



Basic Financial Statements

June 30, 2020

First 5 San Bernardino Children and Families Commission

(a Component Unit of the County of San Bernardino, California)

First 5 San Bernardino Children and Families Commission

Table of Contents

June 30, 2020

Independent Auditor’s Report	1
Management’s Discussion and Analysis	4
Government Wide Financial Statements	
Statement of Net Position	10
Statement of Activities	11
Government Fund Financial Statements	
Balance Sheet – Governmental Funds.....	12
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	13
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	14
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities	15
Notes to Financial Statements	16
Required Supplementary Information	
Schedule of the Commission’s Proportionate Share of the County’s Net Pension Liability	33
Schedule of the Commission’s Contributions	34
Budgetary Comparison Schedule – General Fund.....	35
Notes to Required Supplementary Information	36
Supplementary Information	
Schedule of First 5 California Funding	38
Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	39
Independent Auditor’s Report on State Compliance	41
Summary Schedule of Prior Audit Findings.....	43



Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the general fund of the First 5 San Bernardino Children and Families Commission (Commission), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the Commission, as of and for the year ended June 30, 2020, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The Schedule of First 5 California Funding is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of First 5 California Funding is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of First 5 California Funding is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2020 on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Rancho Cucamonga, California
October 23, 2020

On November 3, 1998, California voters approved Proposition 10 – the Children and Families Act of 1998 (the Act). The Act imposed an 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 (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 (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, 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 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 most 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/Treasurer/Tax Collector for services.

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, 2020.

Financial Highlights

- The Commission recorded revenues of \$22,753,564 primarily from the State of California collected under the California Children and Families Act (Proposition 10). This amount is \$5,066,923 more than budgeted due to a slight increase in the actual over anticipated tobacco tax collections at the State level and is \$603,466 more than fiscal year 2019.
- For the fiscal year, the Commission earned grant revenues of \$1,348,471 from First 5 California IMPACT (Improve and Maximize Programs so All Children Thrive) Initiative.
- During the current fiscal year, the Commission recognized \$15,296,498 of contract payment expenses to various service providers.
- The total assets and deferred outflows of resources of the Commission exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$95,796,251 (net position), an increase of \$6,557,301.
- At the end of the fiscal year 2020, total Governmental Funds unassigned fund balance was \$77,398,127.

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 three components:

- 1) Government-wide financial statements
- 2) Fund financial statements
- 3) Notes to the financial statements

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

In this report, the government-wide financial statements of Commission are presented on pages 10 and 11. The fund financial statements can be found on pages 12 through 15.

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 position presents summary information on all of the Commission's assets, deferred outflows, liabilities, and deferred inflows with the difference reported as net position.

The statement of activities presents information showing how the Commission's net position changed during the most recent fiscal year. All changes in net position 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, pension expense).

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 fund.

Governmental Fund Financial Statements These 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 16 through 31 of this report.

Other Information In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information and other information concerning the Commission's finances. Required supplementary information and other information can be found on pages 33 through 36 and page 38 of this report.

First 5 San Bernardino Children and Families Commission
Management's Discussion and Analysis
June 30, 2020

Commission-Wide Financial Analysis

The following summarizes the Commission's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position and compares balances as of June 30, 2020 with balances as of June 30, 2019:

	<u>June 30, 2020</u>	<u>June 30, 2019</u>	<u>Change</u>
Assets:			
Current and other assets	\$ 104,072,689	\$ 96,281,066	\$ 7,791,623
Capital assets	45,151	58,973	(13,822)
Total Assets	<u>104,117,840</u>	<u>96,340,039</u>	<u>7,777,801</u>
Deferred Outflows of Resources:			
Deferred outflows related to pensions	<u>724,998</u>	<u>753,737</u>	<u>(28,739)</u>
Liabilities:			
Due to other governments	3,968,824	2,877,927	1,090,897
Current and other liabilities	2,715,184	2,614,907	100,277
Net pension liability	1,887,267	1,741,472	145,795
Noncurrent liabilities	176,147	169,821	6,326
Total Liabilities	<u>8,747,422</u>	<u>7,404,127</u>	<u>1,343,295</u>
Deferred Inflows of Resources:			
Deferred inflows related to pensions	<u>299,165</u>	<u>470,699</u>	<u>(171,534)</u>
Net Position:			
Investment in capital assets	45,151	58,973	(13,822)
Unrestricted	<u>95,751,100</u>	<u>89,159,977</u>	<u>6,591,123</u>
Total Net Position	<u>\$ 95,796,251</u>	<u>\$ 89,218,950</u>	<u>\$ 6,577,301</u>

Net Position Net position may serve over time as a useful indicator of the Commission's financial position. In the case of the Commission, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$95,796,251 (net position) at the close of the most recent fiscal year. The total net position increased by \$6,577,301. The explanation for the increase is noted below.

The most significant portion of the Commission's current assets is its cash balance of \$100,402,446. Cash and investments are maintained in the County Treasurer'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, June 2020	\$ 2,362,906
First 5 California IMPACT	471,397
Surplus Money Investment Fund (SMIF)	68,842
CA Department of Education (QCC) QRIS Block Grant	<u>267,010</u>
Total	<u>\$ 3,170,155</u>

First 5 San Bernardino Children and Families Commission
Management's Discussion and Analysis
June 30, 2020

The following is a summary of the Commission's revenue, expenses and change in net position comparing fiscal year 2019/20 with fiscal year 2018/19:

