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, 2010
(WITH COMPARATIVE TOTALS FOR 2009)

FIRST 5 COMMISSION OF SAN DIEGO
FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2010
(WITH COMPARATIVE TOTALS FOR 2009)

TABLE OF CONTENTS

MOSS, LEVY & HARTZHEIM LLP
CERTIFIED PUBLIC ACCOUNTANTS

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

9107 WILSHIRE BLVD., SUITE 400
BEVERLY HILLS, CA 90210
TEL: 310.273.2745
FAX: 310.273.1689
www.mlhcpas.com

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities and the major fund of the First 5 Commission of San Diego (the Commission), a discretely presented component unit of the County of San Diego, California, as of and for the fiscal year ended June 30, 2010, 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. The financial statements of the governmental activities and the major fund of the Commission as of and for the fiscal year ended June 30, 2009 were audited by other auditors whose report dated September 4, 2009 expressed unqualified opinions 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 *Governmental Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

As discussed in Note 1 of the notes to the basic financial statements effective July 1, 2009, the Commission adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 51 – *Accounting and Financial Reporting for Intangible Assets*, GASB Statement No. 53 – *Accounting and Financial Reporting for Derivative Instruments*, GASB Statement No. 57 – *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and GASB Statement No. 58 – *Accounting and Financial Reporting for Chapter 9 Bankruptcies.*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2010, 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
September 8, 2010

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, 2010. 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 (FY 2009/2010)

Expenditures were $18,136,552 more than revenues. Overall revenues were $41,027,298.

Expenditures were less than budgeted by $32,675,188 or 35.6% mainly due to budgeting more than $30 million in prior-year roll-over encumbrances to the current-year budget that was only partly expended including two capital projects totaling $18.8 million that had been delayed due to technical reasons. The Oral Health Initiative had $6 million budgeted that was not expended; it will get budgeted and expensed over the next 5 years.

Expenditures are broken down into three categories: Administrative, Program, and Evaluation costs. Administrative costs were $2,915,789 or 4.9% of the Total Expenditures (not to be confused with the Administrative Rate, which is calculated on the Operating Budget.) Program costs were the majority of the expenses at $54,735,724 or 92.5%, and Evaluation costs were $1,512,337 or 2.5% 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 2009/10 the administrative rate was 3.2% of the budget. This is based on the Total Administrative Expenditures of $2,915,789 and the Total Operating Budget of $91,839,038.

Total Evaluation Costs were $1,512,337 or 1.6% 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 12 of this report.

Government-Wide Financial Analysis

Net Assets

Table I: Net Assets

	FY 2009/2010	**FY 2008/2009**
Total Assets	$ 194,155,361	$ 209,232,602
Total Liabilities	17,505,229	14,431,883
Net Assets:		
Restricted	$ 176,650,132	194,800,719
Total Net Assets	$ 176,650,132	$ 194,800,719

The Commission's total net assets decreased by $18,150,587 or 9.3% from the prior year due to expenses being higher than revenues. The FY 2009/2010 budget was $13 million higher for program costs than in FY 2008/2009. In addition, two large capital construction projects that had been on hold for years for technical reasons finally started construction.

Changes in Net Assets

Table II: Changes in Net Assets

	FY 2009/2010	FY 2008/2009
Program Revenues	$ 37,062,186	$ 41,264,243
General Revenues	3,965,112	7,615,274
Expenses	59,177,885	48,619,169
Change in net assets	(18,150,587)	260,348
Net assets – Beginning, July 1	194,800,719	196,568,447
Adjustments for restatement	-	2,028,076
Net assets – Restated, July 1	194,800,719	194,540,371
Net assets – Ending, June 30	$ 176,650,132	$ 194,800,719

Program Revenues decreased by $4,202,057 or 10.2% due to a decrease in Tobacco Tax revenue, lower revenues for the School Readiness Program, and not receiving revenues from two other state matched programs that had ended in the previous fiscal year.

