Item 5

FIRST 5 COMMISSION OF SAN DIEGO

(A component unit of the County of San Diego, California)

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR 2011)

FIRST 5 COMMISSION OF SAN DIEGO
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR 2011)

TABLE OF CONTENTS

COMPLIANCE SECTION

MOSS, LEVY & HARTZHEIM LLP
CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS
RONALD A LEVY, CPA
CRAIG A HARTZHEIM, CPA
HADLEY Y HUI, CPA

COMMERCIAL ACCOUNTING & TAX SERVICES
9107 WILSHIRE BLVD. SUITE 500
BEVERLY HILLS, CA 90210
TEL: 310.273.2745
FAX: 310.670.1689
www.mlhcpas.com

GOVERNMENTAL AUDIT SERVICES
5800 HANNUM, SUITE E
CULVER CITY, CA 90230
TEL: 310.670.2745
FAX: 310.670.1689
www.mlhcpas.com

Independent Auditor's Report

Board of Commissioners
First 5 Commission of San Diego
San Diego, California

We have audited the accompanying financial statements of the governmental activities and the major fund of the First 5 Commission of San Diego (the Commission), a discretely presented component unit of the County of San Diego, California, as of and for the fiscal 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 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 *Governmental 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 as to whether the financial statements are free of material misstatements. 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 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 major fund of the Commission as of June 30, 2012, and the respective changes in financial position for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

Effective July 1, 2011, the Commission adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions.*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 28, 2012, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 (MD&A) on page 3 through 7 and the budgetary comparison schedule on page 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements as a whole. The accompanying fund financial statements are presented for purposes of additional analysis and are not required parts of the basic financial statements of the Commission. The fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Moss, Levy & Hartzheim, LLP
Culver City, California
August 28, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

INTRODUCTION

Our discussion and analysis of the First 5 Commission of San Diego's (The Commission) financial performance provides an overview of the Commission's financial activities for the fiscal year ended June 30, 2012. It should be read in conjunction with the Commission's financial statements.

The Management's Discussion and Analysis (MD&A) is an element of the reporting model adopted by the Governmental Accounting Standards Board (GASB) in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, issued June 1999; GASB Statement No. 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, an amendment to GASB Statements No. 21 and No. 34, issued in June 2001 and; GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, issued in 2001. Certain comparative information between the current year and the prior year is required to be presented in the MD&A.

CALIFORNIA ASSEMBLY BILL No. 99 (AB 99)

On March 16, 2011 both houses of the California legislature approved AB 99 by a two thirds vote, and the Governor signed it into law on March 24, 2011. This bill required the First 5 California to send $50 million, and the combined County Commissions to send $950 million to the State Treasurer by June 30, 2012. County Commissions receiving less than $600K in annual Prop 10 revenues were exempt. The requirement is for each Commission that is not exempt to remit 50% of their Fund Balance as of June 30, 2010. For San Diego's Commission this was $88,374,589.

Twelve County Commissions (including San Diego) combined their individual lawsuits into one suit in the Fresno Superior Court against the State of California that claimed AB 99 was not lawful. Arguments were heard by the presiding judge on August 30, 2011 and the case was decided on November 21, 2011 in favor of the counties. The State did not appeal the Court's decision.

Even though the First 5 Commission of San Diego participated in the lawsuit, the Commission materially reduced funding to account for the potential loss of $88.4 million in fund balance and related cash and was an expenditure for the 2010-11 fiscal year. The court ruling in essence returned the $88.4 million to the fund balance.

FINANCIAL HIGHLIGHTS (FY 2011/2012)

Expenditures were $13,567,779 more than revenues. Overall revenues were $36,213,723.

Expenditures were less than budgeted by $8,460,688 or 14.5% due to the partial expenditure of capital projects. Additionally, there were programs that did not expend their full budgeted allocation resulting in total contract expenditure savings.

Expenditures are in three categories: Administrative, Program, and Evaluation. Administrative expenditures were $3,055,153 or 6.1% of the total expenditures (not to be confused with the Administrative Rate, which is calculated on the final Operating Budget.), Program expenditures were $45,435,941 or 91.3%, Evaluation expenditures were $1,290,408 or 2.6% of the expenses.

The Commission's Administrative Rate is set by policy to be no more than 10% of the Total Operating Budget. For FY 2011/2012 the administrative rate was 5.25% of the budget. This is based on the Total Administrative Expenditures of $3,055,153 and the final Total Operating Budget of $58,242,190.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Commission's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements.

Government-Wide Financial Statements

The *government-wide financial statement* is designed to provide readers with a broad overview of the Commission's finances in a manner similar to a private sector's business.

The *Statement of Net Assets* 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).

The government-wide financial statements can be found on pages 8 and 9 of this report.

