



# **First 5 Commission of San Diego**

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

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## ***Financial Statements and Independent Auditor's Report***

***FOR THE YEAR ENDED JUNE 30, 2008***

***(WITH COMPARATIVE TOTALS FOR 2007)***

*Prepared by:*

# **TCBA**

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FIRST 5 COMMISSION OF SAN DIEGO  
 FINANCIAL STATEMENTS  
 AND INDEPENDENT AUDITOR'S REPORT  
 FOR THE YEAR ENDED JUNE 30, 2008  
 (WITH COMPARATIVE TOTALS FOR 2007)

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FINANCIAL STATEMENTS  
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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 of the First 5 Commission of San Diego (The Commission), a component unit of the County of San Diego, California, as of and for the year ended June 30, 2008, which collectively comprise the Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year's summarized comparative information has been derived from the 2007 financial statements and, in our report dated October 10, 2007, we expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the Commission at June 30, 2008, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2008, on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Commission's basic financial statements. The individual program financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements but is supplementary information required by the State Children and Families Commission. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

*Thompson, Cobb, Bazilio & Associates, PC*

Torrance, California  
September 9, 2008

## MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

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### 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, 2008. 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 their 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

Expenses were \$8,024,452 less than revenues. Overall revenues were \$52,281,222.

Expenses were less than budgeted by \$12,918,767 or 22.6% due to delays in implementing a capital contract and the Community Water Fluoridation initiative; some operational savings; and, programmatic savings in the Responsive and Innovative areas that reflected funds not requested by the community.

Expenses are broken down into three categories: Administrative, Program, and Evaluation costs. Administrative costs were \$2,917,151, or 6.6% of the Total Expenditures. Program costs were the majority of the expenses at \$40,290,040, or 91.0%, and Evaluation costs were \$1,049,579, or 2.4% of the expenses.

The Commissions Administrative Rate is set by policy to be not more than 10% of the Total Operating Budget. For fiscal year 2007/08 the administrative rate was 5.1%. This is based on the Total Administrative Expenses of \$2,917,151, and the Total Operating Budget of \$57,175,537.

Total Evaluation Costs were \$1,049,579 or 1.8% of the Total Operating Budget.

### 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 11 of this report.

## Government-Wide Financial Analysis

### **Net Assets**

Table I: Net Assets

	<b>FY 2007/2008</b>	<b>FY 2006/2007</b>
Total Assets	\$ 207,506,160	\$ 206,148,295
Total Liabilities	10,937,713	18,484,543
Net Assets:		
Restricted	196,568,447	187,663,752
Total Net Assets	196,568,447	187,663,752

The Commission's total net assets increased by \$8,904,695 or 4.7% from the prior year due to a reduction in liabilities and an increase in assets based on the fair market value of cash and investments.

## Changes in Net Assets

Table II: Changes in Net Assets

	FY 2007/2008	FY 2006/2007
Program Revenues	\$ 44,058,070	\$ 40,804,798
General Revenues	8,222,652	9,816,995
Expenses	44,347,610	51,803,508
Change in net assets	7,933,612	(1,181,715)
Net assets – Beginning, July 1	187,663,752	188,017,563
Adjustments for restatement	971,083	827,904
Net assets – Restated, July 1	188,634,835	188,845,467
Net assets – Ending, June 30	196,568,447	187,663,752

Program Revenues increased by \$3,253,272 or 8.0% from prior year due to a fair market value gain and additional revenues for State matched programs.

General Revenues decreased \$1,594,343 or 16.0% from the prior year due to falling interest rates on investments.

Expenses decreased \$7,455,898 or 14.0% from the prior year due to a decrease in expenses for the Commission's Capital Projects initiative.

## BUDGETARY HIGHLIGHTS

- Prop 10 Tobacco Tax revenue had a favorable variance of \$2.9 million or 11.6% due to higher revenues received from the State.
- Prop 10 School Readiness revenues have a favorable variance of \$1.2 million or 20.3% due to revenues received this year for expenses from last fiscal year.
- Prop 10 Child Care Retention revenues had an unfavorable variance of \$1.0 million or 34.4% due to lower than budgeted expenses for the program resulting in a lower match required from the Commission and the State.
- Prop 10 Preschool for All/Power of Preschool revenues had an unfavorable variance of \$877,423 or 15.0% due to lower than budgeted expenses for the program resulting in a lower match from the Commission.
- Prop 10 Special Needs Demonstration Project revenues had a favorable variance of \$64,295 or 12.9% due to a larger match from the Commission to cover labor costs for this program.
- Interest revenue had a favorable variance of \$2.0 million or 32.1% due to a higher interest rate on the Commission's investments.
- Services and Supplies had a favorable variance of \$596,959 or 47% due to lower expenditures for consultants, professional services, printing, office rental, and County of San Diego

Purchasing and Contracting costs.

- Contributions to Community Projects had a favorable variance of \$11,444,375 or 22.1% due to the long term implementation of the Community Water Fluoridation, Capital Improvement, and Social Emotional Development initiatives. In addition, the Responsive Funds and Innovative Grants budgeted amounts were underutilized by the community, and the CARES program under spent their budget by \$1.1 million.
- Expenses for evaluation had a favorable variance of \$900,421 or 46.2% due to the Commission contracting for the Contract Management and Evaluation Data System over a four fiscal year period.

**BEYOND FY 2007-2008**

The Commission, through formal action, has approved funds for contracts that will start in future years for the following programs:

Responsive Funds	\$ 462,253
2-1-1 San Diego	1,672,900
Evaluation	3,000,000
Contract Management & Evaluation Data System	841,292
Innovative Grants	231,317
Oral Health Contract Extension	2,453,500
Healthcare Access Extension	3,087,538
Kit for New Parents	1,334,000
Child Health & Development Services Project	23,459,200
Child Health – Smoking Cessation	280,000
First 5 for Parents	3,359,896
Capital Projects	1,120,577
Obesity Prevention	25,000
Preschool for All/Power of Preschool	6,030,000
<b>Total</b>	<b>\$47,357,473</b>

The Commission, through formal action, has approved the following contracts for First 5 California Initiatives that will be executed in fiscal year 2008/09:

Special Needs Demonstration Project	\$ 500,000
CARES	2,500,000
School Readiness	5,854,095
<b>Total</b>	<b>\$ 8,854,095</b>

The Commission’s work is guided by its Strategic Plan for 2004 – 2009, adopted in October 2004. The funds needed to achieve the “desired results” in the Strategic Plan are committed in the

Commission's 5-Year Allocation Plan for 2004/05 – 2009/10.

