

**FIRST 5 SAN MATEO COUNTY**

**Financial Statements  
With Auditor's Reports Thereon**

**June 30, 2007 and 2006**

**FIRST 5 SAN MATEO COUNTY**

**FINANCIAL STATEMENTS  
JUNE 30, 2007 AND 2006**

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That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audits.

The Management's Discussion and Analysis on pages 3 through 8, and the Schedules of Funding Progress-Other Postemployment Benefits and Pension on page 34, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the First 5 San Mateo County's basic financial statements. The accompanying supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audits 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.

*County of San Mateo Controller*

Redwood City, California  
September 26, 2007



## MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR 2006 – 2007

In November 1998, voters passed a statewide ballot initiative, Proposition 10, to fund programs that promote the physical, cognitive and emotional development of children ages 0-5. Proposition 10 funds are generated by a tax on tobacco products and are intended to facilitate the creation and implementation of an integrated and collaborative system of care for young children in the areas of health, family support and early learning. All revenue generated is collected in the California Children and Families (First 5 California) Trust Fund Account and allocations are made to each of the 58 counties in the state based on the number of births recorded in the relevant county in proportion to the number of births recorded in California. Each county must establish a local First 5 Commission to oversee the use of these funds in accordance with their strategic plan.

To date, First 5 San Mateo County has invested over \$52 million in a wide variety of programs and services for young children and their families. This report highlights the significant financial activities for the fiscal year ending June 30, 2007.

### FINANCIAL HIGHLIGHTS

- The assets of First 5 San Mateo County exceeded its liabilities at the close of the 2006-2007 fiscal year by \$36,861,817 (*net assets*). Of this amount: \$309,143 is restricted, of which \$126,166 is for the School Readiness Initiative and \$182,977 is for the Preschool for All Program (*restricted net assets*); \$180,000 is reserved for a note receivable (Our Daly City Partnership-Our Second Home Family Resource Center); \$651,502 is the long-term portion of deferred contributions; \$14,493,365 is encumbered (*committed*) for current grant awards; and \$21,227,807 is set aside (*committed*) for future programs, projects, and activities. All funding awards are in accordance with First 5's Strategic Plan and Long-Term Financial Plan.
- Cash disbursements to local projects awarded funding (*project contributions*) increased by \$2,419,708 (24%) from the previous fiscal year.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to First 5 San Mateo County's basic financial statements which include three components:

1. **Government-wide** financial statements
2. **Fund** financial statements
3. **Notes** to the basic financial statements

**Government-wide financial statements** provide readers with a broad overview of First 5 San Mateo County's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of First 5 San Mateo County's assets and liabilities, with the difference between the two reported as *net assets*.

The *statement of activities* presents information showing how First 5 San Mateo County'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 a future fiscal period (e.g. earned but unused vacation leave).

*The government-wide financial statements can be found on pages 9 and 10 of this report.*

**Fund financial statements** are groupings of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. Fund financial statements report essentially the same functions as those reported in the government-wide financial statements; however they 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 fund financial statements can be found on pages 11 through 13 of this report.*

**Notes to the basic financial statements** provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

*The notes can be found on pages 14-33 of this report.*

In addition to the basic financial statements and accompanying notes, **Supplementary Information** is included as required by First 5 California. These statements provide information concerning First 5 San Mateo County's matching funds and special technical assistance programs.

*The supplementary information can be found on pages 35-40 of this report.*

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As of June 30, 2007, First 5 San Mateo County's assets exceeded liabilities by \$36,861,817.

### First 5 San Mateo County Net Assets

	<u>FY 2006/2007</u>	<u>FY2005/2006</u>	<u>FY2004/2005</u>
Total Assets	\$47,856,887	\$46,462,310	\$ 45,358,820
Total Liabilities	10,995,070	8,064,656	7,150,134
<b>Total Net Assets</b>	<b>\$36,861,817</b>	<b>\$38,397,654</b>	<b>\$38,208,686</b>
Net Assets:			
Restricted	309,143	557,514	1,250,414
Unrestricted – Committed to programs	36,552,674	37,840,140	36,958,272

**Assets.** First 5 San Mateo County's total assets have increased by \$1,394,577 or 3%.

- The change in assets from last year is mainly caused by the fair value of cash and cash equivalents.

**Liabilities.** First 5 San Mateo County's total liabilities have increased by \$2,930,414 or 36%.

- The increase includes a higher accounts payable balance (*monies due to organizations who have been awarded funding for local projects*); and an increase in the securities lending collateral due. First 5 San Mateo County does not have any exposure to credit risk related to the securities lending transactions as of June 30, 2007.

**Net assets.** First 5 San Mateo County's net assets decreased by \$1,535,837 or 4%.

- First 5's net assets are divided into *restricted* and *unrestricted* portions. Restricted funding is money received for specific programs or initiatives that must be used exclusively for the purpose designated. Unrestricted funding is money received that is 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 First 5.

### Changes in Net Assets

	<b>FY 2006/2007</b>	<b>FY2005/2006</b>	<b>FY2004/2005</b>
Program Revenues	\$9,800,279	\$11,226,021	\$ 11,883,247
General Revenue	2,038,142	910,274	955,196
Expenses	13,374,258	11,947,327	10,396,456
<b>Change in Net Assets</b>	<b>(1,535,837)</b>	<b>188,968</b>	<b>2,441,987</b>
Net Assets - beginning	38,397,654	38,208,686	35,766,699
Net Assets - ending	36,861,817	38,397,654	38,208,686

**Changes to First 5 San Mateo County's net assets are summarized as follows:**

- Revenue decreased by \$297,874 (2%). This decrease is primarily due to a decrease of Proposition 10 allocations and funding from First 5 California for special projects.
- Expenses increased by \$1,426,931 (12%). A majority of the increase is a result of grant contributions spent for significant funding commitments awarded by First 5 San Mateo County through Strategic Initiatives. Salaries and benefits increased by 29%, and professional services decreased by 70%.

### **FINANCIAL ANALYSIS OF THE FIRST 5 SAN MATEO COUNTY TRUST FUND**

First 5 San Mateo County uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. As of June 30, 2007, First 5 San Mateo County reported a fund balance of \$36,273,366, a decrease of \$2,167,341 from the prior year. The decrease represents the amount of expenditures in excess of revenues. The fund balance of \$36,273,366 is lower than the net assets of \$36,861,817 by \$588,451. The variance includes the long-term portion of the deferred contributions asset totaling \$651,502 that is not available to pay for current period expenditures and are deferred in the fund; and the long term portion of the compensated absences liability totaling (\$63,051) that is not due and payable in the current period. These two amounts are not reported on the fund balance sheet since they are not available; and are not due and payable in the current period.

As of June 30, 2007, 40% of First 5 San Mateo County's fund balance is committed to grantees through contractual obligations to receive future payments. The remainder is reserved for local initiatives in accordance with First 5 San Mateo County's strategic approach and long term financial plan. This plan is reviewed and approved by First 5 on an annual basis.



## **Budgetary Highlights**

First 5 San Mateo County's operating budget for FY2006-2007 totaled \$16.4 million. The budget closeout revealed a savings of \$2.4 million, which is the excess (deficiency) of revenue and actual expenditures compared to the approved budget. Key factors accounting for the budget savings were as follows:

- A reduction in administrative expenses and use of outside consultants for services.
- Unanticipated grantee underspends, thereby resulting in a reduction of disbursements to grantees.