Fund Financial Statements

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Commission, like other local governments, uses fund accounting to ensure compliance with finance-related legal requirements. Fund financial statements report essentially the same functions as those reported in the government-wide financial statements. However, unlike the government-wide financial statements, fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

The Commission adopts an annual appropriated budget for its special revenue fund. A budgetary comparison statement has been provided for the special revenue fund to demonstrate compliance with this budget.

The fund financial statements can be found on pages 10 and 12 of this report.

Government-Wide Financial Analysis

Net Assets

Table I: Net Assets

	FY 2011/2012	FY 2010/2011
Total Assets	$ 159,519,609	$ 171,953,141
Total Liabilities	15,414,938	102,604,700
Net Assets:		
Restricted	557,910	1,287,217
Unrestricted	143,546,761	68,061,224
Total Net Assets	$ 144,104,671	$ 69,348,441

The Commission's total net assets increased by $74,756,230 or 108% from the prior year due to overturning of the AB 99 requirement.

Changes in Net Assets

Table II: Changes in Net Assets

	FY 2011/2012	FY 2010/2011
Program Revenues	$ 35,423,855	$ 35,289,279
General Revenues	789,868	1,958,461
Expenses	49,832,082	144,549,431
Change in net assets	(13,618,359)	(107,301,691)
Net assets – Beginning, July 1	69,348,441	176,650,132
CA AB 99 Adjustment	88,374,589	
Net assets – Ending, June 30	$ 144,104,671	$ 69,348,441

Program Revenues had a slight increase of $134,576 or .4% due to an increase in Tobacco Tax revenue, Federal Medi-Cal admin activities revenue, and California Endowment grant revenue, which were offset by the loss of school readiness revenue.

General Revenues decreased $1,168,593 or 59.7% from the prior year due to falling interest rates on investments and an overall decrease in cash invested outside the County Pool.

Expenses decreased $94,717,349 or 65.5% from the prior year. $88.4 million of this expenditure was for the AB 99 accrual, which reverses this fiscal year. Excluding the AB 99 expenditure, the difference is a decrease of $6.3 million or 11% in year to year expenses that is due mainly to a reduction in the budgeted program expenses.

BUDGETARY HIGHLIGHTS

- The FY 2011/2012 final budget was $20.9 million lower for program costs than in FY 2010/2011.

- Prop 10 Tobacco Tax revenue had a favorable variance of $2.1 million or 10% due to a smaller match needed for the First 5 California Programs in which the Commission participates.

- Prop 10 Power of Preschool - Bridge revenue had an unfavorable variance of $1.2 million or 9% due to lower revenues matched for the program as a result of lower expenditures.

- Revenue from the Medi-Cal Administrative Activities program had a favorable variance of $92,431 or 100% due to this category of revenue not being budgeted.

- Revenue from The California Endowment Grant Award had a favorable variance of $301,283 or 241% due to realizing the total remaining grant funds for the San Diego City fluoridation project.

- Interest revenue had an unfavorable variance of $2,777,686 or 78% due to a much lower return on investments than was budgeted in the Financial Spending Plan.

- Services and Supplies had a favorable variance of $140,117 or 15% due to lower expenditures for professional services, information technology, and purchasing & contracting costs. Expenditures for 18 of the 27 budget accounts were lower than budget.

- Contributions to Community Projects had a favorable variance of $7.9 million or 15% mainly due to capital and fluoridation projects that were budgeted but did not go forward this fiscal year as well as a lower than expected expenditure in the Power of Preschool – Bridge program.

- Expenditures for evaluation had a favorable variance of $13,612 or 1.0%.

BEYOND FY 2011/2012

The Commission, through formal action, approved the Financial Spending Plan that obligates funding in future years for the following programs:

Healthy Development Services	$ 43,800,000
KidSTART Center Funding	2,100,000
Oral Health	8,700,000
Water Fluoridation	2,342,100
Obesity Prevention	390,000
Quality Preschool Initiative	55,000,000
Information & Referral	1,800,000
Parent & Public Education	1,275,000
Special Projects	130,000
Kit for New Parents	1,350,000
Targeted Home Visits	10,800,000
Healthcare Access	3,087,500
Emerging Critical Needs	33,132,500
Capital Projects	6,270,000
Total	**$ 170,177,100**

In August 2009, the Commission adopted a new Strategic Plan for 2010 – 2015 that will guide the Commission for the next five years. Many community members, including parents, service providers and other key stakeholders contributed to the development of the plan. The Commission is steadily moving toward funding more focused initiatives with specific targets that have deeper impacts. The plan continues this trend by concentrating funding on fewer initiatives.

The funds needed to achieve the results in the Strategic Plan are committed in the Commission's Financial Spending Plan for 2012/2013 – 2014/2015. In May 2012 the Commission revised the funding plan for the foreseeable future to include increases in program funding as a result of overturning the AB 99 requirement referenced throughout this section.