General Revenues decreased $3,650,162 or 47.9% from the prior year due to falling interest rates on investments and an overall decrease in cash invested outside the County Pool.

Expenses increased $10,558,716 or 21.7% from the prior year due to an increase in expenses for Capital Projects; two major projects that were on hold for technical reasons were cleared and began construction. This was the first year of construction costs for the Fluoridation program. Additionally, expenses were higher for the Preschool for All, Healthy Development Services, and First 5 for Parents initiatives.

BUDGETARY HIGHLIGHTS

- Prop 10 Tobacco Tax revenue had an unfavorable variance of $1.0 million or 4.0% due to lower revenue as a result of an increase of 61 cents per pack of cigarettes in Federal Tax and an increase in the Board of Equalization costs in connection with the tax collection.

- Prop 10 School Readiness revenues had an unfavorable variance of $2.2 million or 37.0% due to lower revenues matched for the program due to lower expenses, and one school district did not participate this year.

- Prop 10 Child Care Retention (CARES) revenues had an unfavorable variance of $600,000 or 100% due to the program ending in the prior fiscal year.

- Prop 10 Preschool for All/Power of Preschool revenues had a favorable variance of $2.9 million or 48% due to higher State revenues as reimbursement for prior-year expenses and higher than budgeted expenses for the program resulting in a higher match required from the Commission.

- Prop 10 Special Needs Demonstration Project revenues had a unfavorable variance of $125,000 or 100% due to this program ending in the prior fiscal year.

- Revenue from The California Endowment Grant Award had an unfavorable variance of $106,876 or 29.7% due to a delay in implementation of the capital phase by the City of San Diego. This delay was due to the contract amendment to set up an escrow agreement.

- Interest revenue had a favorable variance of $346,548 or 8.9% due to a higher than anticipated return on investments.

- Services and Supplies had a favorable variance of $190,260 or 22.5% due to lower expenditures for consultants, professional services, video conferencing, printing, and County of San Diego Purchasing and Contracting costs.

- Contributions to Community Projects had a favorable variance of $32.5 million or 37.3% mainly due to over $30 million in prior-year roll-over encumbrances that were only partly expended. In addition, there were delays in the implementation of the Community Water Fluoridation, KidSTART, and Parent Development projects. The Oral Health initiative had $6 million budgeted that was not expended; instead the amount will be budgeted and expended at $1.2 million per year over the next 5 years.

- Expenses for evaluation had an unfavorable variance of $139,063 or 10.1%. There were additional expenses for completing an outstanding fiscal impact study report that was revised to meet Commission expectations for the final product. Other unanticipated costs were due to increases in contractor time for CMEDS database startup and general evaluation and redesign work for Healthy Development Services (HDS).

BEYOND FY 2009/2010

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

Community Water Fluoridation	$ 298,296
Contract Management & Evaluation Data System	397,118
Emerging Critical Needs	15,262,614
Evaluation	1,000,000
Healthy Development Coordination	5,575,000
Healthy Development Services	59,425,000
Information & Referral	200,000
KidSTART Center Funding	4,500,000
Oral Health	13,000,000
Parent & Public Education	120,000
Parent Development	82,500
Total	**$ 99,860,528**

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

Preschool for All / Power of Preschool (bridge year)	$ 14,400,000
School Readiness	2,041,043
Total	**$ 16,441,043**

In August 2009, the Commission adopted a new Strategic Plan for 2010 – 2015 that will guide what the Commission does for the next 5 years. Many community members, including parents, service providers and other key stakeholders contributed to the development of the plan. The Commission has been steadily moving toward funding more focused initiatives with specific targets that had deeper impacts. The new plan will continue this trend by funding fewer efforts, but with more funding. This approach offers the best chance for meeting critical local needs and truly improving the lives of young children and their families.

The funds needed to achieve the "key results" in the Strategic Plan are committed in the Commission's 5-Year Allocation Plan for 2010/2011 – 2014/2015.

