

September 26, 2013

Board of Commissioners
First 5 San Mateo County
San Mateo, California

We have audited the financial statements of the governmental activities and the major fund of First 5 San Mateo County for the year ended June 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated April 26, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by First 5 San Mateo County are described in Note 2 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2013. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We evaluated the key factors and assumptions used to develop the accounting estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 26, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the governmental unit’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Commissioners and management of First 5 San Mateo County and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

R.J. Ricciardi, Inc.

R.J. Ricciardi, Inc.
Certified Public Accountants

**FIRST 5 SAN MATEO COUNTY
(A DISCRETELY PRESENTED COMPONENT
UNIT OF THE COUNTY OF SAN MATEO)**

SAN MATEO, CALIFORNIA

BASIC FINANCIAL STATEMENTS

JUNE 30, 2013

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INDEPENDENT AUDITORS' REPORT

Board of Commissioners
First 5 San Mateo County
San Mateo, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of First 5 San Mateo County, a discretely presented component unit of the County of San Mateo, California, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise First 5 San Mateo County's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of First 5 San Mateo County as of June 30, 2013, and the respective changes in financial position, and the respective budgetary comparisons included as part of the basic financial statements, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 26, 2013 on our consideration of the First 5 San Mateo County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering First 5 San Mateo County's internal control over financial reporting and compliance.

R. J. Ricciardi, Inc.

R.J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
September 26, 2013

First 5 San Mateo County
(A Discretely Presented Component Unit of the County of San Mateo)
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013

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.

This Management's Discussion and Analysis is intended to serve as a narrative overview and analysis of the financial activities of First 5 San Mateo County (First 5) for the year ended June 30, 2013. The information presented should be read in conjunction with the information furnished in the financial statements and notes to the financial statements.

Financial Highlights

During the fiscal year ended June 30, 2013, First 5 contributed over \$7.8 million in a wide variety of local programs and services for young children and their families.

Government-wide Financial Analysis

- The assets of First 5 exceeded its liabilities as of June 30, 2013 by \$22,194,104 (*net position*). The remaining balance may be used to meet First 5's ongoing obligations to grantees and creditors.

Fund Financial Analysis

- Total fund balance as of June 30, 2013 was \$22,038,453. Of this amount, \$8,743,939 was committed for current executed grants and contracts and for contract amendments not yet executed (obligated); and the remaining \$13,294,514 was set aside for future programs, projects, and activities. All funding awards were in accordance with First 5's Strategic Plan and Long-Term Financial Plan.
- Contributions to local projects increased by \$411,595 or 5.5% from the previous fiscal year. The increased funding was a result of strategic decisions made.

Overview of the Financial Statements

This discussion and analysis serves as an introduction to First 5 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 finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of First 5 assets and liabilities, with the difference between the two reported as net position.

First 5 San Mateo County
(A Discretely Presented Component Unit of the County of San Mateo)
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013

The *statement of revenues, expenses, and changes in net position* presents information showing how First 5 net position changed during the most recent fiscal year. All changes in net position 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 7 and 8 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 9 and 10 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 12 through 23 of this report.

Government-wide Financial Analysis

As of June 30, 2013, First 5 assets exceeded liabilities by \$22,194,104.

Net Position

	2013	2012	2011
Total assets	\$ 24,855,057	\$ 26,632,688	\$ 30,013,083
Total liabilities	\$ 2,660,953	\$ 2,052,683	\$ 18,663,395
Net position	\$ 22,194,104	\$ 24,580,005	\$ 11,349,688

Fiscal Year 2013 Compared to Fiscal Year 2012

- At the end of fiscal year 2013, total assets decreased by \$1,777,631 (6.7%) when compared to fiscal year 2012. The decrease was primarily due to the decrease in cash and cash equivalents for grant and vendor payments made during the year.
- Total liabilities increased by \$608,270 (29.6%). The increase was mainly due to more grant and vendor payments due and payable at year end. In addition, there was an unearned grant in the amount of \$128,062 from the David and Lucile Packard Foundation. First 5 received \$150,000 of private grants from the David and Lucile Packard Foundation for support of First 5's New Parent Kit Program. Of this amount, \$21,938 was spent as of June 30, 2013.
- Net position decreased by \$2,385,901 (9.7%). Net position 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.

