

# **FIRST 5 SAN MATEO COUNTY**

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

**June 30, 2006 and 2005**

# **FIRST 5 SAN MATEO COUNTY**

## **FINANCIAL STATEMENTS JUNE 30, 2006 AND 2005**

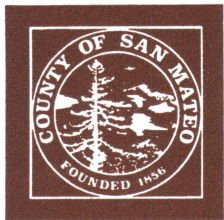
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## Office of Controller



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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 basic financial statements 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, 2006 and 2005. These basic financial statements are the responsibility of the First 5 San Mateo County's management. Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the First 5 San Mateo County of California, as of June 30, 2006 and 2005, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1(e) to the basic financial statements, First 5 elected to early implement Statement No. 45 of Governmental Accounting Standard Board (GASB) - *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which requires governments to account for and report the annual cost and the outstanding obligations related to such benefits in essentially the same manner as pensions. First 5 now reports compensated absences as a current liability in the fund balance sheet only if they have matured, in accordance with the GASB Interpretation No. 6 - *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements (an interpretation of NCGA Statements 1, 4 and 5; NCGA Interpretation 8; and GASB Statements No. 10, 16 and 18)*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2006 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.

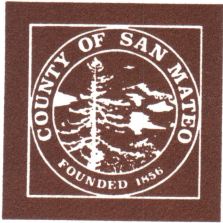
The Management's Discussion and Analysis on pages four through eight and Schedule of Funding Progress-Other Postemployment Benefits on page 32 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied 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 8, 2006

## Office of Controller



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Report on Internal Control over Financial  
Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed  
In Accordance with *Government Auditing Standards*

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

We have audited the basic financial statements 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, 2006 and 2005, and have issued our report thereon dated September 8, 2006. 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.

#### Internal Control Over Financial Reporting

In planning and performing our audits, we considered the First 5 San Mateo County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide opinions on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the basic financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the First 5 San Mateo County's basic financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of First 5 San Mateo County, in a separate letter dated September 8, 2006

This report is intended solely for the information and use of the Commission, management and others within the First 5 San Mateo County and California Children and Families Commission, and is not intended to be and should not be used by anyone other than these specified parties.

*County of San Mateo Controller*

Redwood City, California  
September 8, 2006





## MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR 2005 – 2006

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 \$48 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, 2006.

### FINANCIAL HIGHLIGHTS

- The assets of First 5 San Mateo County exceeded its liabilities at the close of the 2005-2006 fiscal year by \$38,397,654 (*net assets*). Of this amount: \$610,718 is restricted for the Preschool for All Demonstration and Technical Assistance Projects (*restricted net assets*); \$18,610,300 is encumbered (*committed*) for current grant awards and \$19,176,636 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 \$1,129,929 (12%) 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 14-31 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 33-38 of this report.*

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As of June 30, 2006, First 5 San Mateo County's assets exceeded liabilities by \$38,397,654.

### **First 5 San Mateo County Net Assets**

	<b>FY2005/2006</b>	<b>FY2004/2005</b>
Total Assets	\$46,462,310	\$ 45,358,820
Total Liabilities	8,064,656	7,150,134
<b>Total Net Assets</b>	<b>\$38,397,654</b>	<b>\$38,208,686</b>
Net Assets:		
Restricted	610,718	1,250,414
Unrestricted – Committed to programs	37,786,936	36,958,272

**Assets.** First 5 San Mateo County's total assets have increased by \$1,103,490 or 2%.

- 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 \$914,522 or 13%.

- The increase represents higher accounts payable (*monies due to organizations who have been awarded funding for local projects*) in addition to a liability portion of the securities lending collateral. First 5 San Mateo County does not have any exposure to credit risk related to the securities lending transactions as of June 30, 2006.

**Net assets.** First 5 San Mateo County's net assets increased by \$188,968 or less than 1%.

- 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>FY2005/2006</b>	<b>FY2004/2005</b>
Program Revenues	\$11,226,021	\$ 11,883,247
General Revenue	910,274	955,196
Expenses	11,947,327	10,396,456
<b>Change in Net Assets</b>	<b>188,968</b>	<b>2,441,987</b>
Net Assets - beginning	38,208,686	35,766,699
Net Assets - ending	38,397,654	38,208,686

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

- Revenue decreased by \$702,148 (5%). This decrease is a combination of Proposition 10 allocations, interest earnings, and funding from First 5 California for special projects.
- Expenses increased by \$1,550,871 (15%). This increase represents grant contributions spent for significant funding commitments awarded by First 5 San Mateo County through Strategic Initiatives and Request for Proposals.

