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, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

TABLE OF CONTENTS

Page

FINANCIAL SECTION

Independent Auditor's Report 1

Management's Discussion and Analysis 3

Basic Financial Statements

Government–wide Financial Statements
Statement of Net Position 8

Statement of Activities 9

Governmental Fund Financial Statements
Balance Sheet 10

Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Position 11

Statement of Revenues, Expenditures and Changes in Fund Balance 12

Reconciliation of the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities 13

Notes to Basic Financial Statements 15

REQUIRED SUPPLEMENTAL INFORMATION SECTION

Budgetary Comparison Schedule 29

SUPPLEMENTAL INFORMATION SECTION

Quality Preschool Initiative
Balance Sheet 33

Statement of Revenues, Expenditures and Changes in Fund Balance 34

Child Signature Program

Balance Sheet....35

Statement of Revenues, Expenditures and Changes in Fund Balance....36

Race to the Top

Balance Sheet....37

Statement of Revenues, Expenditures and Changes in Fund Balance....38

COMPLIANCE SECTION

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in accordance with *Government Auditing Standards*....39

Independent Auditor's Report on State Compliance....41

MOSS, LEVY & HARTZHEIM LLP
CERTIFIED PUBLIC ACCOUNTANTS

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

COMMERCIAL ACCOUNTING & TAX SERVICES
433 N. CAMDEN, SUITE 730
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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the government activities and each major fund, of the Commission as of June 30, 2013, and the respective changes in financial position thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

As discussed in note 1 to the basic financial statements effective July 1, 2012, the Commission adopted Governmental Accounting Standards Board (GASB) Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements,* Statement No. 61, *The Financial Reporting Entity: Omnibus,* Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* and Statement No. 63*, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*

Other matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Budgetary Comparison Information on pages 3 through 7 and 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The accompanying program financial statements are presented for additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 30, 2013 on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and do not provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Governmental Auditing Standards in considering the Commission's internal control over financial reporting and compliance.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
August 30, 2013

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, 2013. 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.

FINANCIAL HIGHLIGHTS (FY 2012/2013)

Expenditures were $16,740,187 more than revenues. Overall revenues were $36,766,939.

Expenditures were less than budgeted by $8,436,443 or 13.6% due to the partial expenditure of capital projects. Additionally, there were programs that did not expend their full budgeted allocation resulting in savings in overall program expenditures.

Expenditures fall within three categories: Administrative, Program, and Evaluation. Administrative expenditures were $3,455,944 or 6.5% of the total expenditures (not to be confused with the Administrative Rate, which is calculated on the final Operating Budget.), Program expenditures were $48,634,245 or 90.9%, Evaluation expenditures were $1,416,937 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 2012/2013 the administrative rate was 5.59% of the budget. This is based on the Total Administrative Expenditures of $3,455,944 and the final Total Operating Budget of $61,943,569.

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.

<u>Government-Wide Financial Statements</u>

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 Position* 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 2012/2013	**FY 2011/2012**
Total Assets	$ 142,101,662	$ 159,519,609
Total Liabilities	14,724,500	15,414,938
Net Assets:		
Restricted	-	557,910
Unrestricted	127,377,162	143,546,761
Total Net Assets	$ 127,377,162	$ 144,104,671

The Commission's total net assets decreased by $16,727,509 or 11.6% from the prior year due to planned expenditures being higher than revenues. The FY 2012/2013 final budget was $3,235,186 higher for program costs than in FY 2011/2012.

Changes in Net Assets

Table II: Changes in Net Assets

	FY 2012/2013	FY 2011/2012
Program Revenues	$ 36,337,666	$ 35,423,855
General Revenues	429,273	789,868
Expenses	53,494,448	49,832,082
Change in net assets	(16,727,509)	(13,618,359)
Net assets – Beginning, July 1	144,104,671	157,723,030
Net assets – Ending, June 30	$ 127,377,162	$ 144,104,671

Program Revenues had a slight increase of $913,811 or 2.6% primarily due to the Race to the Top grant revenue.

General Revenues decreased $360,595 or 45.7% from the prior year due to a reduction in the fair market value of cash invested outside the County Pool.

Expenses increased $3,662,366 or 7.4% from the prior year. This was due to a planned increase in program expenditures.