It is anticipated that Proposition 10 revenues derived from the sales of tobacco products will decline in future years as the sales of tobacco products decrease. In anticipation of this decline, the Commission has a financial spending plan that projects an annual decrease in program funding over the life of the plan and prevents a drastic reduction at plan's end. Although the Financial Spending Plan projects nearly a zero balance of the Commission's sustainability fund (not counting the management reserve) at the end of FY 2018/2019, it is estimated the Commission will receive more than $20 million per year in Proposition 10 revenues thereafter.

The Financial Spending Plan is reviewed annually and revised accordingly as part of the annual budget process. In June 2011, the Commission approved a Financial Spending Plan that has a management reserve of six months of projected revenue ($15 million). In anticipation of the Commission's fund balance being reduced to an amount that is less than the annual budget, the management reserve will ensure that funds are available to pay for the Commission's immediate operating needs in a timely manner.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the First 5 Commission of San Diego finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: First 5 Commission of San Diego, 1495 Pacific Highway, Suite 201, San Diego, California 92101.

FIRST 5 COMMISSION OF SAN DIEGO
STATEMENT OF NET ASSETS
JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR 2011)

	GOVERNMENTAL ACTIVITIES	
	2012	**2011**
Assets		
Cash and investments in county treasury	$ 153,042,200	$ 164,336,392
Imprest cash	250	250
Accounts receivable	5,695,131	5,759,731
Due from County of San Diego	222,388	566,615
Prepaid expenditures	1,671	1,676
Restricted assets	557,969	1,288,477
Total assets	159,519,609	171,953,141
Liabilities		
Accounts payable	13,818,073	13,579,566
Due to County of San Diego	1,472,063	151,651
Deposit from others	-	424,672
California assembly bill no. 99 requirement	-	88,374,589
Long-term liabilities:		
Compensated absences:		
Due within one year	82,770	54,806
Due more than one year	42,032	19,416
Total liabilities	15,414,938	102,604,700
Net Assets		
Restricted for:		
Community water fluoridation	557,910	1,287,217
Unrestricted	143,546,761	68,061,224
Total net assets	$ 144,104,671	$ 69,348,441

See accompanying notes to the basic financial statements.

FIRST 5 COMMISSION OF SAN DIEGO
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR 2011)

		PROGRAM REVENUES	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS	
		PROPOSITION 10 AND	GOVERNMENTAL ACTIVITIES	
GOVERNMENTAL ACTIVITIES	**EXPENSES**	**SPECIAL FUND**	**2012**	**2011**
Health	$ 20,636,120	$ 8,965,585	$ (11,670,535)	$ (12,125,858)
Learning	13,761,308	17,643,794	3,882,486	(415,000)
Community	2,923,570	1,196,689	(1,726,881)	(3,145,765)
Family	8,114,943	3,321,646	(4,793,297)	(4,094,183)
General administration	4,396,141	4,296,141	(100,000)	(1,104,757)
California assembly bill no. 99 requirement	-	-	-	(88,374,589)
Total governmental activities	$ 49,832,082	$ 35,423,855	(14,408,227)	(109,260,152)
GENERAL REVENUES:				
Net investment revenue			789,868	1,958,461
Total general revenues			789,868	1,958,461
Change in net assets			(13,618,359)	(107,301,691)
Net assets – beginning of fiscal year			69,348,441	176,650,132
Prior period adjustment, CA AB 99			88,374,589	
Net assets – end of fiscal year			$ 144,104,671	$ 69,348,441

See accompanying notes to the basic financial statements.

FIRST 5 COMMISSION OF SAN DIEGO
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR 2011)

	2012	2011
Assets		
Cash and investments in county treasury	$ 153,042,200	$ 164,336,392
Imprest cash	250	250
Accounts receivable	5,695,131	5,759,731
Due from County of San Diego	222,388	566,615
Prepaid expenditures	1,671	1,676
Restricted assets	557,969	1,288,477
Total assets	$ 159,519,609	$ 171,953,141
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	13,818,073	13,579,566
Due to County of San Diego	1,472,063	151,651
Deposit from others	-	424,672
California assembly bill no. 99 requirement	-	88,374,589
Total liabilities	15,290,136	102,530,478
Fund Balance:		
Nonspendable	1,671	1,676
Restricted for community water fluoridation	557,910	1,287,217
Committed	143,669,892	68,133,770
Total fund balance	144,229,473	69,422,663
Total liabilities and fund balance	$ 159,519,609	$ 171,953,141

See accompanying notes to the basic financial statements.

FIRST 5 COMMISSION OF SAN DIEGO
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR 2011)

	2012	2011
Total governmental fund balance	$ 144,229,473	$ 69,422,663
Compensated absences are not due and payable in the current period and accordingly are not reported as fund liabilities. All compensated absences, both current and long-term, are reported in the Statement of Net Assets.	(124,802)	(74,222)
Net assets of governmental activities	$ 144,104,671	$ 69,348,441

See accompanying notes to the basic financial statements.

