
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, 2011
(WITH COMPARATIVE TOTALS FOR 2010)**

**FIRST 5 COMMISSION OF SAN DIEGO
 FINANCIAL STATEMENTS
 AND INDEPENDENT AUDITOR'S REPORT
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 (WITH COMPARATIVE TOTALS FOR 2010)**

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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, 2011, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *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 about 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 the 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 First 5 Commission of San Diego as of June 30, 2011, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 of the notes to the basic financial statements effective July 1, 2010, the Commission adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54 – *Fund Balance Reporting and Governmental Fund Type Definitions* and GASB Statement No. 59 – *Financial Instruments Omnibus*.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 19, 2011, 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 27 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 a required part 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
Moss, Levy & Hartzheim, LLP
Beverly Hills, California
August 19, 2011

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, 2011. 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 requires 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 are 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 is \$88,374,589.

Twelve County Commissions (including San Diego) have combined their individual lawsuits into one suit in the Fresno Superior Court against the State of California that claims AB 99 is not lawful. Arguments were heard by the presiding judge on August 30, 2011 and the case is currently awaiting a decision anticipated without any assurance in November 2011.

Even though the First 5 Commission of San Diego is participating in the lawsuit, the Commission has materially reduced future funding to account for the potential loss of \$88.4 million in fund balance and related cash and is an expenditure for this fiscal year.

FINANCIAL HIGHLIGHTS (FY 2010/2011)

Expenditures were \$107,326,514 more than revenues. Overall revenues were \$37,247,740.

Expenditures were more than budgeted by \$65,403,279 or 82.6% mainly due to the expenditure accrual of \$88.4 million as a result of the Governor's signing of AB 99 which requires the First 5 Commission of San Diego to remit half of the Fund Balance as of June 30, 2010 in cash to the State of California by June 30, 2012. Additionally, some programs that had budgeted expenses did not go forward due to the loss of fund balance that was projected to pay for them.

Expenditures are in four categories: Administrative, Program, Evaluation, and AB 99. Administrative expenditures were \$2,940,878 or 2.0% of the total expenditures (not to be confused with the Administrative Rate, which is calculated on the final Operating Budget.), Program expenditures were \$51,849,208 or 35.9%, Evaluation expenditures were \$1,409,579 or 1.0%, and the majority of the expenditures were for the AB 99 requirement of \$88,374,589 or 61.1% of total expenditures.

The Commission's Administrative Rate is set by policy to be no more than 10% of the Total Operating Budget. For FY 2010/2011 the administrative rate was 3.7% of the budget. This is based on the Total Administrative Expenditures of \$2,940,878 and the final Total Operating Budget of \$79,170,975.

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 2010/2011	FY 2009/2010
Total Assets	\$ 171,953,141	\$ 194,155,361
Total Liabilities	102,604,700	17,505,229
Net Assets:		
Restricted	1,287,217	3,831,686
Unrestricted	68,061,224	172,818,446
Total Net Assets	\$ 69,348,441	\$ 176,650,132

The Commission's total net assets decreased by \$107,301,691 or 60.7% from the prior year due to expenditures being higher than revenues, mainly because of the AB 99 requirement. The FY 2010/2011 final budget was \$12.9 million lower for program costs than in FY 2009/2010.

Changes in Net Assets

Table II: Changes in Net Assets

	FY 2010/2011	FY 2009/2010
Program Revenues	\$ 35,289,279	\$ 37,062,186
General Revenues	1,958,461	3,965,112
Expenses	144,549,431	59,177,885
Change in net assets	(107,301,691)	(18,150,587)
Net assets – Beginning, July 1	176,650,132	194,800,719
Net assets – Ending, June 30	\$ 69,346,876	\$ 176,650,132

Program Revenues decreased by \$1,772,907 or 4.8% due to a decrease in Tobacco Tax revenue and lower revenues from the School Readiness Program.