BUDGETARY HIGHLIGHTS

- The FY 2012/2013 final budget was $3.2 million higher for program costs than in FY 2011/2012.

- Prop 10 Tobacco Tax revenue had a favorable increase over budget of $4.3 million or 30.6% due to a smaller match needed for the First 5 California Programs in which the Commission participates and unbudgeted reimbursement of $2.75 million for the previous fiscal year Power of Preschool – Bridge program.

- Prop 10 Quality Preschool Initiative revenue had an unfavorable variance of $2.5 million or 16% 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 $75,833 or 100% due to this category of revenue not being budgeted.

- Revenue from The California Endowment Grant Award had a unfavorable variance of $150,400 or 100% due to realizing the total remaining grant funds for the San Diego City Fluoridation Project in the previous fiscal year.

- Interest revenue had an unfavorable variance of $31,927 or 4% due to a lower return on investments than was budgeted in the Financial Spending Plan.

- Services and Supplies had a favorable variance of $170,693 or 21.6% due to lower expenditures for professional services and specialized services contracts. In addition, expenditures for 13 of the 25 budget accounts were lower than budget.

- Contributions to Community Projects had a favorable variance of $7.9 million or 14% mainly due to a capital project with the U.S. Navy that was held up for environmental issues as well as a lower than expected expenditures in some other contracts.

- Expenditures for evaluation had a favorable variance of $139,500 or 8.9% due to a decrease in evaluation parameters.

BEYOND FY 2012/2013

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

Healthy Development Services	$ 30,450,000
KidSTART Center Funding	4,000,000
Oral Health	5,800,000
Water Fluoridation	849,700
Quality Preschool Initiative	38,000,000
Information & Referral	1,200,000
Parent & Public Education	1,030,000
Special Projects	165,000
Obesity Prevention	260,000
Kit for New Parents	900,000
Targeted Home Visits	10,000,000
Parent Education and Family Engagement	275,000
Healthcare Access	2,315,700
Emerging Critical Needs	22,684,300
Capital Projects	6,270,000
Total	**$ 124,199,700**

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.

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 April 2013, the Commission approved a Financial Spending Plan that changed the management reserve from $15 million to $10 million. As revenues decline, $10 million is roughly 6 months of revenue projected in FY 2019/2020. 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 POSITION
JUNE 30, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	GOVERNMENTAL ACTIVITIES	
	2013	**2012**
Assets		
Cash and investments in county treasury	$ 135,353,328	$ 153,042,200
Imprest cash	250	250
Accounts receivable	6,555,455	5,695,131
Due from County of San Diego	190,899	222,388
Prepaid expenses	1,730	1,671
Restricted assets	-	557,969
Total assets	142,101,662	159,519,609
Liabilities		
Accounts payable	14,266,801	13,818,073
Due to County of San Diego	345,575	1,472,063
Compensated absences:		
Due within one year	84,890	82,770
Due more than one year	27,234	42,032
Total liabilities	14,724,500	15,414,938
Net Position		
Restricted for:		
Community water fluoridation	-	557,910
Unrestricted	127,377,162	143,546,761
Total net assets	$ 127,377,162	$ 144,104,671

See accompanying notes to the basic financial statements.

FIRST 5 COMMISSION OF SAN DIEGO
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

		PROGRAM REVENUES	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS	
		PROPOSITION 10 AND	GOVERNMENTAL ACTIVITIES	
GOVERNMENTAL ACTIVITIES	**EXPENSES**	**SPECIAL FUND**	**2013**	**2012**
Health	$ 23,502,999	$ 10,616,739	$ (12,886,260)	$ (11,670,535)
Learning	18,355,513	17,800,000	(555,513)	3,882,486
Community	1,291,226	583,271	(707,955)	(1,726,881)
Family	5,484,507	2,477,453	(3,007,054)	(4,793,297)
General administration	4,860,203	4,860,203	-	(100,000)
Total governmental activities	$ 53,494,448	$ 36,337,666	(17,156,782)	(14,408,227)
GENERAL REVENUES:				
Net investment revenue			429,273	789,868
Total general revenues			429,273	789,868
Change in net position			(16,727,509)	(13,618,359)
Net position – beginning of fiscal year			144,104,671	157,723,030
Net position – end of fiscal year			$ 127,377,162	$ 144,104,671

See accompanying notes to the basic financial statements.