FIRST 5 COMMISSION OF SAN DIEGO
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR 2011)

Revenues:	2012	2011
Prop 10 tobacco tax (including SMIF)	$ 22,614,591	$ 19,094,623
Prop 10 school readiness		3,602,936
Prop 10 power of preschool - bridge	12,290,550	
Prop 10 preschool for all/power of preschool		12,223,680
Federal Medi-Cal administrative activities	92,431	21,166
The California Endowment grant	426,283	346,874
Interest revenue	782,814	2,863,130
Net increase (decrease) in FMV of investments	7,054	(904,669)
Total revenues	36,213,723	37,247,740
Expenditures:		
Labor and benefits	2,234,344	2,255,907
Services and supplies	820,809	684,971
Evaluation	1,290,408	1,409,579
Contributions to community projects	45,435,941	51,849,208
California assembly bill no. 99 requirement		88,374,589
Total expenditures	49,781,502	144,574,254
Net change in fund balance	(13,567,779)	(107,326,514)
Fund balance, beginning of fiscal year	69,422,663	176,749,177
Prior period adjustment, CA AB 99	88,374,589	
Fund balance, end of fiscal year	$ 144,229,473	$ 69,422,663

See accompanying notes to the basic financial statements.

FIRST 5 COMMISSION OF SAN DIEGO
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR 2011)

	2012	2011
Net change in total governmental fund balance	$ (13,567,779)	$ (107,326,514)
In the statement of activities, compensated absences are measured by the amounts earned during the fiscal year. In the governmental fund, however, expenditures for these items are measured by the amount of financial resources used (essentially the amount paid).	(50,580)	24,823
Change in net assets of governmental activities	$ (13,618,359)	$ (107,301,691)

See accompanying notes to the basic financial statements.

This Page Intentionally Left Blank

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The San Diego County Board of Supervisors established the First 5 Commission of San Diego, formerly the San Diego County Children and Families Commission (The Commission) on December 8, 1998 under the provisions of the California Children and Families Act of 1998 (Act). The Commission is discretely presented as a component unit of the County of San Diego, California. The Commission provides leadership for a network of support for all children from the prenatal stage through age five and their families; develops and operates in partnerships with communities and families; and is accountable for improving outcomes in children's health, safety and learning. The Commission is funded through tobacco tax revenue generated as a result of the California approval of the Proposition 10 Act (Prop 10) in November 1998. The Commission is made up of five members: one (1) member of the Board of Supervisors, two (2) members-at-large appointed by the Board of Supervisors, one (1) member is the Director of the Health and Human Services Agency and one (1) member is nominated by the Director of the Health and Human Services Agency from among the County health officer and persons responsible for management of the following County functions: children's services, public health services, social services, behavioral health services, and tobacco and other substance abuse prevention and treatment services.

In August 2009, the Commission adopted a strategic plan that focuses the Commission's investments over five years (2010 – 2015) toward achieving key results that best promote early childhood development in San Diego County. The Commission's vision is that "All children are healthy, are loved and nurtured, and enter school as active learners." The plan guides the allocation of up to $241.1 million to support four strategic goal areas that strengthen the relationships essential for the healthy development of young children: (1) Health, (2) Learning, (3) Family, and (4) Community. The Commission revised the allocation of funds in June 2011, due to the approval of California Assembly Bill No. 99, which approved a sweep of $88.4 million from the Commission's fund balance. Although the FY 2010/2011 funding amounts were not affected, funding for the remaining four years of the plan was reduced from $193.8 million to $139.1 million.

Twelve County Commissions (including San Diego) combined their individual lawsuits into one suit in the Fresno Superior Court against the State of California that claimed AB 99 was not lawful. Arguments were heard by the presiding judge on August 30, 2011 and the case was decided on November 21, 2011 in favor of the counties. The state did not appeal the decision. The Commission approved a revised Financial Spending Plan in May 2012, which returns the $88.4 million to the fund balance. The revised plan spends down the fund balance from $176.4 million for FY2011/2012 to $24.6 million for FY 2018/2019.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Commission's financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

establishing governmental accounting and financial reporting principles. The Commission's more significant accounting policies are described below.

The government-wide financial statements (i.e. *The Statement of Net Assets* and *The Statement of Activities* on pages 8 and 9) 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 the related cash flows. Contributions to community projects through local contractors are recognized as expenditures when criteria for contract payments are met by the contractors.

The Statement of Net Assets presents the Commission's financial position in a *net asset approach*.

The Statement of Activities reports the change in net assets in a net program cost format to demonstrate the degree to which the expense of the Commission is offset by its program revenues (prior year categories are shown for comparative purposes) – 1) Health, 2) Learning, 3) Community, and 4) Family.