*The budgetary comparison statement can be found on page 13 of this report.*

## **Beyond FY2006-2007**

To date, First 5 San Mateo County has invested over \$52 million in young children. This investment is the result of a visionary approach to launch large-scale initiatives and to provide funding for programs having great impact in the community. As of June 30, 2007, fifty-two projects have been awarded funding through First 5 San Mateo County's Request for Proposals (RFP) Rounds 1-6 and four strategic initiatives have been launched - Preschool for All (PFA); Children's Health Initiative (Healthy Kids); Early Brain Development-Phase 1 (Prenatal to Three); and Child Care & Early Learning (Smart Kids). The strategic initiatives alone represent an investment of almost \$6 million per year in the community.

Revenue for FY 2007-2008 is estimated at \$10.9 million. This projection includes Proposition 10 monthly allocations in addition to matched funding from First 5 California designated for special projects such as the School Readiness Initiative, Children's Health Initiative Premiums, and CARES Recruitment and Retention Program. First 5 San Mateo County's 10-Year Financial Plan continues to provide the framework for investing Proposition 10 local resources with an initiative-based funding approach for systems integration and countywide impact.

This past year, the Commission met, discussed and analyzed, at great length, community needs, program related information, and financial data which resulted in the System of Care framework, focusing on three major areas: Early Learning, Child Health and Development, and Family Support and Engagement.

During this coming year, First 5 San Mateo County will define its leadership role in the County by bringing greater focus and innovation to its policy and funding priorities. Through a collaborative approach, the Commission will promote service delivery improvement and systems change strategies to facilitate the development of a comprehensive, coordinated, culturally and linguistically competent and family-focused system of care for children 0-5 in San Mateo County. Further strategic and financial planning will occur in order to develop long-term programmatic and fiscal priorities which will include the establishment of short and long-term indicators for measuring progress and effectiveness of investments. The Commission intends to continue a combination of strategies to not only complement but also expand countywide strategic efforts.

First 5 San Mateo County is committed to making funds available for high quality, outcome-based programs and services for today's children and for the future, and continues to strategically approach funding decisions utilizing its long-term financial planning process. First 5 strives to work with community partners and other funders in providing leadership, locally and at the state level, to promote an integrated system of care for all young children and their families in San Mateo County.

**Requests for Information**

This financial report is designed to provide a general overview of First 5 San Mateo County's finances. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to Debby Armstrong, Interim Executive Director, First 5 San Mateo County, 1700 S. El Camino Real, Suite 405, San Mateo, CA 94402-3050.

**First 5 San Mateo County  
Statements of Net Assets  
June 30, 2007 and 2006**

	Governmental Activities	
	2007	2006
<b>Assets</b>		
Cash and cash equivalents (Note 2)	\$ 37,074,220	\$ 36,911,254
Securities lending collateral (Note 2f)	6,868,603	5,819,632
Intergovernmental receivable (Note 3)	1,685,864	2,153,673
Accounts receivable (Note 4)	229,900	6,954
Interest receivable	428,257	387,129
Note receivable (Note 5)	180,000	200,000
Deferred contributions (Note 6)	1,390,043	983,668
Total Assets	\$ 47,856,887	\$ 46,462,310
<b>Liabilities</b>		
Deferred revenue	\$ 46,169	\$ 100,000
Accounts payable (Note 7)	3,948,592	2,047,961
Salaries and benefits payable	42,530	42,880
Securities lending collateral due (Note 2f)	6,868,603	5,819,632
Postemployment benefits (Note 10):		
Payable within one year	26,125	11,130
Compensated absences (Note 8):		
Payable after one year	63,051	43,053
Total Liabilities	10,995,070	8,064,656
<b>Net Assets</b>		
Restricted for (Note 13):		
School Readiness Initiative	126,166	-
Power of Preschool Program	182,977	543,600
Power of Preschool Technical Assistance Project	-	13,914
Unrestricted	36,552,674	37,840,140
Total Net Assets	\$ 36,861,817	\$ 38,397,654

The accompanying notes are an integral part of these financial statements

**First 5 San Mateo County**  
**Statements of Activities**  
**For the Years Ended June 30, 2007 and 2006**

	Governmental Activities	
	2007	2006
<b>Expenses:</b>		
Salaries and wages	\$ 853,042	\$ 693,089
Employee benefits	351,480	238,219
General office supplies	49,713	52,066
Professional services	279,884	919,312
Other administrative expenses	66,474	39,182
Contributions to local projects (Note 14)	11,773,665	10,005,459
Total Program Expenses	13,374,258	11,947,327
<b>Program Revenues:</b>		
Operating grants and contributions:		
Tobacco tax (Note 12a)	9,496,448	9,976,021
Other Special Funding (Note 12c)	250,000	1,250,000
Private grants (Note 12b)	53,831	-
Total Program Revenues	9,800,279	11,226,021
Net Program (Expense) Revenue	(3,573,979)	(721,306)
<b>General Revenue:</b>		
Securities lending activities:		
Securities lending income	297,331	254,637
Securities lending expenses	(290,104)	(246,461)
Interest earnings	2,030,915	902,098
<b>Change in Net Assets</b>	(1,535,837)	188,968
Net assets - beginning	38,397,654	38,208,686
<b>Net Assets - Ending</b>	<b>\$ 36,861,817</b>	<b>\$ 38,397,654</b>

The accompanying notes are an integral part of these financial statements

**First 5 San Mateo County  
Balance Sheets  
June 30, 2007 and 2006**

	<b>2007</b>	<b>2006</b>
<b>Assets</b>		
Cash and cash equivalents (Note 2)	\$ 37,074,220	\$ 36,911,254
Securities lending collateral (Note 2f)	6,868,603	5,819,632
Intergovernmental receivable (Note 3)	1,685,864	2,153,673
Accounts receivable (Note 4)	229,900	6,954
Interest receivable	428,257	387,129
Deferred contributions (Note 6)	738,541	983,668
Note receivable (Note 5)	180,000	200,000
Total Assets	<b>\$ 47,205,385</b>	<b>\$ 46,462,310</b>
<b>Liabilities and Fund Balance/Net Assets</b>		
<b>Liabilities</b>		
Deferred revenue	\$ 46,169	\$ 100,000
Accounts payable (Note 7)	3,948,592	2,047,961
Salaries and benefits payable	42,530	42,880
Securities lending collateral due (Note 2f)	6,868,603	5,819,632
Postemployment benefits payable (Note 10)	26,125	11,130
Total Liabilities	10,932,019	8,021,603
<b>Fund balance (Note 11)</b>		
Reserved for:		
School Readiness Initiative	126,166	-
Power of Preschool Program	182,977	596,804
Power of Preschool Technical Assistance Project	-	13,914
Note receivable	180,000	200,000
Unreserved	35,784,223	37,629,989
Total Fund balance	36,273,366	38,440,707
Total Liabilities and Fund Balance	<b>\$ 47,205,385</b>	<b>\$ 46,462,310</b>
 Reconciliation of Fund Balance Sheet to the Statement of Net Assets:		
Fund balance - from above	\$ 36,273,366	\$ 38,440,707
Amounts reported in the Statement of Net Assets are different because:		
Long-term portion of deferred contributions are not available to pay for current period expenditures and are deferred in the fund	651,502	-
Long-term portion of the compensated absences liability is not due and payable in the current period and therefore is not reported in the fund balance sheet	(63,051)	(43,053)
<b>Net Assets (page 9)</b>	<b>\$ 36,861,817</b>	<b>\$ 38,397,654</b>

The accompanying notes are an integral part of these financial statements.