FIRST 5 COMMISSION OF SAN DIEGO
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	2013	2012
Assets		
Cash and investments in county treasury	$ 135,353,328	$ 153,042,200
Imprest cash	250	250
Accounts receivable	6,555,455	5,695,131
Due from County of San Diego	190,899	222,388
Prepaid expenditures	1,730	1,671
Restricted assets	-	557,969
Total assets	$ 142,101,662	$ 159,519,609
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	14,266,801	13,818,073
Due to County of San Diego	345,575	1,472,063
Total liabilities	14,612,376	15,290,136
Fund Balance:		
Nonspendable	1,730	1,671
Restricted for community water fluoridation	-	557,910
Committed	127,487,556	143,669,892
Total fund balance	127,489,286	144,229,473
Total liabilities and fund balance	$ 142,101,662	$ 159,519,609

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 POSITION
JUNE 30, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	2013	2012
Total governmental fund balance	$ 127,489,286	$ 144,229,473
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 Position.	(112,124)	(124,802)
Net position of governmental activities	$ 127,377,162	$ 144,104,671

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, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	2013	2012
Revenues:		
Prop 10 tobacco tax (including SMIF)	$ 18,461,833	$ 22,614,591
Prop 10 Quality Preschool Initiative	13,426,675	-
Prop 10 Power of Preschool - Bridge	-	12,290,550
Prop 10 Child Signature Program	3,354,625	-
Federal Medi-Cal administrative activities	75,833	92,431
The California Endowment grant	-	426,283
Race to the Top	1,018,700	-
Interest revenue	777,073	782,814
Net increase (decrease) in FMV of investments	(347,800)	7,054
Total revenues	36,766,939	36,213,723
Expenditures:		
Labor and benefits	2,836,095	2,234,344
Services and supplies	619,849	820,809
Evaluation	1,416,937	1,290,408
Contributions to community projects	48,634,245	45,435,941
Total expenditures	53,507,126	49,781,502
Net change in fund balance	(16,740,187)	(13,567,779)
Fund balance, beginning of fiscal year	144,229,473	157,797,252
Fund balance, end of fiscal year	$ 127,489,286	$ 144,229,473

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, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	2013	2012
Net change in total governmental fund balance	$ (16,740,187)	$ (13,567,779)
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).	12,678	(50,580)
Change in net position of governmental activities	$ (16,727,509)	$ (13,618,359)

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 revised plan spends down the fund balance from $144.2 million at the beginning of for FY2012/2013 to $10.0 million at the end 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 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 Position* 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Net Position

GASB Statement No. 63 requires that the difference between assets added to the deferred outflows of resources and liabilities added to the deferred inflows of resources be reported as net position. Net position is classified as either net investment in capital assets, restricted, or unrestricted.

Net position that is net investment in capital assets consist of capital assets, net of accumulated depreciation, and reduced by the outstanding principal of related debt. Restricted net position is the portion of net position that has external constraints placed on it by creditors, grantors, contributors, laws, or regulations of other governments, or through constitutional provisions or enabling legislation. Unrestricted net position consists of net position that does not meet the definition of net investment in capital assets or restricted net position.

The Statement of Activities reports the change in net position 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 $34.6 million per the Financial Spending Plan that was approved in May 2012. 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	$ 30,107,800	$ (15,976,675)	$ 14,131,125
Prop 10 Quality Preschool Initiative	-	15,976,675	15,976,675
Prop 10 Child Signature Program	3,354,625	-	3,354,625
The California Endowment	150,400	-	150,400
Race To The Top	968,700	-	968,700
Federal Medi-Cal Administrative Activities	-	-	-
Interest Revenue	809,000	-	809,000
Totals	$ 35,390,525	-	$ 35,390,525

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. New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 60

For the fiscal year ending June 30, 2013, the Commission implemented Governmental Accounting Standards Board (GASB) Statement No. 60 "Accounting and Financial Reporting for Service Concession Arrangements." This Statement is effective for periods beginning after December 15, 2011. The objective of this Statement is to improve financial reporting by addressing issues related to Service Concession Arrangements. This Statement improves consistency in reporting and enhances the comparability of the accounting and financial reporting of Service Concession Arrangements among state and local governments. Implementation of the GASB Statement No. 60 did not have an impact on the Commission's financial statements for the fiscal year ended June 30, 2013.

