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

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

For the Year Ended June 30, 2015

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FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
FOR THE YEAR ENDED JUNE 30, 2015

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INDEPENDENT AUDITORS' 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, 2015, 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.

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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 June 30, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 14 to the financial statements, the Commission adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions —an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*, effective July 1, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information, schedule of the Commission's proportionate share of the net pension liability, schedule of Commission's contributions, and notes to required supplementary information on pages 3–9 and 35-37 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2015, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
October 30, 2015

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 (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 (First 5 San Bernardino) 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, 2015.

Financial Highlights

- The Commission recorded $20,851,510 from the State of California from revenues collected under the California Children and Families Act (Proposition 10). This amount is $974,377 more than budgeted due to a slight increase in the actual over expected tobacco tax collections at the State level and is $329,500 less than fiscal year 2014.
- During the current fiscal year, the Commission recognized $23,001,890 in grant related 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 $77,296,284 (*net position*), a decrease of $5,152,115. Approximately $3.9 million of the difference was due to the Commission's recognition of the prior fiscal year's pension expense, adjustment to beginning net position, and the recognition of the current fiscal year's net pension liability as required for the implementation of GASB No. 68.
- At the end of the fiscal year 2014/15, total Governmental Funds *unassigned fund balance* was $40,753,186.

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 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 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 34 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 37 through 38 of this report.

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 fiscal year 2014/15 with 2013/14:

	June 30, 2015	June 30, 2014	Change
Assets:			
Current and other assets	$ 84,537,487	$ 91,910,872	$ (7,373,385)
Capital assets, net	120,621	136,033	(15,412)
Total Assets	84,658,108	92,046,905	(7,388,797)
Deferred outflows of resources	586,452	-	586,452
Liabilities:			
Due to the County of San Bernardino	15,694	11,559	4,135
Other Current Liabilities	5,398,634	7,486,872	(2,088,238)
Net Pension Liability	1,571,153	-	1,571,153
Other Noncurrent Liabilities	176,688	160,658	16,030
Total Liabilities	7,162,169	7,659,089	(496,920)
Deferred inflows of resources	786,107	-	786,107
Net Position:			
Net investment in capital assets	120,621	136,033	(15,412)
Unrestricted	77,175,663	84,251,783	(7,076,120)
Total Net Position	$ 77,296,284	$ 84,387,816	$ (7,091,532)

Net position Net position may serve over time as a useful indicator of the Commission's financial position. In the case of First 5 San Bernardino, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by 77,296,284 (net position) at the close of the most recent fiscal year. The total net position decreased by $7,091,532. The explanation for the decrease is noted on page 6.

The most significant portion of the Commission's current assets is its cash balance of $81,031,359. This represents resources received from the State of California from Proposition 10 taxes that have not been expended. 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. The decrease in cash and net position is partly as a result of the spend down of fund balance, as described in the five-year plan, and partly due to a decrease in Proposition 10 revenues and investment earnings. Another source of current assets is the Commission's receivables "Due from the State of California" which includes:

Proposition 10 allocations for May 2015	$1,919,259
Proposition 10 allocations for June 2015	1,565,609
Surplus Money Investment Fund (SMIF)	6,495
Mandated costs reimbursement	13,474

June 30, 2015

The following is a summary of the Commission's revenue, expenses and change in net position comparing fiscal year 2014/15 with fiscal year 2013/14:

	FY 2014-15	FY 2013-14	Change
Program Revenues:			
Proposition 10 allocations	$ 20,851,510	$ 21,181,010	$ (329,500)
Total Program Revenues	20,851,510	21,181,010	(329,500)
General Revenues:			
Investment income	365,014	(591,990)	957,004
Mandated costs reimbursement	13,474	-	13,474
Other income	28,987	6,768	22,219
Total Revenues	21,258,985	20,595,788	663,197
Expenses:			
Salaries and benefits	1,927,485	2,181,467	(253,982)
Services and supplies	1,466,313	1,429, 172	37,141
Relocation	-	424,822	(424,822)
Depreciation	15,412	8,550	6,862
Contract payments to agencies	23,001,890	23,197,465	(195,575)
Total Expenses	26,411,100	27,241,476	(830,376)
Change in net position	(5,152,115)	(6,645,688)	1,493,573
Net position, beginning, as restated[(1)]	82,448,399	91,033,504	(8,585,105)
Net position, end of period	$ 77,296,284	$ 84,387,816	$ (7,091,532)

(1) 2014/15 beginning and 2013/14 ending net position are different due to the restatement of the 2014/15 beginning net position, as required by GASB No. 68 (See Note 14).