### 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, 2006, First 5 San Mateo County reported a fund balance of \$38,440,707, an increase of \$190,271 from the prior year. The increase represents the amount of revenue in excess of expenditures which causes cash and cash equivalents to increase. The fund balance of \$38,440,707 is higher than the net assets of \$38,397,654 by \$43,053. The variance is the long-term portion of the compensated absences leave liability that is not reported in the Fund Balance Sheet under current reporting standards as it is not due and payable in the current period.



As of June 30, 2006, 50% 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 FY2005-2006 totaled \$15.8 million. The budget closeout revealed a savings of \$4.3 million, which is the excess (deficiency) of revenue over expenditures compared to the approved budget. Key factors accounting for the budget savings were as follows:

- Revenue exceeded operating budget as Proposition 10 allocations did not decline as anticipated.
- A reduction in administrative expenses and use of outside consultants for services.
- Unanticipated delays for grantees implementing services, thereby reduction in grantee payments.

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

### **Beyond FY2005-2006**

To date, First 5 San Mateo County has invested over \$48 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, 2006, forty-eight projects have been awarded funding through First 5 San Mateo County's Request for Proposals (RFP) Rounds 1-6.

In addition to the RFP awards, First 5 San Mateo County has launched four strategic initiatives providing over \$4.9 million per year in the community through the following programs: 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). First 5 San Mateo County's aggressive work has leveraged approximately \$5 million of state funds over five years and made San Mateo County one of the first counties in California to implement Preschool for All which aims to make quality voluntary preschool available to all 4-year olds.

Revenue for FY 2006-2007 is estimated at \$11.5 million. This projection includes Proposition 10 monthly allocations in addition to funding designated for special projects. First 5 San Mateo County's 10-Year Financial Plan continues to provide the framework for investing Proposition 10 local resources in large-scale, long-term strategic initiatives for systems integration and countywide impact.

During this coming year, First 5 San Mateo County will define its leadership role in the County by bringing greater focus, intentionality and innovation to its policy and funding priorities. Between now and December 2006, First 5 San Mateo County will be updating its strategic initiative approach to funding that will frame and lay the groundwork for prioritizing future funding opportunities. First 5 San Mateo County will also embark on an aggressive approach to better identify and serve young children of all abilities, particularly children with special physical, behavioral, and emotional needs, and will continue to assess critically how to achieve the greatest impact with available funding while using its leadership role as a major advocate for young children. First 5 San Mateo County's revised Strategic Plan document is anticipated for January 2007.

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 Tammy Moss, Executive Director or Debby Armstrong, Deputy Director of Finance and Administration, 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, 2006 and 2005**

	<u>Governmental Activities</u>	
	<b>2006</b>	<b>2005</b>
<b>Assets</b>		
Cash and cash equivalents (Note 2)	\$ 36,911,254	\$ 34,637,174
Securities lending collateral (Note 2)	5,819,632	6,328,189
Intergovernmental receivable (Note 3)	2,153,673	2,168,761
Accounts receivable (Note 4)	6,954	186,862
Interest receivable	387,129	265,006
Note receivable (Note 5)	200,000	200,000
Deferred contributions (Note 6)	983,668	1,572,828
Total Assets	<u>\$ 46,462,310</u>	<u>\$ 45,358,820</u>
<b>Liabilities</b>		
Deferred revenue	\$ 100,000	\$ 100,000
Accounts payable (Note 7)	2,047,961	650,474
Salaries and benefits payable	42,880	29,721
Securities lending collateral due	5,819,632	6,328,189
Postemployment benefits (Note 10):		
Payable within one year	11,130	-
Compensated absences (Note 8):		
Payable after one year	43,053	41,750
Total Liabilities	<u>8,064,656</u>	<u>7,150,134</u>
<b>Net Assets</b>		
Restricted for (Note 13):		
School Readiness Initiative	-	140,128
Preschool for All Program	596,804	852,200
Preschool for All Technical Assistance Project	13,914	258,086
Unrestricted	37,786,936	36,958,272
Total Net Assets	<u>\$ 38,397,654</u>	<u>\$ 38,208,686</u>