Governmental Accounting Standards Board Statement No. 61

For the fiscal year ending June 30, 2013, the Commission implemented Governmental Accounting Standards Board (GASB) Statement No. 61 "The Financial Reporting Entity: Omnibus." This Statement is effective for periods beginning after June 15, 2012. The objective of this Statement is to

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

improve financial reporting for component units. This Statement modifies certain requirements for inclusion of component units in financial reporting entity and clarifies the reporting of equity interests in legally separate organizations. Implementation of the GASB Statement No. 61 did not have an impact on the Commission's financial statements for the fiscal year ended June 30, 2013.

<u>Governmental Accounting Standards Board Statement No. 62</u>

For the fiscal year ending June 30, 2013, the Commission implemented Governmental Accounting Standards Board (GASB) Statement No. 62 "Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements." This Statement is effective for periods after December 15, 2011. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the FASB and AICPA pronouncements issued on or before November 30, 1989. This Statement specifically identifies and consolidates the accounting and financial reporting provisions that apply to state and local governments. Implementation of the GASB Statement No. 62 did not have an impact on the Commission's financial statements for the fiscal year ended June 30, 2013.

<u>Governmental Accounting Standards Board Statement No. 63</u>

For the fiscal year ending June 30, 2013, the Commission implemented Governmental Accounting Standards Board (GASB) Statement No. 63 "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position." This Statement is effective for periods beginning after December 15, 2011. The objective of this Statement is to establish guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position. The Statement sets forth framework that specifies where deferred outflows of resources and deferred inflows of resources, as well as assets and liabilities should be displayed. This Statement also specifies how net position, no longer referred to as net assets, should be displayed. Implementation of the Statement and the impact on the Commission's financial statements are explained in Note 1 B Net Position.

G. Reclassifications

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

H. Management's Review

Management has evaluated subsequent events through the date the financial statements were available for issuance which is August 30, 2013.

NOTE 2: CASH AND INVESTMENTS BY COUNTY TREASURY

The Commission's cash and investments at June 30, 2013 are included in the County's balance sheet as "Cash and Investments in County Treasury".

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

The Commission's cash and investments at June 30, 2013 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 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, 2013, are stated at fair value.

Cash and Investments in County Treasury consisted of the following at June 30, 2013:

Assets Invested through the County Treasurers Office	
Federal Agency Securities	$ 10,099,510
County Pool	125,253,818
Total Cash and Investments by County Treasury	$ 135,353,328

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 the Commission is 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

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

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.

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	$ 10,099,510	$ 10,099,510	$ -	$ -
County Pool	125,253,818	125,253,818	-	-
Total	$ 135,353,328	$ 135,353,328	$ -	$ -

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	$ 10,099,510	AAA	AAA
County Pool	125,253,818	VARIOUS	AAAf
Total	$ 135,353,328		

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

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 2012/2013			

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 2013 and miscellaneous Surplus Money Investment Fund (SMIF) revenue as well as the Child Signature Program (CSP).

Prop 10 revenue for:	
May 2013	$ 2,771,201
June 2013	2,985,420
CSP	787,591
SMIF	11,243
Total	$ 6,555,455

NOTE 4: ACCOUNTS PAYABLE

Accounts payable is comprised of $14,266,801 in funding due to grantees at June 30, 2013.

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 $190,899 for County investment interest earnings and interest accrued in the operating fund and the sustainability reserve fund.

The Commission owes the County of San Diego $345,575 for:

1) First 5 labor charges of $143,480;
2) Program costs of $102,117;
3) Computing and Telephone costs of $7,619;
4) Attorney service fee $350;
5) Facilities management fee $583;
6) Interest receivable year end re-class and portfolio fee $91,421;
7) Purchasing & Contracting surcharge fee $5.

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 revenue consists of reimbursements from the Federal government for participation in Medi-Cal Administrative Activities (MAA) for FY 2011/2012.