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 adopted a 20-Year Financial Plan that demonstrates how the Commission will use its sustainability fund to keep service levels constant to the extent possible over the life of the Plan. Although the Financial Plan projects nearly a zero balance of the Commission's sustainability fund at the end of the 20-year period, it is estimated the Commission will receive more than \$19.5 million per year in Proposition 10 revenues thereafter.

The 20-Year Financial Plan and 5-Year Allocation Plan are reviewed annually and revised accordingly as part of the annual budget process. The 20-year Financial Plan and the 5-Year Allocation Plan were updated and approved by the Commission in May 2008.

### **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the First 5 Commission of San Diego finances for all those interested. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: 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, 2008**  
**(WITH COMPARATIVE TOTALS FOR 2007)**

	<b>GOVERNMENTAL ACTIVITIES</b>	
	<b>2008</b>	<b>2007</b>
<b>ASSETS</b>		
Cash and Investments in County Treasury (NOTE 2)	\$ 198,924,554	\$ 196,271,469
Imprest Cash	250	250
Accounts Receivable (NOTE 3)	6,316,493	6,501,529
Due from San Diego County (NOTE 5)	2,263,167	3,373,336
Prepaid Expense	1,696	1,711
<b>TOTAL ASSETS</b>	<b>\$ 207,506,160</b>	<b>\$ 206,148,295</b>
<b>LIABILITIES</b>		
Accounts Payable (NOTE 4)	\$ 10,382,401	\$ 18,282,579
Due To San Diego County (NOTE 5)	161,871	118,931
Deposit from Others (NOTE 14)	302,601	-
Compensated Absences (NOTE 6)		
Payable within one year	65,913	53,021
Payable after one year	24,927	30,012
<b>TOTAL LIABILITIES</b>	<b>\$ 10,937,713</b>	<b>\$ 18,484,543</b>
<b>NET ASSETS</b>		
Restricted For:		
Power of Preschool State Demonstration Project	\$ 23,151	\$ 85,891
School Readiness Projects	1,197,095	246,933
Retention Incentives for Early Care and Providers	2,081	1,533
Special Needs	300	-
Children and Family Programs	195,345,820	187,329,395
<b>TOTAL NET ASSETS</b>	<b>\$ 196,568,447</b>	<b>\$ 187,663,752</b>

The notes to the basic financial statements are an integral part of this statement

**FIRST 5 COMMISSION OF SAN DIEGO  
STATEMENT OF ACTIVITIES  
JUNE 30, 2008  
(WITH COMPARATIVE TOTALS FOR 2007)**

<u>GOVERNMENTAL ACTIVITIES</u>	<u>EXPENSES</u>	PROGRAM REVENUES	<u>NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS</u>	
		PROPOSITION 10 AND SPECIAL FUND	<u>2008</u>	<u>2007</u>
Improved Family Functioning	\$ 2,667,201	\$ 2,776,233	\$ 109,032	\$ (2,321,644)
Improved Child Development	9,109,578	9,481,967	372,389	(4,221,170)
Improved Health	9,979,843	10,387,808	407,965	(351,764)
Improved Systems of Care	18,533,418	19,291,044	757,626	(140,707)
General Administration	4,057,570	-	(4,057,570)	(3,075,375)
Net Increase(Decrease) in Fair Market Value	-	2,121,518	2,121,518	(888,050)
Total Governmental Activities	<u>\$ 44,347,610</u>	<u>\$ 44,058,570</u>	<u>\$ (289,040)</u>	<u>\$ (10,998,710)</u>
<b>GENERAL REVENUES:</b>				
Interest Revenue			\$ 8,222,652	\$ 9,816,995
Total General Revenue			<u>8,222,652</u>	<u>9,816,995</u>
Change in net assets			7,933,612	(1,181,715)
Net Assets- Beginning			187,663,752	188,017,563
Adjustment For Restatement ( NOTE 10)			971,083	827,904
Net Assets Restated – Beginning			<u>188,634,835</u>	<u>188,845,467</u>
Net Assets – Ending			<u>\$ 196,568,447</u>	<u>\$ 187,663,752</u>

The notes to the basic financial statements are an integral part of this statement

**FIRST 5 COMMISSION OF SAN DIEGO  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2008  
(WITH COMPARATIVE TOTALS FOR 2007)**

	<b>2008</b>	<b>2007</b>
<b>ASSETS</b>		
Cash and Investments in County Treasury (NOTE 2)	\$ 198,924,554	\$ 196,271,469
Imprest Cash	250	250
Accounts Receivable (NOTE 3)	6,316,493	6,501,529
Due From San Diego County (NOTE 5)	2,263,167	3,373,336
Prepaid Expense	1,696	1,711
<b>TOTAL ASSETS</b>	<b>\$ 207,506,160</b>	<b>\$ 206,148,295</b>
 <b>LIABILITIES AND FUND BALANCE</b>		
Accounts Payable (NOTE 4)	10,382,401	\$ 18,282,579
Due To San Diego County (NOTE 5)	161,871	118,931
Deposit from Others (NOTE 14)	302,601	-
<b>TOTAL LIABILITIES</b>	<b>10,846,873</b>	<b>\$ 18,401,510</b>
 <b>FUND BALANCE (NOTES 9, 11)</b>		
Reserved		
For Encumbrances	\$ 28,417,471	\$ 44,859,227
For Obligations	70,195,302	85,498,807
Funds Not Yet Obligated	302,601	98,190
For First 5 California Initiatives	6,603,738	10,118,636
Total Reserved	<b>\$ 105,519,112</b>	<b>\$ 140,574,860</b>
Unreserved		
Designated for Local Initiatives	\$ 6,348,726	\$ 1,370,000
Designated for Program Sustainability	84,791,450	45,801,925
Undesignated	-	-
Total Unreserved	<b>\$ 91,140,176</b>	<b>\$ 47,171,925</b>
 <b>TOTAL FUND BALANCE</b>	<b>196,659,287</b>	<b>\$ 187,746,785</b>
 <b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 207,506,160</b>	<b>\$ 206,148,295</b>

