

FIRST 5 SAN BERNARDINO

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

**For the Year Ended
June 30, 2010**

TABLE OF CONTENTS

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis	2
<u>Government-wide Financial Statements</u>	
Statement of Net Assets	7
Statement of Activities	8
<u>Fund Financial Statements</u>	
Balance Sheet – Governmental Funds	9
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	10
Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – Governmental Funds	11
Notes to Financial Statements	13
Other Independent Auditors' Reports Section	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	20
Independent Auditors' Report on State Compliance	22
Findings and Responses	24
Status of Prior Year Findings and Responses	25



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Independent Auditors' Report

To the Commissioners of
First 5 San Bernardino

We have audited the accompanying financial statements of the governmental activities and each major fund of First 5 San Bernardino (the Commission), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2010, which collectively comprises the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund of First 5 San Bernardino as of June 30, 2010, and the respective changes in financial position, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2010 on our consideration of First 5 San Bernardino's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

October 25, 2010

First 5 San Bernardino Management's Discussion and Analysis

The following section of the Children and Families Commission for San Bernardino County (First 5 San Bernardino, the Commission) annual financial statements includes management's insights and analysis of the Commission's financial performance for the fiscal year ended June 30, 2010.

A. Introduction to the Basic Financial Statements

These financial statements consist of a series of financial statements, prepared in accordance with the Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

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

The notes to financial statements and this discussion and analysis support these statements. All sections must be considered together to obtain a complete understanding of the financial picture of the Commission.

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

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

Analytical Overview-Summary: First 5 San Bernardino's financial position, as a whole, remained steady with slight variances in both revenues and expenditures in all categories:

- State allocations include Proposition 10 (Prop. 10) revenues, School Readiness (SR) Initiative funds and funding to support the Regional Technical Assistance (TA) program. Although overall steady, Prop. 10 revenue decreased by \$ 3,501,230 from the previous year.
- Due to the economy's decrease in interest rates, investment funds pooled within the Treasurer/Tax Collector Division sustained a decrease over the past year in the amount of \$ 2,370,469.

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

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

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

Condensed Financial Statement Information

Statement of Net Assets

	<u>June 30,</u>	
	<u>2010</u>	<u>2009</u>
<u>Assets</u>		
Current assets	\$ 102,756,790	\$ 103,733,622
Capital assets	-	90,372
Total assets	<u>\$ 102,756,790</u>	<u>\$ 103,823,994</u>
 <u>Liabilities and net assets</u>		
Current liabilities	\$ 3,119,855	\$ 4,012,165
Noncurrent liabilities	<u>146,369</u>	<u>114,215</u>
Total liabilities	<u>3,266,224</u>	<u>4,126,380</u>
Invested in capital assets	-	90,372
Restricted	-	734,810
Unrestricted	<u>99,490,566</u>	<u>98,872,432</u>
Net assets	<u>99,490,566</u>	<u>99,697,614</u>
Total liabilities and net assets	<u>\$ 102,756,790</u>	<u>\$ 103,823,994</u>

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

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

Condensed Financial Statement Information (Continued)

Statement of Activities

	For the Fiscal Year Ended June 30	
	<u>2010</u>	<u>2009</u>
<u>Revenues</u>		
State allocations	\$ 25,575,034	\$ 29,076,264
Investment income	1,082,025	3,452,492
Loss on disposal of capital assets	-	(1,033)
Other	<u>9,221</u>	<u>7,797</u>
Total revenues	<u>26,666,280</u>	<u>32,535,520</u>
<u>Expenses</u>		
Salaries and benefits	2,134,395	2,130,306
Services and supplies	1,604,831	1,975,928
Contract payments to agencies	23,043,730	27,957,441
Depreciation/write-down of capital assets	<u>90,372</u>	<u>26,883</u>
Total expenses	<u>26,873,328</u>	<u>32,090,558</u>
Change in net assets	(207,048)	444,962
Net assets, beginning of year	<u>99,697,614</u>	<u>99,252,652</u>
Net assets, end of year	<u>\$ 99,490,566</u>	<u>\$ 99,697,614</u>

- The contracted services expenses decreased by \$ 4,913,711 in FY 2009-10. In the prior year expenses were significantly higher in our Community Engagement Division as First 5 successfully progressed in continuing to develop this service area that was formed in FY 2006/07.
- During FY 2009-10, First 5 adopted the County of San Bernardino's capitalization policy which resulted in loss of \$ 90,372 from the write-down of its capital assets that were less than \$ 5,000.