Governmental fund financial statements, presented after the government-wide financial Statements are reported using the *current financial resources measurement focus* and the *modified accrual* basis of accounting on pages 10 and 12. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Revenues are considered to be *available* when they are collectible within 90 days of the end of the current fiscal period. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable.

C. Budgets, Budgetary Process and Encumbrances

The Commission adopts an annual budget, which can be amended by the Commission throughout the fiscal year. Revenue (not including interest revenue) was budgeted at $34.1 million per the Financial Spending Plan that was approved in June 2011. The Financial Spending Plan is reviewed annually and, if necessary, is revised to account for updated projections of birth rates, taxable sales of tobacco products and changes in interest rates. Budgeted revenues were established to balance revenues with projected expenditures. Liability for unrealized gains and losses under Governmental Accounting Standards Board's Statement No. 31 (GASB 31) is not included in the budget.

The budget for revenues presented in this audit has been modified from the Approved Budget by the Commission to match the budget amounts to the actual allocation of revenues received. The following table illustrates this re-allocation of budgeted revenues:

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Account	Approved Budget	Reallocation	Reallocated Budget
Prop 10 Tobacco Tax	$ 31,182,229	$ (10,640,000)	$ 20,542,229
Prop 10 Power of Preschool/PFA	2,860,000	(2,860,000)	
Prop 10 Power of Preschool - Bridge		13,500,000	13,500,000
The California Endowment	125,000	-	125,000
Federal Medi-Cal Administrative Activities	-	-	-
Totals	$ 34,167,229	-	$ 34,167,229

D. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual reports could differ from those estimates.

E. Cash and Investments

Investments are valued at fair value. Fair value is defined as the amount that the Commission could reasonably expect to receive for an investment as a current sale between a willing buyer and seller and is generally measured by quoted market prices.

F. Reclassifications

Certain accounts have been reclassified to conform to current year presentation.

G. Management's Review

Management has evaluated subsequent events through the date the financial statements were available for issuance which is August 28, 2012.

NOTE 2: CASH AND INVESTMENTS BY COUNTY TREASURY

The Commission's cash and investments at June 30, 2012 are included in the County's balance sheet as "Cash and Investments in County Treasury". The Commission has two dedicated portfolios with the County Treasurer's Office, and a segment of these portfolios are positions in the County Investment Pool. The County Treasurer maintains an investment pool for all funds of the County and other agencies for which the County treasury is the depository. Interest earned on the pooled funds is allocated and credited to these funds quarterly. Interest on investments that are outside the County pool are recognized when earned (i.e. coupon payments on bonds). Interest from the County

NOTE 2: CASH AND INVESTMENTS BY COUNTY TREASURY (continued)

pool is apportioned to the Commission based on the average daily balances on deposit with the Treasurer of those funds. All cash and investments at June 30, 2012, are stated at fair value.

Cash and Investments in County Treasury consisted of the following at June 30, 2012:

Assets Invested through the County Treasurers Office	
Federal Agency Securities	$ 10,447,300
County Pool	142,594,900
Total Cash and Investments by County Treasury	$ 153,042,200

Investments Authorized by the California Government Code

The California Government Code Section 53601 governs the investments of the Commission. The Commission adopted an investment policy on October 4, 2004 but it does not contain policies for exposure to interest rate risk, credit risk and concentration of credit risk. However, under California Government Code Section 53601 they are authorized to make investments in the following:

Authorized Investment Type	Maximum Maturity	Maximum % of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposits	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None

California Government Code 53601 provides that the County Board of Supervisors is empowered to authorize the Commission to hold investments with maturities that exceed five years. The Commission has received such an authorization from the San Diego Board of Supervisors.

NOTE 2: CASH AND INVESTMENTS BY COUNTY TREASURY (continued)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. In general, the longer the maturity of an investment, the greater the sensitivity of its fair value to the changes in market interest rates.

Information about the sensitivity of the fair values of the Commission's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Commission's investments by maturity:

		Remaining Maturity in Months		
Investment Type	Amount	12 months or less	13 to 24 months	25 to 60 Months
Federal Agency Securities	$ 10,447,300	$ -	$ 10,447,300	$ -
County Pool	142,594,900	142,594,900	-	-
Total	$ 153,042,200	$ 142,594,900	$ 10,447,300	$ -

Credit Risk

Generally, credit risk is the risk that the 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. Presented below is the minimum rating required by the California Government Code Section 53601 (where applicable) and the actual rating as of year end for each investment type.

Investment Type	Amount	Minimum Rating Required	Credit Quality Rating
First 5 Commission Investments			
Federal Agency Securities	$ 10,447,300	AAA	AAA
County Pool	142,594,900	VARIOUS	AAAf
Total	$ 153,042,200		

Concentration of Credit Risk

The California Government Code Section 53601 places limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total investment are as follows:

Issuer	Investment Type	Amount	% of Total Investments
None for FY 2011/2012			

NOTE 2: CASH AND INVESTMENTS BY COUNTY TREASURY (continued)

Custodial Credit Risk

Custodial risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code Section 53652 requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure government deposits by pledging first trust deed mortgage notes having a value of 150% of the secure public deposits.