The notes to the basic financial statements are an integral part of this statement

**FIRST 5 COMMISSION OF SAN DIEGO  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2008  
(WITH COMPARATIVE TOTALS FOR 2007)**

	<u>2008</u>	<u>2007</u>
<b>REVENUES</b>		
Prop 10 Tobacco Tax (NOTE 7)	\$ 27,372,233	\$ 28,589,770
Prop 10 School Readiness (NOTE 7)	7,045,526	6,540,197
Prop 10 Child Care Retention (NOTE 7)	1,967,421	1,684,391
Prop 10 Special Needs Demonstration Project	564,295	540,741
Prop 10 Preschool for All/Power of Preschool	4,987,577	3,446,368
Interest Revenue	8,222,652	9,816,995
Other Miscellaneous	-	3,331
Net Increase in FMV of Investment (NOTE 2)	2,121,518	-
<b>TOTAL REVENUES</b>	<u>\$ 52,281,222</u>	<u>\$ 50,621,793</u>
<b>EXPENDITURES</b>		
Labor and Benefits	\$ 2,244,971	\$ 1,740,035
Services and Supplies	672,180	472,777
Evaluation (Note 13)	1,049,579	779,531
Contributions to Community Projects	40,290,040	47,840,082
Net Decrease in FMV of Investment (NOTE 2)	-	888,050
<b>TOTAL EXPENDITURES</b>	<u>\$ 44,256,770</u>	<u>\$ 51,720,475</u>
<b>NET CHANGE IN FUND BALANCE</b>	8,024,452	\$ (1,098,682)
FUND BALANCE, JULY 1	187,746,785	\$ 188,077,777
Adjustments for Reallocation (NOTE 10)	888,050	767,690
FUND BALANCE RESTATED, JULY 1	<u>188,634,835</u>	<u>\$ 188,845,467</u>
<b>FUND BALANCE, JUNE 30</b>	<u>\$ 196,659,287</u>	<u>\$ 187,746,785</u>

The notes to the basic financial statements are an integral part of this statement

**FIRST 5 COMMISSION OF SAN DIEGO  
STATEMENT OF REVENUES AND EXPENDITURES  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2008**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL</u>	<u>VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)</u>
	<u>ORIGINAL</u>	<u>FINAL</u>		
<b>REVENUES</b>				
Prop 10 Tobacco Tax (Note 1.C)	\$ 24,521,000	\$ 24,521,000	\$ 27,372,233	\$ 2,851,233
Prop 10 School Readiness	5,855,000	5,855,000	7,045,526	1,190,526
Prop 10 Child Care Retention	3,000,000	3,000,000	1,967,421	(1,032,579)
Prop 10 Preschool for All/Power of Preschool	5,865,000	5,865,000	4,987,577	(877,423)
Prop 10 Special Needs Demonstration Project	500,000	500,000	564,295	64,295
Interest Revenue	5,252,500	6,225,000	8,222,652	1,997,652
Net Increase in FMV of Investments (Note 2)	-	-	2,121,518	2,121,518
<b>TOTAL REVENUES</b>	<u>\$ 44,993,500</u>	<u>\$ 45,966,000</u>	<u>\$ 52,281,222</u>	<u>\$ 6,315,222</u>
<b>EXPENDITURES</b>				
Labor and Benefits	2,221,983	2,221,983	2,244,971	(22,988)
Services and Supplies	1,269,139	1,269,139	672,180	596,959
Evaluation (Note 13)	1,950,000	1,950,000	1,049,579	900,421
Contributions to Community Projects	46,019,278	51,734,415	40,290,040	11,444,375
<b>TOTAL EXPENDITURES</b>	<u>51,460,400</u>	<u>57,175,537</u>	<u>44,256,770</u>	<u>12,918,767</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES (NOTE 12)</b>	<u>(6,466,900)</u>	<u>(11,209,537)</u>	<u>8,024,452</u>	<u>19,233,989</u>
<b>FUND BALANCE, JULY 1, 2007</b>	180,204,167	180,204,167	187,746,785	7,542,618
Adjustment for Reallocation	-	-	888,050	888,050
<b>FUND BALANCE, JUNE 30, 2008</b>	<u>\$ 173,737,267</u>	<u>\$ 168,994,630</u>	<u>\$ 196,659,287</u>	<u>\$ 27,664,657</u>

The notes to the basic financial statements are an integral part of this statement

**FIRST 5 COMMISSION OF SAN DIEGO  
RECONCILIATION OF  
GOVERNMENT FUND BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2008**

	2008	2007
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets:	\$ 196,659,287	\$ 187,746,785
Total Governmental Fund Balance		
Amounts reported for Governmental Activities in the Statement of Net Assets are different because:		
Compensated Absence Liability is not reported in the Fund Balance Sheet.	(90,840)	(83,033)
Total Net Assets-Governmental Activities	\$ 196,568,447	\$ 187,663,752

The notes to the basic financial statements are an integral part of this statement

**FIRST 5 COMMISSION OF SAN DIEGO  
RECONCILIATION OF  
CHANGE IN GOVERNMENT FUND BALANCE  
TO THE CHANGE IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2008**

	<b>2008</b>	<b>2007</b>
Reconciliation of the Change in Fund Balance to the Change in Net Assets in the Statement of Activities		
Net change in Governmental Fund Balance	\$ 8,024,452	\$ (1,098,682)
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Compensated Absences expenses reported in the Statement of Activities do not require the use of current financial resources And therefore are not reported as expenditures in governmental funds.	(90,840)	(83,033)
Change in Net Assets of Governmental Activities	\$ 7,933,612	\$ (1,181,715)

The notes to the basic financial statements are an integral part of this statement

FIRST 5 COMMISSION OF SAN DIEGO  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2008

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**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**NOTE 1:**

**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 Service 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.

The Commission has a strategic plan that guides local decision-making for funding services, integrating resources, building community capacity, and advocating for policy change. The overarching result sought is that "every child in San Diego County will enter school ready to learn." In October 2004 an updated strategic plan was approved for the period July 1, 2004 through June 30, 2009. This revised plan guided the allocation of up to \$43.1 million to support four areas of early childhood development: (1) children's health, (2) children's learning and social-emotional health, (3) parent and family development and resources, and (4) systems improvement and community change. During FY 2007 - 2008, the Commission awarded \$5,854,095 in contracts to school districts for the school readiness program.