Revenue for the fiscal year 2012/2013 is comprised of:

Proposition 10 revenue (monthly allocations)	$ 18,450,590
SMIF	11,243
Quality Preschool Initiative	13,426,675
The Child Signature Program	3,354,625
MAA	75,833
Race to the Top	1,018,700
Interest	777,073
Total revenue	$ 37,114,739

NOTE 8: SPECIAL FUNDING

Special funding for FY 2012/2013 included $13,426,675 for the First 5 San Diego Quality Preschool Initiative; $3,354,625 for the First 5 California Child Signature Program; and $1,018,700 for the California Department of Education Race to the Top program.

Quality Preschool Initiative: The purpose of the First 5 San Diego Quality Preschool Initiative (QPI) is to use a multi-tiered service delivery model to implement high quality preschool programs in high needs areas of San Diego County. The goal of the QPI program is to reduce the school readiness gap and improve school achievement in San Diego County. During the Fiscal Year 2012-13 the QPI program served more than 10,000 children in quality enhanced preschool classrooms, and provided parent education classes to more than 1,700 caregivers/parents.

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.

Child Signature Program: The primary purposes of the First 5 California Child Signature Program (CSP) are: 1) To enhance the quality of current preschool programs by implementing research based program elements. 2) To increase the quality in early learning programs for children ages 0 to 5 in identified Early Child Education (ECE) centers where the education divide is the greatest. Key goals include: (1) At risk children will enter school with skills to be successful.

NOTE 8: SPECIAL FUNDING (continued)

(2) Optimize teacher effectiveness. (3) Increase children's access to quality early learning programs. (4) Increase parent knowledge of age appropriate cognitive and behavioral development.

The special funding money for this program can only be used 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 35 and 36.

Race to the Top: The purpose of the California Department of Education Race to the Top (RTT) program is to improve early learning and development programs for children 0 to 5. The program goals include: 1) Increase the number and percentage of low-income and disadvantaged children enrolled in high quality early learning programs. 2) Design and implement an integrated system of high quality early learning programs and services. 3) Ensure that the use of assessments conforms with the recommendations of the National Research Council's reports on early childhood.

The special funding money for this program can only be used 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 37 and 38.

NOTE 9: LEASE OBLIGATION

The Commission is obligated for three months 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 lease agreement ended June 30, 2013 but was extended for three months at which time the Commission's offices are expected to be moved to a new location.

NOTE 10: EVALUATION EXPENSES

The Commission spent $1,416,937 on program evaluation during the audit period.

NOTE 11: FUND BALANCES

As of June 30, 2013, 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.

NOTE 11: FUND BALANCES (continued)

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.

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 12: 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. The project was completed in May 2013 with all funds being expended. At June 30, 2013 restricted assets were $0.

NOTE 13: COMPARATIVE FINANCIAL DATA

The amounts shown for 2012 in the accompanying financial statements are included only to provide a basis for comparison with 2013 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.

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, 2013

	BUDGETED AMOUNTS (UNAUDITED)			
	ORIGINAL	FINAL	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
Revenues:				
Prop 10 tobacco tax	$ 17,431,125	$ 14,131,125	$ 18,461,833	$ 4,330,708
Prop 10 Quality Preschool Initiative	12,676,675	15,976,675	13,426,675	(2,550,000)
Prop 10 Child Signature Program	3.354,625	3,354,625	3,354,625	-
Race to the Top (Dept of Ed)	968,700	968,700	1,018,700	50,000
Federal Medi-Cal administrative activities	-	-	75,833	75,833
The California Endowment grant	150,400	150,400	-	(150,400)
Interest revenue	809,000	809,000	777,073	(31,927)
Net increase (decrease) in FMV of investments	-	-	(347,800)	(347,800)
Total revenues	35,390,525	35,390,525	36,766,939	1,376,414
Expenditures:				
Labor and benefits	3,006,331	3,006,331	2,836,095	170,236
Services and supplies	790,542	790,542	619,849	170,693
Evaluation	1,519,020	1,556,437	1,416,937	139,500
Contributions to community projects	58,667,119	56,590,259	48,634,245	7,956,014
Total expenditures	63,983,012	61,943,569	53,507,126	8,436,443
Net change in fund balance	(28,592,487)	(26,553,044)	(16,740,187)	9,812,857
Fund balance, beginning of fiscal year	144,229,473	144,229,473	144,229,473	-
Fund balance, end of fiscal year	$ 115,636,986	$ 117,676,429	$ 127,489,286	$ 9,812,857