Investment in San Diego Investment Pool

The Commission is a voluntary participant in the pool regulated by the California Government Code Sections 53601 and 53635, under the oversight of the Treasurer of the County of San Diego. The fair value of the Commission's investment in this pool is reported in the accompanying financial statements at amounts based upon the Commission's pro-rata share of the fair value provided by the County of San Diego for the entire pool portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the pool, which are recorded on a cash basis.

NOTE 3: ACCOUNTS RECEIVABLE

The accounts receivable is recorded at full value and represents the amount of Prop 10 revenue the California Children and Families Commission (First 5 California) owes the Commission for the months of May and June 2012 and miscellaneous Surplus Money Investment Fund (SMIF) revenue.

Prop 10 revenue for:	
May 2012	$ 2,535,009
June 2012	3,147,210
SMIF	12,912
Total	$ 5,695,131

NOTE 4: ACCOUNTS PAYABLE

Accounts payable is comprised of $13,818,073 in funding due to grantees at June 30, 2012.

NOTE 5: DUE TO/DUE FROM COUNTY OF SAN DIEGO

These are funds that are due to or due from the County of San Diego's general fund.

The County of San Diego owes the Commission $222,388 for County investment interest accrued in the operating fund and the sustainability reserve fund.

The Commission owes the County of San Diego $1,472,063 for:

1) First 5 labor charges of $118,880;
2) Program costs of $1,323,917;
3) Computing and Telephone costs of $6,649;
4) First 5 labor overhead charges of $20,750;
5) Motor Pool van rental of $49;
6) Purchasing and Contracting service charges of $542;
7) Portfolio administrative fee of $1,276.

NOTE 6: COMPENSATED ABSENCES

Compensated absences represent the liability for unpaid vacation leave, holidays and other compensated absences with similar characteristics, except sick leave.

NOTE 7: REVENUE

The Commission receives a proportionate share of Proposition 10 money from First 5 California based on the number of live births in the county in comparison to the number of live births statewide. This fund is identified in the County of San Diego's accounting records as the Prop 10 Children and Families Commission (Fund Number 49217). The Commission also receives Special Funding, as explained in Note 8, and Surplus Money Investment Fund (SMIF) allocations from First 5 California. The SMIF allocations represent distributions of interest accrued on statewide Proposition 10 money.

Additional revenues consist of The California Endowment grant funds, as explained in Note 11, and reimbursements from the Federal government for participation in Medi-Cal Administrative Activities (MAA) for Quarters 3 & 4 of FY 2009/2010 and FY 2010/2011.

NOTE 7: REVENUE (continued)

Revenue for the fiscal year 2011/2012 is comprised of:

Proposition 10 revenue (monthly allocations)	$ 22,601,679
SMIF	12,912
Special funding (see Note 8)	12,290,550
The California Endowment grant (see Note 11)	426,283
MAA	92,431
Total revenue	$ 35,423,855

NOTE 8: SPECIAL FUNDING

Special funding for FY 2011/2012 of $12,290,550 was for the First 5 California Initiative Power of Preschool - Bridge Project including reimbursement from First 5 California for its share in the cost of new and/or improved publicly funded operational spaces.

Power of Preschool - Bridge: The Bridge Project goal is to provide increased capacity for new preschool spaces and to improve the quality of existing preschool spaces by providing 3 ½ hours of "high quality preschool" daily for four-year-olds. The project is expanding and upgrading both public and private preschool facilities in National City, San Ysidro, South Bay, Lemon Grove, Escondido, Vista, Mountain Empire, Borrego Springs, Chula Vista, El Cajon and Valley Center/Pauma ensuring that all facilities in the project are clean, safe, accessible, inclusive, licensed, meet Title 5 quality standards and be well-equipped with materials and toys. External review instruments (ECERS or FCCRS) with scores of four or better are used to select program participants in the project. All children residing in the eleven target communities, including those with disabilities, special needs, and children who are non-English-speaking are eligible to participate in the program. The Bridge Project ensures that families are given opportunities for involvement in all aspects of their child's preschool experience including program design, implementation and evaluation. The overall goal is to successfully enroll and serve, in the Power of Preschool Programs, at least 70 percent of 4-year-olds residing in the eleven target communities. The children receive a high quality preschool experience in a variety of settings identified as sites.

The special funding money can be used only for purposes specified under the funding agreement. The balance sheet and statement of revenue, expenditures and changes in fund balance for this special funding program is presented as supplementary information in this report on pages 33 and 34.

NOTE 9: LEASE OBLIGATION

The Commission is obligated for the next year under a space rental lease which is accounted for as an operating lease. An operating lease does not give rise to property rights and therefore, the results of the lease agreement are reflected in the Commission's basic financial statements.