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

The government-wide financial statements (i.e. *The Statement of Net Assets* and *The Statement of Activities* on pages 7 and 8) are reported using the *economic resources measurement focus* and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Contributions to community projects through local contractors are recognized as expenditures when criteria for contract payments are met by the contractors.

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

*The Statement of Activities* reports the change in net assets in a net program cost format to demonstrate the degree to which the expense of the Commission is offset by its program revenues – 1) Children's Health & Development, 2) Children's Learning and Social/Emotional Development 3) Parent/Family Development & Resources, and 3) Systems Improve/Community Change.

**FIRST 5 COMMISSION OF SAN DIEGO  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2008**

**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)**

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 9 through 10. 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 year. Revenue (not including interest revenue) was budgeted at \$39.7 million in the current version of the 20-year plan. The 20-year plan was revised to account for updated projections of birth rates, taxable sales of tobacco products and changes in interest rates. Budgeted revenues were established during the prior year 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 (Audited Budget) 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:

<b>Revenue Account</b>	<b>Approved Budget</b>	<b>Reallocation</b>	<b>Audited Budget</b>
Prop 10	\$35,859,700	\$(11,338,700)	\$24,521,000
School Readiness	\$2,927,000	\$2,928,000	\$5,855,000
CARES	\$604,300	\$2,395,700	\$3,000,000
PFA/Power of Preschool	\$100,000	\$5,765,000	\$5,865,000
Special Needs	\$250,000	\$250,000	\$500,000
Totals	<b>\$39,741,000</b>	<b>0</b>	<b>\$39,741,000</b>

**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.

**FIRST 5 COMMISSION OF SAN DIEGO  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2008**

**NOTE 2: CASH AND INVESTMENTS BY COUNTY TREASURY**

The Commission's cash and investments at June 30, 2008 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 a cash 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, 2008, are stated at fair value. The Pool values the participant shares on an amortized cost basis. At June 30, 2008, the Commission's share, valued on an amortized cash basis was \$2,121,518 higher than the fair value of the Commission's position in the pool.

	<u>System of Record Book Value</u>	<u>Fair Value</u>	<u>Unrealized Gain (Loss)</u>
Cash and Investments in County Treasury	\$ 196,803,036	\$ 198,924,554	\$ 2,121,518

Note that there is a slight difference between the book value based on the County of San Diego's system of record, versus the SunGard system used for investment management by the County Treasurer's Office. The book value based on the SunGard system was \$196,870,647. This difference is \$67,611, or less than four one hundredths of one percent.

Cash and Investments in County Treasury consisted of the following at June 30, 2008:

Assets Invested through the County Treasurers Office	
Federal Agency Securities	\$ 157,061,000
Medium Term Notes	10,375,000
Money Market Fund	10,039,047
County Pool	<u>21,449,507</u>
 Total Cash and Investments by County Treasury	 <u><u>\$ 198,924,554</u></u>

**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.

**FIRST 5 COMMISSION OF SAN DIEGO  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2008**

**NOTE 2: CASH AND INVESTMENTS BY COUNTY TREASURY (Cont'd)**

However under California Government Code Section 53601 they are authorized to make investments in the following:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum % of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
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
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:

**FIRST 5 COMMISSION OF SAN DIEGO  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2008**

**NOTE 2: CASH AND INVESTMENTS BY COUNTY TREASURY (Cont'd)**

Investment Type	Amount	<u>Remaining Maturity in Months</u>		
		12 months or less	13 to 24 months	25 to 60 Months
San Diego County Investment Pool				
Federal Agency Securities	\$157,061,000	80,918,500	35,605,500	40,537,000
Medium Term Notes	10,375,000	-		10,375,000
Money Market Fund	10,039,047	10,039,047		
County Pool	21,449,507	21,449,507		
Total	<u>\$198,924,554</u>	<u>\$112,407,054</u>	<u>\$35,605,500</u>	<u>\$50,912,000</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.

Investment Type	Amount	Minimum Rating Required	Credit Quality Rating
<u>First Five Commission Investments</u>			
Federal Agency Securities	\$157,061,000	AAA	AAA
Medium Term Notes	10,375,000	A	A OR BETTER
Money Market Funds	10,039,047	AAA	AAA <sub>m</sub>
County Pool	21,449,507	VARIOUS	AAA <sub>f</sub>
Total	<u>\$ 198,924,554</u>		

**FIRST 5 COMMISSION OF SAN DIEGO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**NOTE 2: CASH AND INVESTMENTS BY COUNTY TREASURY (Cont'd)**

**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
Federal Home Loan Bank	Federal agency securities	\$ 111,866,500	56%
Federal Farm Credit Bank	Federal agency securities	20,114,000	10%
Federal Home Loan Discount Note	Federal agency securities	14,980,500	8%
Fannie Mae	Federal agency securities	10,100,000	5%
Gen Elec Cap Crp	Mid term note	10,375,000	5%

**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 market 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

**FIRST 5 COMMISSION OF SAN DIEGO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

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**NOTE 2: CASH AND INVESTMENTS BY COUNTY TREASURY (Cont'd)**

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.

