

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

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

For the Year Ended June 30, 2012

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
FOR THE YEAR ENDED JUNE 30, 2012**

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities and the general fund of the First 5 San Bernardino Children and Families Commission (the Commission), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2012, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the Commission, as of June 30, 2012, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated October 16, 2012, on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 9 and 28 and 29 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.

Vavrinik, Trine, Day & Co. LLP

Rancho Cucamonga, California
October 16, 2012

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

JUNE 30, 2012

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

The San Bernardino County Board of Supervisors (the County) created the San Bernardino County Children and Families First Trust Fund in December 1998, under the provisions of the Act. The Children and Families First Commission was created by County Ordinance No. 3745, on January 5, 1999. The Commission consists of one member of the Board of Supervisors, the Assistant County Administrator for Human Services, 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 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.

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

As management of the Commission, we offer readers of our financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2012.

Financial Highlights

- The Commission recorded \$22,931,992 from the State of California from revenues earned under the California Children and Families Act (Proposition 10). This amount is \$1,375,975 more than budgeted due to higher tobacco tax collections at the State level.
- During the current fiscal year, the Commission recognized \$22,290,861 in grants to various service providers.
- The total assets of the Commission exceeded its liabilities at the close of the most recent fiscal year by \$91,532,635 (*net assets*), an increase of \$47,641,787 in comparison with the prior year.
- As a result of the reversal of AB99, \$49,818,468 was recorded as an extraordinary gain.
- At the end of fiscal year 2011-2012, total General Fund *unassigned fund balance* was \$64,212,240.

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

JUNE 30, 2012

Overview of the Financial Statements

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

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

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

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

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

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

The *statement of activities* presents information showing how the Commission's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the Commission's activities are accounted for in the General 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 15 through 26 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 27 and 28 of this report.

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

JUNE 30, 2012

Commission-Wide Financial Analysis

The following summarizes the Commission's assets, liabilities and net assets and compares fiscal year 2011-2012 with fiscal year 2010-2011:

| | <u>FY 2011-2012</u> | <u>FY 2010-2011</u> | <u>Change</u> |
|-------------------------------------|----------------------|----------------------|---------------------|
| Assets: | | | |
| Current and other assets | \$ 97,451,760 | \$101,304,750 | \$ (3,852,990) |
| Total Assets | <u>97,451,760</u> | <u>101,304,750</u> | <u>(3,852,990)</u> |
| Liabilities: | | | |
| Current liabilities | 5,767,633 | 7,476,060 | (1,708,427) |
| Due to State of California - AB99 | - | 49,818,468 | (49,818,468) |
| Due to the County of San Bernardino | 19,881 | - | 19,881 |
| Noncurrent liabilities | <u>131,611</u> | <u>119,374</u> | <u>12,237</u> |
| Total Liabilities | <u>5,919,125</u> | <u>57,413,902</u> | <u>(51,494,777)</u> |
| Net Assets: | | | |
| Unrestricted | <u>91,532,635</u> | <u>43,890,848</u> | <u>47,641,787</u> |
| Total Net Assets | <u>\$ 91,532,635</u> | <u>\$ 43,890,848</u> | <u>\$47,641,787</u> |

Net assets. Net assets may serve over time as a useful indicator of the Commission's financial position. In the case of First 5 San Bernardino, assets exceeded liabilities by \$91,532,635 (net assets) at the close of the most recent fiscal year. The total net assets increased by \$47,641,787, primarily as a result of reversing the AB99 liability recorded in fiscal year 2011 as a result of the Superior Court of California ruling in favor of the State First 5 Commissions.

The most significant portion of the Commission's current assets is its cash balance of \$93,246,485. 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's cash and investment pool where interest earned on the Commission's balance is apportioned to the Commission. Another source of current assets is the Commission's receivables "Due from the State of California" which includes:

- Proposition 10 allocations for May 2012 - \$1,803,375;
- Proposition 10 allocations for June 2012 - \$2,238,887;
- Surplus Money Investment Fund (SMIF) - of \$9,186.