When comparing ending net position for the 2014/15 and the 2013/14 fiscal years, the Commission reported a decrease of $7,091,532 or eight percent(8%), which was in line with the Commission's 5-year long-range financial plan to use existing general fund balance for services. While the Proposition 10 revenues decreased by $329,500, mainly due to the decrease in tobacco product purchases, overall revenue increased by $663,197. The increase occurred due to the realization of positive earnings in the Commission's investments; whereas, the previous year's investment income was an overall loss of $591,990. The Commission also recognized a larger than expected increase in other income. Before the application of Governmental Accounting Standards Board (GASB) Statement No. 68, the Commission recorded a decrease in total expenses of $661,766. Initially, the difference in the total salary and benefit expenses, between the 2013/14 and 2014/15 fiscal years, was an overall decrease of $85,372. This was due to a decrease in the number of staff. Furthermore, actual salaries and benefits was $101,057 below the budgeted amount of $2,190,400. After the application of GASB 68, the cost of the benefits provided to the Commission's employees decreased $253,982 due to the reduction in the number of staff as well as the implementation of GASB No. 68. GASB 68 requires the Commission to recognize the full cost of the pension benefits provided as an expense in the government-wide Statement of Activities. Previously, only a portion of the actuarial pension expense, or the annual required contribution, had to be reported as an expense. Additionally, a portion of the current and previous year's actuarial variances was recognized as pension expense in the current fiscal year. In accordance with GASB No. 68, the remaining balance of the variances will be recognized in future fiscal years. The decrease in pension expense is the result of deferring the outflow of resources in the government-wide financial statements related to the fiscal year 2014/15 pension contributions to the 2015/16

Summary Of The Commission's Revenue, Expenses And Change In Net Position Comparing Fiscal Year 2014/15 With Fiscal Year 2013/14, (Continued)

fiscal year. Although, the contracted program services budget decreased by $5,000,000 from the prior fiscal year, expenses related to contracted program services decreased by $195,575, or less than one-tenth (0.0085%). Finally, the Commission's relocation expenses were $424,822 in fiscal year 2013/14; whereas, the Commission did not have any relocation expenses in fiscal year 2014/15.

Revenues The Commission receives the majority of its revenue from the State allocation of Proposition 10 funds and from interest earned on its investments. In the fiscal year ending June 30, 2015, $20,851,510 was recorded as revenue from the State which was a decrease of $329,500, or two percent (2%), compared to the prior fiscal year. The Commission invests its funds in the San Bernardino County Treasury and realized a gain of $27,296 as a result of an increase in the fair market value of investments in accordance with Governmental Standards Board (GASB) Statement No. 31. Interest earned on the surplus money investment fund (SMIF), held by the State of California, was $6,495 and is included in investment income. Total investment income, including the FY 2014/15 SMIF, was $365,014, for an overall increase of $957,004, or one hundred and sixty two percent (162%). The increase was due to the Commission realizing losses on investments in the previous fiscal year. Whereas, the Commission realized a gain on returns in the County's investment pool in the current fiscal year.

Expenses During the 2014/15 fiscal year, the Commission expensed $26,411,100 in program costs, which includes $23,001,890 in expenses to various service providers within San Bernardino County. This represents an overall decrease in program expenses of $195,575 or one percent (1%) over the prior fiscal year. The agencies overall expenses were less than contracted.

Previously the Commission awarded program-related contracts in three year cycles. Fiscal year 2014/15 represented the third and final year of the most recent three-year contract cycle. Beginning with fiscal year 2015/16 the Commission will begin procuring program services on a staggered basis.

Administrative costs were ten percent (10%) of 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, 2015, the Commission's general fund reported an ending fund balance of $77,296,284 a decrease of $5,312,034 or six percent (6%). Variances are as follows:

- Nonspendable fund balance decreased by $16
- Committed fund balance decreased by $26,260
- Assigned fund balance decreased $9,554,190, and
- Unassigned fund balance increased by $4,268,432

Fiscal year 2013/14 committed fund balance included provisions in the State Program Cares Plus Match contract to roll over the previous year's unspent funds; whereas, the 2014/15 contract did not contain a rollover provision. The changes in assigned fund balances occurred primarily as a result of a decrease of $5,872,135 in contracts for program services and a decrease of $3,552,862 in budget in excess of revenues. Contracts for operational services declined by $121,695 and contracts for evaluation services decreased by $7,498. Finally, the increase in unassigned fund balance occurred primarily due to the reduction from the prior fiscal year of budgeted contracted services from

Financial Analysis of the Commission's Governmental Fund (Continued)

$35,000,000 to $30,000,000. The reduction in contracted services is in line with the Commission's five year strategic plan to reduce program services to account for the reduction in Prop 10 revenues while maintaining the highest level of program services possible through the planned funding of services using existing fund balance.