General Revenues decreased \$2,006,651 or 50.6% from the prior year due to falling interest rates on investments and an overall decrease in cash invested outside the County Pool.

Expenditures increased \$85,371,546 or 144.3% from the prior year mainly due to the expenditure for AB 99 of \$88.4 million. Not including the AB 99 expenditure, the difference is a decrease of \$3 million in year to year expenses that is due mainly to a reduction in the expenses for the Healthy Development Services program, Capital Projects, and Information and Referral Services.

BUDGETARY HIGHLIGHTS

- Prop 10 Tobacco Tax revenue had a favorable variance of \$2.2 million or 12.7% due to a smaller match needed for the two First 5 California programs in which the Commission participates
- Prop 10 School Readiness revenues had an unfavorable variance of \$1.2 million or 25.2% due to lower revenues matched for the program due to lower expenditures.

- Prop 10 Preschool for All/Power of Preschool revenues had an unfavorable variance of \$2.1 million or 14.7% 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 \$21,166 or 100% due to the category of revenue being new to the Commission and was not budgeted.
- Revenue from The California Endowment Grant Award had an unfavorable variance of \$305,838 or 46.9% due to not realizing some of the revenue because of the contract requirement that two additional water districts be fluoridated. Funds are being held to fund the other two fluoridation projects.
- Interest revenue had an unfavorable variance of \$1,921,970 or 40.2% due to a lower return on investments than was budgeted in the 10-Year Financial Spending Plan.
- Services and Supplies had a favorable variance of \$293,101 or 30.0% due to lower expenditures for professional services, travel, printing, information technology, and, purchasing and contracting costs. Further expenditures for 22 of the 26 budget accounts were lower than budget.
- Contributions to Community Projects had a favorable variance of \$22.5 million or 30.2% mainly due to the change in program funding as a result of the accrual of \$88.4 million in fund balance due to the AB 99 approval by the Governor. In addition, programs for Smoking Cessation, Targeted Home Visiting, and Emerging Critical Needs were budgeted and did not go forward. Further, a number of other programs were reduced in scope to compensate for this reduction in fund balance
- Expenditures for evaluation had a favorable variance of \$66,455 or 4.5%. This reduction is due to funding included in the FY 2010/2011 budget for a 5-year summative report for the Preschool for All demonstration project. The work on this report crossed over into FY 2011/2012 and will be expended.

BEYOND FY 2010/2011

The Commission, through formal action, approved the 5-Year Program Allocation Plan that obligates funding in future years for the following programs:

Emerging Critical Needs	\$ 9,412,246
Healthy Development Services	52,000,000
Information & Referral	2,200,000
KidSTART Center Funding	3,300,000
Kit for New Parents	1,700,000
Oral Health	10,400,000
Parent & Public Education	1,000,000
Quality Preschool Initiative (beginning in FY 2012/2013)	47,100,000
Total	\$ 127,112,246

The Commission, through formal action, has approved the following contracts for First 5 California initiatives that will be executed in FY 2010/2011:

Preschool for All / Power of Preschool (additional bridge year)	\$ 12,000,000
Total	\$ 12,000,000

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 5-Year Program Allocation Plan for 2010/2011 – 2014/2015. In May 2011 the Commission revised the funding plan for the foreseeable future to include a significant reduction in program funding as a result of the AB 99 requirement referenced throughout this section. By keeping the number of programs funded to a minimum, the Commission was able to make revisions without eliminating existing services.

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 10-Year Financial Spending Plan projects nearly a zero balance of the Commission’s sustainability fund (not counting the management reserve) at the end of the eighth year (FY 2017/2018), it is estimated the Commission will receive more than \$20 million per year in Proposition 10 revenues thereafter.

