FIRST 5 SAN MATEO COUNTY

Financial Statements
With Auditor's Reports Thereon

June 30, 2008 and 2007

FIRST 5 SAN MATEO COUNTY

FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

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Independent Auditor's Report

To the California Children and Families Commission and
First 5 San Mateo County
San Mateo, California

We have audited the accompanying financial statements of the governmental activities of the First 5 San Mateo County, a component unit of the County of San Mateo, California, as of and for the years ended June 30, 2008 and 2007, which collectively comprise the First 5 San Mateo County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of First 5 San Mateo County's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the First 5 San Mateo County, California, as of June 30, 2008 and 2007, and the changes in its financial position and the budgetary comparison for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1(f) to the basic financial statements, effective July 1, 2007, the First 5 San Mateo County adopted the provisions of Governmental Accounting Standards Board Statement No. 50, *Pension Disclosures*.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 16, 2008 on our consideration of the First 5 San Mateo County's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audits.

The Management's Discussion and Analysis on pages 3 through 7, 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
October 16 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

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 $63 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, 2008.

Financial Highlights

- The assets of First 5 San Mateo County exceeded its liabilities for the fiscal year ended June 30, 2008 by $35,942,641 *(net assets)*. Of this amount, $164,235 is restricted for the School Readiness Initiative *(restricted net assets);* $160,000 is reserved for a note receivable (Our Daly City Partnership-Our Second Home Family Resource Center); $304,296 is the net long-term portion of Other Post Employment Benefits (OPEB) asset (obligation) *(committed)*; $13,603,479 is encumbered and obligated for current grants*;* and $21,710,631 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)* decreased by $420,277 or 3.7% 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 8 and 9 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 10 through 12 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 13-33 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 34-38 of this report.

Government-Wide Financial Analysis

As of June 30, 2008, First 5 San Mateo County's assets exceeded liabilities by $35,942,641.

Net Assets

	2008	2007	2006
Total Assets	$ 42,242,345	$ 47,706,872	$ 46,462,310
Total Liabilities	6,299,704	10,539,183	8,064,656
Total Net Assets	**$ 35,942,641**	**$ 37,167,689**	**$ 38,397,654**
Net Assets:			
Restricted	164,235	309,143	557,514
Unrestricted – Committed to programs	35,778,406	36,858,546	37,840,140

- First 5 San Mateo County's total assets decreased by $5,464,527 or 11%. The decrease was due to decreases in cash and cash equivalents, securities lending collateral, and deferred contributions.
- First 5 San Mateo County's total liabilities decreased by $4,239,479 or 40%. The decrease was due to decreases accounts payable *(monies due to organizations who have been awarded funding for local projects)* and securities lending collateral due.

- First 5 San Mateo County's net assets decreased by $1,225,048 or 3%. 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

	2008	2007	2006
Program Revenues	$ 9,714,181	$ 9,800,279	$ 11,226,021
General Revenues	1,785,014	2,038,142	910,274
Expenses	12,724,243	13,068,386	11,947,327
Change in Net Assets	**(1,225,048)**	**(1,229,965)**	**188,968**
Net Assets - beginning, restated	37,167,689	38,397,654	38,208,686
Net Assets - ending	$ 35,942,641	$ 37,167,689	$ 38,397,654

- Program Revenues decreased by $86,098 (0.9%) and General Revenues decreased by $253,128 (12%). The decreases are primarily due to a slight decrease of Proposition 10 allocations and funding from First 5 California for special projects and a decrease in investment earnings due to declining interest rates.
- Expenses decreased by $344,143 (2.6%). A majority of the decrease is a decrease in grant contributions spent for significant funding commitments awarded by First 5 San Mateo County through Strategic Initiatives.

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, 2008, First 5 San Mateo County reported a fund balance of $35,845,204, a decrease of $950,240 (3%) from the prior year. The decrease represents the amount of expenditures in excess of revenues. The fund balance is lower than the net assets of $35,942,641 by $97,437. The difference includes the long-term portion of the compensated absences liability of ($54,711) and the net OPEB asset of $152,148 for post-employment benefits. 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, 2008, 38% 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 FY2007-08 totaled $14.6 million. The budget closeout revealed a savings of $2.3 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:

- An increase in investment earnings of $.7 million.
- A decrease in contributions to local projects of $2.1 million.
- A reduction in administrative expenses (salaries and benefits) of $ .2 million.

The budgetary comparison statement can be found on page 12 of this report.

Beyond FY2007-08

To date, First 5 San Mateo County has invested over $63 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, 2008, 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 (Prenatal to Three); and Child Care & Early Learning (SmartKids). The strategic initiatives alone represent an investment of almost $6 million per year in the community.

Revenue for FY 2008-09 is estimated at $10.7 million. This projection includes Proposition 10 monthly allocations in addition to matched funding from First 5 California that is designated for special projects such as the School Readiness Initiative, Preschool for All, and CARES Recruitment and Retention Program.

During this past year, the Commission met, discussed and analyzed community needs, program related information, and financial data which built upon the System of Care framework that the Commission had developed in 2006. A Strategic Planning Ad Hoc Advisory Committee was formed to begin a comprehensive revision of the Strategic Plan to ensure that the System of Care strategies were aligned with desired outcomes.

