



FIRST 5 COMMISSION OF SAN DIEGO

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

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED JUNE 30, 2009
(WITH COMPARATIVE TOTALS FOR 2008)

TCBA

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 (WITH COMPARATIVE TOTALS FOR 2008)

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**FIRST 5 COMMISSION OF SAN DIEGO
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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities and each major fund 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, 2009, 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 2008 financial statements and, in our report dated September 9, 2008, 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 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Commission as of June 30, 2009, and the respective changes in financial position thereof 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 4, 2009, 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, 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 on pages 3 through 7 is not a required part of the basic financial statements but is 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 opinions on the financial statements that collectively comprise the Commission's basic financial statements. The supplemental section listed in the table of contents is presented for purposes of additional analysis and are not a required part of the basic financial statements. 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.

Torrance, California
September 4, 2009

Thompson, Cobb, Bazilio & Associates, P.C.

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)

INTRODUCTION

Our discussion and analysis of the First 5 Commission of San Diego's (The Commission) financial performance provides an overview of the Commission's financial activities for the fiscal year ended June 30, 2009. 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 2008/2009)

Expenses were \$345,358 less than revenues. Overall revenues were \$48,879,517.

Expenses were less than budgeted by \$31,625,464 or 39.5% mainly due to a change in budgeting that added more than \$28 million in prior-year roll-over encumbrances to the current-year budget. Of the \$28 million, less than \$9 million were expended, leaving an unspent balance of nearly \$20 million. The variance in expenses was also due to operational savings and delays in the implementation of four initiatives.

Expenses are broken down into three categories: Administrative, Program, and Evaluation costs. Administrative costs were \$3,355,581 or 6.9% 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 \$43,876,292 or 90.4%, and Evaluation costs were \$1,302,286 or 2.7% 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 2008/09 the administrative rate was 4.2% of the budget. This is based on the Total Administrative Expenses of \$3,355,581 and the Total Operating Budget of \$80,159,623.

Total Evaluation Costs were \$1,302,286 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 2008/2009	FY 2007/2008
Total Assets	\$ 209,232,602	\$ 207,506,160
Total Liabilities	14,431,883	10,937,713
Net Assets:		
Restricted	194,800,719	196,568,447
Total Net Assets	\$ 194,800,719	\$ 196,568,447

The Commission's total net assets decreased by \$1,767,728 or 0.9% from the prior year due to a higher net increase in liabilities due to an increase in Accounts Payables and an increase in the liability for the grant from The California Endowment.

Changes in Net Assets

Table II: Changes in Net Assets

	FY 2008/2009	FY 2007/2008
Program Revenues	\$ 41,264,243	\$ 44,058,070
General Revenues	7,615,274	8,222,652
Expenses	48,619,169	44,347,610
Change in net assets	260,348	7,933,612
Net assets – Beginning, July 1	196,568,447	187,663,752
Adjustments for restatement	2,028,076	971,083
Net assets – Restated, July 1	194,540,371	188,634,835
Net assets – Ending, June 30	\$ 194,800,719	\$ 196,568,447

Program Revenues decreased by \$2,793,827 or 6.3% due to a lower fair market value gain (unrealized increase in investments—see Note 2) and a decrease in Tobacco Tax revenues as compared to the prior year.

General Revenues decreased \$607,378 or 7.4% from the prior year due to falling interest rates on investments and an overall decrease in cash invested.

Expenses increased \$4,271,559 or 9.6% from the prior year due to an increase in expenses for all three expenditure categories: Administrative, Program, and Evaluation.

BUDGETARY HIGHLIGHTS

In fiscal year 2008/2009, the Commission, through formal action, approved a change from single-year to multi-year/project-length budgeting. This change called for the creation of an Operating Budget that is determined as follows:

1. The baseline is the current year's Commission approved budget;
 2. Plus all prior-year encumbrances rolled over to the current year;
 3. Minus all items in numbers 1 & 2 above that are intended to be expensed in future years.
- Prop 10 Tobacco Tax revenue had a favorable variance of \$1.8 million or 7.6% due to higher revenues received from the State (as compared to the final budget).
 - Prop 10 School Readiness revenues have a favorable variance of \$253,807 or 4.3% due to higher revenues received as a reimbursement for expenses from last fiscal year.
 - Prop 10 Child Care Retention revenues had an unfavorable variance of \$666,709 or 26.7% due to lower than budgeted expenses for the program resulting in a lower match required from the Commission.