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

JUNE 30, 2012

The following is a summary of the Commission's revenue, expenses, and change in net assets comparing fiscal year 2011-2012 with fiscal year 2010-2011:

| | <u>FY 2011-2012</u> | <u>FY 2010-2011</u> | <u>Change</u> |
|--|----------------------|----------------------|----------------------|
| Program Revenues: | | | |
| Proposition 10 allocations | \$ 22,931,992 | \$ 23,013,009 | \$ (81,017) |
| School readiness | - | 1,632,880 | (1,632,880) |
| Total Program Revenues | <u>22,931,992</u> | <u>24,645,889</u> | <u>(1,713,897)</u> |
| General Revenues: | | | |
| Investment income | 418,731 | 827,764 | (409,033) |
| Other income | 5,776 | 10,979 | (5,203) |
| Total Revenues | <u>23,356,499</u> | <u>25,484,632</u> | <u>(2,128,133)</u> |
| Expenses: | | | |
| Salaries and benefits | 1,918,398 | 2,170,890 | (252,492) |
| Services and supplies | 1,323,921 | 1,585,420 | (261,499) |
| Contract payments to agencies child development | 22,290,861 | 25,526,053 | (3,235,192) |
| Contract payments to agencies child school readiness | - | 1,983,519 | (1,983,519) |
| Total Expenses | <u>25,533,180</u> | <u>31,265,882</u> | <u>(5,732,702)</u> |
| Extraordinary Item: | | | |
| AB99 Gain | 49,818,468 | - | 49,818,468 |
| AB99 Obligation | - | (49,818,468) | (49,818,468) |
| Total Extraordinary Item | <u>49,818,468</u> | <u>(49,818,468)</u> | <u>-</u> |
| Change in Net Assets | 47,641,787 | (55,599,718) | 103,241,505 |
| Net Assets, Beginning of Period | <u>43,890,848</u> | <u>99,490,566</u> | <u>(55,599,718)</u> |
| Net Assets, End of Period | <u>\$ 91,532,635</u> | <u>\$ 43,890,848</u> | <u>\$ 47,641,787</u> |

The financial statements for fiscal year 2011-2012 show an increase of net assets of \$47,641,787, or one-hundred and nine percent (109%), of which approximately \$2 million was used for funded program services. There was a net increase of \$49,818,468 caused by the reversal of AB99.

Revenues. The Commission receives a significant portion of its revenue from the State allocation of Proposition 10 funds and from interest earned from its investments. In the fiscal year ending June 30, 2012, the \$22,931,992 recorded from the State was a decrease of \$81,017 (-.35%) and \$1,632,880 for School Readiness or one-hundred percent (-100%) respectively, compared to the prior fiscal year. The Commission invests its funds in the San Bernardino County Treasury and earned \$409,545 in interest. Interest of \$9,186 from surplus money investment funds (SMIF) is included in investment income. Total investment income including SMIF for fiscal year 2011-2012 is \$418,731, for a decrease of \$409,033, or forty-nine percent (-49%) due to lower returns on the County's investment pool.

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

JUNE 30, 2012

Expenses. During fiscal year 2011-2012, the Commission expensed \$25,533,180 in program cost which includes \$22,290,861 in expenses to various service providers within San Bernardino County. This represents an overall decrease of \$5,732,702 or eighteen percent (-18%) over the prior fiscal year. The decrease was due to the School Readiness program ending June 30, 2011, and the overall expenditures of the agencies historically remain less than contracted. Administrative costs were 11.16% of total costs. Even though there was a decrease in service provider expenditures, the number of agencies contracted was approximately the same as the prior year; therefore, it required the same staffing level to manage oversight of the contracts.

There was a reversal of State Legislature's passage of AB99 that required County First 5 Commissions to pay the State one-half of the fiscal year 2009-2010 fund balance by June 30, 2012. This amount for First 5 San Bernardino was \$49,818,468. The AB99 payment was due by June 30, 2012. In accordance with the legislation, no 2012-2013 Commission revenues would have been paid until the full AB99 payment was made. Accordingly, the Commission accrued the AB99 obligation as a liability at June 30, 2011. A lawsuit was filed by a number of First 5 Commission against the State challenging that the bill violates the intent of Proposition 10. In fiscal year 2011-2012, the Superior Court of California ruled in favor of the Commissions; therefore, AB99 was no longer an obligation. The State chose not to appeal the ruling of the Superior Court. The Commission accrued the obligation as an extraordinary item in fiscal year 2010-2011 and has reversed this item in fiscal year 2011-2012 resulting in an extraordinary gain in the amount of \$49,818,468. Expenses before this extraordinary item decreased over the prior fiscal year by \$5,732,702, or eighteen percent (-18%).

Financial Analysis of the Commissions Governmental Funds

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

For the year ended June 30, 2012, the Commission's General Fund reported an ending fund balance of \$91,670,513, an increase of \$47,648,054, or fifty-two percent (52%), from the prior year. A significant portion of the increase was due to the Superior Court ruling that reversed the AB99 obligation of \$49,818,468 to the State of California.