	<u>FY 2019-2020</u>	<u>FY 2018-2019</u>	<u>\$ Change</u>
Program Revenues:			
State Allocations	\$ 19,853,937	\$ 19,251,068	\$ 602,869
First 5 California (IMPACT)	1,348,471	1,455,458	(106,987)
California Dept. of Education Quality Counts California QRIS Block Grant	711,240	381,711	329,529
Dental Transformation Initiative	57,627	55,763	1,864
Other revenues	490,896	401,751	89,145
Total Program Revenues	<u>22,462,171</u>	<u>21,545,751</u>	<u>916,420</u>
General Revenues:			
Investment income	<u>3,236,413</u>	<u>2,869,564</u>	<u>366,849</u>
Total Revenues	<u>25,698,584</u>	<u>24,415,315</u>	<u>1,283,269</u>
Expenses:			
Salaries and benefits	2,131,791	1,985,564	146,227
Services and supplies	1,679,172	1,773,333	(94,161)
Contract payments to child development agencies	15,296,498	15,429,105	(132,607)
Depreciation	13,822	15,412	(1,590)
Total Expenses	<u>19,121,283</u>	<u>19,203,414</u>	<u>(82,131)</u>
Change in Net Position	<u>6,577,301</u>	<u>5,211,901</u>	<u>1,365,400</u>
Net Position, Beginning of Period	<u>89,218,950</u>	<u>84,007,049</u>	<u>5,211,901</u>
Net Position, End of Period	<u>\$ 95,796,251</u>	<u>\$ 89,218,950</u>	<u>\$ 6,577,301</u>

The Commission receives the majority of its revenue from the State allocation of Proposition 10 funds and from interest earned on its investments. During the 2015/2016 fiscal year, the commission submitted a Request for Application for First 5 IMPACT (Improve and Maximize Programs so All Children Thrive) funds. The Commission's multi-year funding application was approved, awarding the Commission \$5,428,804. The funding does not have any fiscal year constraints and was approved for fiscal years 2015/16 through 2019/20. The revenues expended and recognized by the Commission were \$1,348,471. When comparing net position for the 2019/20 and the 2018/19 fiscal years, the Commission reported an increase of \$6,577,301 or approximately seven percent (7.4%). This represents a solid indicator of leveraging funding from other sources, and increasing the number and type of investments that contribute to the "cradle to career" continuum and collective impact per the Commission's Strategic Plan goals 2.1. and 2.2. In the fiscal year ending June 30, 2020, the Commission recorded, \$19,853,937 as State Allocation revenues, which was an increase of \$602,869 compared to the prior fiscal year. Of this revenue, \$15,260,236 comes from Proposition 10 and \$4,593,701 from Proposition 56, both being from tobacco sales.

Revenues The Commission receives the majority of its revenue from the State allocation of Proposition 10 and 56 funds and from interest earned on its investments. In the fiscal year ending June 30, 2020, the Commission recorded \$22,462,171 as revenue from the State, and other governments, which was an increase of \$916,420, or four percent (4.3%), compared to the prior fiscal year. The Commission invests its funds in the San Bernardino County Treasury and had an increase of \$1,390,469 as a result of recording the fair value of investments, and interest of \$1,845,944. Interest earned on the surplus money investment fund (SMIF), held by the State of California, is \$68,842 and included in investment income. Total investment income, including the FY 2019/20 SMIF, was \$3,236,413, for an overall increase of \$366,849, or thirteen percent (12.8%).

Expenses During the 2019/20 fiscal year, the Commission expensed \$19,121,283 in program costs, which includes \$15,296,498 in contract expenses to various service providers within San Bernardino County. Program expenses decreased by \$132,607 or one percent (0.9%) over the prior fiscal year.

Administrative costs were nine percent (9.3%) of actual total costs.

Financial Analysis of the Commission's Governmental Fund

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, 2020, the Commission's general fund reported an ending fund balance of \$96,853,105, an increase of \$9,382,937 or eleven percent (10.7%). Variances are as follows:

- Nonspendable fund balance increased by \$64,391
- Assigned fund balance increased \$2,174,716
- Unassigned fund balance increased by \$7,143,830

The increase in assigned fund balance is due to the increase of issued contracts between fiscal years 2018/19 and 2019/20. The increase of contracted services also caused a decrease in the unassigned fund balance offset by the increase in the current year's change in fund balance. The increase in contracted services is in line with the Commission's approved annual budget.

General Fund Budgetary Highlights

There were no changes from the original budget to the final budget. Total actual revenues were greater than budgeted by \$8,387,404. Total actual expenditures were \$5,194,431 less than budgeted. The majority of the difference was because the contracted payments and salaries and benefits being \$4,857,958 and \$348,256 less than budgeted, respectively.

Capital Assets

The Commission's capital assets consist of leasehold improvements, furniture and fixtures, and computer equipment, in the amount of \$45,151, net of accumulated depreciation. Depreciation expense for the year totaled \$13,822.

Economic Factors and Next Year's Budget

The Commission embraces the opportunity to continue to invest in the children and families of San Bernardino County through a comprehensive system of care, where stakeholders and services are integrated, coordinated and sustainable, and families experience this system as accessible, inclusive and equitable. As the Commission continues to build and support a comprehensive system of care for children ages 0 – 5, our vision is that community organizations, collective impact groups and our workforce will be equipped and developed to effectively collaborate and serve children and families to improve the well-being of the whole child/whole family.

The Commission recently approved a new Strategic Plan for 2020-2023, where supportive strategies towards systems change are embedded in each of the Commission's Strategic Priority Areas, which include Child Health, Quality Early Learning and Family Supports. This framework ensures that specific outcomes can be measured in a system that directly benefits children, families and communities across all of San Bernardino County. The Commission's vision, reflected in the new Strategic Plan, is based on lessons learned, evaluated data, extensive research, and community and partner input. The Commission's Strategic Plan aligns with and supports the Countywide Vision, particularly in the elements of Education and Wellness. It also bridges with other countywide initiatives such as Community Vital Signs and Cradle to Career. The potential for powerful collective impact can be realized through shared goals and indicators within these initiatives. Through the statewide First 5 Network, the Commission will also contribute to the development of strategies and frameworks related to addressing racism, equity, inclusion and diversity in the services and strategies supported by the Commission.

The early childhood years are the foundation for lifelong well-being. The Commission is committed to promote, support and enhance the health and early development of our children, prenatal through age 5, as well as their families and communities.