- Prop 10 Preschool for All/Power of Preschool revenues had a favorable variance of \$418,780 or 6.9% 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 favorable variance of \$62,815 or 12.6% due to a larger match from the Commission to cover labor costs for this program.
- Revenue from The California Endowment Grant Award had an unfavorable variance of \$640,000 or 100%. Although the full amount was received, this revenue cannot be realized until appropriate expenditures for Community Water Fluoridation are incurred. This money is currently being held as a liability (see Note 14).
- Interest revenue had an unfavorable variance of \$840,326 or 9.9% due to a lower interest rate on the Commission's investments. There was also an overall decrease in the amount of cash invested as the threat of Proposition 1D presented a need for liquidity.
- Services and Supplies had a favorable variance of \$574,172 or 38.2% 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 \$30,895,282 or 41.3% mainly due to nearly \$20 million in prior-year roll-over encumbrances that were not expended. In addition, there were delays in the implementation of the Community Water Fluoridation, KidSTART, Parent Development, and Community Engagement projects.
- Expenses for evaluation had a favorable variance of \$188,799 or 12.7%. There is an outstanding fiscal impact study report that needs to be revised to meet Commission expectations for the final product. The evaluation contract is a multi-year contract which will result in higher expenses next fiscal year to complete this project.

BEYOND FY 2008/2009

The Commission, through formal action, approved multi-year contracting as a means to retain continuity of services for the final year (FY 2009/2010) of its 5-Year Allocation Plan, which would also act as a transition year from the current to the new 5-Year Strategic Plan. This action allowed multi-year/project-length budgeting and contracting that added \$52.6 million to the fiscal year 2008/2009 budget for contracts for fiscal year 2009/2010 and beyond. As a result, the Commission had active encumbrances of \$70.8 million at June 30, 2009, a \$42.4 million increase from June 30, 2008.

For fiscal year 2009/2010, the Commission, through formal action, approved \$12 million for two First 5 California Initiatives—Power of Preschool (PoP)/Preschool for All (PFA) and School Readiness. Power of Preschool (PoP)/Preschool for All (PFA) is scheduled to end on June 30, 2010—the Commission has approved local funding through June 30, 2011—and School Readiness has an end date of June 30, 2010 for Round 1 programs and June 30, 2011 for Round 2 programs. Two other First 5 California Initiatives, CARES and Special Needs Project, ended as of June 30,

2009; the Commission, however, approved local funding for these two programs through June 30, 2010.

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 a 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. In March 2009, the Commission revised its 20-Year Financial Plan into a 10-Year Financial Plan (Year 1 is FY 2010/2011). Although the Financial 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 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 for the 2008/2009 fiscal year; the 10-Year Plan was adopted in March 2009.

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, 2009
(WITH COMPARATIVE TOTALS FOR 2008)

	GOVERNMENTAL ACTIVITIES	
	2009	2008
Assets		
Cash and investments in county treasury (Note 2)	\$ 201,659,125	\$ 198,924,554
Imprest cash	250	250
Accounts receivable (Note 3)	6,192,838	6,316,493
Due from San Diego County (Note 5)	1,378,681	2,263,167
Prepaid expense	1,708	1,696
Total assets	\$ 209,232,602	\$ 207,506,160
Liabilities		
Accounts payable (Note 4)	\$ 13,471,404	\$ 10,382,401
Due to San Diego County (Note 5)	222,757	161,871
Deposit from others (Note 14)	652,712	302,601
Compensated absences (Note 6)		
Payable within one year	61,038	65,913
Payable after one year	23,972	24,927
Total liabilities	14,431,883	10,937,713
Net Assets		
Restricted for:		
Power of preschool state demonstration project	3,896	23,151
School readiness projects	1,353,626	1,197,095
Retention incentives for early care and providers	-	2,081
Special needs	-	300
Children and family programs	193,443,197	195,345,820
Total net assets	\$ 194,800,719	\$ 196,568,447

See accompanying notes to the basic financial statements.