The 10-Year Financial Spending Plan and 5-Year Program Allocation Plan are reviewed annually and revised accordingly as part of the annual budget process. In June 2011, the Commission approved a new 10-Year 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, 2011
(WITH COMPARATIVE TOTALS FOR 2010)

	GOVERNMENTAL ACTIVITIES	
	2011	2010
Assets		
Cash and investments in county treasury	\$ 164,336,392	\$ 184,041,032
Imprest cash	250	250
Accounts receivable	5,759,731	5,666,980
Due from County of San Diego	566,615	963,485
Prepaid expense	1,676	2,675
Restricted assets	1,288,477	3,480,939
Total assets	171,953,141	194,155,361
Liabilities		
Accounts payable	13,579,566	16,537,737
Due to County of San Diego	151,651	101,524
Deposit from others	424,672	766,923
California assembly bill no. 99 requirement	88,374,589	-
Long-term liabilities:		
Compensated absences		
Due within one year	54,806	63,916
Due more than one year	19,416	35,129
Total liabilities	102,604,700	17,505,229
Net Assets		
Restricted for:		
Community water fluoridation	1,287,217	3,480,939
School readiness program	-	350,747
Unrestricted	68,061,224	172,818,446
Total net assets	\$ 69,348,441	\$ 176,650,132

See accompanying notes to the basic financial statements.

**FIRST 5 COMMISSION OF SAN DIEGO
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011
(WITH COMPARATIVE TOTALS FOR 2010)**

		<u>PROGRAM REVENUES</u>	<u>NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS</u>	
		<u>PROPOSITION 10 AND SPECIAL FUND</u>	<u>GOVERNMENTAL ACTIVITIES</u>	
<u>GOVERNMENTAL ACTIVITIES</u>	<u>EXPENSES</u>		<u>2011</u>	<u>2010</u>
Health	\$ 22,415,322	\$ 10,289,464	\$ (12,125,858)	\$ (12,026,718)
Learning	16,444,683	16,029,683	(415,000)	(2,240,705)
Community	5,643,823	2,498,058	(3,145,765)	(3,740,811)
Family	7,345,380	3,251,197	(4,094,183)	(4,003,395)
General administration	4,325,634	3,220,877	(1,104,757)	(104,070)
California assembly bill no. 99 requirement	<u>88,374,589</u>	<u>-</u>	<u>(88,374,589)</u>	<u>-</u>
Total governmental activities	<u>\$ 144,549,431</u>	<u>\$ 35,289,279</u>	<u>(109,260,152)</u>	<u>(22,115,699)</u>
GENERAL REVENUES:				
Net investment revenue			<u>1,958,461</u>	<u>3,965,112</u>
Total general revenues			<u>1,958,461</u>	<u>3,965,112</u>
Change in net assets			(107,301,691)	(18,150,587)
Net assets – beginning of fiscal year			<u>176,650,132</u>	<u>194,800,719</u>
Net assets – end of fiscal year			<u>\$ 69,348,441</u>	<u>\$ 176,650,132</u>

See accompanying notes to the basic financial statements.

**FIRST 5 COMMISSION OF SAN DIEGO
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2011
(WITH COMPARATIVE TOTALS FOR 2010)**

	2011	2010
Assets		
Cash and investments in county treasury	\$ 164,336,392	\$ 184,041,032
Imprest cash	250	250
Accounts receivable	5,759,731	5,666,980
Due from County of San Diego	566,615	963,485
Prepaid expense	1,676	2,675
Restricted assets	1,288,477	3,480,939
Total assets	\$ 171,953,141	\$ 194,155,361
Liabilities and Fund Balance		
Liabilities:		
Accounts payable	13,579,566	16,537,737
Due to County of San Diego	151,651	101,524
Deposit from others	424,672	766,923
California assembly bill no. 99 requirement	88,374,589	-
Total liabilities	102,530,478	17,406,184
Fund Balance:		
Nonspendable	1,676	2,675
Restricted for community water fluoridation	1,287,217	3,480,939
Restricted for school readiness program	-	350,747
Committed	68,133,770	172,914,816
Assigned	-	-
Unassigned	-	-
Total fund balance	69,422,663	176,749,177
Total liabilities and fund balance	\$ 171,953,141	\$ 194,155,361