**First 5 San Mateo County**  
**Statements of Revenues, Expenditures, and Changes in Fund Balance**  
**For the Years Ended June 30, 2007 and 2006**

	<b>2007</b>	<b>2006</b>
<b>Revenues</b>		
Tobacco tax (Note 12a)	\$ 9,496,448	\$ 9,976,021
Other Special Funding (Note 12c)	250,000	1,250,000
Interest earnings	2,030,915	902,098
Securities lending income	297,331	254,637
Private grants (Note 12b)	53,831	-
Total Revenues	12,128,525	12,382,756
<b>Expenditures</b>		
Salaries and benefits	1,184,524	930,005
Services and supplies	396,071	1,010,560
Securities lending expenditures	290,104	246,461
Contributions to local projects (Note 14)	12,425,167	10,005,459
Total Expenditures	14,295,866	12,192,485
Excess (Deficiency) of Revenues over Expenditures/ Net Change in Fund Balance	(2,167,341)	190,271
Fund balance - beginning	38,440,707	38,250,436
<b>Fund Balance - Ending</b>	<b>\$ 36,273,366</b>	<b>\$ 38,440,707</b>
 Reconciliation of the Change in Fund Balance to the Change in Net Assets in the Statement of Activities:		
Net change in fund balance - from above	\$ (2,167,341)	\$ 190,271
 Amounts reported in the Statement of Activities are different because:		
The change in compensated absences payable after one year reported in the Statement of Activities does not provide or require the use of current financial resources, and therefore, is not recorded as an expenditure in the Statements of Revenues, Expenditures and Changes in Fund Balance	(19,998)	(1,303)
<b>Change in Net Assets (page 10)</b>	<b>\$ (1,535,837)</b>	<b>\$ 188,968</b>

The accompanying notes are an integral part of these financial statements

**First 5 San Mateo County**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**For the Year Ended June 30, 2007**

	<u>Budgeted Amounts</u>		<u>Actual</u> <u>Amounts</u>	<u>Variance with</u> <u>Final budget -</u> <u>Positive</u> <u>(Negative)</u>
	<u>Original</u>	<u>Note 1(d)</u> <u>Final</u>		
<b>Revenues</b>				
Tobacco tax (Note 12a)	\$ 9,664,817	\$ 10,256,448	\$ 9,496,448	\$ (760,000)
Interest earnings	1,012,000	1,012,000	1,670,379	658,379
Other Special Funding (Note 12c)	250,000	250,000	250,000	-
Private Grants (Note 12b)	-	-	53,831	53,831
Total Revenues	<u>10,926,817</u>	<u>11,518,448</u>	<u>11,470,658</u>	<u>(47,790)</u>
<b>Expenditures</b>				
Salaries and benefits	1,140,015	1,193,015	1,149,531	43,484
Services and supplies	1,283,280	1,582,262	396,071	1,186,191
Contributions to local projects (Note 14)	12,823,433	13,617,533	12,425,167	1,192,366
Total Expenditures	<u>15,246,728</u>	<u>16,392,810</u>	<u>13,970,769</u>	<u>2,422,041</u>
Excess (Deficiency) of Revenues Over Expenditures/ Net Change in Fund Balance	(4,319,911)	(4,874,362)	(2,500,111)	2,374,251
Fund balances - beginning	<u>36,850,123</u>	<u>39,643,633</u>	<u>38,788,300</u>	<u>(855,333)</u>
<b>Fund Balances - Ending</b>	<u><u>\$ 32,530,212</u></u>	<u><u>\$ 34,769,271</u></u>	<u><u>\$ 36,288,189</u></u>	<u><u>\$ 1,518,918</u></u>

The accompanying notes are an integral part of these financial statements

**FIRST 5 SAN MATEO COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**a) Reporting entity**

Under the authority of the California Children and Families First Act of 1998 and sections 130100, et seq. of the Health and Safety Code, the Children & Families First Commission of San Mateo County (the Commission) was established in March 1999. The Commission set up the Children and Families First Trust Fund with the County of San Mateo in March 1999 to account for the receipts and disbursements of California Children and Families Trust Fund allocations to the Commission. On January 7, 2003, the county board of supervisors passed an ordinance changing the Commission's name to First 5 San Mateo County (First 5).

The financial transactions of First 5 are accounted for in a Special Revenue Fund, as moneys received by it are legally restricted to specific use. Moneys allocated and appropriated to First 5 can be expended only for purposes authorized by the California Children and Families First Act of 1998 (Proposition 10) and in accordance with the County Strategic Plan approved by the First 5 board and approved through the County budget process.

The County Board of Supervisors appoints all the members of First 5. The financial activities of First 5 are included in the Basic Financial Statements of the County as a discretely presented component unit.

**b) Measurement focus, basis of accounting, and financial statement presentation**

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities on pages 9 and 10) 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 local grantee organizations are recognized as expenditure when criteria for grant payments are met by the grantee organizations.

The Statement of Net Assets presents First 5's financial position in a net assets 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 First 5 is offset by its program revenues – tobacco tax, private grants and other revenues.

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. 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 from reimbursement type programs are considered to be *available* when they are collectible within six months of the end of the current fiscal period in order to properly match revenues with related expenditures. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable.



**FIRST 5 SAN MATEO COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

When both restricted and unrestricted net assets are available, restricted resources are depleted first before the unrestricted resources are used.

**c) Accounting Estimates**

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results based on subsequent events could differ from those estimates.

**d) Budgets, Budgetary Process, and Encumbrance**

First 5 adopts an annual budget, which can be amended by First 5 throughout the year. The basis used to prepare the budget is the same as the basis used to reflect actual revenues and expenditures, except that liability for compensated absences, postemployment benefits other than pensions and unrealized gains and losses are not included in the budget. Revenue and transaction costs relating to securities lending transactions are included in interest earnings for budgetary purposes. See Note 15.

**e) Reclassifications**

Certain prior year amounts have been reclassified in order to be consistent with the current year's presentation.

**2. CASH AND CASH EQUIVALENTS**

**a) Cash and Cash Equivalents**

Cash is pooled with other funds in the San Mateo County Investment Pool (County Pool) managed by the County Treasurer. Interest earned is received quarterly. Cash and cash equivalents in the County Pool are reported at fair value, as required by GASB 31. The change in fair value for the year is recorded as unrealized gain or loss and reported as part of interest earnings. Fair value is based on information provided by the County Treasurer.

The County Pool is a governmental investment pool managed and directed by the elected San Mateo County Treasurer. The County Pool is not registered with the Securities and Exchange Commission as an investment company. An oversight committee, comprised of local government officials and various participants, provide oversight to the management of the fund in accordance with the California Government Code. The daily operations and responsibilities of the County Pool fall under the auspices of the County Treasurer's office. First 5 is a voluntary participant in the investment pool.

**FIRST 5 SAN MATEO COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**2. CASH AND CASH EQUIVALENTS (CONTINUED)**

The fair value of cash and cash equivalents of First 5's investment in the County Pool is reported in the accompanying financial statements at amounts based upon First 5's prorated share of the fair value provided by the County Treasurer for the entire County Pool portfolio.