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, 2006 and 2005**

	2006	2005
<b>Expenses:</b>		
Salaries and wages	\$ 693,089	\$ 614,949
Employee benefits	238,219	226,259
General office supplies	52,066	55,476
Professional services	919,312	593,168
Other administrative expenses	39,182	31,074
Contributions to local projects (Note 14)	10,005,459	8,875,530
Total Program Expenses	<u>11,947,327</u>	<u>10,396,456</u>
<b>Program Revenues:</b>		
Operating grants and contributions:		
Tobacco tax (Note 12a)	9,976,021	11,842,338
Other Special Funding (Note 12a)	1,250,000	909
Private grants (Note 12b)	-	40,000
Total Program Revenues	<u>11,226,021</u>	<u>11,883,247</u>
Net Program Revenue	(721,306)	1,486,791
<b>General Revenue:</b>		
Securities lending activities:		
Securities lending income	254,637	139,368
Securities lending expenses	(246,461)	(129,600)
Interest earnings	902,098	945,428
Change in Net Assets	188,968	2,441,987
Net assets - beginning	<u>38,208,686</u>	<u>35,766,699</u>
<b>Net Assets - Ending</b>	<u><u>\$ 38,397,654</u></u>	<u><u>\$ 38,208,686</u></u>

The accompanying notes are an integral part of these financials statements

**First 5 San Mateo County**  
**Balance Sheets**  
**June 30, 2006 and 2005**

	2006	2005
<b>Assets</b>		
Cash and cash equivalents (Note 2)	\$ 36,911,254	\$ 34,637,174
Securities lending collateral (Note 2)	5,819,632	6,328,189
Intergovernmental receivable (Note 3)	2,153,673	2,168,761
Accounts receivable (Note 4)	6,954	186,862
Interest receivable	387,129	265,006
Deferred contributions (Note 6)	983,668	1,572,828
Note receivable (Note 5)	200,000	200,000
Total Assets	<u>\$ 46,462,310</u>	<u>\$ 45,358,820</u>
<b>Liabilities and Fund Balance/Net Assets</b>		
<b>Liabilities</b>		
Deferred revenue	\$ 100,000	\$ 100,000
Accounts payable (Note 7)	2,047,961	650,474
Salaries and benefits payable	42,880	29,721
Securities lending collateral due	5,819,632	6,328,189
Postemployment benefits payable (Note 10)	11,130	-
Total Liabilities	<u>8,021,603</u>	<u>7,108,384</u>
<b>Fund balance (Note 11)</b>		
Reserved for:		
School Readiness Initiative	-	140,128
Preschool for All Program	596,804	852,200
Preschool For All Technical Assistance Project	13,914	258,086
Note receivable	200,000	200,000
Unreserved	<u>37,629,989</u>	<u>36,800,022</u>
Total Fund balance	<u>38,440,707</u>	<u>38,250,436</u>
Total Liabilities and Fund Balance	<u>\$ 46,462,310</u>	<u>\$ 45,358,820</u>
 Reconciliation of Fund Balance Sheet to the Statement of Net Assets:		
Fund balance - from above	\$ 38,440,707	\$ 38,250,436
Amounts reported in the statement of net assets are different because:		
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	<u>(43,053)</u>	<u>(41,750)</u>
<b>Net Assets</b>	<u>\$ 38,397,654</u>	<u>\$ 38,208,686</u>

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, 2006 and 2005**

	2006	2005
<b>Revenues</b>		
Tobacco tax (Note 12a)	\$ 9,976,021	\$ 11,842,338
Other Special Funding (Note 12a)	1,250,000	909
Interest earnings	902,098	945,428
Securities lending income	254,637	139,368
Private grants (Note 12b)	<u>-</u>	<u>40,000</u>
Total Revenues	<u>12,382,756</u>	<u>12,968,043</u>
<b>Expenditures</b>		
Salaries and benefits	930,005	842,824
Services and supplies	1,010,560	679,718
Securities lending expenditures	246,461	129,600
Contributions to local projects (Note 14)	<u>10,005,459</u>	<u>8,875,530</u>
Total Expenditures	<u>12,192,485</u>	<u>10,527,672</u>
Excess of Revenues over Expenditures/ Net Change in Fund Balance	190,271	2,440,371
Fund balance - beginning, as restated for 2005 (Note 18)	<u>38,250,436</u>	<u>35,810,065</u>
<b>Fund Balance - Ending</b>	<u><u>\$ 38,440,707</u></u>	<u><u>\$ 38,250,436</u></u>
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	\$ 190,271	\$ 2,440,371
Amounts reported in the Statement of Activities are different because:		
The change in compensated absences payable after one year reported in <i>Statement of Activities</i> does not provide or require the use of current financial resources and, therefore, is not recorded as expenditure in the <i>Statement of Revenues, Expenditures, and Changes</i>	<u>(1,303)</u>	<u>1,616</u>
<b>Change in Net Assets (page 8)</b>	<u><u>\$ 188,968</u></u>	<u><u>\$ 2,441,987</u></u>