As a result, a multi-year Strategic Plan (2009-2015) was presented and approved by the Commission at a public hearing on September 22, 2008. This revised strategic plan incorporates an updated overall evaluation approach that uses a single external evaluator to work with grantees. Under an umbrella of eight desired outcomes, the strategic plan is organized by four focus areas (System of Care): Early Learning, Child Health and Development, Family Support and Engagement, and Communication and Systems Change.

During the 2008 strategic planning process, the Finance and Administration Committee and the Ad Hoc Strategic Planning Advisory Committee provided guidance for the development of a revised Long-Term Financial Plan which targets specific percentages for each focus area within the System of Care. This Plan was approved by the Commission at a public hearing on September 22, 2008. Because future Proposition 10 revenue is expected to decline, the Plan uses a step-down funding approach for making investments in three-year cycles. During the three years of Cycle One, First 5 anticipates making investments totaling about $30.3 million. By continuing to collaborate with the community and grantees, First 5 anticipates working with their investment partners to promote service delivery improvement and systems change strategies to provide a comprehensive, culturally and linguistically competent, family-focused system of care for children 0-5 in San Mateo County.

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 will continue to strategically approach funding decisions utilizing its long-term financial planning process. First 5 works 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, 2008 and 2007

	Governmental Activities	
	2008	**2007**
Assets		
Cash and cash equivalents (Note 2)	$ 35,870,286	$ 37,074,220
Securities lending collateral (Note 2f)	3,590,146	6,868,603
Intergovernmental receivable (Note 3)	1,957,060	1,685,864
Accounts receivable (Note 4)	104,662	229,900
Interest receivable	290,788	428,257
Note receivable (Note 5)	160,000	180,000
Deferred contributions (Note 6)	117,255	1,240,028
Net OPEB Asset (Note 10)	152,148	-
Total Assets	$ 42,242,345	$ 47,706,872
Liabilities		
Deferred revenue	$ 23,119	$ 46,169
Accounts payable (Note 7)	2,581,758	3,492,705
Salaries and benefits payable	46,956	42,530
Securities lending collateral due (Note 2f)	3,590,146	6,868,603
Net OPEB obligation (Note 10):		
Payable in more than one year	-	26,125
Compensated absences (Note 8):		
Payable within one year	3,014	-
Payable in more than one year	54,711	63,051
Total Liabilities	6,299,704	10,539,183
Net Assets		
Restricted for (Note 13):		
School Readiness Initiative	164,235	126,166
Preschool for All Program	-	182,977
Unrestricted	35,778,406	36,858,546
Total Net Assets	$ 35,942,641	$ 37,167,689

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, 2008 and 2007

	Governmental Activities	
	2008	**2007**
Expenses:		
Salaries and wages	$ 771,842	$ 853,042
Employee benefits	314,891	351,480
General office supplies	67,605	49,713
Professional services	465,919	279,884
Other administrative expenses	56,470	66,474
Contributions to local projects (Note 14)	11,047,516	11,467,793
Total Program Expenses	12,724,243	13,068,386
Program Revenues:		
Operating grants and contributions:		
Tobacco tax (Note 12a)	9,441,131	9,496,448
Other special funding (Note 12c)	250,000	250,000
Private grant (Note 12b)	23,050	53,831
Total Program Revenues	9,714,181	9,800,279
Net Program Revenue (Expense)	(3,010,062)	(3,268,107)
General Revenues (Expenses):		
Securities lending activities:		
Securities lending income	208,520	297,331
Securities lending expenses	(179,027)	(290,104)
Investment earnings	1,565,354	2,030,915
Other revenue	190,167	-
Change in Net Assets	(1,225,048)	(1,229,965)
Net assets - beginning, as restated (Note 22)	37,167,689	38,397,654
Net Assets - Ending	$ 35,942,641	$ 37,167,689

The accompanying notes are an integral part of these financials statements

First 5 San Mateo County
Balance Sheets
June 30, 2008 and 2007

	2008	2007
Assets		
Cash and cash equivalents (Note 2)	$ 35,870,286	$ 37,074,220
Securities lending collateral (Note 2f)	3,590,146	6,868,603
Intergovernmental receivable (Note 3)	1,957,060	1,685,864
Accounts receivable (Note 4)	104,662	229,900
Interest receivable	290,788	428,257
Deferred contributions (Note 6)	117,255	778,607
Note receivable (Note 5)	160,000	180,000
Total Assets	$ 42,090,197	$ 47,245,451
Liabilities and Fund Balance		
Liabilities		
Deferred revenue	$ 23,119	$ 46,169
Accounts payable (Note 7)	2,581,758	3,492,705
Salaries and benefits payable	46,956	42,530
Compensated absences (Note 8)	3,014	-
Securities lending collateral due (Note 2f)	3,590,146	6,868,603
Total Liabilities	6,244,993	10,450,007
Fund balance (Note 11)		
Reserved for:		
School Readiness Initiative	164,235	126,166
Power of Preschool Program	-	182,978
Note receivable (Note 5)	160,000	180,000
Unreserved	35,520,969	36,306,300
Total Fund balance	35,845,204	36,795,444
Total Liabilities and Fund Balance	$ 42,090,197	$ 47,245,451