General Fund Budgetary Highlights

Total revenues were more than budgeted by \$845,083, or four percent (4%), and total expenditures were less than budgeted by \$10,404,247, or forty-one percent (-41%). The increase in total revenues was due to more than anticipated State tobacco tax revenue offset by less than anticipated investment income of \$520,668. Total expenses were less than budgeted largely due to decrease in contracted services.

Debt Administration

The Commission's long-term debt consists of compensated absences payable in the amount of \$137,878.

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

JUNE 30, 2012

Economic Factors and Next Year's Budget

Actions that occurred in fiscal year 2010-2011 affected economic factors in fiscal year 2011-2012, including the regular structuring of the fiscal year 2011-2012 budget.

On March 24, 2011, AB99 legislation became law; enacted to allow the State to sweep \$1 billion from First 5 Commissions. For the Children and Families Commission First 5 San Bernardino, the loss of funds would have amounted to just under \$50 million at \$49,818,468.

In recent years, First 5 San Bernardino has committed \$39 million annually for services. Due to the threat of AB99, the Commission voted to (1) fund existing contracts, in an amount not to exceed \$32 million for fiscal year 2011-2012, (2) end all contracts effective June 30, 2012, and (3) release a new Request for Proposal (RFP) for prioritized services provided for children prenatal to age five throughout the County.

On June 15, 2011, the Commission adopted the budget for fiscal year 2011-2012 which specified that \$32 million would be allocated for Program Strategies as follows: \$8.7 million - for Family Support, \$11.2 million for Child Health, \$8.0 million for Education and \$4.1 million for Responsive Commission Initiatives.

On November 3, 2011, the Commission released the Investing in Children RFPs in the total amount of \$57,450,000 to provide services to children zero to five years of age and their families in the County of San Bernardino for program years 2012-2015 for three separate focus areas as follows:

RFP 11-02 – Health in the total amount of \$19,950,000;
RFP 11-03 – Education in the total amount of \$18,750,000; and
RFP 11-04 – Family in the total amount of \$18,750,000.

On November 21, 2011, a Superior Court ruling was made in favor of the County First 5 Commissions' lawsuit challenging AB99. First 5 San Bernardino no longer had to remit \$50 million to the State. The Commission took a cautious approach to this ruling; waiting to see the outcomes of the appeals process and continuing with established funding plans.

In the spring of 2012, the Commission worked on general planning and direction for investment of nearly \$50 million which became available to the Commission when AB99 was overruled and not appealed. On May 23, 2012, the fiscal year 2012-2013 budget was adopted, and the decision was made to increase funding allocation by \$10 million for the next five years, according to the percentages defined in the strategic plan. Previously, the Commissioners voted on Administrative Policy changes addressing administrative cost to actual cost. Staff briefed the Commission on the challenges of managing this cost due to the agencies' expenses which are usually 80% of the contract while the administrative costs remain constant. Although administrative costs are within budget, the comparison to actuals would be higher than projected.

Requests for Information

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

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

June 30, 2012

| | <u>Governmental Activities</u> |
|--|---|
| ASSETS | |
| Cash and investments | \$ 93,246,485 |
| Due from State of California: | |
| Allocations | 4,042,262 |
| Interest | 9,186 |
| Due from agencies, net of allowance | 5,776 |
| Due from County of San Bernardino - interest | 115,116 |
| Prepays | <u>32,935</u> |
| Total Assets | <u>97,451,760</u> |
| LIABILITIES | |
| Contracts payable | 5,579,743 |
| Accounts payable | 94,976 |
| Due to the County of San Bernardino | 19,881 |
| Accrued payroll | 86,647 |
| Noncurrent liabilities: | |
| Due within one year | 6,267 |
| Due in more than one year | <u>131,611</u> |
| Total Liabilities | <u>5,919,125</u> |
| NET ASSETS | |
| Unrestricted | <u>91,532,635</u> |
| Total Net Assets | <u><u>\$ 91,532,635</u></u> |