In the coming year, the Commission will continue to seek, collaborate, and leverage funding with existing partnerships and new funding opportunities. The 2020-2023 Strategic Plan aims to guide the Commission's investment decisions and strategic work intended to support communities, organizations and families to ensure that all children in San Bernardino County are healthy safe, nurtured, eager to learn and ready to succeed.

Requests for Information

This financial report is designed to provide a general overview of the First 5 San Bernardino Children and Families Commissions' finances for all those who are 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 at 735 East Carnegie Drive, Suite 150, San Bernardino, California 92408. We can be reached at 909-386-7706 or www.first5sanbernardino.org

First 5 San Bernardino Children and Families Commission
Statement of Net Position
June 30, 2020

	Governmental Activities
Assets	
Cash and investments	\$ 100,402,446
Due from State of California:	
Allocations	3,101,313
Interest	68,842
Due from County of San Bernardino - interest	432,895
Prepaid items	67,193
Capital assets, net of accumulated depreciation	45,151
Total assets	104,117,840
Deferred Outflows of Resources	
Deferred outflows related to pensions	724,998
Liabilities	
Contracts payable	2,445,395
Accounts payable	44,930
Due to other governments	3,968,824
Accrued payroll	156,130
Noncurrent liabilities:	
Due within one year - compensated absences	68,729
Due in more than one year - compensated absences	176,147
Net pension liability	1,887,267
Total liabilities	8,747,422
Deferred Inflows of Resources	
Deferred inflows related to pensions	299,165
Net Position	
Investment in capital assets	45,151
Unrestricted	95,751,100
Total net position	\$ 95,796,251

First 5 San Bernardino Children and Families Commission
Statement of Activities
Year Ended June 30, 2020

	Governmental Activities
Expenses	
Child development	\$ 19,121,283
Total expenses	19,121,283
Program Revenues	
Operating grants and contributions:	
State allocations	19,853,937
First 5 California IMPACT	1,348,471
California Dept. of Education Quality Counts California	
QRIS Block Grant	711,240
Dental Transformation Initiative	57,627
Other revenues	490,896
Total program revenues	22,462,171
Net Program Revenues/(Expenses)	3,340,888
General Revenues	
Investment Income	3,236,413
Total general revenues	3,236,413
Change in Net Position	6,577,301
Net Position, Beginning of Period	89,218,950
Net Position, End of Period	\$ 95,796,251

First 5 San Bernardino Children and Families Commission

Balance Sheet – Governmental Funds

June 30, 2020

	<u>General Fund</u>
Assets	
Cash and investments	\$ 100,402,446
Due from State of California	
Allocations	3,101,313
Interest	68,842
Due from County of San Bernardino - interest	432,895
Prepaid items	<u>67,193</u>
Total assets	<u>\$ 104,072,689</u>
 Liabilities, Deferred Inflows of Resources, and Fund Balances	
Liabilities	
Contracts payable	\$ 2,445,395
Accounts payable	44,930
Due to other governments	3,968,824
Accrued payroll	<u>156,130</u>
Total liabilities	<u>6,615,279</u>
 Deferred Inflows of Resources:	
Unavailable revenue	<u>604,305</u>
 Fund Balances	
Nonspendable	67,193
Assigned	19,387,785
Unassigned	<u>77,398,127</u>
Total fund balances	<u>96,853,105</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 104,072,689</u>

First 5 San Bernardino Children and Families Commission
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2020

Fund Balance of Governmental Fund	\$ 96,853,105
<p>Amounts reported for governmental activities in the Statement of Net Position are different because:</p>	
<p>Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported as an asset in the fund financial statements.</p>	45,151
<p>Deferred outflows of resources, presented in the Statement of Net Position, represents a consumption of net position that applies to future period(s) and, therefore, will not be recognized as an outflow of resources (expenditure) in the fund financial statements.</p>	
Employer pension contributions made subsequent to measurement date	343,396
Differences between expected and actual experience	25,177
Net differences between projected and actual investment earnings on pension plan investments	37,576
Changes in assumptions	246,483
Changes in proportion and differences between employer contributions and proportionate share of contributions	72,366
<p>Certain revenues in the governmental funds are reported as deferred inflows because they are not collected within the prescribed time period after year-end. However, the revenues are included on the accrual basis used in the government-wide statements.</p>	604,305
<p>Deferred inflows of resources, presented in the Statement of Net Position, represents an acquisition of net position that applies to future period(s) and, therefore, will not be recognized as an inflow of resources (revenue) in the fund financial statements.</p>	
Differences between expected and actual experience	(60,682)
Changes in proportion and differences between employer contributions and proportionate share of contributions	(238,483)
<p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the Statement of Net Position.</p>	
Compensated absences	(244,876)
Net pension liability	(1,887,267)
Net Position of Governmental Activities	\$ 95,796,251

First 5 San Bernardino Children and Families Commission
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds
Year Ended June 30, 2020

	General Fund
Revenues	
State allocations	\$ 22,752,967
First 5 California IMPACT	1,250,345
California Dept. of Education Quality Counts California QRIS Block Grant	577,735
Dental Transformation Initiative	57,627
Investment income	3,289,101
Other revenues	490,896
Total revenues	28,418,671
Expenditures	
Current:	
Salaries and benefits	2,060,064
Services and supplies	1,679,172
Contract payments to agencies	15,296,498
Total expenditures	19,035,734
Net Change in Fund Balance	9,382,937
Fund Balance, Beginning of Period	87,470,168
Fund Balance, End of Period	\$ 96,853,105

First 5 San Bernardino Children and Families Commission
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental
Funds to the Statement of Activities
Year Ended June 30, 2020

Net Change in Fund Balance - Total Governmental Funds	\$ 9,382,937
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:	
Governmental funds report capital outlays as expenditures. However, in the Government-wide Statement of Activities, the costs of those assets is capitalized and allocated over their estimated useful lives as depreciation expense.	(13,822)
Compensated absence expenses reported in the Government-wide Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. This amount represents the net change in the compensated absences liability.	(68,729)
Governmental funds report pension contributions as expenditures. However, in the Statement of Activities, pension expense is measured as the change in the net pension liability and the amortization of deferred outflows and inflows related to pensions. This amount represents the change in pension related amounts.	(2,998)
Certain revenues in the governmental funds are reported as deferred inflows because they are not collected within the prescribed time period after year-end. However, the revenues are included on the accrual basis used in the government-wide statements.	<u>(2,720,087)</u>
Change in Net Position of Governmental Activities	<u><u>\$ 6,577,301</u></u>