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

C. Budget to Actual Performance

The budget to actual performance presented below is based on the governmental fund's statement of revenues, expenditures and changes in fund balances on Page 10 and is on the modified accrual basis of accounting.

Revenues, Expenditures and Changes in Fund Balance Budget to Actual

	<u>For the Fiscal Year Ended June 30, 2010</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
			<u>(over) under</u>
<u>Revenues</u>			
Total revenues	\$ 30,785,294	\$ 26,666,280	\$ 4,119,014
<u>Expenditures</u>			
Program Strategies	36,000,000	20,698,884	15,301,116
School Readiness	3,000,000	2,344,844	655,156
Program Services	677,700	548,322	129,378
Community Engagement	458,100	310,767	147,333
Regional Technical Assistance	-	140,046	(140,046)
Operations	3,305,092	2,707,939	597,153
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>43,440,892</u>	<u>26,750,802</u>	<u>16,690,090</u>
Net increase (decrease)	<u>\$ (12,655,598)</u>	(84,522)	<u>\$ (12,571,076)</u>
Fund balance, beginning of year		<u>99,721,457</u>	
Fund balance, end of year		<u>\$ 99,636,935</u>	

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

C. Budget to Actual Performance (Continued)

- First 5's funding source consists of tobacco tax revenues under the Proposition 10 State Initiative and investment earnings thereon. The budgeted amount included anticipated investment earnings of \$ 2,900,000. The actual earned investment earnings amounted to \$ 1,082,025.
- At the time of the budget approval, Commissioners and members of the public were made aware that the \$ 36,000,000 allocation for Program Strategies was a recommended maximum amount for which we base ongoing and future procurements. Partner agencies benefit from a multi-year investment commitment, while allowing First 5 San Bernardino the flexibility to respond to current conditions and priority needs with on-going procurement opportunities. Although we diligently plan for operations and expenditures, we have not contracted every dollar set aside in the budget.

D. Factors Impacting Future Periods

Again this year, the Commission was faced with a barrage of efforts aimed at redirecting Prop. 10 dollars, removing local control of said dollars and possibly reducing or eliminating our steady stream of revenue. This kind of political and economic strategy may continue in the next fiscal year and beyond. First 5 County Commissions statewide have joined forces to some degree to adopt and express a unified position in support of our work and its outcomes. The Children and Families Commission First 5 San Bernardino operates with a well designed Long Range Financial Plan which includes a Sustainability Fund with a balance of \$ 31,696,729 as of June 30, 2010. First 5 programs will continue to be funded by drawing from this fund for several years to sustain high program funding levels as tobacco revenues decrease. First 5 San Bernardino's Strategic Plan was recently revised and approved by our Commission. Implementation of these revisions and our continued work per the Prop. 10 initiative will ensure that we respond to the priorities identified and meet the needs of our communities.

In this fiscal year, First 5 San Bernardino released formal Requests for Proposals Applications and Qualifications and sought to provide the very best in programs and services to the children and families of San Bernardino County. The multi year contracts will begin July 1, 2010. Building capacity will be a major goal in future endeavors as well as improving quality and accessibility to programs and services. Contracted agencies will see a different reimbursement model than they have seen in the past, which aligns with the industry standard for non-profit work. First 5 staff responsibilities will evolve and become more unified and structured to allow for continual quality improvement, maximum accountability and the highest level of integrity within our program and partnerships and with the delivery of all services.

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

E. Request for Information

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

BASIC FINANCIAL STATEMENTS

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FIRST 5 SAN BERNARDINO

Statement of Net Assets

June 30, 2010

Assets

Cash and cash equivalents	\$ 97,808,761
Prepays	29,335
Due from State of California	
Allocations	4,178,365
Interest	16,356
Due from agencies	445,261
Due from County of San Bernardino - interest	<u>278,712</u>
Total assets	<u>102,756,790</u>

Liabilities

Accounts payable	56,056
Accrued payroll	83,251
Due to State of California	2,050
Due to agencies under contract	2,959,648
Due to County of San Bernardino	18,850
Noncurrent liabilities	
Due within one year	-
Due in more than one year	<u>146,369</u>
Total liabilities	<u>3,266,224</u>