The future minimum rental payments required under the operating lease are as follows:

Year ending June 30:	
2013	$ 177,147
Total lease obligation	$ 177,147

NOTE 10: EVALUATION EXPENSES

The Commission spent $1,290,408 on program evaluation during the audit period.

NOTE 11: GRANT FUNDS FROM THE CALIFORNIA ENDOWMENT

The Commission was awarded a $1,000,000 grant from The California Endowment for the implementation of Community Water Fluoridation. The grant was awarded in three installments as follows: $300,000 received in April 2008; $340,000 in February 2009; and, $360,000 in January 2010.

Award monies are to be held as a liability and revenues can only be realized when allowable expenditures are incurred per the terms of the grant agreement. At June 30, 2012 the Commission had realized $1,026,283 in revenues for allowable expenditures with zero balance being held as a liability. Total interest earnings from the date of the deposits to June 30, 2012 were $26,283. Interest earnings were applied to the project.

NOTE 12: FUND BALANCES

As of June 30, 2012, fund balances of the governmental funds are classified as follows:

Nonspendable – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by a formal action of the Commission. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Commission.

NOTE 12: FUND BALANCES (continued)

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the Commission's adopted policy, only the governing board or director may assign amounts for specific purposes.

Unassigned – all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the commission considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balance are available, the Commission considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

NOTE 13: RESTRICTED ASSETS

Restricted assets include monies or other resources required to be set aside to comply with contractual requirements. At June 30, 2012, restricted assets were a total of $557,910 for Community Water Fluoridation – City of San Diego. These funds are held in a third party escrow account per the terms of the contract.

NOTE 14: COMPARATIVE FINANCIAL DATA

The amounts shown for 2011 in the accompanying financial statements are included only to provide a basis for comparison with 2012 and are not intended to present all information necessary for a fair presentation in accordance with accounting principles generally accepted in the United States of America.

NOTE 15: CALIFORNIA ASSEMBLY BILL NO. 99 REQUIREMENT – PRIOR PERIOD ADJUSTMENT

On March 16, 2011 both houses of the California Legislature approved Assembly Bill No. 99 (AB 99) and the bill was signed by Governor Edmund G. Brown, Jr. on March 24, 2011. This bill required First 5 California to remit $50 million, and the combined County Commissions to remit $950 million to the State Treasury by June 30, 2012. Commissions that receive less than $600,000 per year in Prop 10 revenue were exempt from this requirement.

Each County Commission not exempt from the requirement was to remit 50% of its fund balance as of June 30, 2010 to the State Treasury. If the State received more than $950 million, the excess would be returned to the County Commissions. As First 5 San Diego's fund balance was $176,749,177 on June 30, 2010, it was required to send $88,374,589 to the State Treasurer by June 30, 2012.

NOTE 15: CALIFORNIA ASSEMBLY BILL NO. 99 REQUIREMENT – PRIOR PERIOD ADJUSTMENT (continued)

The Department of Finance indicated that AB 99 did not require voter approval because it was consistent with the purposes of Prop 10 and was a one-time action that did not institute on-going changes.

Twelve County Commissions (including San Diego) combined their individual lawsuits into one suit in the Fresno Superior Court against the State of California that claimed AB 99 was not lawful. Arguments were heard by the presiding judge on August 30, 2011 and the case was decided on November 21, 2011 in favor of the counties. The State did not appeal the Court's decision.

Even though the First 5 Commission of San Diego participated in the lawsuit, the Commission materially reduced funding to account for the potential loss of $88.4 million in fund balance and related cash and was an expenditure for the 2010-11 fiscal year. The court ruling in essence returned the $88.4 million to the fund balance. Thus, the $88,374,589 accrual in the June 30, 2011 Financial Statements was reversed in the June 30, 2012 Financial Statement, Statement of Activities on page 9 as a prior period adjustment.

This Page Intentionally Left Blank

REQUIRED SUPPLEMENTAL INFORMATION SECTION

This Page Intentionally Left Blank

FIRST 5 COMMISSION OF SAN DIEGO
BUDGETARY COMPARISON SCHEDULE
GOVERNMENTAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