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 Act of 1998 (Act) and by San Bernardino County Ordinance No. 3745. The Commission is a public entity legally separate and apart from the County of San Bernardino (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 objective of the Act. The Commission's programs are funded primarily by taxes levied by the State of California (State) 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 serve for two (2) years, except for the Board of Supervisors, 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 the Chair and Vice-Chair who 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 and 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

The government-wide financial statements consist of the Statement of Net Position and Statement of Activities. These statements are presented using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all of the Commission's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, including capital assets and long-term liabilities are included in the accompanying Statement of Net Position. Revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements rather than reporting them as expenses. Proceeds of long-term debt are also recorded in the government-wide financial statements as a liability, rather than as another financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expense.

Net position represents the resources the Commission has available for use in providing services. The Commission's net position is classified as follows:

Investment in capital assets – This category groups all capital assets into one component of net position. Accumulated depreciation reduces the balance in this category.

Unrestricted – This category represents neither restricted nor invested in capital assets and may be used by the Commission for any purpose though they may not necessarily be liquid.

Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues and assets from non-exchange transactions are recognized in the period in which all eligibility requirements have been met. Non-exchange expenses and liabilities are recognized in the period in which the liability is incurred, regardless of the timing of related cash flows.

Governmental Fund Financial Statements

The governmental fund financial statements consist of a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balance for 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 general fund generally present increases (revenues) and decreases (expenditures) in net current assets. The Commission has one major fund; the general fund is used to account for the Commission's operations which consist solely of child development programs.

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.

Long-Term Liabilities

Compensated absences 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 and the net pension liability have been accrued in the government-wide financial statements and are included in long-term liabilities. The compensated absences and net pension liability will be liquidated by the general fund.

Cash and Investments

The Commission maintains 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 participant's 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 is different from fair value.

The Commission categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Commission does not have any investments that are measured using Level 3 inputs. Money market investments that have remaining maturity at the time of purchase of one-year or less and guaranteed investment contracts are measured at amortized cost.

The Commission is a participant in the San Bernardino Treasurer's Pool (County Pool). The County Pool is an external investment pool and is not registered with the Securities Exchange Commission (SEC). The County Pool is rated by Fitch ratings (NRSRO) at AAf/S1. The San Bernardino County Treasury Oversight Committee conducts County Pool oversight. Cash on deposit in the County Pool at June 30, 2020, is stated at fair value. The County Pool values participant shares on an amortized cost basis during the year and adjusts to fair value at year-end. For further information regarding the County Pool, refer to the County of San Bernardino Annual Financial Report.

Due from State of California

Due from State of California represents receivables from the State. Management has determined the Commission's receivables from the State are fully collectable with the exception of \$13,474 Senate Bill 90 mandated claims filed under the California State Mandated Cost program for Open Meetings/Act Brown Act Reform. The commission has fully reserved this receivable.

Prepaid Items

Certain payments to vendors reflect the costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the San Bernardino County Employees’ Retirement Association (SBCERA) plan (Plan) and additions to/deductions from the Plan’s fiduciary net position have been determined on the same basis as they are reported by SBCERA. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Capital Assets

Capital assets are defined by the Commission as assets with an initial, individual cost of more than \$5,000 and an estimated useful life greater than one year. Such assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. Capital assets include leasehold improvements, information technology equipment and office furniture and fixtures and are recorded at cost. The Commission depreciates capital assets using a straight-line method over the following estimated useful lives:

Equipment, Furniture, & Vehicles	10 years
Automobiles	5 years
Computer & peripheral equipment	5 years
Office machinery & equipment, other than computers	6 years
Servers	6 years
Computer software developed or purchased for internal use	3 years
Leasehold improvements	The lesser of 40 years (for building improvements or the term of the lease)

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

Revenues

Revenues consist 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 in the county.

Deferred Outflows of Resources

Deferred outflows of resources is a consumption of net position by the Commission that is applicable to future reporting periods.

Deferred Inflows of Resources

Deferred inflows of resources is an acquisition of net position by the Commission that is applicable to future reporting periods.

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.

Use of Restricted Resources

When an expense is incurred for purposes for which both restricted and unrestricted net position is available, it is presumed that restricted resources are spent first, followed by unrestricted resources.

Fund Balance Classification

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the Commission is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **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).
- **Assigned:** amounts or limitations that are constrained by the Commission's intent to be used for a specific purpose that is neither restricted nor committed. Intent may be established by (a) the Commission's Board or (b) a body created by the Commission's Board, such as a commission finance committee, or (c) an official to which the governing body has delegated the authority to assign amounts to be used for specific purposes. The Commission's Board has authority to assign and remove or modify an assignment to fund balance. In addition, the Executive Director has been delegated the authority to remove an assignment.
- **Unassigned:** resources in the fund balance that cannot be reported in any other classification or negative fund balance.

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 unassigned fund balances could be used, it is presumed that the committed amounts are spent first, then the assigned amounts, then the unassigned amounts.

In fiscal year 2016, the Commission adopted a minimum fund balance policy for the General Fund. The policy requires the unassigned fund balance at fiscal year-end to be at least \$22,000,000. As of June 30, 2020, the Commission was in compliance with the policy.

Current Accounting Pronouncements

GASB Statement No. 95 – *In May 2020, GASB issued Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance.* The primary objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. This statement was effective upon issuance. The Commission implemented this statement effective July 1, 2019 and has determined that there was no impact on the Commission’s financial statements.