Net assets

Restricted	-
Unrestricted	<u>99,490,566</u>
Total net assets	<u>\$ 99,490,566</u>

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

FIRST 5 SAN BERNARDINO

Statement of Activities

For the Year Ended June 30, 2010

	Age 0-5 Child Development Programs	School Readiness	Regional Technical Assistance	Total Governmental Funds
Expenses				
Salaries and benefits	\$ 2,134,395	\$ -	\$ -	\$ 2,134,395
Services and supplies	1,464,785		140,046	1,604,831
Contract payments to agencies	20,698,886	2,344,844		23,043,730
Depreciation/write-down of capital assets	<u>90,372</u>	<u>-</u>	<u>-</u>	<u>90,372</u>
Total expenses	24,388,438	2,344,844	140,046	26,873,328
Program revenues				
State allocations	<u>23,947,571</u>	<u>1,562,013</u>	<u>65,450</u>	<u>25,575,034</u>
Net program (expenses)	(440,867)	(782,831)	(74,596)	(1,298,294)
General revenues				
Investment income	1,043,451	37,196	1,378	1,082,025
Other	9,221	-	-	9,221
Transfers	<u>13,500</u>	<u>-</u>	<u>(13,500)</u>	<u>-</u>
Total general revenues and transfers	<u>1,066,172</u>	<u>37,196</u>	<u>(12,122)</u>	<u>1,091,246</u>
Change in net assets	625,305	(745,635)	(86,718)	(207,048)
Net assets, beginning of year	<u>98,962,804</u>	<u>648,092</u>	<u>86,718</u>	<u>99,697,614</u>
Net assets, end of year	<u>\$ 99,588,109</u>	<u>\$ (97,543)</u>	<u>\$ -</u>	<u>\$ 99,490,566</u>

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

FIRST 5 SAN BERNARDINO

**Balance Sheet
Governmental Funds**

June 30, 2010

	<u>Age 0-5 Child Development Programs</u>	<u>School Readiness</u>	<u>Non Major Regional Technical Assistance</u>	<u>Total Governmental Funds</u>
Assets				
Cash and cash equivalents	\$ 95,086,795	\$ 2,720,063	\$ 1,903	\$ 97,808,761
Prepays	29,335			29,335
Due from State of California				
Allocations	4,178,365			4,178,365
Interest	16,356			16,356
Due from agencies	379,641	65,620		445,261
Due from County of San Bernardino - interest	270,445	8,120	147	278,712
Due from other funds	2,584,038	-	-	2,584,038
Total assets	<u>\$ 102,544,975</u>	<u>\$ 2,793,803</u>	<u>\$ 2,050</u>	<u>\$ 105,340,828</u>
Liabilities and Fund Balances				
<u>Liabilities</u>				
Accounts payable	\$ 56,056	\$ -	\$ -	\$ 56,056
Accrued payroll	83,251			83,251
Due to State of California			2,050	2,050
Due to agencies under contract	2,652,340	307,308		2,959,648
Due to County of San Bernardino	18,850			18,850
Due to other funds	-	2,584,038	-	2,584,038
Total liabilities	<u>2,810,497</u>	<u>2,891,346</u>	<u>2,050</u>	<u>5,703,893</u>
<u>Fund balances</u>				
Reserved for:				
Prepays	29,335	-	-	29,335
Encumbrances	32,005,201	2,079,521		34,084,722
Unreserved:				
Designated for local initiatives and program sustainability	31,696,729			31,696,729
Unreserved - undesignated	36,003,213	(2,177,064)	-	33,826,149
Total fund balances	<u>99,734,478</u>	<u>(97,543)</u>	<u>-</u>	<u>99,636,935</u>
Total liabilities and fund balances	<u>\$ 102,544,975</u>	<u>\$ 2,793,803</u>	<u>\$ 2,050</u>	<u>\$ 105,340,828</u>

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

Total fund balance	\$ 99,636,935
Long-term liabilities, including accrued compensated absences, are not due and payable in the current period and therefore are not reported in the funds.	<u>(146,369)</u>
Net assets of governmental activities	<u>\$ 99,490,566</u>