At fiscal year end this was \$37,074,220 (2006: \$36,911,254). The contractual withdrawal value (book value) was \$37,378,528 (2006: \$37,583,325).

**b) Authorized Investments of the County Pool**

The County Pool's Investment Policy and the California Government Code allow the County Pool to invest in the following, provided the credit ratings of the issuers are acceptable to the County Pool. The following also identifies certain requirements of the County Pool and California Government Code that address interest rate risk, credit risk, and concentrations of credit risk.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum % Allowed in Portfolio	Maximum % Investment in One Issuer
U.S. Treasury Obligations	15 years	-	100	100
Obligations of U.S. Agencies or government sponsored enterprises	15 years	-	100	100
Bankers acceptances	180 days	A-1/P-1	15	10
Collateralized time deposits within the state of California	1 year	-	30	10
Negotiable certificates of deposit	5 years	-	30	5
Commercial paper/Floating rate notes	270 days or less	A-1/P-1	40	10
Repurchase agreements	1 year	-	100	50
Reverse repurchase agreements	92 days	-	20	20
Corporate bonds and medium term notes	5 years	A	30	10
Local Agency Investment Fund (LAIF)	-	-	Up to the current state limit	-
Shares of beneficial interest	30 days	-	10	5
Mortgage backed securities	5 years	A	20	5

**FIRST 5 SAN MATEO COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**2. CASH AND CASH EQUIVALENTS (CONTINUED)**

At June 30, 2007, the County Pool was invested in the following securities:

<u>Investment Type</u>	<u>Interest Rate</u>	<u>Maturities</u>	<u>Maturity (Years)</u>	<u>Rating</u>
U.S. government securities:				
Not on securities loan	2.625%-4.75%	5/15/08-5/31/12	0.54	Exempt
Loaned securities for cash collateral	2.625%-4.75%	5/15/08-5/31/12	2.08	Exempt
U.S. government agency securities:				
Not on securities loan	2.50%-5.70%	8/1/07-4/2/14	1.52	AAA
Loaned securities for cash collateral	2.50%-5.125%	10/19/07-5/14/10	0.04	AAA
Negotiable certificates of deposit	5.26%-5.36%	7/6/07-9/26/07	0.07	A-1
Commercial paper-discount	5.32%-5.35%	7/2/07	0.01	A-1, A-1+
Corporate bonds	2.50%-4.375%	7/12/07-4/1/09	1.02	A, A+, AA, AA-, AAA
Floating rate securities	5.35%- 5.61%	7/18/07-10/15/07	0.16	A, A-, A+, AA, AA-, AAA
Local Agency Investment Fund LAIF)	5.23%	On Demand	0.08	Unrated

**c) County Pool: Credit Risk**

Credit risk is the risk that an 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. State law and the San Mateo County's Investment Policy limits County pool investments in commercial paper to the rating of A1 or better by Standards & Poor's, or P-1 or better by Moody's Investors Service and corporate bonds to the rating of A or higher by both Standards & Poor's and Moody's investors Service. The County pool does not have credit limits on government agency securities.

**d) County Pool: Concentration of Credit Risk**

State law restricts the County Pool's investments in commercial paper to 40% of its investment pool and to 10% per issuer. State law also limits the County's investments in corporate bonds and medium term notes to 30% of its investment pool and 10% per issuer. At June 30, 2007, the County Pool had 3.72% of its investment pool in Federal Home Loan Mortgage Corporation, 5.57% in Federal Home Loan Bank, 5.34% in Federal National Mortgage Association, 25.34% in corporate bonds, and 20.54% in commercial papers. The County Pool did not have 5% or more of its net investment in commercial paper, corporate bonds, or medium term notes of a single organization.

**FIRST 5 SAN MATEO COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**2. CASH AND CASH EQUIVALENTS (CONTINUED)**

**e) County Pool: Interest Rate Risk**

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

One of the ways that the County Pool manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

The County Pool monitors the interest rate risk inherent in its investment portfolio by measuring its weighted average maturity, which at June 30, 2007, was one year. The County investment policy limits the weighted average maturity to 5 years or less.

**f) Securities Lending Transactions**

State Statutes and San Mateo County investment policy permit the use of a securities lending program with its principal custodian bank. The investment policy allows the custodial bank to lend up to 20% of the portfolio within the guidelines of the investment policy. The custodial agreement authorizes the bank to loan securities in the San Mateo County investment pool. The loaned securities represent securities on loan to brokers or dealers by the San Mateo County investment pool. The County receives a fee from the borrower for the use of the loaned securities. If the loaned securities are not returned by the borrower, the County's Custodian is responsible for replacement of the loaned securities with similar securities. All securities loan agreements can be terminated on demand within a period specified in each agreement by either the County or borrowers.

The loaned securities as of June 30, 2007 and June 30, 2006 consisted of U.S. Treasury notes and bonds, and U.S. government agency securities. In return, the County receives collateral in the form of cash or securities equal to at least 102% of the transferred securities plus accrued interest for reinvestment. As of June 30, 2007 and June 30, 2006, all of the cash collateral was invested in repurchase agreements and commercial papers with a weighted average maturity of 8 days (2006: 3 days). Commercial papers are rated at least A-1 by Standard and Poor's and P-1 by Moody's. The repurchase agreements are held by the Bank of New York in the County's name and were rated AAA by Standard and Poor's at June 30, 2007 and 2006.

The relationship between the maturities of the investment pool and the County's loans is affected by the maturities of the securities loans made by the other entities that use the agent's pool, which San Mateo County cannot determine.

**FIRST 5 SAN MATEO COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**2. CASH AND CASH EQUIVALENTS (CONTINUED)**

Securities lending collateral represents investments in an investment pool purchased with cash collateral that may not be pledged or sold without default by the borrower. First 5's prorated share of cash collateral as of June 30, 2007 amounted \$6,868,603 (2006: \$5,819,632). First 5's prorated share of the underlying securities loaned by the County's investment pool as of June 30, 2007 amounted to \$6,742,175 (2006: \$5,711,206).

First 5 does not have any exposure to credit risk related to the securities lending transactions as of June 30, 2007 and June 30, 2006, because the market value of the cash collateral exceeds that of the borrowed securities.

**3. INTERGOVERNMENTAL RECEIVABLE**

Intergovernmental receivable represents Proposition 10 and Surplus Money Investment Fund (SMIF) revenues that were received after the fiscal year-end.