Future Accounting Pronouncements

The GASB has issued the following pronouncements that have effective dates which may impact future financial statement presentation. The Commission has not determined the effect of the following Statements:

GASB Statement No. 84 - *Fiduciary Activities.*

GASB Statement No. 87 - *Leases.*

GASB Statement No. 89 - *Accounting for Interest Cost Incurred Before the End of a Construction Period.*

GASB Statement No. 90 - *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61.*

GASB Statement No. 91 - *Conduit Debt Obligations.*

GASB Statement No. 92 - *Omnibus 2020.*

GASB Statement No. 93 - *Replacement of Interbank Offered Rates.*

GASB Statement No. 94 - *Public-Private and Public-Public Partnerships and Availability Payment Arrangements.*

GASB Statement No. 96 - *Subscription-Based Information Technology Arrangements.*

GASB Statement No. 97 - *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans.*

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 2019-20 fiscal year is summarized as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due within One Year
Compensated Absences	\$ 176,147	\$ 223,458	\$ (154,729)	\$ 244,876	\$ 68,729

Note 3 - Cash and Investments

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

Cash and Investment Held in County Pool	<u>\$ 100,402,446</u>
Total Cash and Investments	<u><u>\$ 100,402,446</u></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) and separate pool report. The County of San Bernardino’s financial statements and pool report may be obtained by contacting the County of San Bernardino’s Auditor Controller/Treasurer/Tax Collector’s office at 268 W. Hospitality Lane, 4th Floor, 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 reported at fair value.

Fair Value Measurement

The commission categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of June 30, 2020, the Commission held no individual investments. All funds are invested in the County Treasury.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Commission's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Deposits and withdrawals from the pool are made on the basis of \$1 and not fair value. Accordingly, the Commission's proportionate share of investments in the County Treasury at June 30, 2020 of \$100,402,446 is uncategorized and not defined as a Level 1, Level 2, or Level 3 input.

First 5 San Bernardino Children and Families Commission

Notes to Financial Statements

June 30, 2020

Note 4 - Due from State of California

Due from State of California represents amounts due to the Commission from the California Children and Families Commission (“State Commission”) for Prop 10 and 56 related revenues. The amounts due to the Commission at June 30, 2020, were as follows:

Due from State of California:		
Prop 10 revenue for:		
May 2020 Allocation	\$	976,098
June 2020 Allocation		1,386,808
First 5 California IMPACT		471,397
Surplus Money Investment Fund (SMIF) allocations interest		68,842
CA Department of Education (QCC) QRIS Block Grant		<u>267,010</u>
Total amount due from State of California	\$	<u><u>3,170,155</u></u>

Note 5 - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2020 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets being depreciated:				
Leasehold improvements	\$ 54,843	\$ -	\$ -	\$ 54,843
Furniture and fixtures	75,434	-	-	75,434
Computer equipment	14,306	-	-	14,306
Total capital assets being depreciated	<u>144,583</u>	<u>-</u>	<u>-</u>	<u>144,583</u>
Less accumulated depreciation:				
Leasehold improvements	(30,619)	(5,484)	-	(36,103)
Furniture and fixtures	(41,478)	(7,543)	-	(49,021)
Computer equipment	<u>(13,513)</u>	<u>(795)</u>	<u>-</u>	<u>(14,308)</u>
Total accumulated depreciation	<u>(85,610)</u>	<u>(13,822)</u>	<u>-</u>	<u>(99,432)</u>
Governmental activities capital assets, net	<u>\$ 58,973</u>	<u>\$ (13,822)</u>	<u>\$ -</u>	<u>\$ 45,151</u>

Depreciation expense amounted to \$13,822 for the year ended June 30, 2020, and is reflected in the Statement of Activities in the Child Development function.

Note 6 - Operating Leases

The Commission leases office space from a third party under a long-term operating lease, which expires on October 31, 2023. The term of the office lease is for a period of ten years with two five-year options to extend. The future minimum rental payments under these obligations are as follows:

<u>Year Ended June 30,</u>	<u>Office Space</u>
2021	\$ 367,044
2022	376,296
2023	385,548
2024	129,544
Total	<u>\$ 1,258,432</u>

Rent expense was \$359,156 for the year ended June 30, 2020.

Note 7 - Contracts Payables

The Commission's primary expenses consist of funding to various governmental and non-profit agencies that provide services directly to children ages 0 to 5 and their families. The Commission pays on a monthly reimbursement basis to the contracted agencies. These agencies 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, 2020, the following was owed to agencies and is included in contracts payable:

Contracts Payable by Strategic Priority Area (SPA):

SPA 1 - Children and Families

Family	\$ 468,239
Early Learning	92,343
QRIS IMPACT	1,201,947

SPA 2 - Systems and Network

Systems	567,243
Evaluation	115,623

Total contracts payable	<u>\$ 2,445,395</u>
-------------------------	---------------------

Due to Other Governments by Strategic Priority Area (SPA):

SPA 1 - Children and Families

Health	\$ 3,569,201
Family	104,543
Early Learning	87,223
QRIS IMPACT	60,241

SPA 2 - Systems and Network

Systems	147,616
---------	---------

Total due to other governments	<u>\$ 3,968,824</u>
--------------------------------	---------------------

Note 8 - Deferred Inflows of Resources - Unavailable Revenue

The general fund reports unavailable revenue on the governmental fund balance sheet in connection with resources that have been earned, but are not yet available to finance expenditures of the current fiscal period. This type of deferred inflow of resources occurs only under the modified accrual basis of accounting. Accordingly, unavailable revenue is reported only in the general fund balance sheet. At the end of the current fiscal year, the components of unavailable revenue resulting from funds not received within the 60-day period of availability were as follows:

Unavailable Revenue:	
First 5 California IMPACT	\$ 470,800
QRIS Block Grant	<u>133,505</u>
Total amount due	<u><u>\$ 604,305</u></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.

Note 10 - Related Party Transactions

The required composition of the Board of Commissioners includes members from the County, other local governments, and 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 fiscal year 2020, whereby Commissioners were required to abstain from voting:

<u>Organization</u>	<u>Award Amount</u>
Children's Fund	\$ 263,900
Arrowhead Regional Medical Center	<u>222,068</u>
Total	<u><u>\$ 485,968</u></u>

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, workers’ compensation, group health indemnified plans, group salary continuance plan, group dental plan and unemployment benefit plan.