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

FIRST 5 SAN BERNARDINO

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

For the Year Ended June 30, 2010

	<u>Age 0-5 Child Development Programs</u>	<u>School Readiness</u>	<u>Non Major Regional Technical Assistance</u>	<u>Total Governmental Funds</u>
Revenues				
State allocations	\$ 23,947,571	\$ 1,562,013	\$ 65,450	\$ 25,575,034
Investment income	1,043,451	37,196	1,378	1,082,025
Other revenues	9,221	-	-	9,221
Total revenues	<u>25,000,243</u>	<u>1,599,209</u>	<u>66,828</u>	<u>26,666,280</u>
Expenditures				
Current:				
Salaries and benefits	2,102,241	-	-	2,102,241
Service and supplies	1,464,785	-	140,046	1,604,831
Contract payments to agencies	20,698,886	2,344,844	-	23,043,730
Total expenditures	<u>24,265,912</u>	<u>2,344,844</u>	<u>140,046</u>	<u>26,750,802</u>
Excess of revenues over (under) expenditures	<u>734,331</u>	<u>(745,635)</u>	<u>(73,218)</u>	<u>(84,522)</u>
Other financing sources (uses)				
Operating transfer	13,500	-	(13,500)	-
Total other financing sources (uses)	<u>13,500</u>	<u>-</u>	<u>(13,500)</u>	<u>-</u>
Excess of revenues over (under) expenditures and other financing sources (uses)	747,831	(745,635)	(86,718)	(84,522)
Fund balances				
Balances, beginning of year	98,986,647	648,092	86,718	99,721,457
Balances, end of year	<u>\$ 99,734,478</u>	<u>\$ (97,543)</u>	<u>\$ -</u>	<u>\$ 99,636,935</u>

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

Net change in fund balance - total governmental funds	\$ (84,522)
Governmental funds report capital outlays as expenditures, when applicable. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation/write-down of capital assets exceeded any capital outlay in the current period.	(90,372)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(32,154)
Change in net assets of governmental activities	<u>\$ (207,048)</u>

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

FIRST 5 SAN BERNARDINO

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

For the Year Ended June 30, 2010

	Age 0-5 Child Development Programs			Variance with Final Budget - Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
Revenues				
State allocations	\$ 24,498,794	\$ 24,498,794	\$ 23,947,571	\$ (551,223)
Investment income	2,900,000	2,900,000	1,043,451	(1,856,549)
Other revenues	<u>386,500</u>	<u>386,500</u>	<u>9,221</u>	<u>(377,279)</u>
Total revenues	<u>27,785,294</u>	<u>27,785,294</u>	<u>25,000,243</u>	<u>(2,785,051)</u>
Expenditures				
Current:				
Salaries and benefits	2,537,692	2,537,692	2,102,241	435,451
Service and supplies	1,903,200	1,903,200	1,464,785	438,415
Contract payments to agencies	<u>36,000,000</u>	<u>36,000,000</u>	<u>20,698,886</u>	<u>15,301,114</u>
Total expenditures	<u>40,440,892</u>	<u>40,440,892</u>	<u>24,265,912</u>	<u>16,174,980</u>
Excess of revenues over (under) expenditures	(12,655,598)	(12,655,598)	734,331	13,389,929
Other financing sources (uses)				
Operating transfer	<u>-</u>	<u>-</u>	<u>13,500</u>	<u>(13,500)</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>13,500</u>	<u>(13,500)</u>
Excess of revenues over (under) expenditures and other financing sources (uses)	(12,655,598)	(12,655,598)	747,831	<u>\$ 13,376,429</u>
Fund balances				
Balances, beginning of year	<u>101,915,255</u>	<u>101,915,255</u>	<u>98,986,647</u>	
Balances, end of year	<u>\$ 89,259,657</u>	<u>\$ 89,259,657</u>	<u>\$ 99,734,478</u>	

School Readiness			Variance with Final Budget - Positive (Negative)
Budgeted Amounts		Actual	
Original	Final		
\$ 3,000,000	\$ 3,000,000	\$ 1,562,013	\$ (1,437,987)
-	-	37,196	37,196
<u>3,000,000</u>	<u>3,000,000</u>	<u>1,599,209</u>	<u>(1,400,791)</u>
<u>3,000,000</u>	<u>3,000,000</u>	<u>2,344,844</u>	<u>655,156</u>
<u>3,000,000</u>	<u>3,000,000</u>	<u>2,344,844</u>	<u>655,156</u>
-	-	(745,635)	(745,635)
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	(745,635)	<u>\$ (745,635)</u>
<u>1,161,472</u>	<u>1,161,472</u>	<u>648,092</u>	
<u>\$ 1,161,472</u>	<u>\$ 1,161,472</u>	<u>\$ (97,543)</u>	