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**NOTE 3: ACCOUNTS RECEIVABLE**

The accounts receivable is recorded at full value and represents miscellaneous Surplus Money Investment Fund (SMIF) revenue and the amount of Prop 10 revenue the California Children and Families Commission (State Commission) owes the Commission for the months of May and June 2008:

SMIF	198,245
Prop-10 revenue for:	
May 2008	2,976,567
June 2008	<u>3,141,681</u>
Total	<u>\$ 6,316,493</u>

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**NOTE 4: ACCOUNTS PAYABLE**

Accounts payable is comprised of funding due to Grantees and amounts due to vendors for services and supplies at June 30, 2008:

Grantees	\$ 10,380,953
Services and Supplies	<u>1,448</u>
Total	<u>\$ 10,382,401</u>

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

These are funds that are due to or due from San Diego County's general fund or the Auditor and Controller. The San Diego County owes the Commission \$2,263,167 for County investment interest accrued in the operating fund and the sustainability reserve fund. The Commission owes the San Diego County \$161,871 for: 1) First 5 labor of \$152,604; 2) Computing and Telephone costs of \$ 6,610; 3) County Counsel support of \$ 2,379; 4) Training support of \$ 275; and, 5) purchasing and contracting service charges of \$ 3.

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**NOTE 6: COMPENSATED ABSENCES**

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

**FIRST 5 COMMISSION OF SAN DIEGO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

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**NOTE 7: REVENUE**

The Commission receives a proportionate share of Proposition 10 money from the State Commission 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 San Diego County's accounting records as the Prop 10 Children and Families Commission (Fund Number 49217). The Commission also receives Special Funding as explained under Note 8 and Surplus Money Investment Fund (SMIF) allocations by the State Commission.

The SMIF allocations represent distributions of interest accrued on statewide Proposition 10 money. Revenue for fiscal year 2007/2008 is comprised of:

Proposition 10 Revenue (monthly allocations)	\$ 27,173,988
SMIF	198,245
Special Funding (See Note 8)	<u>14,564,819</u>
Total	<u>\$ 41,937,052</u>

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**NOTE 8: SPECIAL FUNDING**

For fiscal year 2007/2008 special funding for First 5 California Initiatives are as follows: for School Readiness \$7,045,526 including a 1:1 match from First 5 San Diego; for Comprehensive Approach to Raising Educational Standards (CARES) \$1,967,421 including a 1:4 Match from First 5 San Diego; for Special Needs Demonstration Project \$564,295 including a 1:1 match from First 5 San Diego; and for Power of Preschool \$4,987,577 including reimbursement from First 5 California's 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 the State Commission to develop and implement a statewide School Readiness Initiative, providing over \$400 million of combined State and local funding over a four-year period to implement school-linked 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.

**Child Care Retention Incentives:** The Child Care Planning and Development Council submitted an informational White Paper to the Local Prop 10 Commission addressing the urgent issues of child-care retention and quality improvement. This was the basis for the First 5 San Diego to participate in and provide matching funds to the State Commission's CARES program that supports and promotes the retention and improvement in the quality of center and family home child-care providers for children from 0 to 5 years. The Commission administers this fund, which is used to account for the revenues received and expenditures made for child-care retention programs.

FIRST 5 COMMISSION OF SAN DIEGO  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2008

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**NOTE 8: SPECIAL FUNDING (Continued)**

**Special Needs Demonstration Project:** The goal of the First 5 California Special Needs Demonstration Project (SNP) is to promote strategies and practices that improve early identification and intervention for children from diverse backgrounds with disabilities, behavioral/mental health concerns, and other special needs. Developmental and health screening services are delivered in a “catchment area” of 4 local elementary schools located in high need communities. An estimated 60% to 72% of students in the catchment area are considered English Language Learners (ELL); and 70% to 100% receive free/reduced meals. SNP provides universal access to the screenings for at least 500 children ages 0 – 5 every year, and provides case management for a minimum of 75 children annually who are identified as having special needs through the screening process. The Demonstration Project provides an opportunity to ensure that the young children in these high-risk neighborhoods will be screened as early as possible and then receive needed services so that they are better prepared to succeed when they reach kindergarten. The SNP program augments and enhances the current School Readiness Initiative program in Chula Vista.

**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 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 FDCRS) with scores of five or better are used to select program participants in the PoP Project. All children residing in the six PoP 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 six target communities. The children receive a high quality preschool experience in a variety of settings identified as PoP sites over 5 years.

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

The balance sheet and revenue and expenditures financial statements for the special funding programs are presented as supplementary information in this report on pages 26 through 34.

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**NOTE 9: FUND BALANCE COMMITMENTS**

Reserved funds represent the portions of the fund balance that have been set aside for programs, projects and activities to be conducted in the future according to a documented plan, budget or financial forecast formally approved by the County Commission. As a result these funds are unavailable for uses other than the purposes for which they were designated.

**FIRST 5 COMMISSION OF SAN DIEGO**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

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**NOTE 10: FUND BALANCE ADJUSTMENT FOR RESTATEMENT**

The reallocation of the beginning net assets and beginning fund balance is due to: 1) an unrealized loss under GASB 31 of \$888,050 and 2) a vacation accrual of \$83,033.

Audited Net Assets as of June 30, 2007	\$ 187,663,752
Adjustment for Reallocation of Net Assets	<u>888,050</u>
Net Assets Balance, restated July 1, 2007	\$ 188,551,802
Adjustment for Reallocation of Fund Balance	<u>83,033</u>
Fund Balance, restated July 1, 2007	<u>\$ 188,634,835</u>

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**NOTE 11: ENCUMBRANCES**

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid.

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**NOTE 12: 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.

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

Years ending June 30:	
2009	\$ 179,523
2010	<u>184,780</u>
Total Lease Obligation	<u>\$ 364,303</u>

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**NOTE 13: EVALUATION EXPENSES**

The Commission spent \$ 1,049,579 on program evaluation during the audit period.

**FIRST 5 COMMISSION OF SAN DIEGO  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2008**

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**NOTE 14: DEPOSIT FROM OTHERS**

The Commission was awarded a \$1,000,000 grant from the California Endowment for the implementation of Community Water Fluoridation. The grant is to be awarded in three installments as follows: \$300,000 received in April 2007; \$340,000 in January 2009; and, \$360,000 in January 2010. Award monies are to be held as a liability until actual expenditures are incurred and revenue is realized. At June 30, 2008 the first installment in the amount of \$300,000 was being held as a liability since the project had not yet commenced. The interest earnings from the date of the deposit to June 30, 2008 were \$ 2,601, increasing the liability to \$302,601.