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, 2011
(WITH COMPARATIVE TOTALS FOR 2010)**

	2011	2010
Total governmental fund balance	\$ 69,422,663	\$ 176,749,177
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.	(74,222)	(99,045)
Net assets of governmental activities	\$ 69,348,441	\$ 176,650,132

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, 2011
(WITH COMPARATIVE TOTALS FOR 2010)**

Revenues:	2011	2010
Prop 10 tobacco tax (including SMIF)	\$ 19,094,623	\$ 24,029,700
Prop 10 school readiness	3,602,936	3,687,667
Prop 10 preschool for all/power of preschool	12,223,680	9,091,695
Federal Medi-Cal administrative activities	21,166	-
The California Endowment grant	346,874	253,124
Interest revenue	2,863,130	4,238,848
Net increase (decrease) in FMV of investments	(904,669)	(273,736)
Total revenues	37,247,740	41,027,298
Expenditures:		
Labor and benefits	2,255,907	2,261,152
Services and supplies	684,971	654,637
Evaluation	1,409,579	1,512,337
Contributions to community projects	51,849,208	54,735,724
California assembly bill no. 99 requirement	88,374,589	-
Total expenditures	144,574,254	59,163,850
Net change in fund balance	(107,326,514)	(18,136,552)
Fund balance, beginning of fiscal year	176,749,177	194,885,729
Fund balance, end of fiscal year	\$ 69,422,663	\$ 176,749,177

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, 2011
(WITH COMPARATIVE TOTALS FOR 2010)**

	2011	2010
Net change in total governmental fund balance	\$ (107,326,514)	\$ (18,136,552)
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).	24,823	(14,035)
Change in net assets of governmental activities	\$ (107,301,691)	\$ (18,150,587)

See accompanying notes to the basic financial statements.

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FIRST 5 COMMISSION OF SAN DIEGO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

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.

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 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

FIRST 5 COMMISSION OF SAN DIEGO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 \$36.7 million per the version of the 10-year plan that was approved in May 2010. The 10-year 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:

Revenue Account	Approved Budget	Reallocation	Reallocated Budget
Prop 10 Tobacco Tax	\$ 32,841,220	\$ (15,900,800)	\$ 16,940,420
Prop 10 School Readiness	2,009,500	2,809,400	4,818,900
Prop 10 Power of Preschool/PFA	1,228,600	13,091,400	14,320,000
The California Endowment	652,712	-	652,712
Federal Medi-Cal Administrative Activities	-	-	-
Interest Revenue	4,785,100	-	4,785,100
Totals	\$ 41,517,132	-	\$ 41,517,132

FIRST 5 COMMISSION OF SAN DIEGO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 19, 2011.

H. New Accounting Pronouncements

GASB Statement No. 54 – *Fund Balance Reporting and Governmental Fund Type Definitions*

For the fiscal year ended June 30, 2011, the Commission implemented GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*". The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

GASB Statement No. 59 – *Financial Instruments Omnibus*

For the fiscal year ended June 30, 2011, the Commission implemented GASB Statement No. 59, "*Financial Instruments Omnibus*". This Statement establishes standards to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The implementation of this Statement did not have an effect on these financial statements.

FIRST 5 COMMISSION OF SAN DIEGO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2: CASH AND INVESTMENTS BY COUNTY TREASURY

The Commission’s cash and investments at June 30, 2011 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, 2011, are stated at fair value.

Cash and Investments in County Treasury consisted of the following at June 30, 2011:

Assets Invested through the County Treasurers Office	
Federal Agency Securities	\$ 25,747,000
Medium Term Notes	10,338,700
County Pool	128,250,692
Total Cash and Investments by County Treasury	\$ 164,336,392

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
		20% of base	
Reverse Repurchase Agreements	92 days	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

FIRST 5 COMMISSION OF SAN DIEGO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

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

Authorized Investment Type	Maximum Maturity	Maximum % of Portfolio	Maximum Investment in One Issuer
Local Agency Investment Fund (LAIF)	N/A	None	None
JPA Pools (other investment pools)	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.