General Fund Budgetary Highlights

There were no changes from the original budget to the final budget. Total actual revenues exceeded budgeted revenues by $1,082,862. Total actual expenditures were $7,407,761 less than budgeted. The majority of the difference was because the contracted payments were $6,998,110 less than budgeted and the services and supplies was $308,594 less than budgeted. The Commission also realized positive variances in actual over budgeted expenditures of $101,057 for salaries and benefits.

Debt Administration

The Commission's long-term debt consists of compensated absences payable in the amount of $183,440 and net pension liability of $1,571,153.

Economic Factors and Next Year's Budget

The First 5 San Bernardino Commission continues to operationalize our new Strategic Plan for 2015–2020. Aligning and documenting our work tied to the Strategic Priority Areas (SPAs) within the plan will provide very valuable data in the coming years to guide planning and funding decisions.

The First 5 San Bernardino Commission has contracted a consultant to share their expertise and guide our work related to Quality Rating and Improvement System (QRIS), a national buzz. The Commission has helped identify, construct and support a Local QRIS Consortium. This Consortium has participation of multiple organizations within the County to imbed QRIS and all of its benefits throughout the County of San Bernardino. The goal is increase quality in early care and education settings for children 0-5 throughout the County, as that has been proven to improve outcomes for life. The Consortium is working to develop a strategic plan so that the County will be in a position to qualify for Federal dollars to continue this great work.

Within a total $31 million operating budget for fiscal year 2015/16, $27 million is allocated to Strategic Priority Areas to fund direct service contracts. The budget for fiscal year 2015/16 again demonstrates the Commission's strong commitment to allocating the majority of its funds to programs and services that "move the needle" and improve the lives of young children and their families in San Bernardino County.

The Prop 10 revenue continues to decline at a rate of about 1.5% in 2015. Due to this decline, the Commission is taking a more "systems approach" in the way we plan to fund. The Commission entered into a new three- year contract with a major change from program specific to a more system approach addressing Oral Health. In addition we are excited about our new three-year cycle of the Nurturing Parenting program with the added component of the Family Development Matrix, which is a system that helps case managers develop a plan for the families that are "journeying" through Nurturing Parenting in in a manner that can be measured.

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 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.sanbernardino.org
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FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
Statement of Net Position

June 30, 2015

		Governmental Activities
ASSETS		
Cash and investments	$	81,031,359
Due from State of California		
Allocations		3,484,868
Interest		6,495
Due from other governments		13,474
Prepaid item		922
Due from agencies, net of allowance		369
Capital assets, net of accumulated depreciation		120,621
Total Assets		84,658,108
DEFERRED OUTFLOWS OF RESOURCES		
Pension contributions		297,210
Changes of assumptions		255,099
Changes in proportion and differences between employer contributions and proportionate share of contributions		34,143
Total deferred outflows of resources		586,452
LIABILITIES		
Current Liabilities:		
Contracts payable		5,199,319
Accounts payable		79,407
Due to County of San Bernardino		15,694
Accrued payroll		113,156
Noncurrent Liabilities:		
Due within one year		6,752
Due in more than one year		176,688
Net pension liability		1,571,153
Total Liabilities		7,162,169
DEFERRED INFLOWS OF RESOURCES		
Difference between expected and actual experience		299,339
Net difference between projected and actual earnings on pension plan investments		481,212
Changes in proportion and differences between employer contributions and proportionate share of contributions		5,556
Total deferred inflows of resources		786,107
NET POSITION		
Net investment in capital assets		120,621
Unrestricted		77,175,663
Total Net Position	$	77,296,284

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

FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
Statement of Activities

For the Year Ended June 30, 2015

		Governmental Activities
PROGRAM EXPENSES		
Child development	$	26,411,100
PROGRAM REVENUES		
Operating grants and contributions:		
Proposition 10 allocations		20,851,510
Net program revenues (expenses)		(5,559,590)
GENERAL REVENUES		
Investment income, net of unrealized losses		365,014
Mandated costs reimbursement		13,474
Other		28,987
Total General Revenues		407,475
Change in Net Position		(5,152,115)
Net Position, Beginning of Period, as restated (Note 14)		82,448,399
Net Position, End of Period	$	77,296,284

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

FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
Balance Sheet - Governmental Fund