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, 2006**

	<u>Budgeted Amounts</u> Note 1(d)		<u>Actual Amounts</u>	<u>Variance with Final budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Tobacco tax (Note 12a)	\$ 9,994,701	\$ 10,002,051	\$ 9,976,021	(\$26,030)
Interest earnings	750,000	800,000	1,327,544	527,544
Other Special Funding (Note 12a)	-	1,250,000	1,250,000	-
Total Revenues	<u>10,744,701</u>	<u>12,052,051</u>	<u>12,553,565</u>	<u>501,514</u>
<b>Expenditures</b>				
Salaries and benefits	919,250	1,026,543	917,572	108,971
Services and supplies	2,312,861	3,514,061	1,010,560	2,503,501
Contributions to local projects (Note 14)	<u>11,207,750</u>	<u>11,257,750</u>	<u>10,005,459</u>	<u>1,252,291</u>
Total Expenditures	<u>14,439,861</u>	<u>15,798,354</u>	<u>11,933,591</u>	<u>3,864,763</u>
Excess (Deficiency) of Revenue Over Expenditures/ Net Change in Fund Balance	(3,695,160)	(3,746,303)	619,974	4,366,277
Fund balances - beginning	<u>32,449,214</u>	<u>36,407,777</u>	<u>38,169,629</u>	<u>1,761,852</u>
<b>Fund Balances - Ending</b>	<u><u>\$28,754,054</u></u>	<u><u>\$32,661,474</u></u>	<u><u>\$38,789,603</u></u>	<u><u>\$6,128,129</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, 2006**

**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 are considered to be *available* when they are collectible within 90 days of the end of the current fiscal period. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable.

**FIRST 5 SAN MATEO COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006**

**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) Accounting Changes**

**Early Implementation of GASB Statement 45**

The County provides healthcare benefits to eligible First 5 retirees who elect to convert their unused sick leave balance to a County paid monthly benefits at a rate of eight hours per month. The duration, amount, and type of County paid benefits depend on the sick leave balance at retirement and the bargaining unit to which the retiree belonged.

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement generally requires that governments account for and report the annual cost of OPEB and the outstanding obligations related to OPEB in essentially the same manner as pensions. Annual OPEB cost for most governments will be based on actuarially determined amounts that, if paid on an ongoing basis, would generally provide sufficient resources to pay benefits as they come due. GASB allows governments to apply this statement prospectively, establish the OPEB liability at zero at the beginning of the initial year of implementation, and does not require governments to fund the OPEB plans. The statement supersedes or amends all previous authoritative guidance on accounting and financial reporting for an employer's OPEB expense and related information. See Note 10.

This year First 5 elected to early implement GASB Statement 45 and established its OPEB liability at zero at the beginning of the initial year of implementation. First 5 recorded an expense/expenditure and a liability for post employment benefits payable of \$11,130 as of June 30, 2006, which increased total liabilities and reduced net assets/fund balance by that amount.

**FIRST 5 SAN MATEO COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**e) Accounting Changes**

**Accounting for Compensated Absences**

First 5 now reports compensated absences, such as unpaid accumulated vacation leave and holidays, as a current liability in the fund balance sheet only if they have matured, for example, as a result of employee resignations and retirements. This change is in accordance with the GASB Interpretation No. 6 – *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements (an interpretation of NCGA Statements 1, 4 and 5; NCGA Interpretation 8; and GASB Statements No. 10, 16 and 18)*. As required by Interpretation 6, the comparative financial statements for fiscal year 2005 were restated to reflect this change.

As a result of this change, there were no balances reported separately for compensated absences payable within one year in the statements of net assets. No liability for compensated absences was reported in the fund balance sheets as of June 30, 2006 and 2005 and the beginning fund balance for fiscal year 2005 reported in the statements of revenues, expenditures and changes in fund balance was restated to reflect the cumulative effect of this change. See Note 18

**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.

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 \$36,911,254 (2005: \$34,637,174). The contractual withdrawal value (book value) was \$37,583,325 (2005: \$34,891,975).