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, 2012

| | <u>Governmental Activities</u> |
|---|---|
| EXPENSES | |
| Child development | \$ 25,533,180 |
| Total Expenses | <u>25,533,180</u> |
| PROGRAM REVENUES | |
| Operating Grants and Contributions: | |
| Proposition 10 Allocations | <u>22,931,992</u> |
| Total Program Revenues | <u>22,931,992</u> |
| Net program revenues/(expenses) | (2,601,188) |
| GENERAL REVENUES | |
| Investment income | 418,731 |
| Other | 5,776 |
| Total General Revenues | <u>424,507</u> |
| EXTRAORDINARY ITEM | |
| AB99 gain | <u>49,818,468</u> |
| Total General Revenues and Extraordinary Item | <u>50,242,975</u> |
| Change in Net assets | 47,641,787 |
| Net Assets, Beginning of Period | <u>43,890,848</u> |
| Net Assets, End of Period | <u><u>\$ 91,532,635</u></u> |

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

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

June 30, 2012

| | General Fund |
|--|-------------------------|
| ASSETS | |
| Cash and investments | \$ 93,246,485 |
| Due from State of California | |
| Allocations | 4,042,262 |
| Interest | 9,186 |
| Due from agencies, net of allowances | 5,776 |
| Due from County of San Bernardino - interest | 115,116 |
| Prepays | 32,935 |
| Total Assets | \$ 97,451,760 |
| LIABILITIES AND FUND BALANCES | |
| Liabilities: | |
| Contracts payable | \$ 5,579,743 |
| Accounts payable | 94,976 |
| Due to the County of San Bernardino | 19,881 |
| Accrued payroll | 86,647 |
| Total Liabilities | 5,781,247 |
| Fund balances: | |
| Nonspendable | 32,935 |
| Committed | 1,179,742 |
| Assigned | 26,245,596 |
| Unassigned | 64,212,240 |
| Total Fund Balances | 91,670,513 |
| Total Liabilities and Fund Balances | \$ 97,451,760 |

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

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

June 30, 2012

| | |
|--|-----------------------------|
| Fund Balances of Governmental Funds | \$ 91,670,513 |
| Amounts reported for governmental activities in the Statement of Net Assets are different because the compensated absences liability is not reported or not required in the fund financial statements. | <u>(137,878)</u> |
| Net Assets of Governmental Activities | <u><u>\$ 91,532,635</u></u> |

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

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

For the Year Ended June 30, 2012

| | General Fund |
|--|-------------------------|
| REVENUES | |
| State allocations | \$ 22,931,992 |
| Investment income | 418,731 |
| Other revenues | 5,776 |
| Total Revenues | 23,356,499 |
| EXPENDITURES | |
| Current: | |
| Salaries and benefits | 1,912,131 |
| Services and supplies | 1,323,921 |
| Contract payments to agencies | 22,290,861 |
| Total Expenditures | 25,526,913 |
| Excess/(deficiency) of revenues over (under) expenditures | (2,170,414) |
| EXTRAORDINARY ITEM | |
| AB99 gain | 49,818,468 |
| Net Change in Fund Balance | 47,648,054 |
| Fund Balances, Beginning of Period | 44,022,459 |
| Fund Balances, End of Period | \$ 91,670,513 |

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, 2012

| | |
|--|----------------------|
| Net Change in Fund Balance - Total Governmental Funds | \$ 47,648,054 |
| Amounts reported for governmental activities in the Statement of Activities differs from the amounts reported in the Statement of Revenues, Expenditures and Changes in Fund Balance because compensated absence expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as an expenditure in governmental funds. This amount represents the net change in the compensated absences liability. | <u>(6,267)</u> |
| Change in Net Assets of Governmental Activities | <u>\$ 47,641,787</u> |

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

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The First 5 San Bernardino Children and Families Commission (Commission) formerly known as San Bernardino County Children and Families First Commission, was established on January 5, 1999, pursuant to *Health and Safety Code* § 130140. The Commission was also established in accordance with the provisions of the California Children and Families First Act of 1998, and by San Bernardino County Ordinance No. 3745. The Commission is a public entity legally separate and apart from the County of San Bernardino (the County). The purpose of the Commission is to develop, adopt, promote, and implement early childhood development and readiness for school programs in the County of San Bernardino consistent with the goals and objectives of the Act. The Commission's programs are funded primarily by taxes levied by the State of California on tobacco products.

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

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

Basis of Accounting Measurement Focus

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

- Government-wide financial statements;
- Fund financial statements; and
- Notes to the basic financial statements.

Government-Wide Financial Statements

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

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

Fund Financial Statements

The fund financial statements consist of the balance sheet and the statement of revenues, expenditures, and changes in fund balance of the Commission's General Fund. These statements are presented on a current financial resources measurement focus. Generally, only current assets and current liabilities are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance for the General Fund generally presents 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.