	<b>2007</b>	<b>2006</b>
Proposition 10 allocation for:		
May	\$ 644,762	\$ 765,770
June	<u>737,890</u>	<u>811,204</u>
	1,382,652	1,576,974
Power of Preschool	-	254,873
Cares Program	47,613	140,300
Children's Health Initiative	98,651	94,141
Evaluation Data Systems (PEDS)	106,105	41,705
Surplus Money Investment Fund	<u>50,843</u>	<u>45,680</u>
Total	<u>\$ 1,685,864</u>	<u>\$ 2,153,673</u>

**4. ACCOUNTS RECEIVABLE**

Accounts receivable represents amounts due from the following grantees:

	<b>2007</b>	<b>2006</b>
Silicon Valley Community Foundation	\$ 7,959	\$ -
SMC/Canada College	215,290	-
Edgewood Center for Children & Families	-	5,877
Child Care Coordinating Council	6,651	-
Parents Leadership Institute	-	756
Other	<u>-</u>	<u>321</u>
Total	<u>\$ 229,900</u>	<u>\$ 6,954</u>

**FIRST 5 SAN MATEO COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
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**5. NOTE RECEIVABLE**

Note receivable of \$180,000 represents balance remaining from First 5's eighty percent share (\$200,000) of an initial loan of \$250,000 provided jointly by First 5 and County of San Mateo to Bayshore Child Care Services on April 15, 2003. An amendment to the agreement with the grantee during fiscal year 2003/2004 increased the total loan amount to \$300,000 by increasing the County's obligation from \$50,000 to \$100,000. The amendment extended the project completion date from June 30, 2004 to June 30, 2006, thereby also extending the ten-year post completion project-monitoring period. The loan is to assist with costs associated with a project for the development of a neighborhood resource center offering educational opportunities and services to children up to the age of five years.

The loan is unsecured, bears a zero percent interest rate and is being forgiven at the rate of ten percent for each full year, beginning April 1, 2007, as the project continues its approved use per the terms and conditions of the loan agreement. If the grantee breaches any of the terms and conditions, First 5 and the county may demand immediate payment of the principal. As of June 30, 2007, \$20,000 has been forgiven.

As the note receivable amount will be forgiven and no repayments are anticipated, the asset reported in the fund balance sheet is offset by a fund balance reservation of the same amount to indicate that portion of fund balance not available for future appropriation. See Note 11.

**6. DEFERRED CONTRIBUTIONS**

Grant contributions to local projects that are not spent in one funding period can be extended (deferred) for up to a twelve-month period upon approval by First 5 and spent by the grantees on approved projects. Deferred contributions at fiscal year-end are recorded as an asset. As of June 30, 2007, deferred contributions amounted to \$1,390,043 (2006: \$983,668). Of this amount, \$738,541 is recorded in the fund balance sheet net of the long-term portion. First 5 receives refunds or reduces future funding to the grantees for any contributions that are not spent during the funding or extension period.

Deferred contributions during fiscal year 2006/2007 are as follows:

**Round One funding:**

Shelter Network-"0-5 Children's Center"	\$ 8,251
Silicon Valley Community Foundation-"KTK"	47,200
San Mateo County Department of Health Services-"Smoke Free"	<u>69,850</u>
Subtotal	<u>\$ 125,301</u>

**FIRST 5 SAN MATEO COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**6. DEFERRED CONTRIBUTIONS (CONTINUED)**

**Round Two funding:**

Leland Stanford Junior University-“Premie Project”	\$ 26,252
Daly City Partnership-“Our Second Home”	26,190
San Mateo-Foster City School District –“Kids and Families 1 <sup>st</sup> ”	34,201
San Mateo County Health Department-“Breastfeeding” (WIC)	<u>7,004</u>
Subtotal	<u>\$ 93,647</u>

**Round Five funding:**

Lucile Salter Packard-“Breastfeeding Support”	\$ 13,725
Child Care Coordinating Council-“Fatherhood Collaborative”	<u>10,313</u>
Subtotal	<u>\$ 24,038</u>

**Round Six funding:**

Family Services Agency-“Father Support”	\$ 5
United Cerebral Palsy	24,579
Community Gatepath	64,835
Child Care Coordinating Council	69,837
Lucile Packard Children’s Hospital	<u>75,700</u>
Subtotal	<u>\$ 234,956</u>

**Strategic Initiatives:**

Child Care Coordinating Council-“Smart Kids”	\$ 196,849
San Mateo County Health Department-“Pre-to-3”	<u>250,000</u>
Subtotal	<u>\$ 446,849</u>

**Other Contributions:**

Special Projects:

Peninsula Community Foundation-“SRI”	\$ 271,315
Child Care Coordinating Council-“SamCares”	130,187
Child Care Coordinating Council-“Service Corps”	<u>63,750</u>
Subtotal	<u>465,252</u>

TOTAL	<u>\$ 1,390,043</u>
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**FIRST 5 SAN MATEO COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**7. ACCOUNTS PAYABLE**

Accounts payable comprises of funding due to grantees and amounts due to vendors for services and supplies at fiscal year-end:

	<b>2007</b>	<b>2006</b>
Funding due to grantees	\$ 3,774,900	\$ 1,460,583
Services and supplies	<u>173,692</u>	<u>587,378</u>
<b>Total</b>	<u>\$ 3,948,592</u>	<u>\$ 2,047,961</u>

**8. COMPENSATED ABSENCES**

Compensated absences represent liability for unpaid accumulated vacation leave, holidays and other compensated absences with similar characteristics, except sick leave. A liability for these amounts is reported in the fund balance sheet only if they have matured, for example, as a result of employee resignations and retirements.

The change in the compensated absences balance for fiscal year 2006/07 was as follows:

Balance <u>July 1, 2006</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>June 30, 2007</u>
<u>\$ 43,053</u>	<u>26,641</u>	<u>(6,642)</u>	<u>\$ 63,051</u>

**9. EMPLOYEES' RETIREMENT PLAN**

**a) Plan Description**

First 5 employees are participants in the San Mateo County Employees' Retirement Association (SamCERA), founded in 1944 under the authority granted by Article XVI of the Constitution of the State of California, the County Employees' Retirement Law of 1937 (the 1937 Act). SamCERA is governed by the California Constitution, the 1937 Act, and the by laws, procedures, and policies adopted by the Board of Retirement.

**b) General**

SamCERA is a cost-sharing multiple-employer, defined benefit pension plan established to provide pension benefits for substantially all permanent employees of the County and the San Mateo County Mosquito Abatement District. Management of the SamCERA is vested in the Board of Retirement consisting of nine members.



**FIRST 5 SAN MATEO COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**9. EMPLOYEES' RETIREMENT PLAN (CONTINUED)**

SamCERA issues a publicly available financial report that includes financial statements and required supplementary information. A complete comprehensive annual financial report for SamCERA can be obtained by writing to the San Mateo County Employees' Retirement Association, 100 Marine Parkway, Suite 125, Redwood Shores, California 94065.

**c) Benefit Provisions**

SamCERA provides service retirement, disability, and death benefits based on defined benefit formulas using final average compensation, years of service, and age factors to calculate benefits payable. SamCERA also provides annual cost-of-living adjustments upon retirement for members of Plans One, Two, and Four. The benefits of Plan Three are reduced by a portion of Social Security benefits received by the member. The 1937 Act vests the County Board with the authority to initiate benefits, while Government Code Section 31592.2 empowers the Board of Retirement to provide certain ad hoc benefits when the Section 31592 reserve exceeds 1% of assets.

*Funding Policy.* The 1937 Act established the basic obligations for employers and members to make contributions to the pension trust fund. The employer and member contribution rates are based on recommendations made by an independent actuary and adopted by the Board of Retirement. The employer is required to contribute at an actuarially determined rate. The member contribution rates are based on entry age and are a percentage of covered compensation. For the fiscal year ended June 30, 2007, the County's required contribution was \$100,550 (in thousands) and the average member contribution rate was 9.7%.

*Annual Pension Cost.* For the fiscal year 2006-07, the County's annual pension cost was equal to the County's required contributions. The required contribution was determined at June 30, 2006, using the entry age normal actuarial cost method. The actuarial assumptions included 3.5% annual inflation rate, 7.75% annual investment rate of return, and 5.2% average annual projected salary increase attributed to inflation (4%) and adjustment for merit and longevity (1.2%).