Reconciliation of Fund Balance Sheet to the Statement of Net Assets:

	2008	2007
Total fund balance - from above	$ 35,845,204	$ 36,795,444
Amounts reported in the Statement of Net Assets are different because:		
Long-term portion of an asset is not available to pay for current-period expenditures and, therefore, is deferred in the fund.		
Deferred contributions	-	461,421
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the fund		
Net OPEB asset (obligation)	152,148	(26,125)
Compensated absenses	(54,711)	(63,051)
Net Assets (page 9)	$ 35,942,641	$ 37,167,689

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, 2008 and 2007

	2008	2007
Revenues		
Tobacco tax (Note 12a)	9,441,131	$ 9,496,448
Other Special Funding (Note 12c)	250,000	250,000
Investment earnings	1,565,354	2,030,915
Securities lending income	208,520	297,331
Private grant (Note 12b)	23,050	53,831
Total Revenues	11,488,055	12,128,525
Expenditures		
Salaries and benefits	1,083,179	1,169,529
Services and supplies	589,994	396,071
Securities lending expenditures	179,027	290,104
Contributions to local projects (Note 14)	10,586,095	11,929,214
Total Expenditures	12,438,295	13,784,918
Excess (Deficiency) of Revenues over Expenditures/ Net Change in Fund Balance	(950,240)	(1,656,393)
Fund balance - beginning, as restated (Note 22)	36,795,444	38,451,837
Fund Balance - Ending	$ 35,845,204	$ 36,795,444

Reconciliation of the Change in Fund Balance to the Change in Net Assets in the Statement of Activities:

	2008	2007
Net change in fund balance - from above	$ (950,240)	$ (1,656,393)
Amounts reported in the Statement of Activities are different because:		
Changes in long-term portion of assets and liabilites do not provide or require the use of current financial resources and, therefore, are not reported in governmental funds:		
Change in deferred Contributions	(461,421)	461,421
Change in net OPEB obligation/asset	178,273	(14,995)
Change in compensated absences	8,340	(19,998)
Change in Net Assets (page 9)	$ (1,225,048)	$ (1,229,965)

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, 2008

	Budgeted Amounts Note 1(d)		Actual Amounts-Budgetary Basis	Variance with Final budget - Positive
	Original	**Final**	**(Note 15)**	**(Negative)**
Revenues				
Tobacco tax (Note 12a)	$ 9,780,201	$ 9,780,201	$ 9,441,131	$ (339,070)
Investment earnings	1,100,000	1,100,000	1,825,122	725,122
Other Special Funding (Note 12c)	-	-	250,000	250,000
Private Grant (Note 12b)	-	-	23,050	23,050
Total Revenues	10,880,201	10,880,201	11,539,303	659,102
Expenditures				
Salaries and benefits	1,276,253	1,276,253	1,080,165	196,088
Services and supplies	602,696	602,696	589,994	12,702
Contributions to local projects (Note 14)	12,691,029	12,691,029	10,586,095	2,104,934
Total Expenditures	14,569,978	14,569,978	12,256,254	2,313,724
Excess (Deficiency) of Revenue Over Expenditures/ Net Change in Fund Balance			(716,951)	
Fund balances - beginning			36,288,189	
Fund Balances - Ending			35,571,238	

The accompanying notes are an integral part of these financial statements

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 Commission 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 8 and 9) are reported using the *economic resources measurement focus* and the *accrual* basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Contributions to 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.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

f) Implementation of Governmental Accounting Standards Board (GASB) Statement No. 50

First 5 has implemented GASB Statement No. 50, *Pension Disclosures, an amendment to GASB Statements No. 25 and No. 27.* This Statement amends note disclosures and required supplementary information (RSI) standards of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* and Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, to conform with applicable changes adopted in Statement No. 43*, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans,* and Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*

Specifically, Statement No. 50 requires the following additional disclosures for sole employer plans:

- Disclosures of legal or contractual maximum contribution rates, if applicable.

- Disclosure in the notes to the financial statements of pension plans and certain employer governments for the current funded status of the plan-the degree to which the actuarial accrued liabilities for benefits are covered by assets that have been set aside to pay the benefits-as of the most recent actuarial date.

- Governments that use the aggregate actuarial cost method to disclose the funded status and present a multi-year schedule of funding progress using the entry age actuarial cost method as a surrogate.

- Disclosure by governments participating in multi-employer cost-sharing pension plans of how the contractually required contributions rate is determined.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

- Information about actuarial methods and assumptions used in valuations, including (a) disclosure that the required schedule of funding progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits; (b) disclosures that the projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations, if applicable; and (c) in the disclosure of actuarial methods and significant assumptions required by paragraph 21c of Statement 27, if the assumptions used to determine the annual required contribution for the current year and the information required by paragraph 8a of Statement 50 contemplate different rates for successive years, the rates that should be disclosed are the initial and ultimate rates.

This Statement makes disclosures of pension benefits more informative and understandable. The County's pension plan is disclosed in Note 9 and is presented in accordance with the requirements set forth in Statement 50.