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 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 10-Year Financial Spending Plan projects nearly a zero balance of the Commission's sustainability fund 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 Allocation Plan are reviewed annually and revised accordingly as part of the annual budget process.

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, 2010
(WITH COMPARATIVE TOTALS FOR 2009)

	GOVERNMENTAL ACTIVITIES	
	2010	2009
Assets		
Cash and investments in county treasury (Note 2)	$ 184,041,032	$ 201,659,125
Imprest cash	250	250
Accounts receivable (Note 3)	5,666,980	6,192,838
Due from San Diego County (Note 5)	963,485	1,378,681
Prepaid expense	2,675	1,708
Restricted assets (Note 14)	3,480,939	-
Total assets	194,155,361	209,232,602
Liabilities		
Accounts payable (Note 4)	$ 16,537,737	$ 13,471,404
Due to San Diego County (Note 5)	101,524	222,757
Deposit from others (Note 13)	766,923	652,712
Long-term Liabilities:		
Compensated absences (Note 6)		
Due within one year	63,916	61,038
Due more than one year	35,129	23,972
Total liabilities	17,505,229	14,431,883
Net Assets		
Restricted for:		
Power of preschool state demonstration project	-	3,896
School readiness projects	350,747	1,353,626
Children and family programs	176,299,385	193,443,197
Total net assets	$ 176,650,132	$ 194,800,719

See accompanying notes to the basic financial statements.

FIRST 5 COMMISSION OF SAN DIEGO
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010
(WITH COMPARATIVE TOTALS FOR 2009)

		PROGRAM REVENUES	NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS	
		PROPOSITION 10 AND	GOVERNMENTAL ACTIVITIES	
GOVERNMENTAL ACTIVITIES	**EXPENSES**	**SPECIAL FUND**	**2010**	**2009**
Health (Formerly *Improved health)*	$ 23,463,561	$ 11,436,843	$ (12,026,718)	$ (822,599)
Learning (Formerly *Improved child development)*	16,475,013	14,234,308	(2,240,705)	(792,805)
Community (Formerly *Improved systems of care)*	7,147,710	3,406,899	(3,740,811)	(1,719,235)
Family (Formerly *Improved family functioning)*	7,649,440	3,646,045	(4,003,395)	(313,860)
General administration	4,442,161	4,338,091	(104,070)	(4,742,877)
Total governmental activities	$ 59,177,885	$ 37,062,186	(22,115,699)	(8,391,376)
GENERAL REVENUES:				
Net investment revenue			3,965,112	8,651,724
Total general revenues			3,965,112	8,651,724
Change in net assets			(18,150,587)	260,348
Net assets- beginning of fiscal year			194,800,719	196,568,447
Adjustment for reallocation			-	(2,028,076)
Net assets reallocated – beginning of fiscal year			194,800,719	194,540,371
Net assets – end of fiscal year			$ 176,650,132	$ 194,800,719

See accompanying notes to the basic financial statements.

FIRST 5 COMMISSION OF SAN DIEGO
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2010
(WITH COMPARATIVE TOTALS FOR 2009)

	2010	2009
Assets		
Cash and investments in county treasury (Note 2)	$ 184,041,032	$ 201,659,125
Imprest cash	250	250
Accounts receivable (Note 3)	5,666,980	6,192,838
Due from San Diego County (Note 5)	963,485	1,378,681
Prepaid expenditures	2,675	1,708
Restricted assets (Note 14)	3,480,939	
Total assets	$ 194,155,361	$ 209,232,602
Liabilities and Fund Balance		
Liabilities:		
Accounts payable (Note 4)	$ 16,537,737	$ 13,471,404
Due to San Diego County (Note 5)	101,524	222,757
Deposit from others (Note 13)	766,923	652,712
Total liabilities	17,406,184	14,346,873
Fund Balance (Note 9):		
Reserved		
For encumbrances (Note 10)	40,278,999	70,847,450
For obligations (Note 9)	112,697,350	18,419,030
Funds not yet obligated	-	652,712
For First 5 California initiatives	3,523,364	5,206,325
Total reserved	156,499,713	95,125,517
Unreserved		
Designated for local initiatives	1,844,375	1,882,624
Designated for program sustainability (Note 9)	18,405,089	97,877,588
Undesignated	-	-
Total unreserved	20,249,464	99,760,212
Total fund balance	176,749,177	194,885,729
Total liabilities and fund balance	$ 194,155,361	$ 209,232,602