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:

Investment Type	Amount	<u>Remaining Maturity in Months</u>		
		12 months or less	13 to 24 months	25 to 60 Months
Federal Agency Securities	\$ 25,747,000	\$ 15,021,300	\$ -	\$ 10,725,700
Medium Term Notes	10,338,700	10,338,700	-	-
County Pool	128,250,692	128,250,692	-	-
Total	<u>\$ 164,336,392</u>	<u>\$ 153,610,692</u>	<u>\$ -</u>	<u>\$ 10,725,700</u>

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.

FIRST 5 COMMISSION OF SAN DIEGO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

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

Investment Type	Amount	Minimum Rating Required	Credit Quality Rating
<u>First 5 Commission Investments</u>			
Federal Agency Securities	\$ 25,747,000	AAA	AAA
Medium Term Notes	10,338,700	A	AA+
County Pool	128,250,692	VARIOUS	AAAF
Total	<u>\$ 164,336,392</u>		

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 investments are as follows:

Issuer	Investment Type	Amount	% of Total Investments
Gen Elec Cap Crp	Medium Term Note	\$ 10,338,700	6.3%

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.

FIRST 5 COMMISSION OF SAN DIEGO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

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

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 2011 and miscellaneous Surplus Money Investment Fund (SMIF) revenue. Also included is the reimbursement the Federal government owes the Commission for participation in Medi-Cal Administrative Activities (MAA) for Quarters 1 & 2 of FY 2009/2010:

Prop 10 revenue for:	
May 2011	\$ 2,799,497
June 2011	2,922,189
SMIF	16,879
MAA Quarter 1	7,636
MAA Quarter 2	<u>13,530</u>
Total	<u>\$ 5,759,731</u>

NOTE 4: ACCOUNTS PAYABLE

Accounts payable is comprised of \$13,579,566 in funding due to grantees at June 30, 2011.

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 \$566,615 for:

- 1) County investment interest accrued in the operating fund and the sustainability reserve fund of \$526,951; and,
- 2) Labor refund of \$39,664.

FIRST 5 COMMISSION OF SAN DIEGO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 5: DUE TO/DUE FROM COUNTY OF SAN DIEGO (continued)

The Commission owes the County of San Diego \$151,651 for:

- 1) First 5 labor of \$90,799;
- 2) Program costs of \$40,179;
- 3) Computing and Telephone costs of \$8,198;
- 4) County Counsel support of \$3,707;
- 5) Purchasing and Contracting service charges of \$123; and,
- 6) Administrative costs of dedicated portfolios of \$8,645.

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 1 & 2 of FY 2009/2010.

Revenue for the fiscal year 2010/2011 is comprised of:

Proposition 10 revenue (monthly allocations)	\$ 19,077,744
SMIF	16,879
Special funding (see Note 8)	15,826,616
The California Endowment grant (see Note 11)	346,874
MAA	<u>21,166</u>
Total revenue	<u>\$ 35,289,279</u>

FIRST 5 COMMISSION OF SAN DIEGO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 8: SPECIAL FUNDING

For the fiscal year 2010/2011 special funding for First 5 California Initiatives are as follows: for School Readiness \$3,602,936 including a 1:1 match between First 5 San Diego and First 5 California; and for Power of Preschool \$12,223,680 including reimbursement from First 5 California for its share in the cost of new and/or improved publicly funded operational spaces.

School Readiness Incentives: The First 5 Association took a proactive leadership role in working with First 5 California to develop and implement a statewide School Readiness Initiative, providing over \$800 million of combined State and local funding over an eight-year period (two four-year cycles) to implement school-based programs that enhance the physical, cognitive, social and emotional readiness of children to succeed in school. The Commission administers this fund, which is used to account for the revenues received and expenditures made for school readiness programs.