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

Long-Term Liabilities

As of June 30, 2012, the Commission estimated its liability for vested compensated absences to be \$137,878. Compensated absence obligations are considered long-term in nature and are reported in the fund financial statements as expenditures in the period paid, or when due and payable at year-end under the modified accrual basis of accounting. The compensated absences have been accrued in the government-wide financial statements and are included in long-term liabilities. The compensated absences increased by \$6,267 during the year. The compensated absences are liquidated by the General Fund.

Cash and Investments

State statutes mandate the Commission maintain substantially all of its cash in the San Bernardino County Treasury. The County's investment pool operates in accordance with appropriate State laws and regulations. The method used to determine the value of participants' equity withdrawn is based on the book value, amortized cost plus accrued interest, multiplied by the Commission's percentage at the date of such withdrawal, which approximates fair value.

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Due from State of California

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

Due from Agencies

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

Revenues

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

Use of Estimates

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

Budget and Budgetary Reporting

The Commission is required by County ordinance to prepare a budget each year based on estimates of revenues and expected expenditures. The Commission's Board of Commissioners adopted an annual budget for the General Fund of expenditures for the year ended June 30, 2012, which is prepared on the modified accrual basis of accounting.

Encumbrances

The Commission utilizes an encumbrance system as a management control technique to assist in controlling contract expenditures.

Restricted Net Assets

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

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Classification

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

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

The Commission has not established a policy for its use of unassigned 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 2011-2012 fiscal year are summarized as follows:

| | Balance Beginning of Year | Increases | Decreases | Balance End of Year | Amount Due Within One Year |
|-------------------------|---------------------------------|-----------|-----------|---------------------------|----------------------------------|
| Compensated Absences | \$ 131,611 | \$12,569 | \$(6,302) | \$ 137,878 | \$ 6,267 |

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 3 – CASH AND INVESTMENTS

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

| | |
|---|----------------------|
| Cash and investments in County Treasury | <u>\$ 93,246,485</u> |
| Total Cash and Investments | <u>\$ 93,246,485</u> |

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

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

NOTE 4 – CLOSEOUT OF SCHOOL READINESS PROGRAM

The school readiness program ended June 30, 2010. In fiscal year 2011-2012 an overpayment of \$357,126 was returned to the State of California for the School Readiness Program. The payment was made from the General Fund. The school readiness fund was closed in fiscal year 2011-2012 and consolidated with the General Fund.

NOTE 5 – DUE FROM STATE OF CALIFORNIA

The *Due From State of California* account represents amounts due to the Commission from the California Children and Families Commission (State Commission) for Prop 10 related revenues and other governmental agencies. The amounts due to the Commission at June 30, 2012, were as follows:

| | |
|---|---------------------|
| Due from State of California: | |
| Prop 10 revenue for: | |
| May 2012 | \$ 1,803,375 |
| June 2012 | 2,238,887 |
| Surplus Money Investment Fund Allocations | <u>9,186</u> |
| Total Due from State of California | <u>\$ 4,051,448</u> |

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 6 – DUE FROM AGENCIES

The due from agencies of \$5,776 is net of allowance for doubtful accounts of \$103,903. Total receivables of \$109,679 represent advances or overpayments to contractors and are currently in San Bernardino County's Collections.

NOTE 7 – OPERATING LEASE

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

| Year Ended June 30, | |
|------------------------|-------------------|
| 2013 | \$ 214,814 |
| 2014 | 220,128 |
| 2015 | 226,248 |
| Thereafter | <u>114,654</u> |
| | <u>\$ 775,844</u> |

Rent expense was \$207,900 for the year ended June 30, 2012.

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 zero to five and their families. The Commission pays on a monthly reimbursement to the providers. The providers are required to file monthly expenditure reports detailing how much of the funding was used. At year-end a payable generally exists depending on the actual level of expenditures by the grantee. At June 30, 2012, the following was owed to providers and is included in contracts payable:

| Contracts Payable by Focus Areas: | |
|-----------------------------------|---------------------|
| Health | \$ 2,253,090 |
| Family | 1,509,376 |
| Education | 736,719 |
| Commission Responsive Initiatives | 1,003,098 |
| Evaluation | <u>77,460</u> |
| Total Contracts Payable | <u>\$ 5,579,743</u> |

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 9 – CONTINGENCIES

The Commission is involved in various legal proceedings from time to time in the normal course of business. In management's opinion, the Commission is not involved in any legal proceeding that will have a material adverse effect on financial position or changes in financial position of the Commission. Refer to additional information at Note 15.