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, 2010
(WITH COMPARATIVE TOTALS FOR 2009)

	2010	2009
Total governmental fund balance	$ 176,749,177	$ 194,885,729
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.	(99,045)	(85,010)
Net assets of governmental activities	$ 176,650,132	$ 194,800,719

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, 2010
(WITH COMPARATIVE TOTALS FOR 2009)

Revenues:	2010	2009
Prop 10 tobacco tax (including SMIF) (Note 7)	$ 24,029,700	$ 25,274,100
Prop 10 school readiness (Note 8)	3,687,667	6,108,807
Prop 10 child care retention	-	1,833,291
Prop 10 special needs demonstration project	-	562,815
Prop 10 preschool for all/power of preschool (Note 8)	9,091,695	6,448,780
The California Endowment grant (Note 13)	253,124	-
Interest revenue	4,238,848	7,615,274
Net increase (decrease) in FMV of investments	(273,736)	1,036,450
Total revenues	41,027,298	48,879,517
Expenditures:		
Labor and benefits	2,261,152	2,425,829
Services and supplies	654,637	929,752
Evaluation (Note 12)	1,512,337	1,302,286
Contributions to community projects	54,735,724	43,876,292
Total expenditures	59,163,850	48,534,159
Net change in fund balance	(18,136,552)	345,358
Fund balance, beginning of fiscal year	194,885,729	196,659,287
Adjustments for reallocation	-	(2,118,916)
Fund balance reallocated, beginning of fiscal year	194,885,729	194,540,371
Fund balance, end of fiscal year	$ 176,749,177	$ 194,885,729

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, 2010
(WITH COMPARATIVE TOTALS FOR 2009)

	2010	2009
Net change in total governmental fund balance	$ (18,136,552)	$ 345,358
In the statement of activities, compensated absences are measured by the amounts earned during the fiscal year. In governmental fund, however, expenditures for these items are measured by the amount of financial resources used (essentially the amount paid). This fiscal year, amounts used exceed earned by:	(14,035)	(85,010)
Change in net assets of governmental activities	$ (18,150,587)	$ 260,348

See accompanying notes to the basic financial statements.

This Page Intentionally Left Blank

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

In August 2009, the Commission adopted a new 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 new plan guides the allocation of up to $241.4 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.

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 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.*

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

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 (formerly Improved Health), 2) Learning (formerly Improved Child Development), 3) Community (formerly Improved Systems of Care), and 4) Family (formerly Improved Family Functioning.)

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 $37.7 million per the version of the 10-year plan that was approved in March 2009. In August 2009 the Commission revised the 10-year plan into a spending plan and made revisions to account for updated projections of birth rates, taxable sales of tobacco products and changes in interest rates. These revisions did not change the budgeted revenues for the fiscal year 2009/2010. 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:

Revenue Account	Approved Budget	Reallocation	Audited Budget
Prop 10 Tobacco Tax	$ 32,989,900	$ (7,950,923)	$ 25,038,977
Prop 10 School Readiness	2,927,000	2,927,095	5,854,095
Prop 10 Childcare Retention	600,000	-	600,000
Prop 10 Power of Preschool/PFA	1,119,172	5,023,828	6,143,000
Prop 10 Special Needs	125,000	-	125,000
The California Endowment	360,000	-	360,000
Interest Revenue	3,892,300	-	3,892,300
Totals	$ 42,013,372	-	$ 42,013,372

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

D. Use of Estimates

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

E. Cash and Investments

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

F. New Accounting Pronouncements

GASB Statement No. 51 – *Accounting and Financial Reporting for Intangible Assets*

For the fiscal year ended June 30, 2010, the Commission implemented GASB Statement No. 51, "Accounting and Financial Reporting for Intangible Assets". This Statement is effective for financial statements for periods beginning after June 15, 2009. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. The implementation of this Statement did not have an effect on these financial statements.