Power of Preschool (PoP): The PoP Demonstration 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 PoP 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 PoP 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 PoP Project. All children residing in the eleven PoP target communities, including those with disabilities, special needs, and children who are non-English-speaking are eligible to participate in the PoP program. The PoP 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 PoP Quality 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 PoP sites.

The special funding money can only be used only for purposes specified under the funding agreements.

The balance sheets and statement of revenue, expenditures and changes in fund balances financial statements for the special funding programs are presented as supplementary information in this report on pages 33 through 36.

NOTE 9: LEASE OBLIGATION

The Commission is obligated for the next two years 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.

FIRST 5 COMMISSION OF SAN DIEGO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 9: LEASE OBLIGATION (continued)

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

Year ending June 30:	
2012	\$ 172,110
2013	<u>177,147</u>
Total lease obligation	<u>\$ 349,257</u>

NOTE 10: EVALUATION EXPENSES

The Commission spent \$1,409,579 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, 2011 the Commission had realized \$599,998 in revenues for allowable expenditures and the balance of \$400,002 was being held as a liability under "Deposits from others." Interest earnings from the date of the deposits to June 30, 2011 were \$24,670, increasing the liability to \$424,672.

NOTE 12: FUND BALANCES

As of June 30, 2011, 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 governing board is the highest level of decision-making authority for the commission. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the governing board.

FIRST 5 COMMISSION OF SAN DIEGO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

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, 2011 restricted assets were a total of \$1,287,217 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 2010 in the accompanying financial statements are included only to provide a basis for comparison with 2011 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

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 requires 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 are exempt from this requirement.

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

**FIRST 5 COMMISSION OF SAN DIEGO
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 15: CALIFORNIA ASSEMBLY BILL NO. 99 REQUIREMENT (continued)

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

REQUIRED SUPPLEMENTAL INFORMATION SECTION

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**FIRST 5 COMMISSION OF SAN DIEGO
BUDGETARY COMPARISON SCHEDULE
GOVERNMENTAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

	BUDGETED AMOUNTS (UNAUDITED)			VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	ORIGINAL	FINAL	ACTUAL	
Revenues:				
Prop 10 tobacco tax	\$ 16,860,420	\$ 16,940,420	\$ 19,094,623	\$ 2,154,203
Prop 10 school readiness	4,818,900	4,818,900	3,602,936	(1,215,964)
Prop 10 preschool for all/power of preschool	14,400,000	14,320,000	12,223,680	(2,096,320)
Federal Medi-Cal administrative activities	-	-	21,166	21,166
The California Endowment grant	652,712	652,712	346,874	(305,838)
Interest revenue	4,785,100	4,785,100	2,863,130	(1,921,970)
Net increase (decrease) in FMV of investments	-	-	(904,669)	(904,669)
Total revenues	<u>41,517,132</u>	<u>41,517,132</u>	<u>37,247,740</u>	<u>(4,269,392)</u>
Expenditures:				
Labor and benefits	2,398,979	2,398,979	2,255,907	143,072
Services and supplies	953,072	978,072	684,971	293,101
Evaluation	1,396,034	1,476,034	1,409,579	66,455
Contributions to community projects	69,646,444	74,317,890	51,849,208	22,468,682
California assembly bill no. 99 requirement	-	-	88,374,589	(88,374,589)
Total expenditures	<u>74,394,529</u>	<u>79,170,975</u>	<u>144,574,254</u>	<u>(65,403,279)</u>
Net change in fund balance	(32,877,397)	(37,653,843)	(107,326,514)	(69,672,671)
Fund balance, beginning of fiscal year	<u>86,481,141</u>	<u>86,481,141</u>	<u>176,749,177</u>	<u>90,268,036</u>
Fund balance, end of fiscal year	<u>\$ 53,603,744</u>	<u>\$ 48,827,298</u>	<u>\$ 69,422,663</u>	<u>\$ 20,595,365</u>

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SUPPLEMENTAL INFORMATION SECTION