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. The change in fair value for the year is recorded as unrealized gain or loss and reported as part of investment 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.

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 $35,870,286 (2007: $37,074,220). The contractual withdrawal value (book value) was $36,100,561 (2007: $37,378,528).

2. CASH AND CASH EQUIVALENTS (continued)

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	10
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

2. CASH AND CASH EQUIVALENTS (continued)

At June 30, 2008, the County Pool was invested in the following securities:

Investment Type	Interest Rate	Maturities	Weighted Average Maturity (Years)	Rating
U.S. government securities:				
Not on securities loan	3.125%-3.50%	9/15/08-5/31/13	4.72	Exempt
Loaned securities for cash collateral	2.50%-3.50%	9/15/08-5/31/13	4.84	Exempt
U.S. government agency securities:				
Not on securities loan	2.27%-3.875%	9/15/08-4/21/11	1.52	AAA
Loaned securities for cash collateral	2.375%-3.75%	9/15/08-5/29/13	3.37	AAA
Floating rate securities	2.310%-2.747%	7/25/08-9/01/08	0.11	AAA
Negotiable certificates of deposit	2.44%-3.22%	7/7/08-6/12/09	0.15	A+, AA-, AA+
Asset-backed Securities	5.20%	2/16/10	1.63	AAA
Repurchase agreements	1.60%	7/01/08	<0.01	AAA
Commercial paper	2.15%-3.08%	7/01/08-8/04/08	0.02	A1, A1+
Corporate bonds	2.875%-5.625%	8/01/08-5/20/13	1.88	A, A+, AA, AA-, AAA
Floating rate securities	2.478%-4.778%	7/08/08-9/23/08	0.12	A, A-, A+, AA, AA-, AA+, AAA, BBB+
Money Market Funds	2.31%	7/31/08	.08	Not Rated
Local Agency Investment Fund (LAIF)	4.00%	7/31/08	0.08	Not Rated

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

Concentration of credit risk is the risk of loss attributed to the magnitude of the County Pool’s investments in a single issuer of securities. 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, and the bankers’ acceptances to 15% of its investment pool and to 10% per issuer.

2. CASH AND CASH EQUIVALENTS (continued)

At June 30, 2008, the County Pool had 12.97% of its investment pool in Federal Home Loan Mortgage Corporation, 3.93% in Federal Home Loan Bank, 4.77% in Federal National Mortgage Association, 0.67% in Federal Farm Credit Bank, 30.35% in corporate bonds, and 14.19% 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.

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. Duration is a measure of the price sensitivity of a fixed income portfolio to changes in interest rate. Duration is calculated as the weighted average time to receive interest and principle payments. The longer the duration of the portfolio, the greater its price sensitivity to changes in interest rates. The County Pool manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to 5 years or less in accordance with its investment policy. As of June 30, 2008, the County Pool had a weighted average maturity of 1.17 years.

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, 2008 and June 30, 2007 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, 2008 and June 30, 2007, all of the cash collateral was invested in repurchase agreements and commercial papers with a weighted average maturity of 22 days (2007: 8 days). Commercial papers are rated at least A1 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, 2008 and 2007.

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.

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, 2008 amounted $3,590,146 (2007: $6,868,603). First 5's prorated share of the underlying securities loaned by the County's investment pool as of June 30, 2008 amounted to $3,522,827 (2007: $6,742,175).

First 5 does not have any exposure to credit risk related to the securities lending transactions as of June 30, 2008 and June 30, 2007, 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.

	2008	2007
Proposition 10 allocation for:		
May	$ 644,511	$ 644,762
June	680,263	737,890
	1,324,774	1,382,652
Power of Preschool	123,725	-
Cares Program	109,318	47,613
Children's Health Initiative	87,709	98,651
Evaluation Data Systems (PEDS)	-	106,105
School Readiness	268,608	-
Surplus Money Investment Fund	42,926	50,843
Total	$ 1,957,060	$ 1,685,864

4. ACCOUNTS RECEIVABLE

Accounts receivable represents amounts due from the following grantees:

	2008	2007
Silicon Valley Community Foundation	$ -	$ 7,959
SMC/Canada College	-	215,290
Shelter Network	3,251	-
Child Care Coordinating Council	99,800	6,651
Lucile Salter Packard Children's Hospital	1,611	-
Total	$ 104,662	$ 229,900

5. NOTE RECEIVABLE

Note receivable of $160,000 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, 2008, $40,000 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, 2008, deferred contributions amounted to $117,255 (2007: $1,240,028). Of this amount, $117,255 (2007: $778,607) 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 2007/2008 are as follows:

Strategic Initiatives:

Child Care Coordinating Council Smart Kids	$ 117,255

7. ACCOUNTS PAYABLE

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

	2008	2007
Funding due to grantees	$ 2,508,787	$ 3,319,013
Services and supplies	72,971	173,692
Total	$ 2,581,758	$ 3,492,705

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 2007/08 was as follows:

Balance July 1, 2007	Additions	Retirements	Balance June 30, 2008	Due Within One Year
$ 63,051	15,183	(20,509)	$ 57,725	$ 3,014

9. EMPLOYEES’ RETIREMENT PLAN

a) Plan Description

*General***.** 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 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. SamCERA is governed by the California Constitution, the 1937 Act, and the by laws, procedures, and policies adopted by the Board of Retirement. SamCERA is not subject to the provisions of the Employee Retirement Income Security Act of 174. Management of SamCERA is vested in the Board of Retirement consisting of nine members; and its operation is governed by the 1937 Act and the bylaws, procedures, and policies adopted by the Board of Retirement. SamCERA issues a publicly available financial report that can be obtained by writing to the San Mateo County Employees’ Retirement Association, 100 Marine Parkway, Suite 125, Redwood Shores, California 94065.