June 30, 2015

	General Fund
ASSETS	
Cash and investments	$ 81,031,359
Due from State of California	
Allocations	3,484,868
Interest	6,495
Due from other governments	13,474
Due from agencies, net of allowance	369
Prepaid items	922
Total assets	84,537,487
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	
LIABILITIES	
Contracts payable	$ 5,199,319
Accounts payable	79,407
Due to the County of San Bernardino	15,694
Accrued payroll	113,156
Total liabilities	5,407,576
DEFERRED INFLOWS OF RESOURCES	
Unavailable revenue – Mandated cost reimbursement	13,474
Total deferred inflows of resources	13,474
FUND BALANCE	
Nonspendable	922
Committed	1,015,220
Assigned	37,347,109
Unassigned	40,753,186
Total fund balance	79,116,437
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCE	$ 84,537,487

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 Position

June 30, 2015

Fund Balance of Governmental Fund	$	79,116,437
Amounts reported for governmental activities in the Statement of Net Position are different because:		
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.		120,621
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 (expense) in the fund financial statements.		
2015 employer pension contributions		297,210
Change in assumptions		255,099
Change in proportion and difference between employer contributions and proportionate share of contributions		34,143
Mandated costs reimbursement		13,474
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.		
Difference between expected and actual experience		(299,339)
Net change between projected and actual investment earnings on pension plan investments		(481,212)
Changes in proportion and differences between employer contributions and proportionate share of contributions		(5,556)
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.		
Compensated absences		(183,440)
Net pension liability		(1,571,153)
Net Position of Governmental Activities	$	77,296,284

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 Balance – Governmental Fund

For the Year Ended June 30, 2015

		General Fund
REVENUES		
State allocations	$	20,851,510
Investment income, net of unrealized losses		365,014
Other revenues		28,988
Total Revenues		21,245,512
EXPENDITURES		
Current:		
Salaries and benefits		2,089,343
Services and supplies		1,466,313
Contract payments to agencies		23,001,890
Total Expenditures		26,557,546
Excess (deficiency) of revenues over (under) expenditures		(5,312,034)
FUND BALANCE		
Fund Balance, Beginning of Period		84,428,471
Fund Balance, End of Period	$	79,116,437

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, 2015

Net Change in Fund Balance –Governmental Fund	$	(5,312,034)
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.		(15,412)
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.		(6,752)
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.		168,609
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.		
Mandated costs reimbursement		13,474
Change in Net Position of Governmental Activities	$	(5,152,115)

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The First 5 San Bernardino Children and Families Commission (the 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 (the 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 (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 objective of the Act. The Commission's programs are funded primarily by taxes levied by the State of California (the 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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 an other 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:

Net 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, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 33.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Liabilities

As of June 30, 2015, the Commission's estimated liability for vested compensated absences was $183,440. Compensated absence 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 increased by $6,752 during the year. 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 approximates fair value.

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. Accordingly, no allowance for doubtful accounts has been made.

Due from Other Governments

Due from other governments represents the amounts owed to the Commission from the State Controller's Office**.** Management has determined the Commission's receivables from the State Controller's Office are fully collectable. Accordingly, no allowance for doubtful accounts has been made.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 estimated fair market 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 $ 5,000
- Leasehold Improvements $ 50,000
- Computer Software $ 100,000

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.

Due from Agencies

Due from agencies represents receivables from contracted agencies and is reported net of allowance for doubtful accounts in the amount of $49,052.

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 a future reporting period. Deferred outflows of resources have a positive effect on net position.

Deferred Inflows of Resources

Deferred inflows of resources is an acquisition of net position by the Commission that is applicable to a future reporting period. Deferred inflows of resources have a negative effect on net position.

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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary 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 fund and includes revenues and expenditures for the year ended June 30, 2015, which is prepared on the modified accrual basis of accounting. The budget control is at the organizational code level (i.e., salaries & benefits and services & supplies). The Commission utilizes an encumbrance system as a management control technique to assist in controlling contract expenditures.

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

In accordance with generally accepted accounting principles, the Commission 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 imposed by external sources 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 to remove or modify. The highest level of decision-making is the appointed Commissioners, and the agenda item is the formal action used to commit, remove or modify a commitment to fund balance. These constraints differ since the Commission's Board may redirect these resources by rescinding or amending the formal action that imposed these constraints.
- *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. Under First 5 Association's *Financial Management Guide, Fifth Edition, 2015*, 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. The *Financial Management Guide* does not require formal action to assign fund balance.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Classification (Continued)

- *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.