## **SUPPLEMENTAL INFORMATION**

**FIRST 5 COMMISSION OF SAN DIEGO  
BALANCE SHEET  
SCHOOL READINESS PROGRAM  
JUNE 30, 2008  
(WITH COMPARATIVE TOTALS FOR 2007)**

	<b>2008</b>	<b>2007</b>
<b>ASSETS</b>		
Cash and Investments in County Treasury	\$ 1,197,095	\$ 246,933
<b>TOTAL ASSETS</b>	<b>\$ 1,197,095</b>	<b>\$ 246,933</b>
 <b>LIABILITIES AND FUND BALANCE</b>		
 <b>FUND BALANCE</b>		
Reserved For:		
School Readiness Initiatives	\$ 1,197,095	\$ 246,933
<b>TOTAL FUND BALANCE</b>	<b>\$ 1,197,095</b>	<b>\$ 246,933</b>
 <b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 1,197,095</b>	<b>\$ 246,933</b>

See Accompanying Independent Auditor's Report

**FIRST 5 COMMISSION OF SAN DIEGO  
STATEMENT OF REVENUES AND EXPENDITURES  
AND CHANGES IN FUND BALANCE  
SCHOOL READINESS PROGRAM  
FOR YEAR ENDED JUNE 30, 2008  
(WITH COMPARATIVE TOTALS FOR 2007)**

	2008	2007
<b>REVENUES</b>		
Prop 10 School Readiness	\$ 7,045,526	\$ 6,540,197
<b>TOTAL REVENUES</b>	\$ 7,045,526	\$ 6,540,197
<b>EXPENDITURES</b>		
Labor and Benefits	\$ 143,268	\$ 201,728
Services and Supplies	28,405	20,619
Contributions to Community Projects	5,923,691	7,277,864
<b>TOTAL EXPENDITURES</b>	\$ 6,095,364	\$ 7,500,211
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	950,162	( 960,014)
<b>FUND BALANCE, JULY 1</b>	246,933	1,206,947
<b>FUND BALANCE, JUNE 30</b>	\$ 1,197,095	\$ 246,933

See Accompanying Independent Auditor's Report

**FIRST 5 COMMISSION OF SAN DIEGO  
BALANCE SHEET  
RETENTION INCENTIVES FOR EARLY CARE AND  
EDUCATION PROVIDERS  
FOR YEAR ENDED JUNE 30, 2008  
(WITH COMPARATIVE TOTALS FOR 2007)**

	<u>2008</u>	<u>2007</u>
<b>ASSETS</b>		
Cash and Investments in County Treasury	\$ 2,081	\$ 1,533
Accounts Receivable	-	-
<b>TOTAL ASSETS</b>	<u>\$ 2,081</u>	<u>\$ 1,533</u>
<b>LIABILITIES AND FUND BALANCE</b>		
<b>FUND BALANCE</b>		
Reserved For:		
Retention Incentives for Early Care and Providers	<u>\$ 2,081</u>	<u>\$ 1,533</u>
<b>TOTAL FUND BALANCE</b>	<u>\$ 2,081</u>	<u>\$ 1,533</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u>\$ 2,081</u>	<u>\$ 1,533</u>

See Accompanying Independent Auditor's Report

**FIRST 5 COMMISSION OF SAN DIEGO  
STATEMENT OF REVENUES AND EXPENDITURES  
AND CHANGES IN FUND BALANCE  
RETENTION INCENTIVES FOR EARLY CARE AND  
EDUCATION PROVIDERS  
FOR YEAR ENDED JUNE 30, 2008  
(WITH COMPARATIVE TOTALS FOR 2007)**

	<u>2008</u>	<u>2007</u>
<b>REVENUES</b>		
Childcare Retention Incentives	\$ 1,967,421	\$ 1,684,391
<b>TOTAL REVENUES</b>	<u>\$ 1,967,421</u>	<u>\$ 1,684,391</u>
<b>EXPENDITURES</b>		
Labor and Benefits	\$ 35,528	\$ 44,997
Services and Supplies	2,232	34
Contributions to Community Projects	1,929,113	1,639,360
<b>TOTAL EXPENDITURES</b>	<u>\$ 1,966,873</u>	<u>\$ 1,684,391</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	548	-
<b>FUND BALANCE, JULY 1</b>	<u>1,533</u>	<u>1,533</u>
<b>FUND BALANCE, JUNE 30</b>	<u>\$ 2,081</u>	<u>\$ 1,533</u>

See Accompanying Independent Auditor's Report

**FIRST 5 COMMISSION OF SAN DIEGO  
BALANCE SHEET  
SPECIAL NEEDS DEMONSTRATION PROJECT  
FOR YEAR ENDED JUNE 30, 2008  
(WITH COMPARATIVE TOTALS FOR 2007)**

	<b>2008</b>	<b>2007</b>
<b>ASSETS</b>		
Cash and Investments in County Treasury	\$ 300	\$ -
<b>TOTAL ASSETS</b>	<b>\$ 300</b>	<b>\$ -</b>
 <b>LIABILITIES AND FUND BALANCE</b>		
 <b>FUND BALANCE</b>		
Reserved For:		
Special Needs Demonstration Project	\$ 300	-
<b>TOTAL FUND BALANCE</b>	<b>\$ 300</b>	<b>\$ -</b>
 <b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 300</b>	<b>\$ -</b>

See Accompanying Independent Auditor's Report

**FIRST 5 COMMISSION OF SAN DIEGO  
STATEMENT OF REVENUES AND EXPENDITURES  
AND CHANGES IN FUND BALANCE  
SPECIAL NEEDS DEMONSTRATION PROJECT  
FOR YEAR ENDED JUNE 30, 2008  
(WITH COMPARATIVE TOTALS FOR 2007)**