9. EMPLOYEES' RETIREMENT PLAN (continued)

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 has four plans that covers members classified as general, safety or probation. Annual cost-of-living adjustments upon retirement are provided to 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.

b) 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. Participating employers are required by statutes to contribute the amounts necessary to fund the estimated benefits accruing to SamCERA members not otherwise funded by member contributions or expected investment earnings. For the fiscal year ended June 30, 2008, the County's average employer contribution rate was 23.62% of the covered payroll and the average member contribution rate was 9.74%.

c) Annual Pension Cost

For the fiscal year ended June 30, 2008, the County's annual pension cost was equal to the County's required contributions of $105,340. The required contribution was determined at June 30, 2007, 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%). For financial reporting purposes, the projection of benefits does not explicitly incorporate the potential effects of the legal limit on the County's contributions disclosed above under "Funding Policy". The actuarial value of SamCERA's assets was determined using a five-year smoothed method based on the difference the expected market value and the actual market value of the assets as of the valuation date. SamCERA's unfunded actuarial accrued liability (UAAL) is being amortized as a level percentage of projected payroll on a closed basis over the period ending June 30, 2022. The table below presents three-year trend information:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed
6/30/2006	76,090	100.0%
6/30/2007	100,550	100.0%
6/30/2008	105,340	100.0%

9. EMPLOYEES' RETIREMENT PLAN (continued)

As of June 30, 2008, the most recent actuarial valuation date, the plan was 79.1% funded. The actuarial liability for benefits was $2,806,222, and the actuarial value of assets was $2,218,937, resulting in a UAAL of $587,285. The annual covered payroll (annual payroll of active employees covered by the plan) was $416,243, and the ratio of the UAAL to the annual covered payroll was141.09%.

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

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 Retiree Health 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 to a County paid monthly benefit that will partially cover their retiree health premiums. The duration and amount of County paid benefits depend on the amount of sick leave at retirement and the bargaining unit to which the retiree belonged. After the County paid benefits expire, the retiree may continue coverage in the County health plans at their own expense. 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.

The County contracts with Kaiser, Aetna, Blue Shield, and Trades Health to provide health coverage to its active and pre-Medicare retirees (under age 65). These insurers charge the same premium for active and pre-Medicare retirees; therefore, an implicit County subsidy of retiree premiums exists. The County also contracts with Kaiser, Secure Horizon, and Blue Shield to provide supplemental health coverage for retirees enrolled in Medicare (age 65 and above). Medical premiums for retirees enrolled in Medicare are not based on blended active experience; therefore, no premium subsidy exists for retirees enrolled in Medicare. Dental and vision premiums for retirees over age 65 are based on blended active experience; therefore, implicit dental and vision premium subsidy exists for those who enrolled in these plans.

Effective April 1, 2008, the County restructured the retiree healthcare benefits for management, attorney, and confidential employees hired after April 1, 2008 (excluding current non-management employees promoted into management classifications); and elected officials newly elected after April 1, 2008. Under the new policy, their retiree healthcare benefits are capped at $700 per month for each unused eight hours of sick leave at retirement. In-lieu of this change, the County will contribute $100 per month to each eligible employee's retiree health savings account and continue to pay for dental and vision premiums for each unused eight hours of sick leave.

10. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (continued)

A new law, which took effect on January 1, 2008, allows all California government agencies to participate in the California Employers' Retiree Benefits Trust (CERBT). CERBT is an irrevocable trust fund that allows public employers to pre-fund the future cost of their retiree health insurance benefits and other post-employment benefits (OPEB) for their covered employees or retirees. In May 2008, the County elected to participate in CERBT and wire-transfer over $145 million to CalPERS, the CERBT's administrator. The pre-funding was intended to reduce and stabilize the County's annual required contributions (ARC) to its OPEB plan in future years at an expected level for budgeting purposes. CalPERS issued a publicly available financial report that includes financial statements and required supplementary information for CERBT in aggregate. The report maybe obtained by writing to CalPERS, Lincoln Plaza North, 400 'Q" Street, Sacramento, CA 95811.

b) Funding Policy

Contribution requirements of the Retiree Health Plan members and the County are also established and may be amended through negotiations between the County and the bargaining units. For fiscal year ended June 30, 2008, First 5 contributed $194,191 of the actuarially required contributions to the Retiree Health Plan. First 5's contribution included $190,166 of the County's $145 million to CERBT, the pay-as-you-go payment, and the implicit subsidy for retirees.

c) Annual OPEB Cost and Net OPEB Obligation

First 5's annual OPEB cost is equal to (a) the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No.45, plus (b) one year's interest on the beginning balance of the net OPEB obligation, minus (c) an adjustment to the ARC. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost of each year and any unfounded actuarial liabilities (or funding excess) amortized over thirty years.