**FIRST 5 COMMISSION OF SAN DIEGO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009
(WITH COMPARATIVE TOTALS FOR 2008)**

		<u>PROGRAM REVENUES</u>		<u>NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS</u>	
		<u>PROPOSITION 10 AND SPECIAL FUND</u>	<u>GOVERNMENTAL ACTIVITIES</u>		
<u>GOVERNMENTAL ACTIVITIES</u>	<u>EXPENSES</u>		<u>2009</u>	<u>2008</u>	
Improved family functioning	\$ 3,774,432	\$ 3,460,572	\$ (313,860)		\$ 109,032
Improved child development	9,534,143	8,741,338	(792,805)		372,389
Improved health	9,892,460	9,069,861	(822,599)		407,965
Improved systems of care	20,675,257	18,956,022	(1,719,235)		757,626
General administration	4,742,877	-	(4,742,877)		(4,057,570)
Net increase in fair market value (Note 2)		1,036,450	1,036,450		2,121,518
Total governmental activities	<u>\$ 48,619,169</u>	<u>\$ 41,264,243</u>	<u>(7,354,926)</u>		<u>(289,040)</u>
GENERAL REVENUES:					
Interest revenue			7,615,274		8,222,652
Total general revenue			<u>7,615,274</u>		<u>8,222,652</u>
Change in net assets			260,348		7,933,612
Net assets- beginning of year			196,568,447		187,663,752
Adjustment for reallocation (Note 10)			(2,028,076)		971,083
Net assets reallocated – beginning of year			<u>194,540,371</u>		<u>188,634,835</u>
Net assets – end of year			<u>\$ 194,800,719</u>		<u>\$ 196,568,447</u>

See accompanying notes to the basic financial statements.

**FIRST 5 COMMISSION OF SAN DIEGO
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009
(WITH COMPARATIVE TOTALS FOR 2008)**

Assets	2009	2008
Cash and investments in county treasury (Note 2)	\$ 201,659,125	\$ 198,924,554
Imprest cash	250	250
Accounts receivable (Note 3)	6,192,838	6,316,493
Due from San Diego County (Note 5)	1,378,681	2,263,167
Prepaid expense	1,708	1,696
Total assets	\$ 209,232,602	\$ 207,506,160
Liabilities and Fund Balance		
Liabilities:		
Accounts payable (Note 4)	\$ 13,471,404	\$ 10,382,401
Due to San Diego County (Note 5)	222,757	161,871
Deposit from others (Note 14)	652,712	302,601
Total liabilities	14,346,873	10,846,873
Fund Balance (Notes 9 & 11)		
Reserved		
For encumbrances	70,847,450	28,417,471
For obligations	18,419,030	70,195,302
Funds not yet obligated	652,712	302,601
For First 5 California initiatives	5,206,325	6,603,737
Total reserved	95,125,517	105,519,111
Unreserved		
Designated for local initiatives	1,882,624	6,348,726
Designated for program sustainability	97,877,588	84,791,450
Undesignated	-	-
Total unreserved	99,760,212	91,140,176
Total fund balance	194,885,729	196,659,287
Total liabilities and fund balance	\$ 209,232,602	\$ 207,506,160

See accompanying notes to the basic financial statements.

**FIRST 5 COMMISSION OF SAN DIEGO
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS
JUNE 30, 2009
(WITH COMPARATIVE TOTALS FOR 2008)**

	2009	2008
Total governmental fund balance	\$ 194,885,729	\$ 196,659,287
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.	(85,010)	(90,840)
Net assets of governmental activities	\$194,800,719	\$ 196,568,447

See accompanying notes to the basic financial statements.

**FIRST 5 COMMISSION OF SAN DIEGO
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2009
(WITH COMPARATIVE TOTALS FOR 2008)**