The actuarial value of SamCERA's assets was determined using techniques that smoothed the effects of short-term volatility in the market value over a 5-year period. SamCERA's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis over the period ending June 30, 2022.

**FIRST 5 SAN MATEO COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**9. EMPLOYEES' RETIREMENT PLAN (CONTINUED)**

**d) Three-year Trend Information (in thousands)**

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2005	\$ 76,931	100.0%	-
6/30/2006	76,090	100.0%	-
6/30/2007	100,550	100.0%	-

**10. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

First 5 employees are also participants of the defined benefit postemployment healthcare plan administered by the County.

**a) Plan Description**

The County administers a single-employer defined benefit postemployment healthcare plan (“the Retiree Health Plan”). The plan provides healthcare benefits to eligible retirees who retire from the County and are eligible to receive a pension from the County’s pension plan. Eligible retirees may elect to continue healthcare coverage in the County health plan and convert their sick leave balance at retirement, at a rate of eight hours per month, to a County paid monthly benefit that will partially or fully cover their retiree health premiums. The duration, amount, and type of County paid benefits depend on the amount of sick leave at retirement and the bargaining unit to which the retiree belonged.

The County contracts with various health plans such as Kaiser, Aetna, and Blue Shield to provide health coverage to its active and retired members. The retirees may continue coverage in the County health plans at their own expense after their sick leave balances are fully exhausted. The insurers charge the same premium for active and retired members; therefore, an implicit County subsidy of retiree premiums exists.

Benefit provisions are established and may be amended through negotiations between the County and the bargaining units during each bargaining period. The Retiree Health Plan does not issue a publicly available financial report.

**b) Funding Policy**

Contribution requirements of the plan members and the County are also established and may be amended through negotiations between the County and the bargaining units. The required contribution is based on pay-as-you-go financing requirements. For fiscal year 2006-07, First 5 contributed \$10,667 to the plan.

**FIRST 5 SAN MATEO COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**10. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)**

**c) Annual OPEB Cost and Net OPEB Obligation**

First 5's annual other postemployment benefits (OPEB) cost is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The prior valuation was performed as of July 1, 2005. In its recent labor negotiations, the County agreed to enhance the sick leave conversion benefits for certain members effective January 1, 2007. As the new benefit provisions significantly changes the results of the valuation as of July 1, 2005, the County performed a new valuation as of January 1, 2007. The next valuation will be performed biennially as of January 1, 2009, assuming no other significant changes occur.

The following table shows the components of First 5's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in First 5's net OPEB obligation to the Retiree Health Plan:

Annual required contribution	<u>\$ 25,662</u>
Annual OPEB cost (expense)	25,662
Contribution made	<u>(10,667)</u>
Increase in net OPEB obligation	14,995
Net OPEB obligation-beginning of year	<u>11,130</u>
Net OPEB obligation-end of year	<u>\$ 26,125</u>

First 5's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2006-07 and fiscal year 2005-06, the initial year of GASB Statement No. 45 implementation, are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Contribution</u>	<u>Net OPEB Obligation</u>
6/30/07	25,662	41.6%	26,125
6/30/06	20,505	45.7%	11,130

**FIRST 5 SAN MATEO COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**10. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (CONTINUED)**

**d) Funded Status and Funding Progress**

As of January 1, 2007, the most recent actuarial valuation date, the funded status of the plan was as follows (in thousands):

Actuarial accrued liability (AAL)	\$ 169,683
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>169,683</u>
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	\$ 372,648
UAAL as a percentage of covered payroll	45.5%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend.

Amounts determined regarding the funded status of the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will present over time multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liabilities for benefits.

**e) Actuarial Methods and Assumptions**

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 2007, actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 6.9 percent investment rate of return; an annual healthcare cost trend rate of 9 percent in 2007, reduced by 1 percent increment each year to an ultimate rate of 5 percent in the fifth year and beyond; annual dental and vision cost trend rate of 5 percent, negotiated annual increases in county-paid benefits; and a 4 percent annual increase in projected payroll.

**FIRST 5 SAN MATEO COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**11. FUND BALANCE RESERVATIONS AND DESIGNATION**

The term “reserved” is used to segregate portions of fund balance that are legally restricted to specific uses or are not available for appropriation. Reserved fund balances represent unspent special funding money that is restricted for uses specified under the funding agreements and a note receivable that do not represent spendable resources— see Notes 5 and 13.

Management has reserved \$7,541,414 for future payments of awards committed to local projects as of June 30, 2007. See Notes 16 and 17. The designated amount represents financial resources legally available for use for other authorized uses other than those planned.

California Children and Families Commission requires presentation of fund balance into committed and uncommitted segments.

First 5 San Mateo County’s fund balance at fiscal year-end represents committed funds as follows:

	<b>2007</b>	<b>2006</b>
Committed Funds:		
- Encumbrances	\$ 7,541,414	\$ 12,029,099
- Approved Contracts Not Yet Executed (Obligations)	6,951,951	6,581,201
- Restricted Funds Not Yet Obligated	309,143	610,718
- Reserved for Note Receivable	180,000	200,000
- Long Term Portion of Compensated Absences	63,051	43,053
- Reserved for Local Initiatives and Program Sustainability	<u>21,227,807</u>	<u>18,976,636</u>
Total Fund Balance (page 12)	<u>\$ 36,273,366</u>	<u>\$ 38,440,707</u>

**12. REVENUES**

**a) Tobacco Tax and Other Funding**

First 5 receives a proportionate share of Proposition 10 money from First 5 California (formerly California Children and Families Commission) based on the number of live births in the county in comparison to the number of live births statewide. Proposition 10 money received by First 5 also includes Special Funding as explained under Note 13 and Surplus Money Investment Fund allocations by First 5 California.

The Surplus Money Investment Fund allocations represent distributions of interest accrued on statewide Proposition 10 money.

**FIRST 5 SAN MATEO COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**12. REVENUES (CONTINUED)**

**a) Tobacco Tax**

Tobacco tax and other revenues are comprised of:

	<b>2007</b>	<b>2006</b>
Proposition 10 money:		
- Monthly allocation	\$ 8,364,131	\$ 8,825,192
Surplus Money Investment Fund Allocations	50,843	45,680
First 5 CA Special Funding (see Note 13)	<u>1,081,474</u>	<u>1,105,149</u>
Total	<u>\$ 9,496,448</u>	<u>\$ 9,976,021</u>

**b) Private Grants**

The amount represents the following grant received by First 5:

	<b>2007</b>	<b>2006</b>
Fiscal leveraging and fiscal sustainability analysis:		
David and Lucile Packard Foundation	<u>\$ 53,831</u>	<u>\$ -</u>

**c) Other Special Funding**

The amount represents funding grant received by First 5:

	<b>2007</b>	<b>2006</b>
Preschool for All fiscal oversight and monitoring:		
County of San Mateo-Human Services Agency	<u>\$ 250,000</u>	<u>\$ 1,250,000</u>

**13. SPECIAL FUNDING**

First 5 received special funding from First 5 California for the following programs:

- a) School Readiness Initiatives  
First 5 provides funds for school and kindergarten readiness materials and curriculum.
- b) Retention Incentives for Early Care and Education Providers  
First 5 has contracted with Child Care Coordinating Council of San Mateo, Inc., to improve the quality and stability of childcare workforce in San Mateo County.
- c) Power of Preschool (formerly Preschool for All)  
First 5 has contracted with San Mateo County Superintendent of Schools to complete a comprehensive needs assessment for Power of Preschool Program, identify and prioritize preschool facilities and environmental needs in Ravenswood and Redwood City school districts and create plans for having teachers meet high standards by 2010.