The prior valuation was performed as of July 1, 2007. In April 2008, the County obtained a new valuation based on revised assumptions on the discount rate (using 7.75% instead of 6.9%) and the projected payroll increases (using 3.25% instead of 4%) to comply with the CalPERS OPEB assumption model. All the other actuarial assumptions are the same as those used for the prior valuation.

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

Annual required contribution	$ 24,577
Annual OPEB cost	11,893
Contribution made	(190,166)
Increase in net OPEB obligation (asset)	(178,273)
Net OPEB obligation (asset) - beginning of year	26,125
Net OPEB obligation (asset) - end of year	$ (152,148)

10. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (continued)

First 5's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current and prior years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Contribution	Net OPEB Obligation (Asset)
6/30/08	11,893	816.0%	(152,148)
6/30/07	25,662	41.6%	26,125
6/30/06	20,505	45.7%	11,130

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)	$ 156,843	*
Actuarial value of plan assets	-	
Unfunded actuarial accrued liability (UAAL)	156,843	
Funded ratio (actuarial value of plan assets/AAL)	0.0%	
Annual covered payroll (active plan members)	$ 397,314	
UAAL as a percentage of covered payroll	39.5%	

Based upon 7.75% discount rate used for FY07/08 ARC

e) Actuarial Methods and Assumptions

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, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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.

10. POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (continued)

In the January 2007, actuarial valuation, the entry age normal cost method was used. The actuarial assumptions included a 7.75% investment rate of return; an annual healthcare cost trend rate of 9% in 2007, reduced by 1% increment each year to an ultimate rate of 5% in the fifth year and beyond; annual dental and vision cost trend rate of 5%, negotiated annual increases in county-paid benefits; and a 3.25% annual increase in projected payroll.

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 $5,560,447 for future payments of awards committed to local projects as of June 30, 2008 (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:

	2008	2007
Committed Funds:		
- Encumbrances	$5,560,447	$ 8,390,673
- Approved Contracts and Amendments to Current Contracts Not Yet Executed (Obligations)	8,043,032	6,951,951
- Restricted Funds Not Yet Obligated	164,235	309,144
- Reserved for Note Receivable	160,000	180,000
- Long-Term Portion of Compensated Absences	54,711	63,051
- Long-Term Portion of Net OPEB Obligation (asset)	152,148	26,125
- Reserved for Local Initiatives and Program Sustainability	21,710,631	20,874,500
Total Fund Balance (page 11)	$ 35,845,204	$ 36,795,444

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.

12. REVENUES (continued)

a) Tobacco Tax

Tobacco tax and other revenues are comprised of:

	2008	2007
Proposition 10 money:		
- Monthly allocation	$ 8,012,611	$ 8,364,131
Surplus Money Investment Fund Allocations	42,926	50,843
First 5 CA Special Funding (see Note 13)	1,385,594	1,081,474
Total	$ 9,441,131	$ 9,496,448

b) Private Grant

The amount represents the following grant received by First 5:

	2008	2007
Fiscal leveraging and fiscal sustainability analysis:		
David and Lucile Packard Foundation	$ 23,050	$ 53,831

c) Other Special Funding

The amount represents funding grant received by First 5:

	2008	2007
Preschool for All fiscal oversight and monitoring:		
County of San Mateo-Human Services Agency	$ 250,000	$ 250,000

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.

d) *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.

13. SPECIAL FUNDING (continued)

The special funding money can be used only for purposes specified under the funding agreements (See Note 12 above). 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 1 and Round 2 funding, planning grants ranged from $5,000 to $50,000 annually; Round 3 planning grants ranged from $5,000 to $25,000 annually; Round 4 planning grants ranged from $30,000 to $35,000 annually; Round 5 planning grants ranged from $32,000 to $35,000 annually; and Round 6 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 1 and Round 2 funding, implementation grants ranged from $150,000 to $500,000 annually up to a maximum of thirty-six months. For Rounds 3, 4 and 5 funding, implementation grants ranged from $30,000 to $220,000 for a maximum of twenty-four months. The Round 6 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 1 funding of $4,909,663 and Round 2 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 Round 1 and Round 2 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 5 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 6 Planning funding of $140,000. In fiscal year 2006/2007, First 5 awarded Round 6 Implementation funding of $1,502,618.

During the current fiscal year, First 5 awarded Round 1 Continuation funding of $220,000, Round 2 Continuation funding of $296,000, Round 5 Continuation funding of $787,000, Round 6 Implementation funding of $368,551, Strategic Initiative funding of $6,025,000, and Special Project funding of $433,492.