	<u>2009</u>	<u>2008</u>
Revenues:		
Prop 10 tobacco tax (including SMIF) (Note 7)	\$ 25,274,100	\$ 27,372,233
Prop 10 school readiness (Note 7)	6,108,807	7,045,526
Prop 10 child care retention (Note 7)	1,833,291	1,967,421
Prop 10 special needs demonstration project (Note 7)	562,815	564,295
Prop 10 preschool for all/power of preschool (Note 7)	6,448,780	4,987,577
Interest revenue	7,615,274	8,222,652
Net increase in FMV of investment (Note 2)	1,036,450	2,121,518
Total revenues	<u>48,879,517</u>	<u>52,281,222</u>
Expenditures:		
Labor and benefits	2,425,829	2,244,971
Services and supplies	929,752	672,180
Evaluation (Note 13)	1,302,286	1,049,579
Contributions to community projects	43,876,292	40,290,040
Total expenditures	<u>48,534,159</u>	<u>44,256,770</u>
Net change in fund balance	345,358	8,024,452
Fund balance, beginning of year	196,659,287	187,746,785
Adjustments for reallocation (Note 10)	<u>(2,118,916)</u>	<u>888,050</u>
Fund balance reallocated, beginning of year	<u>194,540,371</u>	<u>188,634,835</u>
Fund balance, end of year	<u>\$ 194,885,729</u>	<u>\$ 196,659,287</u>

See accompanying notes to the basic financial statements.

**FIRST 5 COMMISSION OF SAN DIEGO
RECONCILIATION OF THE CHANGE IN GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2009
(WITH COMPARATIVE TOTALS FOR 2008)**

	2009	2008
Net change in total governmental fund balance	\$ 345,358	\$ 8,024,452
Compensated absences are reported in the Government-wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore, they are not reported as expenditures in governmental funds.	(85,010)	(90,840)
Change in net assets of governmental activities	\$ 260,348	\$ 7,933,612

See accompanying notes to the basic financial statements.

**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, 2009**

	<u>BUDGETED AMOUNTS</u>			VARIANCE WITH FINAL BUDGET POSITIVE (NEGATIVE)
	<u>ORIGINAL</u>	<u>FINAL</u>	<u>ACTUAL</u>	
Revenues:				
Prop 10 tobacco tax (Note 1.C)	\$ 22,991,200	\$ 23,491,200	\$ 25,274,100	\$ 1,782,900
Prop 10 school readiness	5,855,000	5,855,000	6,108,807	253,807
Prop 10 child care retention	3,000,000	2,500,000	1,833,291	(666,709)
Prop 10 preschool for all/power of preschool	6,030,000	6,030,000	6,448,780	418,780
Prop 10 special needs demonstration project	500,000	500,000	562,815	62,815
California endowment grant	640,000	640,000	-	(640,000)
Interest revenue	6,811,900	8,455,600	7,615,274	(840,326)
Net increase in FMV of investments (Note 2)	-	-	1,036,450	1,036,450
Total revenues	<u>45,828,100</u>	<u>47,471,800</u>	<u>48,879,517</u>	<u>1,407,717</u>
Expenditures:				
Labor and benefits	2,393,040	2,393,040	2,425,829	(32,789)
Services and supplies	1,435,219	1,503,924	929,752	574,172
Evaluation (Note 13)	1,304,617	1,491,085	1,302,286	188,799
Contributions to community projects	52,523,221	74,771,574	43,876,292	30,895,282
Total expenditures	<u>57,656,097</u>	<u>80,159,623</u>	<u>48,534,159</u>	<u>31,625,464</u>
Over (under) expenditures	(11,827,997)	(32,687,823)	345,358	33,033,181
Fund balance, beginning of year	168,994,630	168,994,630	196,659,287	27,664,657
Adjustment for reallocation	-	-	(2,118,916)	(2,118,916)
Fund balance, end of year	<u>\$ 157,166,633</u>	<u>\$ 136,306,807</u>	<u>\$ 194,885,729</u>	<u>\$ 58,578,922</u>

See accompanying notes to the basic financial statements.

FIRST 5 COMMISSION OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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.

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 \$74.8 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.

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 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.

**FIRST 5 COMMISSION OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

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

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 Improvement/Community Change.

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 year. Revenue (not including interest revenue) was budgeted at \$38.4 million per the version of the 20-year plan from the beginning of fiscal year 2008/2009. The 20-year plan was revised to account for updated projections of birth rates, taxable sales of tobacco products and changes in interest rates. In March 2009 the Commission revised the 20-year plan into a 10-year plan; this did not change the budgeted revenues for fiscal year 2008/2009. 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	\$ 34,699,200	\$ (11,208,000)	\$ 23,491,200
School Readiness	2,927,000	2,928,000	5,855,000
CARES	400,000	2,100,000	2,500,000
PFA/Power of Preschool	100,000	5,930,000	6,030,000
Special Needs	250,000	250,000	500,000
Totals	\$ 38,376,200	-	\$ 38,376,200

**FIRST 5 COMMISSION OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

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.