**FIRST 5 SAN MATEO COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
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**13. SPECIAL FUNDING (CONTINUED)**

- d) Power of Preschool Technical Assistance  
As approved by California Children and Families Commission, First 5 will provide up to \$600,000 to fund the Technical Assistance for County Commissions on Power of Preschool Program.
- e) Children's Health Initiative  
First 5 has contracted with San Mateo County Health Services Agency to manage and coordinate the Children's Health Initiative Coalition. The coalition was established to develop a health insurance program that provides comprehensive health benefits for children birth through age 18 in eligible families residing in San Mateo County.
- f) Proposition 10 Evaluation Data System (PEDS)  
The California Children and Families Commission provided \$116,705 for First 5 to administer a PEDS technical assistance project for local commissions implementing Power of Preschool and special needs demonstration projects.

The special funding money can be used only for purposes specified under the funding agreements. See Note 12.

The revenues and expenditures of the special funding programs are presented as supplementary information.

**14. CONTRIBUTIONS TO LOCAL PROJECTS**

First 5 awards two types of grants to local projects that promote, assist, and improve the early development of children prenatal through age five – planning grants and implementation grants. Planning grants are designed to allow applicants time and resources to develop an innovative intervention to address a significant opportunity or problem, for which a response does not currently exist or is still evolving. For Round one and Round two funding, planning grants ranged from \$5,000 to \$50,000 annually. For Round three funding, planning grants ranged from \$5,000 to \$25,000 annually. Round four planning grants ranged from \$30,000 to \$35,000 annually. Round five planning grants ranged from \$32,000 to \$35,000 annually. Round six planning grants were \$35,000 annually.

Implementation grants are for agencies and groups that are clear about their goals, objectives, and strategies and are ready to implement their proposed project. For Round One and Round Two funding, implementation grants ranged from \$150,000 to \$500,000 annually up to a maximum of thirty-six months. For Rounds Three, Four and Five funding, implementation grants ranged from \$30,000 to \$220,000 for a maximum of twenty-four months. The Round Six implementation grants ranged from \$94,300 to \$302,800 annually for a maximum of eighteen months.

In fiscal year 2000/2001, First 5 awarded Round One funding of \$4,909,663 and Round Two funding of \$ 6,037,680 to twenty-one local projects that promote, assist, and improve the early development of children prenatal through age five. First 5 subsequently increased

**FIRST 5 SAN MATEO COUNTY  
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**14. CONTRIBUTIONS TO LOCAL PROJECTS (CONTINUED)**

Round One and Round Two funding amounts by \$2,909,915. In fiscal year 2001/2002, First 5 awarded Round 3 funding of \$541,750 to seven local projects. In fiscal year 2002/2003, First 5 awarded Round 4 funding of \$750,264 to six local projects and awarded strategic initiatives totaling \$3,600,000 (\$3,000,000 for Pre-to-Three and \$600,000 for Smart Kids).

In fiscal year 2003/2004, First 5 awarded Round 1 Continuation funding of \$3,891,760, Round 2 Continuation funding of \$8,351,040, Strategic Initiatives funding of \$7,500,000 and Special Projects funding of \$483,476.

In fiscal year 2004/2005, First 5 awarded Round Five Planning and Implementation funding of \$135,586 and \$1,023,850 respectively, Strategic Initiatives funding of \$8,750,000 and State Funded Programs funding of \$1,749,254.

In fiscal year 2005/2006, First 5 awarded Round Six Planning funding of \$140,000 for fiscal year 2006/2007.

In fiscal year 2006/2007, First 5 awarded Round Six Implementation funding of \$1,502,618 for fiscal year 2006/2007.

Grant contributions spent during fiscal year 2006/2007:

**Round One Continuation funding:**

San Mateo County Community College District/Canada College-“Book Project”	\$ 214,210
Shelter Network-“0-5 Children’s Center”	282,614
San Mateo County Department of Health Services	175,800
Silicon Valley Community Foundation-“KTK”	<u>478,296</u>
Subtotal	<u>\$ 1,150,920</u>

**Round Two funding:**

Daly City Partnership-“Our Second Home”	\$ 339,931
Leland Stanford Junior University-“Premie Project”	357,283
Redwood City 2020-“Family Centers”	233,926
San Mateo County Department of Health Department-“WIC”	248,480
San Mateo-Foster City School District –“Kids and Families 1 <sup>st</sup> ”	267,132
Youth and Family Enrichment Services-“Healthy Homes Project”	<u>382,346</u>
Subtotal	<u>\$ 1,829,098</u>



**FIRST 5 SAN MATEO COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
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**14. CONTRIBUTIONS TO LOCAL PROJECTS (CONTINUED)**

**Round Five funding:**

Lucile Packard Children's Hospital-"Breastfeeding Support"	\$ 93,696
Legal Aid Society of San Mateo County-"Medical-Legal Collaborative"	152,650
Shelter Network-"First Step Child Development Center"	110,000
4C's (Father Involvement Program)	61,810
4C's (Early Childhood Mental Health Initiative)	<u>77,337</u>
Subtotal	<u>\$ 495,493</u>

**Round Six funding:**

Family Services Agency-"Father Support"	\$ 34,995
Jewish Family and Children Services-"Parent's Place"	35,000
Redwood City School District-"Redwood City EvenStart"	23,950
Shelter Network-"Parents Needs Assessment"	35,000
United Cerebral Palsy	9,862
Community Gatepath	14,346
Lucile Packard Children's Hospital	31,070
Child Care Coordinating Council	<u>25,305</u>
Subtotal	<u>\$ 209,528</u>

**Strategic Initiatives:**

**Power of Preschool:**

San Mateo Superintendent of Schools	2,980,384
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**Retention Incentives for Early Care Providers (SamCares):**

Child Care Coordinating Council	501,891
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**School Readiness (Phase 2):**

Peninsula Community Foundation	1,015,318
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**Healthy Kids Initiative:**

Health Service Division of Public Health	2,126,944
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**Early Brain Development Strategic Initiative:**

San Mateo County Department of Health Services-"Prenatal to Three Initiative"	1,000,000
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**Smart Kids Initiative:**

Child Care Coordinating Council	323,167
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**FIRST 5 SAN MATEO COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**14. CONTRIBUTIONS TO LOCAL PROJECTS (CONTINUED)**

**Other Contributions:**

<b>First 5 Service Corps Study:</b>	
Child Care Coordinating Council	141,633
Various refunds	<u>(711)</u>
Total – Net of Long-Term Deferrals	11,773,665
Long-Term Deferrals	<u>651,502</u>
Total	<u><u>\$12,425,167</u></u>

**15. BUDGETARY ACCOUNTING**

As discussed under Note 1(d), First 5 does not include liability for compensated absences, postemployment benefits other than pensions, and unrealized gains and losses under GASB 31 in its budget.