NOTE 10 – RELATED PARTY TRANSACTIONS

The required composition of the Board of Commissioners includes members from the County and other local governments, community based organizations which serve children. Many of the programs funded by the Commission are operated by organizations represented by the Commissioners. Commissioners must abstain from voting on issues directly related to their respective organizations. The following table shows the contracts awarded in fiscal year 2012, whereby certain Commissioners were required to abstain from voting:

| <u>Organization</u> | <u>Award Amount</u> |
|--|-------------------------|
| County of San Bernardino Children's Network SART | \$ 199,385 |
| Children's Fund Community Engagement | 488,008 |
| Inland Regional Center | 500,001 |
| County of San Bernardino Arrowhead Regional Medical Center | 372,021 |
| County of San Bernardino Department of Behavioral Health | 552,078 |
| Save the Children Federation, Inc. | 2,292,102 |
| San Bernardino County Child Care Policy Planning Council | 1,799,852 |
| Total | <u>\$ 6,203,447</u> |

The Commission also contracts with the County to provide accounting, banking and investment, purchasing, human resources, risk management, and other administrative services. The Commission participates in the County's risk management programs (commercial and self-insurance programs) for general and automobile liability insurance, public official liability, rental interruption, personal property, workers' compensation, group health indemnified plans, group salary continuance plan, group dental plan and unemployment benefit plan. The Commission incurred expenses totaling \$323,679 for all other County services provided during the year ended June 30, 2012.

NOTE 11 – PROGRAM EVALUATION

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

For the year ended June 30, 2012, the Commission expended \$449,172 for program evaluation.

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 12 – FUND BALANCE

General Fund:

Nonspendable fund balance of \$32,935 consists of prepaid insurance and annual membership to First 5 Association of California.

Committed fund balance of \$1,179,742 consists of the State Program Cares Plus Match.

Assigned fund balance of \$26,245,596 consists of the following:

| | | |
|----------------------------------|----|--------------------------|
| Contract for Evaluation Services | \$ | 549,819 |
| Contracts for Operation Services | | 234,914 |
| Contracts for Program Services | | <u>25,460,863</u> |
| Total Assigned Fund Balance | \$ | <u><u>26,245,596</u></u> |

NOTE 13 – DEFINED BENEFIT PENSION PLAN

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

Employees are required by statute to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry in the Plan. Employee contribution rates vary according to age and classification. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. The County contributes approximately 7 percent (7%) of an employee's covered salary who were hired prior to July 2008, as determined pursuant to Section 31453 of the 1937 Act. Pension expense was \$341,084 for the year ended June 30, 2012.

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 13 – DEFINED BENEFIT PENSION PLAN, (Continued)

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

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

| Fiscal Year Ending | Annual Required Contributions (ARC) | Percentage of ARC Contributed |
|-----------------------|---|----------------------------------|
| 6/30/2010 | \$ 296,882 | 100.00% |
| 6/30/2011 | 303,753 | 100.00% |
| 6/30/2012 | 341,084 | 100.00% |

NOTE 14 – EXTRAORDINARY ITEM

On March 24, 2011, the Governor signed Assembly Bill 99 (AB99) into law. AB99 established the Children and Families Health and Human Services Fund (Fund). As specified in the legislation, the Fund would be used, upon appropriation, by the California State Legislature for health and human services. The bill required \$1 billion of the combined State and Local Children and Families funds to be deposited in the Fund for the 2011-2012 fiscal year. The amount required from each First 5 Commission (AB99 payment) represented 50 percent (50%) of their fund balance as of June 30, 2010. For the San Bernardino County Children and Families Commission, this amount was \$49,818,468. The AB99 payment was due by June 30, 2012. In accordance with the legislation, no 2012-2013 Commission revenues would have been paid until the full AB99 payment was made. Accordingly, the Commission accrued the AB99 obligation as a liability at June 30, 2011. A lawsuit was filed by a number of First 5 Commissions against the State challenging that the bill violates the intent of Proposition 10. In fiscal year 2011-2012, the Superior Court of California ruled in favor of the Commissions, therefore AB99 was no longer an obligation. The State chose not to appeal the ruling of the Superior Court. The Commission accrued the expenditure as an extraordinary item in fiscal year 2010-2011 and has reversed this item in fiscal year 2011-2012 resulting in an extraordinary gain in the amount of \$49,818,468.

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 15 – RISK MANAGEMENT

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

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

During the year ending June 30, 2012, the Commission has no settlements exceeding insurance coverage for these categories of risk. For the past three years, settlements or judgments amounts have not exceeded insurance provided for Commission.