NOTE 2: CASH AND INVESTMENTS BY COUNTY TREASURY

The Commission's cash and investments at June 30, 2009 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, 2009, are stated at fair value. The Pool values the participant shares on an amortized cost basis. At June 30, 2009 the Commission's share, valued on an amortized cash basis was \$1,036,450 higher than the fair value of the Commission's position with the County Treasury.

	System of Record Book Value	Fair Value	Unrealized Gain (Loss)
Cash and Investments in County Treasury	\$200,622,675	\$201,659,125	\$1,036,450

Note that there is a small 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 \$200,334,305. The difference is \$288,370, or less than fourteen hundredths of one percent, and is due to the amortized cost basis that is recorded in SunGard system.

**FIRST 5 COMMISSION OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

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

Cash and Investments in County Treasury consisted of the following at June 30, 2009:

Assets Invested through the County Treasurers Office	
Federal Agency Securities	\$ 91,251,500
Medium Term Notes	10,445,000
County Pool	<u>99,962,625</u>
 Total Cash and Investments by County Treasury	 <u><u>\$ 201,659,125</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. 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
		20% of base	
Reverse Repurchase Agreements	92 days	value	None
Medium- Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
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.

**FIRST 5 COMMISSION OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

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

Interest Rate Risk

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

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

Investment Type	<u>Remaining Maturity in Months</u>			
	Amount	12 months or less	13 to 24 months	25 to 60 Months
San Diego County Investment Pool Federal Agency Securities	\$ 91,251,500	\$ 30,258,500	\$15,838,500	\$45,154,500
Medium Term Notes County Pool	10,445,000 99,962,625	- 99,962,625	- -	10,445,000 -
Total	<u>\$201,659,125</u>	<u>\$130,221,125</u>	<u>\$15,838,500</u>	<u>\$55,599,500</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 5 Commission Investments</u>			
Federal Agency Securities	\$ 91,251,500	AAA	AAA
Medium Term Notes	10,445,000	A	AA
County Pool	99,962,625	VARIOUS	AAAf
Total	<u>\$ 201,659,125</u>		

**FIRST 5 COMMISSION OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

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
Gen Elec Cap Crp	Medium Term Note	10,445,000	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 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.

FIRST 5 COMMISSION OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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 2009:

SMIF	\$ 87,411
Prop-10 revenue for:	
May 2009	3,166,106
June 2009	<u>2,939,321</u>
Total	<u>\$ 6,192,838</u>

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, 2009:

Grantees	\$ 13,466,599
Services and Supplies	<u>4,805</u>
Total	<u>\$ 13,471,404</u>

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 \$1,378,681 for County investment interest accrued in the operating fund and the sustainability reserve fund. The Commission owes the County of San Diego \$222,757 for 1) First 5 labor of \$203,107; 2) Computing and Telephone costs of \$9,246; 3) County Counsel support of \$10,371 and 4) Purchasing and Contracting service charges of \$33.

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 FINANCIAL STATEMENTS
JUNE 30, 2009

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 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 2008/2009 is comprised of:

Proposition 10 Revenue (monthly allocations)	\$ 25,186,689
SMIF	87,411
Special Funding (See Note 8)	<u>14,953,693</u>
Total	<u>\$ 40,227,793</u>

NOTE 8: SPECIAL FUNDING

For fiscal year 2008/2009 special funding for First 5 California Initiatives are as follows: for School Readiness \$6,108,807 including a 1:1 match from First 5 San Diego; for Comprehensive Approach to Raising Educational Standards (CARES) \$1,833,291 including a 1:4 Match from First 5 San Diego; for Special Needs Demonstration Project \$562,815 including a 1:1 match from First 5 San Diego; and for Power of Preschool \$6,448,780 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 \$800 million of combined State and local funding over an eight-year period (two four-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.

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. The State Commission's CARES program ended on June 30, 2009; the County Commission, however, approved local funding for the program through June 30, 2010.

FIRST 5 COMMISSION OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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. The State Commission’s SNP program ended on June 30, 2009; the County Commission, however, approved local funding for the program through June 30, 2010.

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 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.