	2008	2007
<b>REVENUES</b>		
Special Needs Demonstration Project	\$ 564,295	\$ 540,741
<b>TOTAL REVENUES</b>	<b>\$ 564,295</b>	<b>\$ 540,741</b>
<b>EXPENDITURES</b>		
Labor and Benefits	\$ 63,995	\$ 64,844
Services and Supplies	-	-
Contributions to Community Projects	500,000	475,897
<b>TOTAL EXPENDITURES</b>	<b>\$ 563,995</b>	<b>\$ 540,741</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	300	-
<b>FUND BALANCE, JULY 1</b>	-	-
<b>FUND BALANCE, JUNE 30</b>	<b>\$ 300</b>	<b>\$ -</b>

See Accompanying Independent Auditor's Report

**FIRST 5 COMMISSION OF SAN DIEGO  
STATEMENT OF REVENUES AND EXPENDITURES  
AND CHANGES IN FUND BALANCE  
PRESCHOOL FOR ALL/POWER OF PRESCHOOL  
FOR YEAR ENDED JUNE 30, 2008  
(WITH COMPARATIVE TOTALS FOR 2007)**

	2008	2007
<b>ASSETS</b>		
Cash and Investments in County Treasury	\$ 23,151	\$ 85,891
<b>TOTAL ASSETS</b>	\$ 23,151	\$ 85,891
 <b>LIABILITIES AND FUND BALANCE</b>		
<b>FUND BALANCE</b>		
Reserved For:		
Preschool for All/Power of Preschool	\$ 23,151	\$ 85,891
<b>TOTAL FUND BALANCE</b>	\$ 23,151	\$ 85,891
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	\$ 23,151	\$ 85,891

See Accompanying Independent Auditor's Report

**FIRST 5 COMMISSION OF SAN DIEGO  
STATEMENT OF REVENUES AND EXPENDITURES  
AND CHANGES IN FUND BALANCE  
PRESCHOOL FOR ALL/POWER OF PRESCHOOL  
FOR YEAR ENDED JUNE 30, 2008  
(WITH COMPARATIVE TOTALS FOR 2007)**

	<b>2008</b>	<b>2007</b>
<b>REVENUES</b>		
Preschool for All/Power of Preschool	\$ 4,987,577	\$ 3,446,368
<b>TOTAL REVENUES</b>	<b>\$ 4,987,577</b>	<b>\$ 3,446,368</b>
<b>EXPENDITURES</b>		
Labor and Benefits	\$ 59,013	\$ 59,404
Services and Supplies	-	-
Contributions to Community Projects	4,991,304	3,358,667
<b>TOTAL EXPENDITURES</b>	<b>\$ 5,050,317</b>	<b>\$ 3,418,071</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES</b>	(62,740)	28,297
<b>FUND BALANCE, JULY 1</b>	85,891	57,594
<b>FUND BALANCE, JUNE 30</b>	<b>\$ 23,151</b>	<b>\$ 85,891</b>

See Accompanying Independent Auditor's Report

# THOMPSON, COBB, BAZILIO & ASSOCIATES, PC

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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 accompanying financial statements of the governmental activities of First 5 Commission of San Diego (Commission), a component unit of the County of San Diego, California, as of and for the year ended June 30, 2008, which collectively comprises the Commission's basic financial statements and have issued our report thereon dated September 9, 2008. We conducted our audit of the basic financial statements in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the basic 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control.

A material weakness is a significant deficiency, or combination deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the County's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Board of Commissioners and management of the First 5 Commission of San Diego and is not intended to be and should not be used by anyone other than these specified parties.

*Thompson, Cobb, Bazilio & Associates, PC*

Torrance, California  
September 9, 2008

# THOMPSON, COBB, BAZILIO & ASSOCIATES, PC

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## Independent Auditor's Report on State Compliance

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

We have audited the financial statements of the governmental activities of the First 5 Commission of San Diego (The Commission), a component unit of the County of San Diego, California, as of and for the year ended June 30, 2008 and have issued our report thereon dated September 9, 2008.

Our audit was conducted 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 California Counties Participating in the California Children and Families Program*, issued by the State Controller's Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material 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 opinion.

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

<u>Description</u>	<u>Audit Guide Procedures</u>	<u>Procedures Performed</u>
Contracting and Procurement	5	Yes
Administrative Costs	4	Yes
Conflict of Interest	4	Yes
County Ordinance	3	Yes
Long-range Financial Plans	3	Yes
Financial Condition of the Commission	2	Yes
Program Evaluation	4	Yes
Salaries and Benefit Policies	3	Yes

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

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

*Thompson, Cobb, Bazilio & Associates, PC*

Torrance, California  
September 9, 2008

## **EXTENDED STATE COMPLIANCE REQUIREMENT AUDIT PROCEDURES**

### **Contracting and Procurement**

#### **Compliance Requirement:**

County commissions must adopt in a public hearing contracting and procurement policies that are consistent with the following state law(s):

- Government Code, article 7, section 54201 (Purchases of Supplies & Equipment by Local Agencies);
- Public Contract Code, chapter 2, section 2000 (Responsive Bidders);
- Public Contract Code, chapter 3, article 5, section 3410 (Preference for Nationally Grown Produce and Processed Foods in Contract of Public Entity for Purchase of Food); and
- Public Contract Code, chapter 3.5, section 22150 (Recycled Product Procurement Mandates Pertaining to Local Governments).

The contracting and procurement policies must contain provisions to ensure that the grants and contracts are consistent with the county commission's strategic plan. [Health and Safety Code sections 130140(d)(4) and 130151(b)(1)].

#### **Audit Procedures:**

1. Obtain the minutes to confirm that the commission adopted in a public hearing/meeting its contracting and procurement policies, including the applicable amendments to the policies.
2. Obtain the county commission's written contracting and procurement policies and gain an understanding of how they are applied.
3. Obtain a representation letter from the commission's legal representative stating whether or not the commission's contracting and procurement policies are consistent with state law.
4. Test a representative sample of contract and procurement transactions to supporting source documentation, as follows:
  - a. Determine whether the transactions are in compliance with the commission's contracting and procurement policies (e.g., test for evidence of contract splitting, which occurs when multiple contracts are awarded to a single contractor in order to avoid monetary limits).
  - b. Determine whether expenditures are consistent with those identified in contracts and other types of agreements (e.g., grants, contracts, and memorandums of understanding).