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**FIRST 5 COMMISSION OF SAN DIEGO
BALANCE SHEET
SCHOOL READINESS PROGRAM
JUNE 30, 2011
(WITH COMPARATIVE TOTALS FOR 2010)**

	2011	2010
Assets		
Cash and investments in county treasury	\$ -	\$ 350,747
Total assets	-	350,747
Liabilities and Fund Balance		
Fund balance		
Restricted for school readiness initiatives	-	350,747
Total fund balance	-	350,747
Total liabilities and fund balance	\$ -	\$ 350,747

**FIRST 5 COMMISSION OF SAN DIEGO
STATEMENT OF REVENUES AND EXPENDITURES
AND CHANGES IN FUND BALANCE
SCHOOL READINESS PROGRAM
FOR FISCAL YEAR ENDED JUNE 30, 2011
(WITH COMPARATIVE TOTALS FOR 2010)**

	<u>2011</u>	<u>2010</u>
Revenues:		
Prop 10 school readiness	\$ 3,602,936	\$ 3,687,667
Total revenues	<u>3,602,936</u>	<u>3,687,667</u>
 Expenditures:		
Labor and benefits	123,410	135,603
Services and supplies	418	976
Contributions to community projects	3,829,855	4,553,967
Total expenditures	<u>3,953,683</u>	<u>4,690,546</u>
 Net change in fund balance	(350,747)	(1,002,879)
 Fund balance, beginning of fiscal year	<u>350,747</u>	<u>1,353,626</u>
Fund balance, end of fiscal year	<u>\$ -</u>	<u>\$ 350,747</u>

**FIRST 5 COMMISSION OF SAN DIEGO
BALANCE SHEET
PRESCHOOL FOR ALL/POWER OF PRESCHOOL
JUNE 30, 2011
(WITH COMPARATIVE TOTALS FOR 2010)**

	2011	2010
Assets		
Cash and investments in county treasury	\$ -	\$ -
Total assets	\$ -	\$ -
Liabilities and Fund Balance		
Fund balance:		
Restricted for preschool for all/power of preschool	\$ -	\$ -
Total fund balance	-	-
Total liabilities and fund balance	\$ -	\$ -

**FIRST 5 COMMISSION OF SAN DIEGO
STATEMENT OF REVENUES AND EXPENDITURES
AND CHANGES IN FUND BALANCE
PRESCHOOL FOR ALL/POWER OF PRESCHOOL
FOR FISCAL YEAR ENDED JUNE 30, 2011
(WITH COMPARATIVE TOTALS FOR 2010)**

	2011	2010
Revenues:		
Preschool for all/power of preschool	\$ 12,223,680	\$ 9,091,695
Total revenues	12,223,680	9,091,695
 Expenditures:		
Labor and benefits	91,147	68,467
Contributions to community projects	12,132,533	9,027,124
Total expenditures	12,223,680	9,095,591
 Net change in fund balance	-	(3,896)
 Fund balance, beginning of fiscal year	-	3,896
Fund balance, end of fiscal year	\$ -	\$ -



MOSS, LEVY & HARTZHEIM LLP

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**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 the 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, 2011, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated August 19, 2011. 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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*.

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
Moss, Levy & Hartzheim, LLP
Beverly Hills, California
August 19, 2011



MOSS, LEVY & HARTZHEIM LLP

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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 County of San Diego, as of and for the fiscal year ended June 30, 2011 and have issued our report thereon dated August 19, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. We have also audited the Commission's compliance with 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, 2011. 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 audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and the State of California's Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act, issued by the 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.

Table with 3 columns: Description, Audit Guide Procedures, and Procedures Performed. Rows include Contracting and Procurement, Administrative Costs, Conflict-of-Interest, County Ordinance, Long-range Financial Plans, Financial Condition of the Commission, Program Evaluation, and Salaries and Benefits Policies.

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, 2011.

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
Moss, Levy & Hartzheim, LLP
Beverly Hills, California
August 19, 2011