FIRST 5 COMMISSION OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

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: FUND BALANCE REALLOCATION

The reallocation of the beginning net assets and beginning fund balance is due to: 1) an unrealized gain under GASB 31 of \$2,121,518; 2) a vacation accrual of \$90,840; and 3) an interest allocation for June to the California Endowment liability in the amount of \$2,602 that was recorded in July.

Audited net assets as of June 30, 2008	\$ 196,568,447
Adjustment for reallocation of net assets	<u>(2,121,518)</u>
Net assets balance, reallocated July 1, 2008	194,446,929
Adjustment for reallocation of fund balance	90,840
Adjustment for reallocation of fund balance	<u>2,602</u>
Fund balance, reallocated July 1, 2008	<u>\$ 194,540,371</u>

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.

NOTE 12: LEASE OBLIGATION

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

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

Year ending June 30:	
2010	<u>\$190,224</u>
Total lease obligation	<u>\$190,224</u>

FIRST 5 COMMISSION OF SAN DIEGO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009

NOTE 13: EVALUATION EXPENSES

The Commission spent \$1,302,286 on program evaluation during the audit period.

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 2008; \$340,000 in February 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, 2009 the first and second installments in the cumulative amount of \$640,000 were being held as a liability since the project had not yet commenced. The interest earnings from the date of the deposits to June 30, 2009 were \$12,712, increasing the liability to \$652,712.

NOTE 15: RELATED PARTY TRANSACTIONS

The Commission paid \$6.1 million to the San Diego County Office of Education (SDCOE) under the Preschool for All project. Under the Preschool for All project, the SDCOE had subcontracts with two companies, Child Development Associates and The Children's Company. A then-member of the Commission was the co-executive director of Child Development Associates, a not-for-profit, and was a co-owner of The Children's Company. In fiscal year 2009, the SDCOE paid \$255,145 to Child Development Associates and \$18,159 to The Children's Company. The Commission's contract is with SDCOE and not with either of these entities.

NOTE 16: COMPARATIVE FINANCIAL DATA

The amounts shown for 2008 in the accompanying financial statements are included only to provide a basis for comparison with 2009 and are not intended to present all information necessary for a fair presentation in accordance with generally accepted accounting principles.

SUPPLEMENTAL INFORMATION

**FIRST 5 COMMISSION OF SAN DIEGO
BALANCE SHEET
SCHOOL READINESS PROGRAM
JUNE 30, 2009
(WITH COMPARATIVE TOTALS FOR 2008)**

	2009	2008
Assets		
Cash and investments in county treasury	\$ 1,353,626	\$ 1,197,095
Total assets	\$ 1,353,626	\$ 1,197,095
Liabilities and Fund Balance		
Fund balance		
Reserved for:		
School Readiness Initiatives	\$ 1,353,626	\$ 1,197,095
Total fund balance	1,353,626	1,197,095
Total liabilities and fund balance	\$ 1,353,626	\$ 1,197,095

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, 2009
(WITH COMPARATIVE TOTALS FOR 2008)**

	<u>2009</u>	<u>2008</u>
Revenues:		
Prop 10 school readiness	\$ 6,108,807	\$ 7,045,526
Total revenues	<u>6,108,807</u>	<u>7,045,526</u>
 Expenditures:		
Labor and benefits	140,786	143,268
Services and supplies	25,860	28,405
Contributions to community projects	5,785,630	5,923,691
Total expenditures	<u>5,952,276</u>	<u>6,095,364</u>
 Excess (deficiency) of revenues over expenditures	156,531	950,162
 Fund balance, beginning of year	<u>1,197,095</u>	<u>246,933</u>
Fund balance, end of year	<u>\$ 1,353,626</u>	<u>\$ 1,197,095</u>

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, 2009
(WITH COMPARATIVE TOTALS FOR 2008)**

	2009	2008
Assets		
Cash and investments in county treasury	\$ -	\$ 2,081
Total assets	\$ -	\$ 2,081
Liabilities and Fund Balance		
Fund balance:		
Reserved for:		
Retention incentives for early care and providers	\$ -	\$ 2,081
Total fund balance	-	2,081
Total liabilities and fund balance	\$ -	\$ 2,081

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, 2009
(WITH COMPARATIVE TOTALS FOR 2008)**

	<u>2009</u>	<u>2008</u>
Revenue:		
Childcare retention incentives	\$ 1,833,291	\$ 1,967,421
Total revenues	<u>1,833,291</u>	<u>1,967,421</u>
 Expenditures:		
Labor and benefits	39,048	35,528
Services and supplies	146	2,232
Contributions to community projects	1,796,178	1,929,113
Total expenditures	<u>1,835,372</u>	<u>1,966,873</u>
 Excess (deficiency) of revenues over expenditures	(2,081)	548
 Fund balance, beginning of year	<u>2,081</u>	<u>1,533</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ 2,081</u>

See accompanying independent auditor's report.