**FIRST 5 SAN MATEO COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**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	-	10	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

At June 30, 2006, the County Pool was invested in the following securities:

Investment Type	Interest Rate	Maturities	Maturity (Years)	Rating
U.S. government securities	2.625%-4.875%	5/15/08-5/31/11	0.82	AAA
U.S. Government agency securities	2.10%-5.50%	7/12/06-04/2/14	0.34	AAA
Certificate of deposit	4.73%-5.05%	7/7/06-12/1/06	-	AA-
Commercial paper-discount	5.02%-5.25%	7/5/06-8/1/06	0.01	A-1
Corporate bonds	2.50%-5.75%	7/1/06-4/25/11	0.18	AAA-A
Asset-backed securities	4.14%	1/15/08	0.01	AAA
Floating rate securities	5.07%-5.56%	1/15/08	0.03	AAA-A
Local Agency Investment Fund (LAIF)	4.53%	On Demand	-	Unrated

**FIRST 5 SAN MATEO COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006**

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

**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, 2006, the County Pool had 6% of its investment pool in Federal Home Loan Mortgage Corporation, 9% in Federal Home Loan Bank, 15% in Federal Home Loan Mortgage Association, 15% in commercial paper, and 22% in corporate bonds and medium term notes. 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. 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, 2006, was 1.39 years. The County investment policy limits the weighted average maturity to 5 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



**FIRST 5 SAN MATEO COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

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

**f) Securities Lending Transactions**

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, 2006 and June 30, 2005 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, 2006 and June 30, 2005, all of the cash collateral was invested in repurchase agreements with weighted average maturity of 3 days (2005: 15.4 days). 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, 2006 and 2005.

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.

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, 2006 amounted \$5,819,632 (2005: \$6,328,189). First 5's prorated share of the underlying securities loaned by the County's investment pool as of June 30, 2006 amounted to \$5,711,206 (2005: \$6,205,626).

First 5 does not have any exposure to credit risk related to the securities lending transactions as of June 30, 2006 and June 30, 2005, 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>2006</b>	<b>2005</b>
Proposition 10 allocation for - May	\$ 765,770	\$ 759,528
- June	<u>811,204</u>	<u>817,528</u>
	1,576,974	1,577,056
Power of Preschool	254,873	350,000
Cares Program	140,300	125,000
Children's Health Initiative	94,141	-
Evaluation Data System (PEDS)	41,705	-
Health Access for All	-	90,800
Surplus Money Investment Fund	<u>45,680</u>	<u>25,905</u>
Total	<u>\$2,153,673</u>	<u>\$2,168,761</u>

**FIRST 5 SAN MATEO COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**4. ACCOUNTS RECEIVABLE**

Accounts receivable represents amounts due from the following grantees:

	<b>2006</b>	<b>2005</b>
Edgewood Center for Children & Families	\$ 5,877	\$ -
La Honda Pescadero Unified School District	-	33,043
Lucille Packard Children's Hospital – Preemie	-	33,411
Parents Leadership Institute	756	-
Smart Kids Initiative	-	120,408
Other	<u>321</u>	<u>-</u>
Total	<u>\$ 6,954</u>	<u>\$186,862</u>

**5. NOTE RECEIVABLE**

Note receivable of \$200,000 represents First 5's eighty percent share of a loan of \$250,000 provided jointly by First 5 and County of San Mateo to a grantee 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. As of June 30, 2006 First 5's share of the total loan amount is sixty seven percent.

The loan is unsecured, bears a zero percent interest rate and will be forgiven at the rate of ten percent for each full year, beginning July 1, 2006, 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 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 six-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, 2006, deferred contributions amounted to \$983,668 (2005: \$1,572,828). First 5 receives refunds or reduces future funding to the grantees for any contributions that are not spent during the funding or extension period.

**FIRST 5 SAN MATEO COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006**

**6. DEFERRED CONTRIBUTIONS (CONTINUED)**

Deferred contributions during fiscal year 2005/2006 are as follows:

**Round One funding:**

SMC Canada College	\$ 197,465
Peninsula Partnership	131,558
Shelter Network Services	50,790
“Smoke Free Start for Families”	<u>83,499</u>
Subtotal	<u>463,312</u>

**Round Two funding:**

Child Care Coordinating Council	
Daly City Partnership	26,190
San Mateo-Foster City School District	28,240
Lucille Packard Children’s Hospital	21,304
H.S.A (Breastfeeding) WIC	<u>954</u>
Subtotal	<u>76,688</u>

**Round Five funding:**

Lucile Salter Packard	15,640
Legal Aid Society	64,750
Shelter Network	11,000
4C’s (father involvement program)	<u>6,819</u>
Subtotal	<u>98,209</u>