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

FIRST 5 SAN BERNARDINO Notes to Financial Statements

1. Summary of Operations and Significant Accounting Policies

Reporting Entity

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

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

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

Government-wide and Fund Financial Statements

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

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

FIRST 5 SAN BERNARDINO
Notes to Financial Statements

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

The Commission reports the following major governmental funds:

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

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

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

Budgets and Budgetary Accounting

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

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

FIRST 5 SAN BERNARDINO
Notes to Financial Statements

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

Cash and Cash Equivalents

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

The County Treasurer's investments, including U.S. Treasury and Agency securities, are carried at fair value based on quoted market prices. Repurchase agreements are carried at fair value based on quoted market prices, except for repurchase agreements maturing within 90 days of June 30, 2010, which are carried at cost. Commercial paper is carried at amortized cost.

Interfund Balances and Transfers

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

Capital Assets

Capital assets, which include computers and office equipment, are reported in the government-wide financial statements. Capital assets are defined by the Commission as assets with an initial, individual cost of more than \$ 5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The Commission changed its capitalization policy regarding capital assets to be in conformity with the policy of the County of San Bernardino. The threshold to capitalize assets was changed from \$ 100 to \$ 5,000. All assets with an initial cost less than \$ 5,000 were removed from the capital asset schedule along with any associated accumulated depreciation balances. A total of \$ 308,623 of capital assets and associate accumulated depreciation of \$ 218,251 was removed. The remaining balance of \$ 90,372 is shown as a loss from write-down of capital assets on the Government-wide Statement of Activities.

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

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

FIRST 5 SAN BERNARDINO
Notes to Financial Statements

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

Compensated Absences

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

Revenues

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

Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of a fund balance not available for expenditures or amounts legally segregated for a specific future use. Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period. The Commission has a designation of fund balance including interest earnings thereon for future economic conditions if Proposition 10 Tobacco Funds taxes are reduced or eliminated. The Commission has reservations of its fund balances for contracts encumbered at year-end that have lapsed and will be re-encumbered in the following year. The negative fund balance in the School Readiness program will be absorbed by the Child Development fund in the next fiscal year.

2. Reconciliation of Government-wide and Fund Financial Statements

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

Compensated absences to be paid in future years	<u>\$ (146,369)</u>
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Explanation of certain differences between the governmental funds statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities:

Loss from write-down of capital assets	<u>\$ (90,372)</u>
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Net change in compensated absences	<u>\$ (32,154)</u>
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FIRST 5 SAN BERNARDINO
Notes to Financial Statements

3. Cash and Cash Equivalents

Cash and cash equivalents consisted of the following at June 30, 2010:

San Bernardino County External Investment Pool – Age 0-5	\$ 63,481,561
San Bernardino County External Investment Pool – Reserves	31,604,734
San Bernardino County External Investment Pool – School Readiness	2,720,063
San Bernardino County External Investment Pool – Regional Technical	1,903
Petty cash	<u>500</u>
Total cash and cash equivalents	<u>\$ 97,808,761</u>

Credit Risk – Investments

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

The County Treasurer’s investments consist of 68.2% federal agencies, 5.3% certificates of deposit, 6.8% commercial paper, 12.3% U.S. treasuries, 3.7% money market funds and 3.7% TLGP Corporate Notes. The credit ratings for these investments include AAA, A-1+ and non-rated for Certificates of Deposit. The carrying value and market value as of June 30, 2010 for the Commission’s pooled investments with the County Treasurer was \$ 97,457,803 and \$ 97,808,261, respectively.