- c. Verify that the commission has determined whether grants, contracts, and other types of agreements are consistent with the commission's strategic plan.
5. If noncompliance is identified through the foregoing audit procedures, include a finding in the Findings and Recommendations section of the audit report. The finding should state that future allocations may be withheld.

### **Administrative Costs**

#### **Compliance Requirement:**

Administrative cost definitions must comply with the state commission's guidelines and the county commission must have a process in place to monitor these costs. [Health and Safety Code section 130140(d)(5) and section 130151(b)(2)]

#### **Audit Procedures:**

1. Review the minutes to confirm that the commission adopted, in a public hearing/meeting, a limit on the percentage of the operating budget that may be spent on administrative functions.
2. Determine whether the administrative costs definition is consistent with the state commission guidelines that define administrative functions.
3. Verify through inquiry and inspection whether the county commission has implemented a system to monitor its administrative costs.
4. If noncompliance is identified through the foregoing audit procedures, include a finding in the Findings and Recommendations section of the audit report. The finding should state that future allocations may be withheld.

### **Conflict of Interest**

#### **Compliance Requirement:**

County commissions must adopt conflict-of-interest policies for commission members that are consistent with applicable state law.

- Government Code, article 4, section 1090, et seq. (Prohibitions Applicable to Specified Officers);
- Government Code, article 4.7, section 1125, et seq. (Incompatible Activities), and;
- Government Code, chapter 7, section 87100, et seq. (Conflict of Interest).

These conflict-of-interest policies must be designed to assure that the county commission complies with all applicable state and local conflict-of-interest statutes and regulations. [Health and Safety Code sections 130140(d)(4) and 130151(b)(3)]

**Audit Procedures:**

1. Review the commission's public hearing/meeting minutes to confirm that the county commission has adopted conflict-of-interest policies.
2. Obtain a representation letter from the county commission's legal representative stating whether or not the conflict-of-interest policies are consistent with applicable state and local conflict-of-interest statutes and regulations.
3. Determine whether the commission is complying with the conflict-of-interest policies and procedures.
4. If noncompliance is identified through the foregoing audit procedures, include a finding in the Findings and Recommendations section of the audit report. The finding should state that future allocations may be withheld.

**County Ordinance**

**Compliance Requirement:**

The county commission must adopt policies and practices to assure that it is adhering to the county ordinance establishing the commission. The ordinance must be adopted by the county's board of supervisors and contain the minimum provisions specified in Health and Safety Code section 130140(a)(1). [Health and Safety Code section 130140(a)(1), section 130140(d)(1) and section 130151(b)(4)]

**Audit Procedures:**

1. Obtain a management representation letter that describes how the commission is complying with each component of the ordinance.
2. Perform the following procedures to verify that the county commission followed its written policies and procedures for adherence to the county ordinance.
  - a. Review source documents (e.g., commission by-laws, organization charts, minutes, and accounting records) to verify that the county commission complied with the county ordinance.
  - b. Obtain the commission minutes to confirm that the commission conducted the annual review of the strategic plan.
  - c. If the commission made any revisions to the strategic plan, review the minutes to confirm that it conducted at least one public hearing/meeting before it adopted the revisions to the plan.

3. If noncompliance is identified through the foregoing audit procedures, include a finding in the Findings and Recommendations section of the audit report. The finding should state that future allocations may be withheld.

### **Long-Range Financial Plans**

#### **Compliance Requirement:**

The county commission must have a long-range financial plan that has been adopted in a public hearing. [Health and Safety Code section 130151(b)(5)]

#### **Audit Procedures:**

1. Verify that the county commission has a long-range financial plan.
2. Review the minutes to confirm that the county commission formally adopted a long-range financial plan.
3. If noncompliance is identified through the foregoing audit procedures, include a finding in the Findings and Recommendations section of the audit report.

### **Financial Condition of the Commission**

#### **Compliance Requirement:**

The county commission must have policies and practices with respect to its financial condition. [Health and Safety Code section 130151(b)(6)]

#### **Suggested Audit Procedures:**

1. Verify that the county commission has policies and practices with respect to communicating its financial condition. At a minimum it should include the annual audit required by the state commission guidelines.
2. If noncompliance is identified through the foregoing audit procedure, include a finding in the Findings and Recommendations section of the audit report.

### **Program Evaluation**

#### **Compliance Requirement:**

The county commission must have policies and practices with respect to the amount it spends on program evaluation and the documented results of these expenditures. [Health and Safety Code section 130151(b)(7)]

**Audit Procedures:**

1. Verify that the amount spent on program evaluation is in compliance with the commission's policies and/or practices on evaluation costs (e.g., the adopted budget, commission minutes, funding resolution, or board action). For guidance refer to Section 6.2 of the First 5 Financial Management Guide.
2. Confirm the existence of evaluation data collected and/or reports prepared on program evaluation.
3. Include a statement in the notes to the financial statements that identifies the amount spent on program evaluation during the period under audit.
4. If noncompliance is identified through the foregoing audit procedures, include a finding in the Findings and Recommendations section of the audit report.

**Salaries and Benefit Policies****Compliance Requirement:**

The county commission must adopt, in a public hearing, policies and procedures for establishing salaries and benefits of its employees. The employees' salaries and benefits must comply with those set forth in the commission policies or the county government policies. [Health and Safety Code section 130151(b)(8) and 130140 (d)(6)]

**Audit Procedures:**

1. Obtain the minutes to confirm that the commission has adopted salaries and benefits policies and procedures.
2. Test a representative sample of payroll and benefit transactions. Verify that the actual salaries and benefits of commission employees are consistent with the salaries and benefits policies adopted by the commission.
3. If noncompliance is identified through the foregoing audit procedures, include a finding in the Findings and Recommendations section of the audit report. The finding should state that future allocations may be withheld.