Total expenses incurred to related parties for fiscal year 2020 were \$6,818,453. As of June 30, 2020, amounts of \$150,134 and \$3,790,809, due to related parties are included in contracts payable and due to other governments, respectively.

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, 2020, the Commission expended \$1,011,192 for program evaluation.

Note 12 - Fund Balance

Nonspendable fund balance of \$67,193 consists of prepaid items.

Assigned fund balance of \$19,387,785 consists of the following:

Contracts for Evaluation Services	\$ 658,346
Contracts for Operation Services	399,404
Contracts for Program Services	15,479,006
Contracts for QRIS	<u>2,851,029</u>
 Total Assigned Fund Balance	 <u><u>\$ 19,387,785</u></u>

Note 13 - Defined Benefit Pension Plan

Plan Description. Employees of the Commission participate in the County of San Bernardino’s (County) cost-sharing multiple-employer defined benefit retirement plan (the Plan) administered by the San Bernardino County Employee’s Retirement Association (SBCERA). The Plan is governed by the San Bernardino Board of Retirement (Board) under the California County Employees’ Retirement Law of 1937 (CERL) and the California Public Employees’ Pension Reform Act of 2013 (PEPRA). The Plan’s authority to establish and amend the benefit terms are set by the CERL and PEPRA, and may be amended by the California state legislature and in some cases require approval by the County of San Bernardino Board of Supervisors and/or the SBCERA Board. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, attention Fiscal Services Department, 348 W. Hospitality Lane, San Bernardino, California 92408 or visiting the website at www.sbcera.org.

Benefits Provided. SBCERA provides retirement, disability, death and survivor benefits. SBCERA administers the Plan which provides benefits for two membership classifications, General and Safety, and those benefits are tiered based upon date of SBCERA membership. Safety membership is extended to those involved in active law enforcement and fire suppression. All other members, including the Commission’s employees, are classified as General members. Generally, those who become members prior to January 1, 2013 are Tier 1 members. All other members are Tier 2. An employee who is appointed to a regular position, whose service is at least fifty percent of the full standard of hours required, are members of SBCERA, and are provided with pension benefits pursuant to Plan requirements.

First 5 San Bernardino Children and Families Commission

Notes to Financial Statements

June 30, 2020

The CERL and PEPRAs establish benefit terms. Retirement benefits for the General Tier 1 and General Tier 2 Plans are calculated on the basis of age, average final compensation and service credit as follows:

	General – Tier 1	General – Tier 2
Final Average Compensation	Highest 12 consecutive months	Highest 36 consecutive months
Normal Retirement Age	The later of age 55 or the age at which the member vests in his/her benefits under the CERL, but not later than age 70	The later of age 55 or the age at which the member vests in his/her benefits under the CERL, but not later than age 70
Early Retirement: Years of service required and/or age eligibility	Age 70 any years 10 years age 50 30 years any age	Age 70 any years 5 years age 52 N/A
Benefit	At normal retirement age, 2.0% per year of final average compensation for every year of service credit	At age 67, 2.5% per year of final average compensation for every year of service credit
Benefit Adjustments	Reduced before age 55, increased after 55 up to age 65	Reduced before age 67
Final Average Compensation Limitation	Internal Revenue Code section 401(a)(17)	Government Code section 7522.10

An automatic cost of living adjustment is provided to benefit recipients based on changes in the local region Consumer Price Index (CPI) up to a maximum of 2 percent per year. Any increase greater than 2 percent is banked and may be used in years where the CPI is less than 2 percent. There is a one-time 7 percent increase at retirement for members hired before August 19, 1975. The Plan also provides disability and death benefits to eligible members and their beneficiaries, respectively. For retired members, the death benefit is determined by the retirement benefit option chosen. For all other members, the beneficiary is entitled to benefits based on the members years of service or if the death was caused by employment. General members are also eligible for survivor benefits which are payable upon a member's death.

Contributions. Participating employers and active members (i.e. County), including the Commission and the Commission's employees, are required by statute to contribute a percentage of covered salary to the Plan. This requirement is pursuant to Government Code sections 31453.5 and 31454 for participating employers, and Government Code sections 31621.6, 31639.25 and 7522.30 for active members. The contribution requirements are established and may be amended by the SBCERA Board pursuant to Article 1 of the CERL, which is consistent with the Plan's actuarial funding policy. The contribution rates are adopted yearly, based on an annual actuarial valuation, conducted by an independent actuary, that requires actuarial assumptions with regard to mortality, expected future service (including age at entry into the Plan, if applicable and tier), and compensation increases of the members and beneficiaries. The combined active member and employer contribution rates are expected to finance the costs of benefits for employees that are allocated during the year, with an additional amount to finance any unfunded accrued liability. Participating employers may pay a portion of the active members' contributions through negotiations and bargaining agreements. Employer contribution rates for the year ended June 30, 2020 are 25.39 percent for Tier 1 General members and 22.86 percent for Tier 2 General members.

First 5 San Bernardino Children and Families Commission

Notes to Financial Statements

June 30, 2020

Employee contribution rates for the fiscal year ended June 30, 2020 ranged between 8.62 percent and 15.53 percent for Tier 1 General members and 9.10 percent for Tier 2 General members. The Commission's proportionate share of the County's contribution to the Plan was \$343,396 for the year ended June 30, 2020.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2020, the Commission reported a liability of \$1,887,267, for its proportionate share of the County's net pension liability. The net pension liability was measured as of June 30, 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Commission's proportion of the County's net pension liability was based on the Commission's FY 2019 actual contributions to the County's pension plan relative to the total contributions of the County as a whole. At June 30, 2019, the Commission's proportion was 0.0850 percent, which was an increase of 0.0007 percent from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the Commission recognized pension expense of \$346,394. The Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 25,177	\$ 60,682
Changes in assumptions	246,483	-
Net difference between projected and actual earnings on pension plan investments	37,576	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	72,366	238,483
Commission's contributions subsequent to the measurement date	343,396	-
Total	\$ 724,998	\$ 299,165