Custodial Credit Risk – Deposits

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

Interest Rate Risk – Investments

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

4. Interfund Receivables/Payables

The following is a summary of the interfund receivables and payables at June 30, 2010:

Due from Fund	Amount	Due to Fund
School Readiness	\$ 2,584,038	Child Development

FIRST 5 SAN BERNARDINO
Notes to Financial Statements

5. Capital Assets

A schedule of changes in capital assets for the year ended June 30, 2010 is shown below:

<u>Furniture and Computer Equipment</u>	
Balance, July 1, 2009	\$ 325,903
Additions	-
Disposals	<u>(308,623)</u>
	17,280
Less: accumulated depreciation	<u>(17,280)</u>
Balance, June 30, 2010	<u>\$ -</u>

6. Noncurrent liabilities

A schedule of changes in noncurrent liabilities for the year ended June 30, 2010 is shown below:

Compensated absences at June 30, 2009	\$ 114,215
Earned/transferred in	198,403
Used	<u>(166,249)</u>
Compensated absences at June 30, 2010	<u>\$ 146,369</u>
 Due within one year	 <u>\$ -</u>

7. Operating Leases

The Commission has two noncancellable leases with initial terms of more than one year for office space expiring December 31, 2015 and for a copy machine expiring July 31, 2012. The minimum future lease payments at June 30, 2010 are as follows:

<u>For year ending June 30,</u>	
2011	\$ 211,386
2012	217,500
2013	214,814
2014	220,128
2015	226,248
Thereafter	<u>114,654</u>
Total	<u>\$ 1,204,730</u>

Rent expense for the year ended June 30, 2010 amounted to \$ 223,198.

8. Transactions with the County of San Bernardino

The County of San Bernardino (the County) provides administrative responsibilities for the Commission at a specified rate per transaction. Amounts paid to the County for these services per the MOU were \$ 346,012 for the year ended June 30, 2010. Amounts due the County at June 30, 2010 were \$ 5,099. Also, amounts reimbursed to the Board of Supervisors for reimbursement of staff salaries and benefits amounted to \$ 34,235 for the year ended June 30, 2010.

FIRST 5 SAN BERNARDINO
Notes to Financial Statements

9. Program Evaluation

The Commission spent \$ 498,588 on program evaluations during the year ended June 30, 2010.

10. Economic Dependency

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

11. Retirement Plan

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

Employees are required by statute to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry in the Plan. Employee contribution rates vary according to age and classification. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. The County contributes approximately 7% of an employee's covered salary, as determined pursuant to Section 31453 of the 1937 Act. Pension expense was \$ 296,882 for the year ended June 30, 2010.

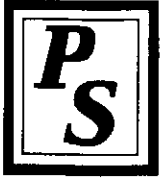
12. Commitments and Contingencies

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

13. New Accounting Pronouncement

In February 2009 the Governmental Accounting Standards Board issued Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*, which is effective for financial statement periods beginning after June 15, 2010, with early implementation encouraged. This pronouncement will have a significant impact on the format and definitions of the Commissions fund balance reporting at the time of implementation.

OTHER INDEPENDENT AUDITORS' REPORTS SECTION



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

To the Commissioners of
First 5 San Bernardino

We have audited the basic financial statements of First 5 San Bernardino (the Commission), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2010 and have issued our report thereon dated October 25, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's 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 misstatement on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies and material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 that are required to be reported herein under *Government Auditing Standards*.

This report is intended solely for the information 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.

Howell & Spafford, d.d.s.

October 25, 2010



Independent Auditors' Report on State Compliance

To the Commissioners of
 First 5 San Bernardino

We have audited the basic financial statements of First 5 San Bernardino (the Commission), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2010 and have issued our report thereon dated October 25, 2010.

Our audit was performed in accordance with auditing standards generally accepted in the United States of America; the standards for financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the State of California's *Standards and Procedures for Audits of California Counties Participating in the First 5 Program*, issued by the State Controller's Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

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

Based on our audit, we found that, for the items tested, the Commission complied with the laws and regulations of the items referred to above. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the Commission had not complied with the laws and regulations of the First 5 Program.

This report is intended solely for the information 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.

Lowell & Spafford, LLP

October 25, 2010

FIRST 5 SAN BERNARDINO

Findings and Responses

For the Year Ended June 30, 2010

Internal Control over Financial Reporting

None.

FIRST 5 SAN BERNARDINO

Status of Prior Findings and Responses

For the Year Ended June 30, 2010

Internal Control over Financial Reporting

2009-1 – Preparation of Financial Statements

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

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

Current Status: Implemented

2008-2 – Maintenance of General Ledger

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

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

Current Status: Implemented