459	

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION**
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual – School Readiness Fund

For the Year Ended June 30, 2011

	School Readiness			Variance with Final Budget - Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
REVENUES				
State allocations	\$ 2,123,271	\$ 2,123,271	\$ 1,632,880	\$ (490,391)
Investment income	-	-	30,890	30,890
Total Revenues	<u>2,123,271</u>	<u>2,123,271</u>	<u>1,663,770</u>	<u>(459,501)</u>
EXPENDITURES				
Current:				
Contract payments to agencies	3,000,000	3,000,000	1,983,519	1,016,481
Total Expenditures	<u>3,000,000</u>	<u>3,000,000</u>	<u>1,983,519</u>	<u>1,016,481</u>
Excess/(deficiency) of revenues over (under) expenditures	(876,729)	(876,729)	(319,749)	556,980
OTHER FINANCING SOURCES (USES)				
Operating Transfer	-	-	417,292	417,292
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>417,292</u>	<u>417,292</u>
Net change in Fund Balance	(876,729)	(876,729)	97,543	974,272
Fund Balances, beginning of period	<u>1,161,472</u>	<u>1,161,472</u>	<u>(97,543)</u>	
Fund Balances, end of period	<u>\$ 284,743</u>	<u>\$ 284,743</u>	<u>\$ -</u>	

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2011**

Budget and Budgetary Process

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.



INDEPENDENT AUDITORS' 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
First 5 San Bernardino Children and Families Commission
San Bernardino, California

We have audited the financial statements of the governmental activities and each major fund of the First 5 San Bernardino Children and Families Commission (the Commission), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2011, and have issued our report thereon dated December 1, 2011. Our report included explanatory paragraphs regarding the Commission's adoption of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective July 1, 2010, and the recent legislation for County First 5 Commissions. 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

Management of the Commission is responsible for establishing and maintaining effective 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 opinions 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 internal control over financial reporting.

Our consideration of the 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, and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 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. We consider the deficiencies described in the accompanying schedule of findings and responses as item 2011-01 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and responses as item 2011-02 to be a significant deficiency.

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, County Board of Supervisors, Board of Commissioners, 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.

Vavrinik, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 1, 2011



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

To the Board of Commissioners
 First 5 San Bernardino Children and Families Commission
 San Bernardino, California

We have audited the basic financial statements of the First 5 San Bernardino Children and Families Commission (the Commission), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2011 and have issued our report thereon dated December 1, 2011. Our report refers to the Commission's adoption of the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* on July 1, 2010, and the recent legislation for County First 5 Commissions. 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. We have also audited the Commission's compliance with 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 compliance audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, issued by the State Controller's Office. Those standards and the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a 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 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 laws and regulations applicable to the following items.

Description	Audit Guide Procedures	Procedures Performed
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

In our opinion, the Commission complied, in all material respects, with the compliance requirements referred to above that are applicable to the statutory requirements listed above for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act* and which are described in the accompanying schedule of findings and responses as items 2011-03 through 2011-04.

The Commission's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Commission's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the County Board of Supervisors, Board of Commissioners, 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.

Vavrinik, Trine, Day & Co. LLP

Rancho Cucamonga, California
December 1, 2011

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2011**

Finding 2011-01

FINANCIAL REPORTING

Criteria:

Management is responsible for a system of internal controls over financial reporting which should be designed to initiate, authorize, record, process, and report financial data reliably in accordance with U.S. generally accepted accounting principles.

Condition:

While conducting the audit, we noted that obtaining a complete draft financial statement was problematic and several drafts were received. We also noted the draft financial statements did not contain the required elements and disclosures of a basic financial statement prepared in accordance with U.S. generally accepted accounting principles.

Context:

The Commission uses a third-party to assist in the preparation of the financial statements. The financial statements are then reviewed by the Commission. The Commission did not have procedures in place to ensure that the financial statements contained all required information and disclosures.

Effect:

This condition contributed to delays in the ability to provide accurate year-end financial statements.

Cause:

The Commission does not have an internal control system over financial reporting that is adequately designed, maintained and monitored in order to detect and correct misstatements and disclosures required in the financial statements.

Recommendation:

We recommend that the Commission strengthen procedures to ensure that the financial statements are reviewed for accuracy and completeness and personnel involved in the preparation and review of financial statements obtain training to improve and/or acquire different skills concerning the preparation of the financial statements.

View of Responsible Officials and Planned Corrective Action:

The process for preparation of the financial statements has evolved greatly in the past 2 years and has been a learning experience. Management is now able to pinpoint where skilled personnel can be trained and utilized in the preparation and review of the financial statements. Also, management has identified where the internal control system can be better designed, maintained and monitored in order to detect and correct misstatements and disclosures required in the financial statements. These corrections will be realized in the preparation of financial statements for FY 2012/13.