First 5 San Mateo County
(A Discretely Presented Component Unit of the County of San Mateo)
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013

Fiscal Year 2012 Compared to Fiscal Year 2011

- At the end of fiscal year 2012, total assets decreased by \$3,380,395 (11.3%) when compared to fiscal year 2011. The decrease was primarily due to the decrease in cash and cash equivalents for grant and vendor payments made during the year.
- Total liabilities decreased by \$16,610,712 (89.0%). The decrease was mainly due to the overturning of State Assembly Bill (AB99) in which First 5 was not obligated to make the one-time payment to the State of California.
- Net position increased by \$13,230,317 (116.6%). Net position 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 Position

	2013	2012	2011
Program revenues	\$ 6,645,129	\$ 6,779,641	\$ 6,640,391
General revenues	210,355	479,385	340,297
Program expenses	(9,241,385)	(9,368,594)	(11,382,092)
Deficiency before extraordinary item	(2,385,901)	(2,109,568)	(4,401,404)
Extraordinary item	-	15,339,885	(15,339,885)
Change in net position	(2,385,901)	13,230,317	(19,741,289)
Net position, beginning of period	24,580,005	11,349,688	31,090,977
Net position, end of period	<u>\$ 22,194,104</u>	<u>\$ 24,580,005</u>	<u>\$ 11,349,688</u>

Fiscal Year 2013 Compared to Fiscal Year 2012

- Program revenues decreased by \$134,512 (2.0%) and general revenues decreased by \$269,030 (56.1%). The decrease in program revenue was primarily due to decreases in Proposition 10 allocations. The decrease in general revenue was primarily due to investment losses.
- Program expenses decreased by \$127,209 (1.4%). The majority of the decrease was due to a reduction in overall expenses.

Fiscal Year 2012 Compared to Fiscal Year 2011

- Program revenues increased by \$139,250 (2.1%) and general revenues increased by \$139,088 (40.9%). The increase in program revenue was primarily due to increases in Proposition 10 allocations. The increase in general revenue was primarily due to First 5 receiving its share of investment recoveries from the County's investments in Lehman Brothers Holding Inc. as part of its bankruptcy plan.
- Program expenses decreased by \$2,013,498 (17.7%). The majority of the decrease was due to a reduction in contributions to local projects.
- The extraordinary loss in fiscal year 2011 was reversed and reported as an extraordinary gain in fiscal year 2012 due to the California Supreme Court overturning AB99 in November 2011. As a result, First 5 was no longer obligated to make the one-time payment to the State of California.

First 5 San Mateo County
(A Discretely Presented Component Unit of the County of San Mateo)
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended June 30, 2013

Fund Financial Analysis

First 5 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. As of June 30, 2013, First 5 reported a fund balance of \$22,038,453, a decrease of \$2,458,224 (10.0%) from the prior year. The decrease was mainly due to spending of First 5's fund balance committed to grantees and contractors through contractual obligations. Of the total, \$8,743,939 million of the fund balance was committed to grantees and contractors through contractual obligations in accordance with First 5's Strategic Plan and Long-Term Financial Plan. These plans are reviewed and approved by First 5 Commission on an annual basis.

As of June 30, 2012, First 5 reported a fund balance of \$24,496,677, an increase of \$13,230,864 (17.4%) from the prior year. The increase was mainly due to the California Supreme Court overturning AB99 and the return of \$15,339,885 to First 5's fund balance. Of the total, \$14.0 million of the fund balance was committed to grantees and contractors through contractual obligations in accordance with First 5's Strategic Plan and Long-Term Financial Plan. These plans are reviewed and approved by First 5 Commission on an annual basis.

Budgetary Highlights

First 5 operating budget for FY12-13 totaled \$10.1 million. The budget closeout revealed an estimated savings of \$0.8 million, which is the excess of approved budgeted expenditures compared to actual expenditures. A key factor accounting for the \$0.7 million positive budget variance in contributions to local projects which was attributed to under spending in grantee's contracts for System of Care strategies.

The budgetary comparison information can be found on page 11 of this report.

Requests for Information

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

First 5 San Mateo County
(A Discretely Presented Component Unit of the County of San Mateo)

Exhibit A

STATEMENT OF NET POSITION

June 30, 2013

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 23,369,358
Intergovernmental receivable, net	1,283,816
Interest receivable, net	36,476
Net OPEB asset	<u>165,407</u>
Total assets	<u>24,855,057</u>
<u>LIABILITIES</u>	
Accounts payable	2,509,369
Salaries and benefits payable	13,766
Compensated absences:	
Payable in less than one year	9,638
Payable in more than one year	118
Grants refundable	<u>128,062</u>
Total liabilities	<u>2,660,953</u>
<u>NET POSITION</u>	
Unrestricted	<u>22,194,104</u>
Total net position	<u>\$ 22,194,104</u>

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

(A Discretely Presented Component Unit of the County of San Mateo)