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 2014-15 fiscal year are summarized as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Amount Due Within One Year
Compensated Absences	$ 176,688	$ 155,614	$ 148,862	$ 183,440	$ 6,752

NOTE 3 – CASH AND INVESTMENTS

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

Cash and Investments	$ 81,031,359
Total Cash and Investments	$ 81,031,359

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 interest, which approximates fair value. The pool issues a separate report. This separately issued statement can also be obtained from the Auditor-Controller/Treasurer/Tax Collector's Office at 222 W. Hospitality Lane, San Bernardino, CA 92415-0018.

NOTE 4 – 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. The amounts due to the Commission at June 30, 2015, were as follows:

Due from State of California:		
Prop 10 revenue for:		
May 2015 Allocation	$	1,919,259
June 2015 Allocation		1,565,609
Surplus Money Investment Fund (SMIF) Allocations-interest		6,495
Total due from State of California	$	3,491,363

NOTE 5 – DUE FROM AGENCIES

Due from agencies receivables represent advances or overpayments to contractors and are currently in San Bernardino County's Collections Division. The due from agencies balance of $369 is net of the allowance for doubtful accounts of $49,052.

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015 was as follows:

Governmental Activities:	Balance June 30, 2014	Addition s	Retirements	Balance June 30, 2015
Leasehold improvements	$ 54,843	$ -	$ -	$ 54,843
Furniture and fixtures	75,434	-	-	75,434
Computer equipment	14,306	-	-	14,306
Total	144,583	-	-	144,583
Less accumulated depreciation:				
Leasehold improvements	(3,199)	(5,484)	-	(8,683)
Furniture and fixtures	(3,762)	(7,543)	-	(11,305)
Computer equipment	(1,589)	(2,385)	-	(3,974)
Total accumulated depreciation	(8,550)	(15,412)	-	(23,962)
Governmental activities capital assets, net	$ 136,033	$ (15,412)	$ -	$ 120,621

Depreciation expense amounted to $15,412 for the year ended June 30, 2015, and is reflected in the Statement of Activities in the Child Development function.

NOTE 7 – 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 Commission has the right to terminate the office lease after 60 months, or October 31, 2018, with a penalty of $300,000. The Commission also rents three copy machines under a short-term rental agreement that expires on December 5, 2015. The term of the agreement for the copy machines was three years. The future minimum rental payments under these obligations are as follows:

Year Ended June 30,	Office Space	Equipment
2016	$ 293,791	$ 3,256
2017	302,276	
2018	310,757	
2019	348,540	
2020	357,792	
2021-2025	1,258,432	
Total	$ 2,871,588	$ 3,256

Rent expense was $285,303 for the year ended June 30, 2015.

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 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, 2015, the following was owed to agencies and is included in contracts payable:

Contracts Payable by Strategic Priority Area:

SPA 1 – Children and Families	
Health	$ 1,535,834
Family	993,547
Education	1,843,606
SPA 2 – Systems and Network	725,962
Evaluation	100,370
Total Contracts Payable	$ 5,199,319

NOTE 9 – DEFERRED INFLOWS OF RESOURCES - UNAVAILABLE REVENUE

The Commission recognized deferred inflows of resources in the fund financial statements. Deferred inflows of resources of $13,474 represents unavailable revenue due to the Commission as a result of Senate Bill 90 mandated claims filed under the California State Mandated Cost program for Open Meetings Act/Brown Act Reform, and will be recognized as an inflow of resources in the period that the amounts become available.

NOTE 10 – 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 11 – 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 FY 2015, whereby Commissioners were required to abstain from voting:

Organization	Award Amount
Center for Oral Health	2,081,250
Children's Network	2,646,142
Department of Public Health	2,210,525
Housing Authority of the County of San Bernardino	50,000
Inland Empire Health Plan	5,057,190
Loma Linda University Medical Center Research Affairs for Autism Assessment Center of Excellence	300,000
County of San Bernardino Preschool Services Department	1,453,543
San Bernardino City Unified Adult School District	785,806
Total	$ 14,584,456

Total expenses paid to related parties for FY 2015 were $7,550,345.

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. The Commission incurred expenses totaling $210,747 for all other County services provided during the year ended June 30, 2015. Amounts due to the County as of June 30, 2015 total $15,694.

NOTE 12 – 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, 2015, the Commission expended $781,362 for program evaluation.

NOTE 13 – FUND BALANCE

Committed fund balance of $1,015,220 consists of the State Program Cares Plus Match.