**FIRST 5 COMMISSION OF SAN DIEGO
BALANCE SHEET
SPECIAL NEEDS DEMONSTRATION PROJECT
FOR YEAR ENDED JUNE 30, 2009
(WITH COMPARATIVE TOTALS FOR 2008)**

	2009	2008
Assets		
Cash and investments in county treasury	\$ -	\$ 300
Total assets	\$ -	\$ 300
Liabilities and Fund Balance		
Fund balance:		
Reserved for:		
Special needs demonstration project	\$ -	\$ 300
Total fund balance	-	300
Total liabilities and fund balance	\$ -	\$ 300

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, 2009
(WITH COMPARATIVE TOTALS FOR 2008)**

	<u>2009</u>	<u>2008</u>
Revenues:		
Special needs demonstration project	\$ 562,815	\$ 564,295
Total revenues	<u>562,815</u>	<u>564,295</u>
Expenditures:		
Labor and benefits	63,115	63,995
Services and supplies	-	-
Contributions to community projects	<u>500,000</u>	<u>500,000</u>
Total expenditures	<u>563,115</u>	<u>563,995</u>
Excess (deficiency) of revenues over expenditures	(300)	300
Fund balance, beginning of year	<u>300</u>	<u>-</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ 300</u>

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, 2009
(WITH COMPARATIVE TOTALS FOR 2008)**

	2009	2008
Assets		
Cash and investments in county treasury	\$ 3,896	\$ 23,151
Total assets	\$ 3,896	\$ 23,151
Liabilities and Fund Balance		
Fund balance:		
Reserved for:		
Preschool for all/power of preschool	\$ 3,896	\$ 23,151
Total fund balance	3,896	23,151
Total liabilities and fund balance	\$ 3,896	\$ 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, 2009
(WITH COMPARATIVE TOTALS FOR 2008)**

	<u>2009</u>	<u>2008</u>
Revenues:		
Preschool for All/Power of Preschool	<u>\$ 6,448,780</u>	<u>\$ 4,987,577</u>
Total revenues	<u>6,448,780</u>	<u>4,987,577</u>
Expenditures:		
Labor and benefits	70,890	59,013
Contributions to community projects	<u>6,397,145</u>	<u>4,991,304</u>
Total expenditures	<u>6,468,035</u>	<u>5,050,317</u>
Excess (deficiency) of revenues over expenditures	(19,255)	(62,740)
Fund balance, beginning of year	<u>23,151</u>	<u>85,891</u>
Fund balance, end of year	<u>\$ 3,896</u>	<u>\$ 23,151</u>

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 basic financial statements 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, 2009, and have issued our report thereon dated September 4, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purposes of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

A 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 of significant 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 Commission'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 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.

Torrance, California
September 4, 2009

Thompson, Cobb, Bazilio & Associates, P.C.

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 basic financial statements 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, 2009 and have issued our report thereon dated September 4, 2009.

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 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	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 Benefit Policies	2	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 First 5 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.

Torrance, California
September 4, 2009

Thompson, Cobb, Bazilia & Associates, P.C.

STATE COMPLIANCE REQUIREMENT

A. 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 against 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 memoranda 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.

B. 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.

C. Conflict of Interest

Compliance Requirement:

County commissions must adopt, for commission members, 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.

D. 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.

E. 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.

F. 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)]

Audit Procedures:

1. Verify that the county commission has policies and practices with respect to communicating its financial condition. At a minimum, the policies and procedures 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.

G. 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. Evidence may be in the form of minutes of meetings at which evaluation results were presented, written reports, or other data files that document program evaluation.
3. In the notes to the financial statements, include a statement 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.

H. 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 policies 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.