GASB Statement No. 53 – *Accounting and Financial Reporting for Derivative Instruments*

For the fiscal year ended June 30, 2010, the Commission implemented GASB Statement No. 53, "Accounting and Financial Reporting for Derivative Instruments". This Statement is effective for financial statements for periods beginning after June 15, 2009. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The implementation of this Statement did not have an effect on these financial statements.

GASB Statement No. 57 – *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*

For the fiscal year ended June 30, 2010, the Commission implemented GASB Statement No. 57, "*OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*". This Statement establishes standards for the measurement and financial reporting of actuarially determined information by agent employers with individual-employer OPEB plans that have fewer than 100 total plan members and by the agent multiple-employer OPEB plans in which they participate. The implementation of this Statement did not have an effect on these financial statements.

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

GASB Statement No. 58 – *Accounting and Financial Reporting for Chapter 9 Bankruptcies*
For the fiscal year ended June 30, 2010, the Commission implemented GASB Statement No. 58, "*Accounting and Financial Reporting for Chapter 9 Bankruptcies*". This Statement is effective for reporting periods beginning after June 15, 2009. The objective of this Statement is to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms (that is, approves) a new payment plan. The implementation of this Statement did not have an effect on these financial statements.

NOTE 2: CASH AND INVESTMENTS BY COUNTY TREASURY

The Commission's cash and investments at June 30, 2010 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, 2010, are stated at fair value.

Cash and Investments in County Treasury consisted of the following at June 30, 2010:

Assets Invested through the County Treasurers Office	
Federal Agency Securities	$ 115,684,110
Medium Term Notes	10,627,000
County Pool	57,729,922
Total Cash and Investments by County Treasury	$ 184,041,032

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:

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

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

		Remaining Maturity in Months		
Investment Type	Amount	12 months or less	13 to 24 months	25 to 60 Months
Federal Agency Securities	$115,684,110	$ 15,150,000	$15,145,500	$85,388,610
Medium Term Notes	10,627,000	-	10,627,000	-
County Pool	57,729,922	57,729,922	-	-
Total	$184,041,032	$72,879,922	$25,772,500	$85,388,610

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

Credit Risk

Generally, credit risk is the risk that the issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code Section 53601 (where applicable) and the actual rating as of year end for each investment type.

Investment Type	Amount	Minimum Rating Required	Credit Quality Rating
First 5 Commission Investments			
Federal Agency Securities	$ 115,684,110	AAA	AAA
Medium Term Notes	10,627,000	A	AA+
County Pool	57,729,922	VARIOUS	AAAf
Total	$ 184,041,032		

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	10,627,000	6%

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

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

deposits by pledging first trust deed mortgage notes having a value of 150% of the secure public deposits.

Investment in San Diego Investment Pool

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

NOTE 3: ACCOUNTS RECEIVABLE

The accounts receivable is recorded at full value and represents the amount of Prop 10 revenue the California Children and Families Commission (State Commission) owes the Commission for the months of May and June 2010 and miscellaneous Surplus Money Investment Fund (SMIF) revenue:

Prop-10 revenue for:	
May 2010	$ 2,760,524
June 2010	2,884,359
SMIF	22,097
Total	$ 5,666,980

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, 2010:

Grantees	$ 16,317,222
Grantees (Restricted Assets – Note 14)	217,785
Services and Supplies	2,730
Total	$ 16,537,737

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 or the Auditor and Controller. The County of San Diego owes the Commission $963,485 for County investment interest accrued in the operating fund and the sustainability reserve fund. The Commission owes the County of San Diego $101,524 for 1) First 5 labor of $91,842; 2) Computing and Telephone costs of $6,613; 3) County Counsel support of $2,912 and 4) Purchasing and Contracting service charges of $157.