First 5 San Bernardino Children and Families Commission

Notes to Financial Statements

June 30, 2020

The \$343,396 reported as deferred outflows of resources related to pensions resulting from the Commission's contributions to the County's plan subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the Commission's proportion of the County's pension plan will be recognized in pension expense as follows:

Year ended June 30	Amount
2021	\$ 44,331
2022	(38,882)
2023	39,929
2024	28,037
2025	8,571
Thereafter	451
Total	\$ 82,437

Actuarial assumptions. The Commission's proportion of the County's total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date	June 30, 2019
Actuarial cost method	Entry age actuarial cost method
Actuarial Assumptions:	
Investment rate of return	7.25%
Inflation	3.00%
Projected Salary increases	General: 4.50% to 14.50%
Cost of Living Adjustments	Consumer price index with a 2.00% maximum
Administrative Expenses	0.70% of payroll

Mortality rates used in the latest actuarial valuation dated June 30, 2019 are based on the Headcount Weighted RP-2014 Healthy Annuitant mortality table projected generationally using the two-dimensional mortality improvement scale MP-2016. For healthy General male members, the ages are set forward one year. No adjustment is made for healthy General female members. For all General members that are disabled, the ages are set forward seven years. Beneficiaries are assumed to have the same mortality as a General member of the opposite sex who is receiving a service (non-disability) retirement.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of the June 30, 2017 Actuarial Experience Study for the three year period of July 1, 2013 through June 30, 2016.

The long-term expected rate of return on Plan investments was determined using a building block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. This information is combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, and by adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocations (approved by the Board) and projected arithmetic real rates of return for each major asset class, after deducting inflation, but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumptions, are summarized in the table below.

First 5 San Bernardino Children and Families Commission

Notes to Financial Statements

June 30, 2020

Asset Class	Target Allocation *	Long-Term Expected Real Rate of Return
Large Cap U.S. Equity	8.00%	5.61%
Small Cap U.S. Equity	2.00%	6.37%
Developed International Equity	6.00%	6.96%
Emerging Market Equity	6.00%	9.28%
U.S. Core Fixed Income	2.00%	1.06%
High Yield/Credit Strategies	13.00%	3.65%
Global Core Fixed Income	1.00%	0.07%
Emerging Market Debt	6.00%	3.85%
Real Estate	9.00%	4.37%
International Credit	11.00%	6.75%
Absolute Return	13.00%	3.56%
Real Assets	5.00%	6.35%
Private Equity	16.00%	8.47%
Cash and Equivalents	2.00%	-0.17%
Total	100.00%	

* For actuarial purposes, target allocations only change once every three years based on the triennial actuarial experience study.

Discount rate. For the June 30, 2019 measurement date, the discount rate used to measure the Plan’s total pension liability was 7.25 percent. The projection of cash flows used to determine the discount rate assumed employer and member contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employee and employer contributions that are intended to fund benefits of current Plan members and their beneficiaries are included. Projected employer contributions that are intended to fund the service costs of future Plan members and their beneficiaries, as well as projected contributions from future Plan members, are not included. Based on those assumptions, the Plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current Plan members. Therefore, for the June 30, 2019 measurement date, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Commission’s proportionate share of the County’s net pension liability to changes in the discount rate. The following table presents the Commission’s proportionate share of the County’s net pension liability calculated using the discount rate of 7.25 percent, as well as what the Commission’s proportionate share of the County’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.25%) or 1-percentage-point higher (8.25%) than the current rate:

	1% Decrease	Current	1% Increase
Commission’s proportionate share of the County’s net pension liability	\$ 3,440,689	\$ 1,887,267	\$ 613,706

Pension plan fiduciary net position. Detailed information about the County's collective net pension liability is available in the County's separately issued 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 268 W. Hospitality Lane, San Bernardino, California 92415-0018. Detailed information about the SBCERA's fiduciary net position is available in a separately issued SBCERA comprehensive annual financial report. That report may be obtained on the Internet at www.SBCERA.org or by writing to SBCERA at 348 W. Hospitality Lane, Third Floor, San Bernardino, California 92415-0014.

Note 14 - Risk Management

The Commission is part of the County of San Bernardino's insurance programs which includes risk management, workers' compensation, and auto liability; however, the Commission holds its own general liability providing limits of \$5,000,000 per occurrence and Employee Practices Liability with a limit of \$2,000,000 per occurrence subject to a deductible of \$10,000 per occurrence.

During the last three fiscal years, the Commission had no settlements exceeding insurance coverage for these categories of risk.



Required Supplementary Information
June 30, 2020

First 5 San Bernardino Children and Families Commission

(a Component Unit of the County of San Bernardino, California)

First 5 San Bernardino Children and Families Commission
Schedule of the Commission's Proportionate Share of the County's Net Pension Liability
Last 10 Fiscal Years ⁽¹⁾
Year Ended June 30, 2020

	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Commission's proportion of the County's net pension liability	0.0850%	0.0843%	0.0932%	0.1065%	0.1030%	0.1093%
Commission's proportionate share of the collective net pension liability	\$ 1,887,267	\$ 1,741,472	\$ 2,032,135	\$ 2,184,167	\$ 1,672,490	\$ 1,571,153
Commission's covered payroll	\$ 1,390,006	\$ 1,300,631	\$ 1,371,664	\$ 1,433,225	\$ 1,405,604	\$ 1,388,814
Commission's proportionate share of the County's net pension liability as a percentage of its covered payroll	135.77%	133.89%	148.15%	152.40%	118.99%	113.13%
Plan's fiduciary net position as a percentage of the total pension liability	79.61%	79.89%	77.90%	76.86%	80.98%	82.47%
Measurement date	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014

Note to Schedule:

In 2018, the actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the three year period of July 1, 2013 through June 30, 2016. Amounts reported in 2018 primarily reflect a decrease of 0.25% for both the investment rate of return and inflation rate, an increase of 0.1% of payroll for administrative expenses, and adjustments of projected salary increases and mortality rates to more closely reflect actual experience. Mortality rates used in the June 30, 2017 actuarial valuation are based on the Headcount-Weighted RP 2014 Healthy Annuitant Mortality Table rather than on the RP-2000 Combined Healthy Mortality Table, which was used to determine amounts reported prior to 2018.