14. CONTRIBUTIONS TO LOCAL PROJECTS (continued)

Grant contributions spent during fiscal year 2007/2008:

Round 1 Continuation funding:	
Shelter Network-“0-5 Children’s Center”	$ 7,500
San Mateo County Health Department-“Smoke Free Start”	79,485
Silicon Valley Community Foundation-“KTK”	127,124
Subtotal	$ 214,109
Round 2 funding:	
Daly City Partnership-“Our Second Home”	$ 112,190
Leland Stanford Junior University-“Preemie Project”	69,642
San Mateo County Health Department-“WIC”	63,869
San Mateo-Foster City School District –“Kids and Families 1st”	124,201
Youth and Family Enrichment Services-“Healthy Homes Program”	354,000
Subtotal	$ 723,902
Round 5 funding:	
Lucile Packard Children's Hospital-“Breastfeeding Support”	$ 12,114
4C's-“Father Involvement Program”	11,370
Shelter Network-“First Step Child Development Center”	196,000
4C’s-“Early Childhood Mental Health Initiative	230,511
Subtotal	$ 449,995
Round 6 funding:	
Family Services Agency-“Father Support”	$ 5
South San Francisco	133,466
United Cerebral Palsy	53,882
Community Gatepath	259,386
Community Gatepath-“Demonstration Site”	192,870
Lucile Packard Children’s Hospital	430,954
Legal Aid Society of SMC	33,150
Child Care Coordinating Council	340,519
Subtotal	$ 1,444,232
Strategic Initiatives:	
Preschool for All:	
San Mateo County Office of Education	$ 3,279,337
Healthy Kids Initiative:	
San Mateo County Health Department-Division of Public Health	$ 1,598,954
Early Brain Development Strategic Initiative:	
San Mateo County Health Department-“Pre-to-Three Initiative”	$ 999,998
Smart Kids Initiative:	
Child Care Coordinating Council	$ 376,577

14. CONTRIBUTIONS TO LOCAL PROJECTS (continued)

Special Projects:	
First 5 Service Corps Study:	
Child Care Coordinating Council	$ 218,917
School Readiness:	
Silicon Valley Community Foundation	$ 1,140,077
SamCares:	
Child Care Coordinating Council	$ 630,139
Various refunds	(28,721)
Total per *Statements of Activities* (page 9)	$11,047,516
Less: Prior year long-term deferred contributions	(461,421)
Total per *Statements of Revenues, Expenditures, and Changes in Fund Balance* (page 11)	$10,586,095

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 12 is reconciled to the net change in fund balance under GAAP basis on page 11 as follows:

	2008	2007
Excess (deficiency) of revenues over expenditures/ net change in fund balance – budgetary basis	$ (716,951)	$ (2,004,158)
Expenditures related to liability for compensated absences	(3,014)	(19,998)
Unrealized gains (losses) under GASB 31	(230,275)	367,763
Excess (deficiency) of revenues over expenditures/ net change in fund balance – GAAP basis	$ (950,240)	$ (1,656,393)

16. GRANTS COMMITTMENTS

At June 30, 2008, First 5's commitments to grantees were as follows:

	2008	2007
Round 1 funding	$ 227,963	$ 18,017
Round 5 funding	-	18,085
Round 6 funding	-	1,280,784
Total	$ 227,963	$ 1,316,886

17. OTHER GRANT COMMITMENTS

As of June 30, 2008, First 5's commitments to strategic initiatives and special projects were as follows:

	2008	2007
Smart Kids	$ 612,364	$ 733,208
Service Corps Initiative	390,508	113,727
SamCares	537,369	794,983
Pre-to-3	1,083,390	2,000,000
School Readiness Initiative	2,708,853	3,431,869
Total	$ 5,332,484	$ 7,073,787

18. PROGRAM EVALUATION

The commission spent $241,384 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 2007-08.

20. LEASE OBLIGATIONS

First 5 leases office facilities and other equipment under noncancelable operating leases. Total costs for such leases were $82,115 for the year ended June 30, 2008 (2007: $56,224). The future minimum lease payments for these leases are as follows:

Year Ending June 30,	Amount
2009	$ 93,468
2010	96,219
2011	99,053
2012	101,972
2013	33,731

21. RELATED PARTY TRANSACTIONS

The required composition of the Board of Commissioners includes members from the County and other local governments, community based organizations which serve children, the San Mateo County Superintendent of Schools. Many of the programs funded by First 5 San Mateo are operated by organizations represented by the Commissioners. Commissioners must abstain from voting on issues directly related to their representative organizations.

Organization:	Related Expenditure Amounts
San Mateo County Health Department	$ 2,742,306
San Mateo County Office of Education	3,279,337
Total	$ 6,021,643

22. RESTATEMENT OF BEGINNING FUND BALANCE / NET ASSETS

The beginning fund balance reported in the statements of revenues, expenditures and changes in fund balance for fiscal year 2007 was restated for the cumulative effect of the liability for postemployment benefits other than pensions.

Beginning fund balance for fiscal year 2007, as previously reported	$ 38,440,707
Liability for postemployment benefits other than pensions payable within one year no longer reported in the fund balance sheet	11,130
Beginning fund balance for fiscal year 2007, as restated	$ 38,451,837

The beginning fund balance reported in the statements of revenues, expenditures and changes in fund balance for fiscal year 2008 was restated for the cumulative effect of the liability for postemployment benefits other than pensions; for changes in previously reported expenditures by a grantee and for differences in reporting of liabilities relating to grantee payments.