**Strategic Initiatives:**

Child Care Coordinating Council Smart Kids	200,235
Child Care Coordinating Council Smart Kids Phase II	<u>60,268</u>
Subtotal	<u>260,503</u>

**Other Contributions:**

Special Projects:

Child Care Coordinating Council	<u>84,956</u>
TOTAL	<u>\$ 983,668</u>

**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>2006</b>	<b>2005</b>
Funding due to grantees	\$ 1,460,583	\$ 350,963
Services and supplies	<u>587,378</u>	<u>299,511</u>
Total	<u>\$ 2,047,961</u>	<u>\$ 650,474</u>

**FIRST 5 SAN MATEO COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006**

**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.

**9. EMPLOYEES' RETIREMENT PLAN**

First 5 employees are part of the defined benefit pension plan administered by the San Mateo County Employees' Retirement Association (SamCERA). The Board of Retirement under the County Employees Retirement Law of 1937 governs SamCERA. For more information on the retirement plan please refer to SamCERA's Comprehensive Annual Financial Report.

**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 2005-06, First 5 contributed \$9,375 to the plan.

**FIRST 5 SAN MATEO COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**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 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>\$ 20,505</u>
Annual OPEB cost (expense)	20,505
Contribution made	<u>(9,375)</u>
Increase in net OPEB obligation	11,130
Net OPEB obligation-beginning of year	<u>-</u>
Net OPEB obligation-end of year	<u>\$ 11,130</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 2005-06, the initial year of GASB Statement No. 45 implementation, is as follows:

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

**d) Funded Status and Funding Progress**

As of July 1, 2005, the most recent actuarial valuation date, the funded status of the plan was as follows:

Actuarial accrued liability (AAL)	218,553
Actuarial value of plan assets	<u>-</u>
Unfunded actuarial accrued liability (UAAL)	<u>218,553</u>
Funded ratio (actuarial value of plan assets/AAL)	0.0%
Covered payroll (active plan members)	\$654,107
UAAL as a percentage of covered payroll	33.4%

**FIRST 5 SAN MATEO COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006**

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

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 July 1, 2005, actuarial valuation, the entry age actuarial cost method was used. The actuarial assumptions included a 4 percent investment rate of return; an annual healthcare cost trend rate of 10 percent initially, reduced by decrements to an ultimate rate of 5 percent in the sixth year and beyond; annual dental and vision cost trend rate of 5 percent, a 2 percent annual increase in county-paid benefit for new retirees per eight hours of sick leave; a 3.75 percent annual increase in projected payroll, and 95 percent eligible retirees elect to convert their sick leave balances to health benefits at the rate of eight hours per month. The actuarial value of the plan's assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a two-year period. The Retiree Health Plan's unfunded actuarial accrued liability is being amortized as a level of percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2006, was twenty-nine years.



**FIRST 5 SAN MATEO COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006**

**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 \$12,029,099 for future payments of awards committed to local projects as of June 30, 2006. 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 & Families Commission requires presentation of fund balance into committed and uncommitted segments.

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

	<b>2006</b>	<b>2005</b>
Committed Funds:		
- Encumbrances	\$12,029,099	\$ 20,991,369
- Approved Contracts Not Yet Executed (Obligations)	6,581,201	
- Restricted Funds Not Yet Obligated	610,718	140,128
- Reserved for Note Receivable	200,000	200,000
- Long Term Portion of Compensated Absences	43,053	
- Reserved for Local Initiatives and Program Sustainability	<u>18,976,636</u>	<u>16,918,939</u>
Total Fund Balance (page 12)	<u>\$38,440,707</u>	<u>\$ 38,250,436</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, 2006**

**12. REVENUES (CONTINUED)**

**a) Tobacco Tax**

Tobacco tax and other revenues are comprised of:

	<b>2006</b>	<b>2005</b>
Proposition 10 money:		
- Monthly allocation	\$ 8,825,192	\$ 9,050,082
Surplus Money Investment Fund Allocations	45,680	190,520
First 5 CA Special Funding (see Note 13)	1,105,149	2,601,736
Other Special Funding	<u>1,250,000</u>	<u>-</u>
Total	<u>\$ 11,226,021</u>	<u>\$ 11,842,338</u>

**b) Private Grants**

The amount represents the following grant received by First 5:

	<b>2006</b>	<b>2005</b>
Fiscal leveraging and fiscal sustainability analysis:		
David and Lucile Packard Foundation	<u>\$ -</u>	<u>\$ 40,000</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.
- 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.