Assigned fund balance of $37,347,109 consists of the following:

Contracts for Evaluation Services	$	544,922
Contracts for Operation Services		314,691
Contracts for Program Services		26,237,701
2016 Budget In Excess of Revenues		10,249,795
Total Assigned Fund Balance	$	37,347,109

NOTE 14 – CHANGE IN ACCOUNTING PRINCIPLE

Net position as of July 1, 2014, has been restated as follows for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date:*

Government-wide Financial Statements

Governmental Activities		June 30, 2014 Previously presented		Restatement		July 1, 2014 Restated
Statement of Activities:						
Net Pension Liability	$	-	$	(1,830,024)	$	(1,830,024)
Deferred outflows of resources				9,490		9,490
Deferred inflows of resources				(402,279)		(402,279)
Deferred outflows of resources – 2014 contribution				283,396		283,396
Net position end of year	$	84,387,816	$	(1,939,417)	$	82,448,399

NOTE 15 – 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, 348 W. Hospitality Lane, 3rd Floor, San Bernardino, California 92415-0014.

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 greater than fifty percent of the full standard of hours required are members of SBCERA, and are provided with pension benefits pursuant to Plan requirements.

The CERL and PEPRA 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 months	Highest 36 months
Normal Retirement Age	Age 55	Age 55
Early Retirement: Years of service required and/or age eligible for	Age 70 any years	Age 70 any years
	10 years age 50	5 years age 52
	30 years any age	N/A
Benefit percent per year of service for normal retirement age	2% per year of final average compensation for every year of service credit	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

NOTE 15 – DEFINED BENEFIT PENSION PLAN, (Continued)

Contributions. Participating employers and active members, 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.

Employee contribution rates for the fiscal year ended June 30, 2015 ranged between 7.07% and 13.52% for Tier 1 General members and between 6.37% and 7.88% for Tier 2 General members. Contributions to the pension plan from the Commission was $297,210 for the year ended June 30, 2015.

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

At June 30, 2015, the Commission reported a liability of $1,571,153 for its proportionate share of the County's net pension liability. The net pension liability was measured as of June 30, 2014, 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 2014 actual contributions to the County's pension plan relative to the total contributions of the County as a whole. At June 30, 2014, the Commission's proportion was 0.1093 percent, which was a decrease of .0011 from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Commission recognized pension expense of $128,602. At June 30, 2015, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

NOTE 15 – DEFINED BENEFIT PENSION PLAN (Continued)

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 299,339
Changes in assumptions	255,099	-
Net difference between projected and actual earnings on pension plan investments	-	481,212
Changes in proportion and differences between employer contributions and proportionate share of contributions	34,143	5,556
Employer contributions paid by Commission to County subsequent to the measurement date	297,210	-
Total	$ 586,452	$ 786,107

The $297,210 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, 2016. 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	
2016	$ (239,200)
2017	(239,200)
2018	(239,200)
2019	(79,223)
2020	3,605
Thereafter	(2,855)
Total	$ (796,073)

NOTE 15 – DEFINED BENEFIT PENSION PLAN (Continued)

Actuarial assumptions. The Commission's proportion of the County's total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date	June 30, 2014
Actuarial cost method	Entry age actuarial cost method
Actuarial Assumptions:	
Investment rate of return	7.50%
Inflation	3.25%
Projected Salary increases	General: 4.60% to 13.75%; Safety: 4.55% to 13.75%
Cost of Living Adjustments	Consumer price index with a 2.00% maximum
Administrative Expenses	0.60% of payroll

Mortality rates used in the latest actuarial valuation dated June 30, 2014 are based on the RP-2000 Combined Healthy mortality table projected 20 years using Projection Scale BB. For healthy General members, no adjustments are made. For General members that are disabled, the ages are set forward seven years for males and set forward eight years for females. 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, 2014 valuation were based on the results of an actuarial experience study for the three year period of July 1, 2010 through June 30, 2013.

The June 30, 2014 actuarial valuation reflected new assumptions compared to the June 30, 2013 actuarial valuation, based on the June 30, 2014 experience study. The June 30, 2013 actuarial valuation reflected 7.75% for the investment rate of return, 3.50% for inflation, 4.75% to 14.00% for both general and safety, for projected salary increases, 4.00% for wage inflation and there was no offset to investment return for administrative expenses.

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 on the next page.

NOTE 15 – DEFINED BENEFIT PENSION PLAN (Continued)

Long-Term Expected Real Rate of Return

	As of June 30, 2014 Valuation Date	
Asset Class	**Target Allocation**	**Long-Term Expected Real Rate of Return (Arithmetic)**
U.S. Equity	N/A[1]	N/A[1]
Large Cap U.S. Equity	5.00%	5.94%
Small Cap U.S. Equity	2.00%	6.50%
Developed International Equity	6.00%	6.87%
Emerging Market Equity	6.00%	8.06%
U.S. Core Fixed Income	2.00%	0.69%
High Yield/Credit Strategies	13.00%	3.10%
Global Core Fixed Income	1.00%	0.30%
Emerging Market Debt	6.00%	4.16%
Real Estate	9.00%	4.96%
Cash & Equivalents	2.00%	-0.03%
International Credit	10.00%	6.76%
Absolute Return	13.00%	2.88%
Real Assets	6.00%	6.85%
Long/Short Equity	3.00%	4.86%
Private Equity	16.00%	9.64%
Total	100%	

(1) N/A=Asset Class not considered in the calculation.