⁽¹⁾The amounts presented for each fiscal year were determined as of June 30. Fiscal year 2015 was the first year of implementation; therefore, only six years are shown.

First 5 San Bernardino Children and Families Commission
Schedule of the Commission's Contributions
Last 10 Fiscal Years ⁽¹⁾
Year Ended June 30, 2020

	June 30, 2020	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Contractually required contribution	\$ 343,396	\$ 339,431	\$ 288,583	\$ 301,538	\$ 328,404	\$ 297,702
Contributions in relation to the contractually required contribution	(343,396)	(339,431)	(288,583)	(301,538)	(328,404)	(297,702)
Contribution deficiency	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commission's covered payroll	\$ 1,379,767	\$ 1,390,006	\$ 1,300,631	\$ 1,371,664	\$ 1,433,225	\$ 1,405,604
Contributions as a percentage of covered payroll	24.89%	24.42%	22.19%	21.98%	22.91%	21.18%

Note to Schedule:

⁽¹⁾ The amounts presented for each fiscal year were determined as of June 30. Fiscal year 2015 was the first year of implementation; therefore, only six years are shown.

First 5 San Bernardino Children and Families Commission
 Budgetary Comparison Schedule – General Fund
 Year Ended June 30, 2020

	General Fund			Variance with Final Budget - Positive (Negative)
	Budgeted Amounts		Actual Amounts	
	Original	Final		
Revenues				
State allocations	\$ 17,686,641	\$ 17,686,641	\$ 22,752,967	\$ 5,066,326
Investment income	775,150	775,150	3,289,101	2,513,951
First 5 California IMPACT	1,239,972	1,239,972	1,250,345	10,373
California Dept. of Education Quality Counts				
California QRIS Block Grant	-	-	577,735	577,735
Dental Transformation Initiative	329,504	329,504	57,627	(271,877)
Other revenues	-	-	490,896	490,896
Total revenues	<u>20,031,267</u>	<u>20,031,267</u>	<u>28,418,671</u>	<u>8,387,404</u>
Expenditures				
Current:				
Salaries and benefits	2,408,320	2,408,320	2,060,064	348,256
Services and supplies	1,667,389	1,667,389	1,679,172	(11,783)
Contract payments to agencies	20,154,456	20,154,456	15,296,498	4,857,958
Total expenditures	<u>24,230,165</u>	<u>24,230,165</u>	<u>19,035,734</u>	<u>5,194,431</u>
Net Change in Fund Balance	(4,198,898)	(4,198,898)	9,382,937	13,581,835
Fund Balance, Beginning of Period	<u>87,470,168</u>	<u>87,470,168</u>	<u>87,470,168</u>	<u>-</u>
Fund Balance, End of Period	<u>\$ 83,271,270</u>	<u>\$ 83,271,270</u>	<u>\$ 96,853,105</u>	<u>\$ 13,581,835</u>

Note 1 - Budget and Budgetary Process

In accordance with Commission By-laws, the Commission's Governing Board shall adopt an annual budget consistent with California Counties' law and standards on or before July 1. 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. The budgetary control is at the source level for revenues and the object class level for expenditures.

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 at the category level and honored during the subsequent year.

Note 2 - Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2020, the Commission incurred expenditures exceeding appropriations in the amount of \$11,783 for services and supplies.



Supplementary Information

June 30, 2020

First 5 San Bernardino Children and Families Commission

(a Component Unit of the County of San Bernardino, California)

First 5 San Bernardino Children and Families Commission

Schedule of First 5 California Funding
 Year Ended June 30, 2020

Program	Source	Revenue	Expenses	Change in Net Position	Net Position Beginning of Year	Net Position End of Year
IMPACT Regional Coordination Training	CCFC Program Funds	\$ 1,348,471	\$ 1,348,471	\$ -	\$ -	\$ -



Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the governmental activities and the general fund of First 5 San Bernardino Children and Families Commission (Commission), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Commission’s basic financial statements, and have issued our report thereon dated October 23, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission’s internal control over financial reporting (internal control) as a basis for designing the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission’s internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Eide Bailly LLP". The signature is written in a cursive, flowing style.

Rancho Cucamonga, California
October 23, 2020



Independent Auditor's Report on State Compliance

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

Compliance

We have audited the First 5 San Bernardino Children and Families Commission's (Commission), a component unit of the County of San Bernardino, California, compliance with the requirements specified in the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, issued by the State Controller's Office, applicable to the Commission's statutory requirements identified below for the year ended June 30, 2020.

Management's Responsibility

Management is responsible for compliance with the requirements of the laws and regulations applicable to the California Children and Families Act.

Auditor's Responsibility

Our responsibility is to express an opinion on the Commission's compliance with the requirements referred to above based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, issued by the State Controller's Office. Those standards and the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the requirements referred to above that could have a direct and material effect on the statutory requirements listed below. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance. However, our audit does not provide a legal determination of the Commission’s compliance with those requirements. In connection with the audit referred to above, we selected and tested transactions and records to determine the Commission’s compliance with the state laws and regulations 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-rang Financial Plans	2	Yes
Financial Condition of the Commission	1	Yes
Program Evaluation	3	Yes
Salaries and Benefit Policies	2	Yes

Opinion

In our opinion, the Commission complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the California Children and Families Program for the year ended June 30, 2020.

Purpose of Report

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



Rancho Cucamonga, California
 October 23, 2020

First 5 San Bernardino Children and Families Commission
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2020

<u>Finding No.</u>	<u>Condition</u>	<u>Current Status</u>
2019-001	Salaries and Benefits Policies	Implemented