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

For the Year Ended June 30, 2013

	<u>Governmental Activities</u>
Program expenses:	
Salaries and wages	\$ 617,669
Employee benefits	347,936
General office supplies	54,458
Professional services	343,186
Other administrative expenses	32,573
Contributions to local projects	7,845,563
Total program expenses	<u>9,241,385</u>
Program revenues:	
Operating grants and contributions:	
Tobacco tax	6,522,019
Other grants	101,172
Private grants	21,938
Total program revenues	<u>6,645,129</u>
Net program revenues (expenses)	<u>(2,596,256)</u>
General revenues:	
Investment earnings (losses)	(12,008)
Investment loss recovery	180,657
Other revenue	41,706
Total general revenues	<u>210,355</u>
Change in net position	(2,385,901)
Net position, beginning of period	<u>24,580,005</u>
Net position, end of period	<u>\$ 22,194,104</u>

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

First 5 San Mateo County
(A Discretely Presented Component Unit of the County of San Mateo)
GOVERNMENTAL FUNDS BALANCE SHEET
June 30, 2013

Exhibit C

ASSETS

Cash and cash equivalents	\$	23,369,358
Intergovernmental receivable, net		1,283,816
Interest receivable, net		<u>36,476</u>
Total assets	\$	<u><u>24,689,650</u></u>

LIABILITIES AND FUND BALANCES

Liabilities:

Accounts payable	\$	2,509,369
Salaries and benefits payable		13,766
Grants refundable		<u>128,062</u>
Total liabilities		<u><u>2,651,197</u></u>

Fund balances:

Committed		8,743,939
Assigned		<u>13,294,514</u>
Total fund balances		<u><u>22,038,453</u></u>

Total liabilities and fund balances	\$	<u><u>24,689,650</u></u>
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Reconciliation of the Governmental Funds Balance Sheet with the Governmental Activities Statement of Net Position:

Total Governmental Funds Fund Balances	\$	22,038,453
Amounts reported in the Statement of Net Position are different because:		
Long-term assets are not available to pay for current period expenditures, and long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund:		
Net OPEB asset		165,407
Compensated absences		<u>(9,756)</u>
Net Position of Governmental Activities	\$	<u><u>22,194,104</u></u>

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

(A Discretely Presented Component Unit of the County of San Mateo)

GOVERNMENTAL FUNDS STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES

For the Year Ended June 30, 2013

Revenues:	
Tobacco tax	\$ 6,522,019
Investment earnings (losses)	(12,008)
Investment loss recovery	180,657
Other grants	101,172
Private grants	<u>21,938</u>
Total revenues	<u>6,813,778</u>
Expenditures:	
Salaries and benefits	996,222
Services and supplies	430,217
Contributions to local projects	<u>7,845,563</u>
Total expenditures	<u>9,272,002</u>
Excess of revenues over (under) expenditures	(2,458,224)
Fund balance, beginning of period	<u>24,496,677</u>
Fund balance, end of period	<u>\$ 22,038,453</u>

Reconciliation of the Net Change in Fund Balances with the Change in Net Position of Governmental Activities:

Net Change in Fund Balances	\$ (2,458,224)
Amounts reported in the Statement of Revenues, Expenses and Changes in Net Position are different because:	
Change in long-term portion of assets and liabilities do not provide or require the use of current financial resources and therefore are not reported in the governmental fund:	
Change in net OPEB asset	1,911
Change in compensated absences	<u>70,412</u>
Change in Net Position of Governmental Activities	<u>\$ (2,385,901)</u>

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

(A Discretely Presented Component Unit of the County of San Mateo)

STATEMENT OF REVENUES, EXPENDITURESAND CHANGES IN FUND BALANCES

Budget and Actual

For the Year Ended June 30, 2013

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget
Revenues:				
Tobacco tax	\$ 5,805,000	\$ 5,805,000	\$ 6,522,019	\$ 717,019
Investment earnings (losses)	221,000	221,000	178,420	(42,580)
Investment loss recovery	-	-	180,657	180,657
Other grants	-	-	101,172	101,172
Private grants	-	-	21,938	21,938
Total revenues	<u>6,026,000</u>	<u>6,026,000</u>	<u>7,004,206</u>	<u>978,206</u>
Expenditures:				
Salaries and benefits	1,108,000	1,108,000	996,222	111,778
Services and supplies	403,000	403,000	430,217	(27,217)
Contributions to local projects	8,562,000	8,562,000	7,845,563	716,437
Total expenditures	<u>10,073,000</u>	<u>10,073,000</u>	<u>9,272,002</u>	<u>800,998</u>
Excess of revenues over (under) expenditures	<u>\$ (4,047,000)</u>	<u>\$ (4,047,000)</u>	(2,267,796)	<u>\$ 1,779,204</u>
Fund balance, beginning of period			<u>24,390,373</u>	
Fund balance, end of period			<u>\$ 22,122,577</u>	