This Page Intentionally Left Blank

SUPPLEMENTAL INFORMATION SECTION

This Page Intentionally Left Blank

FIRST 5 COMMISSION OF SAN DIEGO
BALANCE SHEET
QUALITY PRESCHOOL INITIATIVE
JUNE 30, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	2013	2012
Assets		
Cash and investments in county treasury	$ -	$ -
Total assets	$ -	$ -
Liabilities and Fund Balance		
Fund balance:		
Restricted for Quality Preschool Initiative	$ -	$ -
Total fund balance	-	-
Total liabilities and fund balance	$ -	$ -

FIRST 5 COMMISSION OF SAN DIEGO
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
QUALITY PRESCHOOL INITIATIVE
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	2013	2012
Revenues:		
Quality Preschool Initiative	$ 13,426,675	$ -
Total revenues	13,426,675	-
Expenditures:		
Labor and benefits	-	-
Contributions to community projects	13,426,675	-
Total expenditures	13,426,675	-
Net change in fund balance	-	-
Fund balance, beginning of fiscal year	-	-
Fund balance, end of fiscal year	$ -	$ -

FIRST 5 COMMISSION OF SAN DIEGO
BALANCE SHEET
CHILD SIGNATURE PROGRAM
JUNE 30, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	2013	2012
Assets		
Cash and investments in county treasury	$ -	$ -
Total assets	$ -	$ -
Liabilities and Fund Balance		
Fund balance:		
Restricted for Child Signature Program	$ -	$ -
Total fund balance	-	-
Total liabilities and fund balance	$ -	$ -

FIRST 5 COMMISSION OF SAN DIEGO
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCE
CHILD SIGNATURE PROGRAM
FOR THE FISCAL YEAR ENDED JUNE 30, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	2013	2012
Revenues:		
Child Signature Program	$ 3,354,625	$ -
Total revenues	3,354,625	-
Expenditures:		
Labor and benefits	100,000	-
Contributions to community projects	3,254,625	-
Total expenditures	3,354,625	-
Net change in fund balance	-	-
Fund balance, beginning of fiscal year	-	-
Fund balance, end of fiscal year	$ -	$ -

FIRST 5 COMMISSION OF SAN DIEGO
BALANCE SHEET
RACE TO THE TOP
JUNE 30, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	2013	2012
Assets		
Cash and investments in county treasury	$ -	$ -
Total assets	$ -	$ -
Liabilities and Fund Balance		
Fund balance:		
Restricted for Race to the Top	$ -	$ -
Total fund balance	-	-
Total liabilities and fund balance	$ -	$ -

FIRST 5 COMMISSION OF SAN DIEGO
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
RACE TO THE TOP
JUNE 30, 2013
(WITH COMPARATIVE TOTALS FOR 2012)

	2013	2012
Revenues:		
Race to the Top	$ 1,018,700	-
Total revenues	1,018,700	-
Expenditures:		
Labor and benefits	104,260	-
Contributions to community projects	914,440	-
Total expenditures	1,018,700	-
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
433 N. CAMDEN, SUITE 730
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 INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCEAND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMEDIN 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 the County of San Diego, as of and for the fiscal year ended June 30, 2013, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated August 30, 2013. 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

Purpose of this Report

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

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

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 30, 2013

MOSS, LEVY & HARTZHEIM LLP
CERTIFIED PUBLIC ACCOUNTANTS

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

COMMERCIAL ACCOUNTING & TAX SERVICES
433 N. CAMDEN, SUITE 730
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

Compliance

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, 2013 and have issued our report thereon dated August 30, 2013. 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, 2013.

Management's Responsibility

Compliance with the requirements referred to above is the responsibility of the Commission's management.

Auditor's Responsibility

We conducted our compliance audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, issued by the State Controller's Office. Those standards and the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the statutory requirements listed below occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide 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 respects, with the compliance requirements referred to above that are applicable to the statutory requirements listed above for the fiscal year ended June 30, 2013.

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 30, 2013