**FIRST 5 SAN MATEO COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006**

**13. SPECIAL FUNDING (CONTINUED)**

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 will provide up to \$150,000 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.

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.

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 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

**FIRST 5 SAN MATEO COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006**

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

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 \$175,000 for fiscal year 2006/2007.

Grant contributions spent during fiscal year 2005/2006:

**Round One Continuation funding:**

San Mateo County Community College District/Canada College	\$ 200,349
Shelter Network	242,146
San Mateo County Department of Health Services-“Smoke Free Start for Families”	203,185
Peninsula Partnership for Children, Youth and Families	<u>257,543</u>
Subtotal	<u>903,223</u>

**Round Two funding:**

Child Care Coordinating Council- “SamCARES”	596,802
Human Services Agency (Breastfeeding) – “WIC”	241,769
Lucille Packard Children’s Hospital	371,705
Daly City Partnership Collaborative	318,628
Redwood City 2020	219,498
San Mateo-Foster City School District –“Kids and Families 1 <sup>st</sup> ”	327,146
Family and Community Enrichment Services – “FACES”	<u>354,107</u>
Subtotal	<u>2,429,655</u>

**Round Four funding:**

La Honda Pescadero Unified School District	33,043
Edgewood Center for Children & Families	15,914
San Mateo County Office of Education	<u>16,501</u>
Subtotal	<u>65,458</u>

**FIRST 5 SAN MATEO COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2006**

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

**Round Five funding:**

Lucile Salter Packard Children's Hospital	93,860
Legal Aid Society	35,250
Shelter Network	99,000
4C's (Father Involvement Program)	75,681
4C's (Early Childhood Mental Health Initiative)	110,000
L Packard Stanford Hospital, Child Obesity Grant	15,898
Parents Leadership Institute	22,030
Family Service Agency	16,498
American Lung Association Child Asthma Grant	<u>23,585</u>
Subtotal	<u>491,802</u>

**Strategic Initiatives:**

**Power of Preschool:**

San Mateo Superintendent of Schools	2,247,472
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**Retention Incentives for Early Care Providers (SamCares):**

Child Care Coordinating Council	140,300
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**School Readiness (Phase 2):**

Peninsula Community Foundation	672,861
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**Healthy Kids Initiative:**

Health Service Division of Public Health	1,708,758
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**Early Brain Development Strategic Initiative:**

San Mateo County Department of Health Services-"Prenatal to Three Initiative"	1,013,139
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**Smart Kids Initiative:**

Child Care Coordinating Council	40,172
Child Care Coordinating Council	<u>158,339</u>
Subtotal	<u>198,511</u>

**Other Contributions:**

**First 5 Service Corps Study:**

Child Care Coordinating Council	138,880
Various refunds	<u>(4,618)</u>

TOTAL	<u>\$ 10,005,459</u>
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**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.

**FIRST 5 SAN MATEO COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**15. BUDGETARY ACCOUNTING (CONTINUED)**

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>2006</b>	<b>2005</b>
Excess of revenues over expenditures/ net change in fund balance – budgetary basis	\$ 618,671	\$ 2,492,181
Expenditure related to liability for compensated absences	-	(2,497)
Expenditure related to liability for postemployment benefits other than pensions	(11,130)	
Unrealized (losses) under GASB 31	<u>(417,270)</u>	<u>(49,313)</u>
Excess of revenues over expenditures/ net change	<u>\$ 190,271</u>	<u>\$ 2,440,371</u>

**16. GRANTS COMMITMENTS**

At June 30, 2006, First 5's commitments to grantees were as follows:

	<b>2006</b>	<b>2005</b>
Round one funding	\$ 508,257	\$ 1,796,022
Round two funding	1,864,039	4,727,637
Round five funding	<u>167,548</u>	<u>700,037</u>
Total	<u>\$ 2,539,844</u>	<u>\$ 7,223,696</u>

**17. OTHER GRANT COMMITMENTS**

As of June 30, 2006, First 5's commitments to strategic initiatives and other programs were as follows:

	<b>2006</b>	<b>2005</b>
Strategic Initiatives:		
Healthy Kids	\$ 3,104,293	\$ 4,024,293
Early Brain Development Strategic Initiative	-	1,000,000
Smart Kids	700,000	1,170,000
Preschool Supply and Demand Study	-	60,000
School Readiness Program	-	662,861
Service Corps Initiative	84,962	264,600
Power of Preschool Initiative	5,600,000	6,440,000
Evaluation – Kindergarten Readiness Assessment	<u>-</u>	<u>120,000</u>
Total	<u>\$ 9,489,255</u>	<u>\$13,741,754</u>