NOTE 16 - NEW ACCOUNTING PRONOUNCEMENTS

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

GASB Statement No. 60 – *Accounting and Financial Reporting for Service Concession Arrangements*, addresses how to account for and report service concession arrangements (SCAs), a type of public-private, or public-public partnership that State and local governments are increasingly entering into. The requirements of this Statement are effective for the fiscal year ending December 15, 2011. The Commission has not determined its effect on the financial statements.

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

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

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 16 - NEW ACCOUNTING PRONOUNCEMENTS, (Continued)

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

GASB Statement No. 65 – GASB Concepts Statement No. 4, *Elements of Financial Statements*, specifies that recognition of deferred outflows and deferred inflows should be limited to those instances specifically identified in authoritative GASB pronouncements. Consequently, guidance was needed to determine which balances being reported as assets and liabilities should actually be reported as deferred outflows of resources or deferred inflows of resources, according to the definitions in Concepts Statement No. 4. Based on those definitions, Statement No. 65 reclassifies and recognizes certain items currently being reported as assets and liabilities as one of four financial statement elements: deferred outflows of resources, outflows of resources, deferred inflows of resources, or inflows of resources. The requirements of this Statement are effective for the fiscal year ending December 15, 2012. The Commission has not determined its effect on the financial statements.

GASB Statement No. 66 - amends Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of a State and local government's risk financing activities to the General Fund and the internal service fund type. As a result, governments would base their decisions about governmental fund type usage for risk financing activities on the definitions in Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

This Statement also amends Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate. These changes would eliminate any uncertainty regarding the application of Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, respectively. The requirements of this Statement are effective for the fiscal year ending December 15, 2012. The Commission has not determined its effect on the financial statements.

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 16 - NEW ACCOUNTING PRONOUNCEMENTS, (Continued)

GASB Statement No. 67 - replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and Statement No. 50 as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. Statement No. 67 enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement No. 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. The requirements of this Statement are effective for the fiscal year ending June 30, 2014. The Commission has not determined its effect on the financial statements.

GASB Statement No. 68 - replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental 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 No. 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 and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information (RSI). The requirements of this Statement are effective for the fiscal year ending June 30, 2015. The Commission has not determined its effect on the financial statements.

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

For the Year Ended June 30, 2012

| | General Fund | | Actual Amounts | Variance with Final Budget - Positive (Negative) |
|--|-------------------------|----------------------|---------------------------|---|
| | Budgeted Amounts | | | |
| | Original | Final | | |
| REVENUES | | | | |
| State allocations | \$ 21,556,017 | \$ 21,556,017 | \$ 22,931,992 | 1,375,975 |
| Investment income | 939,399 | 939,399 | 418,731 | (520,668) |
| Other revenues | 16,000 | 16,000 | 5,776 | (10,224) |
| Total Revenues | <u>22,511,416</u> | <u>22,511,416</u> | <u>23,356,499</u> | <u>845,083</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| Salaries and benefits | 2,333,760 | 2,333,760 | 1,912,131 | 421,629 |
| Services and supplies | 1,597,400 | 1,597,400 | 1,323,921 | 273,479 |
| Contract payments to agencies | 32,000,000 | 32,000,000 | 22,290,861 | 9,709,139 |
| Total Expenditures | <u>35,931,160</u> | <u>35,931,160</u> | <u>25,526,913</u> | <u>10,404,247</u> |
| Excess/(deficiency) of revenues over (under) expenditures | (13,419,744) | (13,419,744) | (2,170,414) | 11,249,330 |
| EXTRAORDINARY ITEM | | | | |
| AB99 gain | - | - | 49,818,468 | 49,818,468 |
| AB99 obligation | 49,818,468 | 49,818,468 | - | (49,818,468) |
| Total Extraordinary Item | <u>49,818,468</u> | <u>49,818,468</u> | <u>49,818,468</u> | <u>-</u> |
| Net Change in Fund Balance | 36,398,724 | 36,398,724 | 47,648,054 | <u>11,249,330</u> |
| Fund Balances, beginning of period | <u>44,022,459</u> | <u>44,022,459</u> | <u>44,022,459</u> | |
| Fund Balances, end of period | <u>\$ 80,421,183</u> | <u>\$ 80,421,183</u> | <u>\$ 91,670,513</u> | |

See accompanying note to required supplementary information.

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2012**

Budget and Budgetary Process

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

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



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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

We have audited the financial statements of the governmental activities and the general fund of the First 5 San Bernardino Children and Families Commission (the Commission), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2012, and have issued our report thereon dated October 16, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Commission is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses as item 2012-01 that we consider to be significant deficiencies in internal control over financial reporting. *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.