Beginning fund balance for fiscal year 2008, as previously reported	$ 36,273,366
Liability for postemployment benefits other than pensions payable within one year no longer reported in the fund balance sheet	26,125
Differences in reporting of liabilities relating to grantee payments	495,953
Beginning fund balance for fiscal year 2008, as restated	$ 36,795,444

22. RESTATEMENT OF BEGINNING FUND BALANCE / NET ASSETS (continued)

The beginning net assets in the statements of activities for fiscal year 2008 was restated for the cumulative effect of changes in amounts previously reported as expenditures by a grantee.

Beginning net assets for fiscal year 2008, as previously reported	$ 36,861,827
Prior year amounts reported as expenditures were revised by grantee in the current period.	305,862
Beginning net assets for fiscal year 2008, as restated	$ 37,167,689

23. SUBSEQUENT EVENT

Subsequent to the June 30 fiscal year end, the financial markets experienced a significant decline in value that has been attributed to the credit crisis initiated by the sub-prime mortgage meltdown. The markets are so dynamic and fluid any judgment of the financial statements must be based on current information rather than fiscal year end. As of October 1, 2008, the San Mateo County Investment Pool incurred a charge of $155 million associated with investments relating to Lehman Brothers Holdings Inc. (Lehman), which in September 2008 had filed a petition under Chapter 11 of the U.S. Bankruptcy Code. The $155 million charge for the Lehman investments write-off was shared among the pool participants based on their respective average daily cash balance relative to that of the County Pool. First 5's prorated share of this one-time charge was $2,042,965, which was recorded as an investment loss on October 1, 2008.

FIRST 5 SAN MATEO COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2008
(In Thousands)

1) SCHEDULE OF FUNDING PROGRESS-OTHER POSTEMPLOYMENT BENEFITS

Schedule of funding progress presented below provides a consolidated snapshot of a County's ability to meet current and future liabilities with the plan assets. Of particular interest to most is the funded status ratio. This ratio conveys a plan's level of assets to liabilities, an important indicator to determine the financial health of the OPEB plan. The closer the plan is to a 100% funded status, the better position it will be in to meet all of its future liabilities.

The prior valuation was performed as of July 1, 2005. Due to significant changes to the plan benefits, a new valuation was performed as of January 1, 2007 and covered the fiscal year ended June 30, 2007. The next valuation will be performed biennially as of January 1, 2009 assuming that no other significant changes occur.

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

Schedule of funding progress presents a consolidated snapshot of SamCERA's ability to meet current and future liabilities with plan assets. Of particular interest to most is the funded status ratio. This ratio conveys a plan's level of assets to liabilities, an important indicator to determine the financial health of the pension plan. The closer the plan is to a 100% funded status, the better position it will be in to meet its future liabilities.

The table below presents seven-year historical information about the funding status of the pension plan:

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)
6/30/2002	$ 1,416,821	$ 1,660,566	$ 243,745	85.3%	$ 301,891	80.74%
6/30/2003	1,353,941	1,781,544	427,603	76.0%	323,896	132.02%
6/30/2004	1,452,621	1,921,328	468,707	75.6%	365,385	128.28%
6/30/2005	1,615,585	2,177,759	562,174	74.2%	334,515	168.16%
6/30/2006	1,769,021	2,345,149	576,128	75.4%	363,648	158.43%
6/30/2007	1,976,731	2,555,504	578,773	77.4%	407,812	141.92%
6/30/2008	2,218,937	2,806,222	587,285	79.1%	416,243	141.09%

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, 2008 and 2007

	2008	2007
Revenues		
Program implementation	$ 100,000	$ 100,000
State - matching funds	570,039	574,237
Total Revenues	670,039	674,237
Expenditures		
Salaries and benefits - School Readiness Coordinator	50,000	50,000
Other administrative expenditures	11,931	1,950
Distribution to School Districts	570,039	496,121
Total Expenditures	631,970	548,071
Excess (Deficiency) of Revenues over Expenditures	38,069	126,166
Fund balance - beginning	126,166	-
Fund Balance - Ending	$ 164,235	$ 126,166

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, 2008 and 2007

	2008	2007
Revenue	$ 126,027	$ 101,209
Expenditure	126,027	101,209
Excess of Revenue over Expenditure	-	-
Fund balance - beginning	-	-
Fund Balance - Ending	$ -	$ -

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, 2008 and 2007

	2008	**2007**
Revenue		
Program Implementation	$ 99,622	$ 100,000
State Matching Funds	123,725	-
Total Revenues	223,347	100,000
Expenditure	406,325	460,622
Excess (Deficiency) of Revenue over Expenditure	(182,978)	(360,622)
Fund balance - beginning	182,978	543,600
Fund Balance - Ending	$ -	$ 182,978

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, 2008 and 2007

	2008	2007
Revenue		
State Funds	$ 172,320	$ 206,028
Expenditure		
Premium Costs	172,320	206,028
Excess of Revenue over Expenditure	-	-
Fund balance - beginning	-	-
Fund Balance - Ending	$ -	$ -