**FIRST 5 SAN MATEO COUNTY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JUNE 30, 2006**

**18. RESTATEMENT OF BEGINNING FUND BALANCE - FISCAL YEAR 2005**

The beginning fund balance reported in the statements of revenues, expenditures and changes in fund balance for fiscal year 2005 was restated for the cumulative effect of applying GASB Interpretation No. 6, discussed in Note 1(e), as follows:

Beginning fund balance for fiscal year 2005, as previously reported	\$ 35,784,146
Liability for compensated absences payable within one year no longer reported in the fund balance sheet	<u>25,919</u>
Beginning fund balance for fiscal year 2005, as restated	<u>\$ 35,810,065</u>

**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 2005-06.

**FIRST 5 SAN MATEO COUNTY**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2006**

**REQUIRED SUPPLEMENTARY INFORMATION**

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

First 5 early implemented GASB Statement 45, this fiscal year. 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	\$ -	\$ 218,553	\$ 218,553	0.0%	\$ 654,107	33.4%

## Supplementary Information

### First 5 San Mateo County School Readiness Program Statements of Revenues, Expenditures, and Changes in Fund Balance For the Years Ended June 30, 2006 and 2005

	2006	2005
<b>Revenues</b>		
Program implementation	-	\$ 100,000
State - matching funds	<u>\$ 556,304</u>	<u>602,861</u>
Total Revenues	<u>556,304</u>	<u>702,861</u>
<b>Expenditures</b>		
Salaries and benefits - School Readiness Coordinator	23,571	74,874
Other administrative expenditures	-	1,685
Distribution to School Districts	<u>672,861</u>	<u>634,012</u>
Total Expenditures	<u>696,432</u>	<u>710,571</u>
Excess (Deficiency) of Revenues over Expenditures	(140,128)	(7,710)
Fund balance - beginning	<u>140,128</u>	<u>147,838</u>
<b>Fund Balance - Ending</b>	<u><u>\$ -</u></u>	<u><u>\$ 140,128</u></u>

## Supplementary Information

### First 5 San Mateo County Retention Incentives for Early Care and Education Providers Statements of Revenues, Expenditures, and Changes in Fund Balance For the Years Ended June 30, 2006 and 2005

	2006	2005
Revenue	\$ 140,300	\$ 125,000
Expenditure	<u>140,300</u>	<u>125,000</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) Statements of Revenues, Expenditures, and Changes in Fund Balance For the Years Ended June 30, 2006 and 2005

	2006	2005
Revenue	\$ 100,000	\$ 1,000,000
Expenditure	<u>355,396</u>	<u>147,800</u>
Excess of Revenue over Expenditure	(255,396)	852,200
Fund balance - beginning	<u>852,200</u>	<u>-</u>
<b>Fund Balance - Ending</b>	<u><u>\$ 596,804</u></u>	<u><u>\$ 852,200</u></u>

## Supplementary Information

### First 5 San Mateo County Power of Preschool Technical Assistance Project Statements of Revenues, Expenditures, and Changes in Fund Balance For the Years Ended June 30, 2006 and 2005

	2006	2005
<b>Revenue</b>		
State funds	\$ -	\$ 600,000
<b>Expenditures</b>		
Salaries and benefits	57,308	47,727
Professional Services	172,470	292,867
Other administrative expenditures	14,394	1,320
Total Expenditures	244,172	341,914
Excess (Deficiency) of Revenue over Expenditures	(244,172)	258,086
Fund balance - beginning	258,086	-
<b>Fund Balance - Ending</b>	<u>\$ 13,914</u>	<u>\$ 258,086</u>

**Supplementary Information**

**First 5 San Mateo County  
Children's Health Initiative  
Statements of Revenues, Expenditures, and Changes in Fund Balance  
For the Years Ended June 30, 2006 and 2005**

	<b>2006</b>	<b>2005</b>
<b>Revenue</b>		
State Funds	\$ 191,840	\$ 173,874
<b>Expenditure</b>		
Premium Costs	<u>191,840</u>	<u>173,874</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)  
Statements of Revenues, Expenditures, and Changes in Fund Balance  
For the Years Ended June 30, 2006 and 2005**

	2006	2005
Revenue	\$ 116,705	\$ -
Expenditure	<u>116,705</u>	<u>-</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>