Compliance and Other Matters

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

The Commission's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit the Commission's response and, accordingly, we express no opinion on it.

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

Vavrinik, Trine, Day & Co. LLP

Rancho Cucamonga, California
October 16, 2012



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

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

We have audited the basic financial statements of the First 5 San Bernardino Children and Families Commission (the Commission), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2012, and have issued our report thereon dated October 16, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have also audited the Commission's compliance with requirements specified in the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, issued by the State Controller's Office, applicable to the Commission's statutory requirements identified below for the year ended June 30, 2012. Compliance with the requirements referred to above is the responsibility of the Commission's management. Our responsibility is to express an opinion on the Commission's compliance based on our audit.

We conducted our compliance audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, issued by the State Controller's Office. Those standards and the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the statutory requirements listed below occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide legal determination of the Commission's compliance with those requirements.

In connection with the audit referred to above, we selected and tested transactions and records to determine the Commission's compliance with the laws and regulations applicable to the following items.

| Description | Audit Guide Procedures | Procedures Performed |
|---------------------------------------|------------------------|----------------------|
| Contracting and Procurement | 6 | Yes |
| Administrative Costs | 3 | Yes |
| Conflict-of-Interest | 3 | Yes |
| County Ordinance | 4 | Yes |
| Long-Range Financial Plans | 2 | Yes |
| Financial Condition of the Commission | 1 | Yes |
| Program Evaluation | 3 | Yes |
| Salaries and Benefit Policies | 2 | Yes |

In our opinion, the Commission complied, in all material respects, with the compliance requirements referred to above that are applicable to the statutory requirements listed above for the year ended June 30, 2012.

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

Vavrinik, Trine, Day & Co. LLP

Rancho Cucamonga, California

October 16, 2012

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2012**

Finding 2012-01

FINANCIAL REPORTING

Criteria:

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

Condition:

While we noted the Commission made considerable improvements with the financial report process, we noted several issues with the draft financial statements, including reconciliation of beginning fund balance, and the governmental fund balance sheet not balancing. We also noted one audit adjustment was proposed and recorded resulting in an increase to Proposition 10 revenues and an increase to expenditures.

Context:

The Commission uses a third-party to assist in the preparation of the financial statements. The financial statements are then reviewed by the Commission. While the Commission made considerable improvements with the financial reporting process, the Commission should continue to improve procedures to ensure that the financial statements are materially accurate and balance.

Effect:

This condition contributed to delays in completing the audit of the Commission's financial statements.

Cause:

While the Commission made considerable improvements with the financial reporting process, the Commission needs to continue improving its internal control system over financial reporting to ensure it is adequately designed, maintained, and monitored in order to detect and correct misstatements and disclosures required in the financial statements.

Recommendation:

We noted the Commission made considerable improvements with the financial report process from prior years. We recommend that the Commission continue to strengthen procedures to ensure that the financial statements are reviewed for accuracy and completeness; and that personnel involved in the preparation and review of financial statements obtain continuing professional education training to improve and/or acquire skills concerning the preparation and/or review of the financial statements.

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2012**

View of Responsible Officials and Planned Corrective Action:

In fiscal year 2012-2013, fiscal staff will continue to participate in professional education training to improve knowledge related to preparation and review of financial statements. As the Commission relies heavily on collaboration from a third party, a timeline will be developed wherein the Commission consults and meets with key staff within the Auditor-Controller Recorder (ACR) operation as well as First 5 California, to discuss shared responsibilities, standard processes, necessary adjustments, any changes from the previous year affecting the Commission, and ensure accuracy and congruence for financial statements before they are submitted for annual auditor review. Taking the lessons learned in the past two years, the Commission is modifying its standardized year-end procedure to strengthen controls in the review of its annual financial statements.

**FIRST 5 SAN BERNARDINO
CHILDREN AND FAMILIES COMMISSION
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS
JUNE 30, 2012**

Summarized below is the current status of all audit findings reported in the prior year audit's Schedule of Findings and Responses.

| Finding No. | Finding Name | Status of Corrective Action |
|--------------------|--|---|
| 2011-01 | Financial Reporting | Not implemented; see Finding 2012-01 |
| 2011-02 | Year-end Closing | Implemented |
| 2011-03 | Financial Condition and Program Evaluation Policies | Implemented |
| 2011-04 | Report Submission | Implemented |