	BUDGETED AMOUNTS (UNAUDITED)			
	ORIGINAL	FINAL	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
Revenues:				
Prop 10 tobacco tax	$ 20,542,229	$ 20,542,229	$ 22,614,591	$ 2,072,362
Prop 10 power of preschool - bridge	13,500,000	13,500,000	12,290,550	(1,209,450)
Federal Medi-Cal administrative activities	-	-	92,431	92,431
The California Endowment grant	125,000	125,000	426,283	301,283
Interest revenue	3,560,500	3,560,500	782,814	(2,777,686)
Net increase (decrease) in FMV of investments	-	-	7,054	7,054
Total revenues	37,727,729	37,727,729	36,213,723	(1,514,006)
Expenditures:				
Labor and benefits	2,622,171	2,622,171	2,234,344	387,827
Services and supplies	1,010,926	960,926	820,809	140,117
Evaluation	1,304,020	1,304,020	1,290,408	13,612
Contributions to community projects	52,638,350	53,355,073	45,435,941	7,919,132
Total expenditures	57,575,467	58,242,190	49,781,502	8,460,688
Net change in fund balance	(19,847,738)	(20,514,461)	(13,567,779)	6,946,682
Fund balance, beginning of fiscal year	69,422,663	69,422,663	69,422,663	-
Prior period adjustment, CA AB 99			88,374,589	88,374,589
Fund balance, end of fiscal year	$ 49,574,925	$ 48,908,202	$ 144,229,473	$ 95,321,271

This Page Intentionally Left Blank

SUPPLEMENTAL INFORMATION SECTION

This Page Intentionally Left Blank

FIRST 5 COMMISSION OF SAN DIEGO
BALANCE SHEET
POWER OF PRESCHOOL - BRIDGE
JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR 2011)

	2012	2011
Assets		
Cash and investments in county treasury	$ -	$ -
Total assets	$ -	$ -
Liabilities and Fund Balance		
Fund balance:		
Restricted for power of preschool - bridge	$ -	$ -
Total fund balance	-	-
Total liabilities and fund balance	$ -	$ -

FIRST 5 COMMISSION OF SAN DIEGO
STATEMENT OF REVENUES AND EXPENDITURES
AND CHANGES IN FUND BALANCE
POWER OF PRESCHOOL - BRIDGE
JUNE 30, 2012
(WITH COMPARATIVE TOTALS FOR 2011)

	2012	2011
Revenues:		
Power of Preschool - Bridge	$ 12,290,550	$ -
Total revenues	12,290,550	-
Expenditures:		
Labor and benefits	100,000	-
Contributions to community projects	12,190,550	-
Total expenditures	12,290,550	-
Net change in fund balance	-	-
Fund balance, beginning of fiscal year	-	-
Fund balance, end of fiscal year	$ -	$ -

MOSS, LEVY & HARTZHEIM LLP
CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS
RONALD A LEVY, CPA
CRAIG A HARTZHEIM, CPA
HADLEY Y HUI, CPA

COMMERCIAL ACCOUNTING & TAX SERVICES
9107 WILSHIRE BLVD. SUITE 500
BEVERLY HILLS, CA 90210
TEL: 310.273.2745
FAX: 310.670.1689
www.mlhcpas.com

GOVERNMENTAL AUDIT SERVICES
5800 HANNUM, SUITE E
CULVER CITY, CA 90230
TEL: 310.670.2745
FAX: 310.670.1689
www.mlhcpas.com

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*

Board of Commissioners
First 5 Commission of San Diego
San Diego, California

We have audited the financial statements of the governmental activities and major fund of the First 5 Commission of San Diego (the Commission), a discretely presented component unit of County of San Diego, as of and for the fiscal year ended June 30, 2012, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated August 28, 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

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 purposes 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the 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 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 the 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.*

OFFICES: BEVERLY HILLS · CULVER CITY · SANTA MARIA

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.

Moss, Levy & Hartzheim, LLP
Culver City, California
August 28, 2012

MOSS, LEVY & HARTZHEIM LLP
CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS
RONALD A LEVY, CPA
CRAIG A HARTZHEIM, CPA
HADLEY Y HUI, CPA

COMMERCIAL ACCOUNTING & TAX SERVICES
9107 WILSHIRE BLVD. SUITE 500
BEVERLY HILLS, CA 90210
TEL: 310.273.2745
FAX: 310.670.1689
www.mlhcpas.com

GOVERNMENTAL AUDIT SERVICES
5800 HANNUM, SUITE E
CULVER CITY, CA 90230
TEL: 310.670.2745
FAX: 310.670.1689
www.mlhcpas.com

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Commissioners
First 5 Commission of San Diego
San Diego, California

We have audited the basic financial statements of the First 5 Commission of San Diego (The Commission), a discretely presented component unit of the County of San Diego, as of and for the fiscal year ended June 30, 2012 and have issued our report thereon dated August 28, 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 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 the requirements specified in the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, issued by the State Controller's Office, applicable to the Commission's statutory requirements identified below for the fiscal 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 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 a legal determination of the Commission's compliance with those requirements.

In connection with the audit referred to above, we selected and tested transactions and records to determine the Commission's compliance with the state laws and regulations 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 Benefits Policies	2	Yes

In our opinion, the First 5 Commission of San Diego complied, in all material respect, with the compliance requirements referred to above that are applicable to the statutory requirements listed above for the fiscal year ended June 30, 2012.

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.

Moss, Levy & Hartzheim, LLP
Culver City, California
August 28, 2012