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 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 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 under Note 8, Surplus Money Investment Fund (SMIF) allocations by the State Commission, and grant funds from The California Endowment as explained in Note 13.

The SMIF allocations represent distributions of interest accrued on statewide Proposition 10 money. Revenue for the fiscal year 2009/2010 is comprised of:

Proposition 10 revenue (monthly allocations)	$ 24,007,603
SMIF	22,097
Special funding (See Note 8)	12,779,362
The California Endowment grant (see Note 13)	253,124
Total revenue	$ 37,062,186

NOTE 8: SPECIAL FUNDING

For the fiscal year 2009/2010 special funding for First 5 California Initiatives are as follows: for School Readiness $3,687,667 including a 1:1 match between First 5 San Diego and First 5 California; and for Power of Preschool $9,091,695 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 the State Commission 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-

NOTE 8: SPECIAL FUNDING (Continued)

year cycles) 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.

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 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 five or better are used to select program participants in the PoP Project. All children residing in the eight 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 eight 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 31 through 34.

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.

NOTE 10: 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.

NOTE 11: LEASE OBLIGATION

The Commission is obligated for the next three 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:

Year ending June 30:	
2011	$ 167,220
2012	172,110
2013	177,147
Total lease obligation	$ 516,477

NOTE 12: EVALUATION EXPENSES

The Commission spent $1,512,337 on program evaluation during the audit period.

NOTE 13: 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, 2010 the Commission had realized $253,124 in revenues for allowable expenditures and the balance of $746,876 was being held as a liability under "Deposits from others." Interest earnings from the date of the deposits to June 30, 2010 were $20,047, increasing the liability to $766,923.

NOTE 14: RESTRICTED ASSETS

Restricted assets include monies or other resources required to be set aside to comply with contractual requirements. At June 30, 2010 restricted assets were a total of $3,480,939 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 15: COMPARATIVE FINANCIAL DATA

The amounts shown for 2009 in the accompanying financial statements are included only to provide a basis for comparison with 2010 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.

REQUIRED SUPPLEMENTAL INFORMATION SECTION

This Page Intentionally Left Blank

FIRST 5 COMMISSION OF SAN DIEGO
BUDGETARY COMPARISON SCHEDULE
GOVERNMENTAL FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	BUDGETED AMOUNTS			
	ORIGINAL	FINAL	ACTUAL	VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
Revenues:				
Prop 10 tobacco tax	$ 25,038,977	$ 25,038,977	$ 24,029,700	$ (1,009,277)
Prop 10 school readiness	5,854,095	5,854,095	3,687,667	(2,166,428)
Prop 10 preschool for all/power of preschool	6,143,000	6,143,000	9,091,695	2,948,695
Prop 10 childcare retention	600,000	600,000	-	(600,000)
Prop 10 special needs demonstration	125,000	125,000	-	(125,000)
The California Endowment grant	360,000	360,000	253,124	(106,876)
Interest revenue	3,892,300	3,892,300	4,238,848	346,548
Net increase (decrease) in FMV of investments	-	-	(273,736)	(273,736)
Total revenues	42,013,372	42,013,372	41,027,298	(986,074)
Expenditures:				
Labor and benefits	2,342,981	2,342,981	2,261,152	81,829
Services and supplies	844,897	844,897	654,637	190,260
Evaluation	1,373,274	1,373,274	1,512,337	(139,063)
Contributions to community projects	83,377,886	87,277,886	54,735,724	32,542,162
Total expenditures	87,939,038	91,839,038	59,163,850	32,675,188
Net change in fund balance	(45,925,666)	(49,825,666)	(18,136,552)	31,689,114
Fund balance, beginning of fiscal year	136,306,807	136,306,807	194,885,729	58,578,922
Fund balance, end of fiscal year	$ 90,381,141	$ 86,481,141	$ 176,749,177	$ 90,268,036