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

First 5 San Mateo County
(A Discretely Presented Component Unit of the County of San Mateo)
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 1 - GENERAL

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 (Commission) was established in March 1999. The Commission set up the Children and Families First Trust Fund with the County of San Mateo (County) 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 monies received by it are legally restricted or committed 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 First 5 Strategic Plan and Long-Term Financial 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 Commission. Therefore, the financial activities of First 5 are included in the basic financial statements of the County as a discretely presented component unit.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Measurement Focus, Basis of Accounting, & Financial Statement Presentation

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position) 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 expenditures when criteria for grant payments are met by the grantee organizations. When both restricted and unrestricted net position are available, restricted resources are generally depleted first before the unrestricted resources are used.

The Statement of Net Position presents First 5's financial position in a net position approach. The Statement of Revenues, Expenses, and Changes in Net Position report the change in net position in a net program cost format to demonstrate the degree to which the expenses of First 5 is offset by its program revenues - tobacco tax and private grants.

Governmental fund financial statements, presented after the government-wide financial statements, are reported using the *current financial resources measurement focus* and the *modified accrual* basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Revenues from reimbursement type programs are considered to be *available* when they are collectible within six months of the end of the current fiscal period in order to properly match revenues with related expenditures. Expenditures are recognized in the accounting period in which the liability is incurred, if measurable.

First 5 San Mateo County
(A Discretely Presented Component Unit of the County of San Mateo)
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

B. Use of 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.

C. Budgetary Information

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.

D. Other Postemployment Benefits (OPEB)

First 5 employees participate in the defined benefit post employment healthcare plan administered by the County. The County is not obligated to pay for unused sick leave if employees terminate employment prior to retirement, except for those individuals who are laid off. Upon retirement, unused sick leave can be converted to postemployment healthcare benefits. The amount and duration of the County-paid benefits vary, depending on the bargaining units to which the employee belongs. The public safety employees are eligible to retire after attaining age 50 with at least ten years of service or at any age with 20 years of services. Others must retire from the County on or after attaining age 50 with at least ten years of service.

E. Risk Management

First 5 is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. 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 for First 5.

Claims have not exceeded coverage in the past fiscal year and there has not been a significant reduction in coverage in the current fiscal year.

F. Economic Dependency

First 5 has a significant economic dependency on tobacco tax allocations from the State, as these allocations represent a substantial portion of First 5's revenue. During the year ended June 30, 2013, First 5 received \$6,522,019, which amounts to 95% of total revenue for the year. First 5's ability to continue operations depends primarily on the continuance of this funding source. Tobacco tax allocations from the State do not have a termination date but are vulnerable to changes in legislation.

First 5 San Mateo County
(A Discretely Presented Component Unit of the County of San Mateo)
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 3 - CASH AND CASH EQUIVALENTS

Cash and Cash Equivalents

Cash and cash equivalents are pooled with other funds in the San Mateo County Investment Pool (County Pool). The County Pool includes both voluntary and involuntary participants from external public entities. First 5 is a voluntary participant in the County Pool. 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 (Treasurer). The County Pool is not registered with the Securities and Exchange Commission as an investment company. California Government Code and the County's Investment Policy govern the County Pool activities. The objectives of this policy, in order of priority, are: safety, liquidity, yield, and public trust. The pool attempts to match maturities with planned outlays and maximize the return on investment over various market cycles. Yield is considered only after safety and credit quality have been met, consistent with limiting risk and prudent investment principles. The County Board reviews the County's Investment Policy annually, and all amendments to the policy must be approved by the County Board.

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 pro-rated share of the fair value provided by the Treasurer for the County Pool portfolio. First 5's cash and cash equivalents in the pool totaled \$23,369,358 as of June 30, 2013. The contractual withdrawal values (book values) were \$23,453,482 as of June 30, 2013.