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2011**

Finding 2011-02

YEAR-END CLOSING

Criteria:

Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein and for the fair presentation of the financial statements in conformity with U.S. generally accepted accounting principles. This requires management work through a year-end closing process to accumulate, reconcile, and summarize information for inclusion in the annual financial statements. The year-end closing process includes the review and/or reconciliation of all balances within the Commission's general ledger. Accounts must be reviewed for proper cutoff, classification and presentation. These processes should be completed before the external auditors begin fieldwork.

Condition:

During our testing of year-end cutoff procedures, we proposed audit adjustments to properly state the year-end account balances of accounts payable in order to properly present the financial statements. All adjustments that were proposed during the current year audit were presented to management and subsequently posted to the general ledger. We also proposed adjustments to write off delinquent account receivable accounts that were determined uncollectible by management.

Context:

The above condition was identified during our audit over the Commission's year-end account balances.

Effect:

Adjustments were proposed and posted to the Commission's general ledger.

Cause:

The Commission did not perform a complete year-end close for the fiscal year ended June 30, 2011.

Recommendation:

We recommend that the Commission strengthen its year-end closing procedures to ensure that all transactions related to the fiscal year are properly captured and recorded in the general ledger to ensure the accuracy and completeness of the financial statements.

View of Responsible Officials and Planned Corrective Action:

Historically, Management has juggled with meeting the deadlines for completion of the financial statements due to the untimely submission of final reports from contracted agencies. Management has identified where the year-end closing procedures (including timeline) can be improved to ensure that all transactions related to the fiscal year are properly captured and recorded in the general ledger to ensure the accuracy and completeness of the financial statements.

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2011**

Finding 2011-03

FINANCIAL CONDITION AND PROGRAM EVALUATION POLICIES

Criteria:

The *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act (Guide)*, issued by the California State Controller's Office states the following:

- Section V-f, *Financial Condition of the Commission*: The county commission must have policies and practices with respect to its financial condition.
- Section V-g, *Program Evaluation*: The county commission must have policies and practices with respect to the amount it spends on program evaluation and the documented results of these expenditures.

Condition:

It was noted that the Commission did not have formal policies on the Commission's financial condition and program evaluation.

Context:

For financial condition, the Commission provides periodic financial information to the Board, approves an annual budget and conducts an annual audit. For program evaluation, the Commission adopts a budget and tracks its program evaluation costs, performs on-site visits and communicates related information to the Board periodically.

However, these practices and procedures are not formalized in a Board approved policy.

Effect:

The Commission increases its risk of noncompliance with the statutory requirements of the Guide. Future allocations may be withheld.

Cause:

The Commission did not formalize its practices and procedures with respect to financial condition and program evaluation.

Recommendation:

We recommend that the Commission draft and adopt formal policies to address the Financial Condition of the Commission and Program Evaluation compliance requirements.

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2011**

View of Responsible Officials and Planned Corrective Action:

Although the Commission does not currently have a formal policy to address the Financial Condition of the Commission and Program Evaluation, it is our position that we are in compliance with the spirit of the law and have consistently implemented practices with regard to the financial condition and program evaluation. Commission staff has consistently advised the Commission of its financial condition through the provision of monthly fiscal statements and its annual audit report. These statements contain the percentages spent on administrative and program evaluation costs. In addition, the estimated percentage to be spent in these areas is included in the annual budgets presented to the Commission for adoption. The Commission is updated on program progress throughout the year and in the annual evaluation report that is also sent to the State Commission in compliance with the Children and Families Act contained within the Health and Safety Code.

We believe that our current auditable practices and procedures constitute full compliance with legislative requirements. In order to better reflect and amplify our ongoing practices, two written policies are being presented to the Commission for approval on December 7, 2011.

Finding 2011-04

REPORT SUBMISSION

Criteria:

In accordance with Health and Safety Code sections 130150(a) and 130151(c) each County Commission shall annually submit the audit report for the preceding fiscal year by November 1.

Condition:

It was noted that the Commission did not submit the required audit report by November 1.

Context:

The Commission was unable to prepare in a timely manner financial statements prepared in accordance with generally accepted accounting principles. This delay resulted in the Commission not meeting the reporting due date established by the Health and Safety Code.

Effect:

The Commission did not comply with the statutory requirements. Future allocations may be withheld.

Cause:

The Commission's procedures did not ensure that the required audit reports were submitted within the established deadline.

Recommendation:

We recommend that the Commission implement policies and procedures to ensure the timely submission of its annual audited financial statements.

**FIRST 5 SAN BERNARDINO
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SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2011**

View of Responsible Officials and Planned Corrective Action:

Due to many challenges, the Commission was unable to have financial statements completed in a timely manner in order to submit the audited financial report. Management has identified where the internal control system can be better designed, maintained and monitored. The improvement of this system includes utilization of skilled personnel, adherence to a strict year-end closing procedure and timeline, review and reconciliation of journal entries and adjustments throughout the year and obtaining necessary training in areas related to disclosure notes, pronouncements and other regulations and requirements to meet generally accepted accounting practices and presentation. These improvements will ensure completion, approval and submission of on-time financial statements for FY 2012/13.