NOTE 15 – DEFINED BENEFIT PENSION PLAN (Continued)

Discount rate. The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from participating employers and active employees will be made at contractually required rates, actuarially determined.

The discount rates used to measure the total pension liability were 7.50 percent. The projection of cash flows used to determine the discount rates assumed that contributions from participating employers and active members are made at the contractually required rates, as actuarially determined. 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, 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 7.50%, 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 (6.50%) or 1-percentage-point higher (8.50%) than the current rate:

	1.00% Decrease 6.50%	Current Discount Rate 7.50%	1.00% Increase 8.50%
Commission's proportionate share of the County's net pension liability	$ 2,776,592	$ 1,571,153	$ 572,846

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 222 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; by writing to SBCERA at 348 W. Hospitality Lane, Third Floor, San Bernardino, CA 92415.

NOTE 16 – 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.

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

NOTE 17 – NEW ACCOUNTING PRONOUNCEMENTS

The Governmental Accounting Standards Board (GASB) released new accounting and financial reporting standards which may have a significant impact on the Commission's financial reporting process. Standards that have been implemented in the current year include:

GASB Statement No. 68 – *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Government Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively measure the annual costs of benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The requirements of this Statement are effective for the fiscal year ending June 30, 2015. This statement was implemented by the Commission as of July 1, 2014.

GASB Statement No. 69 – In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in the Statement, the term *government combinations* includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations. The requirements of this Statement are effective for the fiscal year ending June 30, 2015. This statement had no effect on the financial statements.

GASB Statement No. 71 – In November 2013, GASB issued Statement No. 70, *Pension Transition for Contributions Made Subsequent to the Measurement Date.* This Statement addresses transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of the Statement by employers and non-employer contributing entities. This Statement amends paragraph 137 of Statement 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts. The requirements of this Statement are effective for the fiscal year ending June 30, 2015. This statement was implemented by the Commission as of July 1,2014.

NOTE 17 – NEW ACCOUNTING PRONOUNCEMENTS (Continued)

Future new standards which may impact the Commission include the following:

GASB Statement No. 72 – In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement requires disclosures to be made about fair value measurements, the level of fair value hierarchy, and valuation techniques. These disclosures should be organized by type of asset or liability reported at fair value. It also requires additional disclosures regarding investments in certain entities that calculate net asset value per share (or its equivalent). The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. The Commission has not determined its effect on the financial statements.

GASB Statement No. 73 – In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The provisions in Statement 73 are effective for fiscal years beginning after June 15, 2015—except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for fiscal years beginning after June 15, 2016. The Commission has not determined its effect on the financial statements.

GASB Statement No. 74 – In June 2015, GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. Statement No. 74 replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. The provisions in Statement 74 are effective for fiscal years beginning after June 15, 2016. The Commission does not provide any post-employment benefits, other than the defined benefit plan administered by SBCERA. The Commission has not determined its effect on the financial statements.

GASB Statement No. 75 - In June 2015, GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statement 75 establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The provisions in Statement No. 75 are effective for fiscal years beginning after June 15, 2017. The Commission has not determined its effect on the financial statements.

GASB Statement No. 76 - *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement supersedes Statement No. 55, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier application is permitted. The Commission has not determined its effect on the financial statements.

NOTE 17 – NEW ACCOUNTING PRONOUNCEMENTS (Continued)

GASB Statement No. 77 – In August 2015, GASB issued Statement No. 77 – Tax Abatement Disclosures. The objective of this Statement is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs. The requirements of this [(1)] Statement are effective for the financial statements for periods beginning after December 15, 2015. The Commission has not determined its effect on the financial statements.