This Page Intentionally Left Blank

SUPPLEMENTAL INFORMATION SECTION

This Page Intentionally Left Blank

FIRST 5 COMMISSION OF SAN DIEGO
BALANCE SHEET
SCHOOL READINESS PROGRAM
JUNE 30, 2010
(WITH COMPARATIVE TOTALS FOR 2009)

	2010	2009
Assets		
Cash and investments in county treasury	$ 350,747	$ 1,353,626
Total assets	350,747	1,353,626
Liabilities and Fund Balance		
Fund balance		
Reserved For:		
School Readiness Initiatives	350,747	1,353,626
Total fund balance	350,747	1,353,626
Total liabilities and fund balance	$ 350,747	$ 1,353,626

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, 2010
(WITH COMPARATIVE TOTALS FOR 2009)

	2010	2009
Revenues:		
Prop 10 school readiness	$ 3,687,667	$ 6,108,807
Total revenues	3,687,667	6,108,807
Expenditures:		
Labor and benefits	135,603	140,786
Services and supplies	976	25,860
Contributions to community projects	4,553,967	5,785,630
Total expenditures	4,690,546	5,952,276
Net change in fund balance	(1,002,879)	156,531
Fund balance, beginning of fiscal year	1,353,626	1,197,095
Fund balance, end of fiscal year	$ 350,747	$ 1,353,626

FIRST 5 COMMISSION OF SAN DIEGO
BALANCE SHEET
PRESCHOOL FOR ALL/POWER OF PRESCHOOL
JUNE 30, 2010
(WITH COMPARATIVE TOTALS FOR 2009)

	2010	2009
Assets		
Cash and investments in county treasury	$ -	$ 3,896
Total assets	$ -	3,896
Liabilities and Fund Balance		
Fund balance:		
Reserved for:		
Preschool for all/power of preschool	$ -	$ 3,896
Total fund balance	-	3,896
Total liabilities and fund balance	$ -	$ 3,896

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, 2010 (WITH COMPARATIVE TOTALS FOR 2009)

	2010	2009
Revenues:		
Preschool for All/Power of Preschool	$ 9,091,695	$ 6,448,780
Total revenues	9,091,695	6,448,780
Expenditures:		
Labor and benefits	68,467	70,890
Contributions to community projects	9,027,124	6,397,145
Total expenditures	9,095,591	6,468,035
Net change in fund balance	(3,896)	(19,255)
Fund balance, beginning of fiscal year	3,896	23,151
Fund balance, end of fiscal year	$ -	$ 3,896

MOSS, LEVY & HARTZHEIM LLP
CERTIFIED PUBLIC ACCOUNTANTS

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

9107 WILSHIRE BLVD., SUITE 400
BEVERLY HILLS, CA 90210
TEL: 310.273.2745
FAX: 310.273.1689
www.mlhcpas.com

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited the financial statements of the governmental activities and 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, 2010, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated September 8, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller general of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the 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
September 8, 2010

MOSS, LEVY & HARTZHEIM LLP
CERTIFIED PUBLIC ACCOUNTANTS

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

9107 WILSHIRE BLVD., SUITE 400
BEVERLY HILLS, CA 90210
TEL: 310.273.2745
FAX: 310.273.1689
www.mlhcpas.com

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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

We have audited the basic financial statements of the First 5 Commission of San Diego (The Commission), a discretely presented component unit of County of San Diego, as of and for the fiscal year ended June 30, 2010 and have issued our report thereon dated September 8, 2010.

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 First 5 Program*, issued by the State Controller's Office. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material 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.

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

OFFICES: BEVERLY HILLS · SANTA MARIA

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 First 5 Program.

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

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Beverly Hills, California
September 8, 2010