The actual net change in fund balance under budgetary basis on page 13 is reconciled to the net change in fund balance under GAAP basis on page 12 as follows:

	<b>2007</b>	<b>2006</b>
Excess (deficiency) of revenues over expenditures/ net change in fund balance – budgetary basis	\$ (2,500,111)	\$ 619,974
Expenditure related to liability for postemployment benefits other than pensions	(14,995)	(11,130)
Expenditures related to liability for compensated absences	(19,998)	(1,303)
Unrealized gains (losses) under GASB 31	<u>367,763</u>	<u>(417,270)</u>
Excess (deficiency) of revenues over expenditures/ net change in fund balance	<u>\$ (2,167,341)</u>	<u>\$ 190,271</u>

**16. GRANTS COMMITMENTS**

At June 30, 2007, First 5's commitments to grantees were as follows:

	<b>2007</b>	<b>2006</b>
Round one funding	\$ 18,017	\$ 508,257
Round two funding	-	1,864,039
Round five funding	18,085	167,548
Round six funding	<u>1,205,084</u>	<u>-</u>
Total	<u>\$ 1,241,186</u>	<u>\$ 2,539,844</u>

**FIRST 5 SAN MATEO COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2007**

**17. OTHER GRANT COMMITMENTS**

As of June 30, 2007, First 5's commitments to strategic initiatives and other programs were as follows:

	<b>2007</b>	<b>2006</b>
Strategic Initiatives:		
Healthy Kids	\$ -	\$ 3,104,293
Smart Kids	339,836	700,000
Service Corps Initiative	113,727	84,962
Power of Preschool Initiative	-	5,600,000
SamCares	664,796	-
Pre-to-3	1,750,000	-
School Readiness Initiative	<u>3,431,869</u>	<u>-</u>
Total	<u>\$ 6,300,288</u>	<u>\$ 9,489,255</u>

**18. PROGRAM EVALUATION**

The commission spent \$152,387 on program evaluation during the audit period.

**19. RISK MANAGEMENT**

First 5 is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. The County of San Mateo, through its self-insurance program, provides First 5 with Worker's Compensation and Employer Liability Insurance. First 5 compensates the County for maintaining such insurance. The County Counsel provides legal representation for any claims or litigation of First 5.

Claims have not exceeded coverage in any of the past three fiscal years and there has not been a significant reduction in coverage in fiscal year 2006-07.

**FIRST 5 SAN MATEO COUNTY  
REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2007**

**REQUIRED SUPPLEMENTARY INFORMATION  
(In Thousands)**

**1) SCHEDULE OF FUNDING PROGRESS-OTHER POSTEMPLOYMENT BENEFITS**

The actuarial value of assets and actuarial accrued liability are obtained from the latest actuarial report.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
7/1/2005	\$ -	135,678	135,678	0.0%	\$ 323,340	42.0%
1/1/2007	\$ -	\$ 169,683	\$ 169,683	0.0%	372,648	45.5%

**2) SCHEDULE OF FUNDING PROGRESS-PENSION**

The actuarial value of assets and actuarial accrued liability are obtained from the latest actuarial report.

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL)-Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/04	\$ 1,452,621	\$ 1,921,328	\$ 468,707	75.6%	\$ 363,385	128.28%
6/30/05	1,615,585	2,177,759	562,174	74.2%	334,515	168.16%
6/30/06	1,769,021	2,345,149	576,128	75.4%	363,648	158.43%

## Supplementary Information

### First 5 San Mateo County School Readiness Program Schedules of Revenues, Expenditures, and Changes in Fund Balance For the Years Ended June 30, 2007 and 2006

	2007	2006
<b>Revenues</b>		
Program implementation	\$ 100,000	\$ -
State - matching funds	574,237	556,304
Total Revenues	<u>674,237</u>	<u>556,304</u>
<b>Expenditures</b>		
Salaries and benefits - School Readiness Coordinator	50,000	23,571
Other administrative expenditures	1,950	-
Distribution to School Districts	496,121	672,861
Total Expenditures	<u>548,071</u>	<u>696,432</u>
Excess (Deficiency) of Revenues over Expenditures	126,166	(140,128)
Fund balance - beginning	-	140,128
<b>Fund Balance - Ending</b>	<u><u>\$ 126,166</u></u>	<u><u>\$ -</u></u>

**Supplementary Information**

**First 5 San Mateo County  
Retention Incentives for Early Care and Education Providers  
Schedules of Revenues, Expenditures, and Changes in Fund Balance  
For the Years Ended June 30, 2007 and 2006**

	<b>2007</b>	<b>2006</b>
Revenue	<u>\$ 101,209</u>	<u>\$ 140,300</u>
Expenditure	<u>101,209</u>	<u>140,300</u>
Excess of Revenue over Expenditure	-	-
Fund balance - beginning	<u>-</u>	<u>-</u>
<b>Fund Balance - Ending</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

## Supplementary Information

### First 5 San Mateo County Power of Preschool (formerly Preschool for All) Schedules of Revenues, Expenditures, and Changes in Fund Balance For the Years Ended June 30, 2007 and 2006

	2007	2006
Revenue	<u>\$ 100,000</u>	<u>\$ 100,000</u>
Expenditure	<u>460,623</u>	<u>408,600</u>
Excess (Deficiency) of Revenue over Expenditure	(360,623)	(308,600)
Fund balance - beginning	<u>543,600</u>	<u>852,200</u>
<b>Fund Balance - Ending</b>	<u><u>\$ 182,977</u></u>	<u><u>\$ 543,600</u></u>

**Supplementary Information**

**First 5 San Mateo County  
Power of Preschool Technical Assistance Project  
Schedules of Revenues, Expenditures, and Changes in Fund Balance  
For the Years Ended June 30, 2007 and 2006**

	2007	2006
<b>Revenue</b>		
State funds	\$ -	\$ -
<b>Expenditures</b>		
Salaries and benefits	-	57,308
Professional Services	-	172,470
Other administrative expenditures	13,914	14,394
Total Expenditures	13,914	244,172
Excess (Deficiency) of Revenue over Expenditures	(13,914)	(244,172)
Fund balance - beginning	13,914	258,086
<b>Fund Balance - Ending</b>	<b>\$ -</b>	<b>\$ 13,914</b>



**Supplementary Information**

**First 5 San Mateo County  
Children's Health Initiative  
Schedules of Revenues, Expenditures, and Changes in Fund Balance  
For the Years Ended June 30, 2007 and 2006**

	<b>2007</b>	<b>2006</b>
<b>Revenue</b>		
State Funds	<u>\$ 206,028</u>	<u>\$ 191,840</u>
<b>Expenditure</b>		
Premium Costs	<u>206,028</u>	<u>191,840</u>
Excess of Revenue over Expenditure	-	-
Fund balance - beginning	<u>-</u>	<u>-</u>
<b>Fund Balance - Ending</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

Supplementary Information

First 5 San Mateo County  
Evaluation Data System (PEDS)  
Schedules of Revenues, Expenditures, and Changes in Fund Balance  
For the Years Ended June 30, 2007 and 2006

	2007	2006
Revenue	<u>\$ -</u>	<u>\$ 116,705</u>
Expenditure	<u></u>	<u>116,705</u>
Excess of Revenue over Expenditure	-	-
Fund balance - beginning	<u>-</u>	<u>-</u>
<b>Fund Balance - Ending</b>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>