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Required Supplementary Information

Schedule of the Commission's Proportionate Share of the County's Net Pension Liability

Last 10 Fiscal Years (1)

		June 30, 2015 (2)
Commission's proportion of the County's net pension liability		0.11%
Commission's proportionate share of the collective net pension liability	$	1,571,153
Commission's covered-employee payroll	$	2,122,990
Commission's proportionate share of the net pension liability as a percentage of its covered-employee payroll		74.01%
Plan's fiduciary net position as a percentage of the total pension liability		82.47%

Schedule of the Commission's Contributions
Last 10 Fiscal Years(1)

		June 30, 2015
Contractually required contribution	$	297,210
Contributions in relation to the contractually required contribution		297,210
Contribution deficiency	$	-
Commission's covered-employee payroll	$	2,093,510
Contributions as a percentage of covered-employee payroll		14.20%

(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 one year is shown.

(2) Measurement year is June 30, 2014.

Note to Schedule:

For GASB purposes, covered employee payroll reflects gross salary of participating employees.

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

For the Year Ended June 30, 2015

	Budgeted Amounts			Variance with Final Budget
	Original Budget	Final Budget	Actual Amounts	Positive (Negative)
REVENUES				
State Allocations	$ 19,877,133	$ 19,877,133	$ 20,851,510	$ (974,377)
Investment Income	276,517	276,517	365,014	(88,497)
Other Revenues	9,000	9,000	28,988	(19,988)
Total Revenues	20,162,650	20,162,650	21,245,512	(1,082,862)
EXPENDITURES				
Current:				
Salaries and Benefits	2,190,400	2,190,400	2,089,343	101,057
Services and Supplies	1,774,907	1,774,907	1,466,313	308,594
Contract Payments to Agencies	30,000,000	30,000,000	23,001,890	6,998,110
Total Expenditures	33,965,307	33,965,307	26,557,546	7,407,761
Net Change in Fund Balance	(13,802,657)	(13,802,657)	(5,312,034)	(8,490,623)
Fund Balance, beginning of period	84,428,471	84,428,471	84,428,471	-
Fund Balance, end of period	$ 70,625,814	$ 70,625,814	$ 79,116,437	$ (8,490,623)

The accompanying notes is an integral part of this required supplementary information.

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.

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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, 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, 2015, 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 30, 2015. Our report included an emphasis of matter paragraph regarding the Commission's adoption of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27,* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB 68*, effective July 1, 2014.

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) to determine 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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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 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*.

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.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
October 30, 2015

INDEPENDENT AUDITORS' 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, 2015.

Management's Responsibility

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

Auditors' 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 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 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-range Financial Plans	2	Yes
Financial Condition of the Commission	1	Yes
Program Evaluation	3	Yes
Salaries and Benefit Policies	2	Yes

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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, 2015.

Other Matters

The results of our auditing procedures disclosed an instances of noncompliance, which is 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 is described in the accompanying schedule of findings and responses as item 2015-001. Our opinion on compliance is not modified with respect to this matter.

The Commission's response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and responses. The Commission's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 State Controller's Office. Accordingly, this report is not suitable for any other purpose.

Vavrinek, Trine, Day & Co. LLP

Rancho Cucamonga, California
October 30, 2015

Finding 2015-001

CONFLICT OF INTEREST POLICY

Criteria:

Per the *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, the County commissions must adopt, for commission members, conflict-of-interest policies that are consistent with applicable state law. The Commission has adopted a Conflict of Interest Policy in accordance with the Political Reform Act, Government Code section 81000, et seq., which requires state and local government agencies to adopt and promulgate conflict of interest codes. The Fair Political Practices Commission has adopted a regulation, 2 California Code of Regulations Section 18730, which contains the terms of a standard conflict of interest Code. According to the regulation, all persons assuming designated positions shall file statements within 30 days after assuming the designated positions.

Condition:

One of the Commissioners did not timely file the Form 700 in accordance with the Commission's Conflict of Interest Policy.

Context:

During our audit, we requested the Form 700 for all Commissioners for fiscal year 2014-2015. Upon our request it was noted that one of the Commissioners, who assumed office on March 3, 2015, did not file a Form 700. The Form was subsequently filed on July 31, 2015 which is more than 30 days after the filing deadline.

Effect:

The Commission was in noncompliance in accordance with their Conflict of Interest Policy for one of the Commissioners. Future allocations may be withheld.

Cause:

Adequate tracking was not maintained by the Commission to ensure all Commissioners timely file the Form 700.

Recommendation:

The Commission should develop a tracking mechanism that would ensure that all of the Commissioners timely file the Form 700.

View of Responsible Officials and Planned Corrective Action:

The Commission will calendar a date to send out reminders annually to give enough time for filers to complete the Form 700 by April 1st as required. In addition a checklist will be created that will include the name and date each form is received and will be signed by the Executive Director when all forms have been received. When new Commissioners come into office a Form 700 will be given immediately and collected during the new Commissioner orientation which will occur within 30 days of service.