Authorized Investments of the County Pool

The County'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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>	<u>Maximum % Allowed in Portfolio</u>	<u>Maximum % Investment in One Issuer</u>
U.S. Treasury obligations	7 years	N/A	100	100
Obligations of U.S. agencies or government sponsored enterprises	7 years	AA or A-1	100	40
U.S. agencies callables	7 years	AA	100	25
Bankers acceptances	180 days	A1/P-1/F1	15	5
Collateralized time deposits within the State of California	1 year	A1/P-1/F1	15	5
Negotiable certificates of deposit	5 years	A1/P-1/F1	30	5
Commercial paper	270 days or less	A1/P-1/F1	40	5
Repurchase agreements secured by U.S. Treasury of agency obligation	92 days	A-1	100	See limitation for Treasuries and Agencies above
Corporate bonds, medium term notes and covered bonds	5 years	AA/A	30	5
Local Agency Investment Fund (LAIF)	N/A	N/A	N/A	Up to the current state limit

First 5 San Mateo County
(A Discretely Presented Component Unit of the County of San Mateo)
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 3 - CASH AND CASH EQUIVALENTS (continued)

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>	<u>Maximum % Allowed in Portfolio</u>	<u>Maximum % Investment in One Issuer</u>
Shares of beneficial interest	N/A	A1/P1	10	5
Mortgage backed securities/CMO's	5 years	A	20	5
Asset backed securities	5 years	AAA	20	N/A

At June 30, 2013, the County Pool was invested in the following securities:

<u>Investment Type</u>	<u>Interest Rate</u>	<u>Maturities</u>	<u>Weighted Average Maturity (Years)</u>	<u>Rating</u>
U.S. treasuries	0.00%-1.38%	7/11/13-9/30/18	2.40	AA+
U.S. government agency securities	0.00%-2.25%	7/1/13-8/28/18	2.35	AA+
U.S. government agency securities: floating rate	0.20%	12/5/14	1.50	AA+
Repurchase agreements	0.10%	7/1/13	0.08	AA+
Corporate bonds	0.45%-3.20%	9/16/13-6/24/18	2.59	A-, AA-, A, AA, AAA, A+, AA+
Floating rate securities	0.09%-1.00%	7/26/13-5/18/18	2.25	AA-, A, A+, AA+
Commercial paper	0.00%	7/2/13-2/3/14	0.20	A-1, A-1+
LAIF	0.28%	8/1/13	0.17	N/A

County Pool: Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. State law and the County's investment policy limit the County's investments in commercial paper to the rating of A-1 or better by Standard & Poor's, or P-1 or better by Moody's Investors Service; and corporate bonds to the rating of A or higher by both Standard & Poor's and Moody's Investors Service. No limits are placed on the U.S. government agency securities and U.S. Treasuries. The County's Investment pool was rated AAAF/S1 by Standard & Poor's. Standard & Poor's and Moody's Investors Service are major rating agencies that issue opinions on the quality of securities, which investors may consider when assessing risk.

County Pool: Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the County Pool's investment in a single issuer of securities. For each authorized investment type, state law restricts the maximum percentages allowed in the portfolio and per issuer. As of June 30, 2013, the investment pool has five percent or more of its total investments with the following issuers: 15.8% in U.S. Treasuries (notes, t-bills and cash management bills), 46.3% in Federal Agencies, and 26.8% in Corporate Securities.

First 5 San Mateo County
 (A Discretely Presented Component Unit of the County of San Mateo)
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2013

NOTE 3 - CASH AND CASH EQUIVALENTS (concluded)

County Pool: Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. 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 five years or less in accordance with its investment policy. As of June 30, 2013, the County Pool had a weighted average maturity of 1.97 years and its floating rate securities were \$330 million. These securities are tied to the three-month London Interbank Offered Rate (LIBOR) index.

County Pool: Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The County investment policy does not include specific provisions to address foreign currency risk because the County does not invest in foreign securities.

NOTE 4 - INTERGOVERNMENTAL RECEIVABLE

Intergovernmental receivable represents revenues that were received after the fiscal year June 30, 2013:

Proposition 10 allocation - May	\$	568,171
Proposition 10 allocation - June		612,092
Surplus Money Investment Fund (SMIF)		2,305
Child Health Initiative Program		101,172
Other		76
Total	\$	1,283,816

NOTE 5 - ACCOUNTS PAYABLE

Accounts payable comprises of funding due to grantees and amounts due to vendors for services and supplies at fiscal year ended June 30, 2013:

Funding due to grantees	\$	2,226,813
Services and supplies		282,556
Total	\$	2,509,369

First 5 San Mateo County
(A Discretely Presented Component Unit of the County of San Mateo)
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 6 - COMPENSATED ABSENCES

First 5 accrues for compensated absences in the government-wide financial statements to pay its employees for unused vacation, compensatory time, and holiday. The accrual for compensated absences includes First 5's share of social security and Medicare contributions payable on behalf of the employees. Unused vacation, compensatory, and holiday time are cashed out upon separation.

The changes in the compensated absences balance for the fiscal year ended June 30, 2013 were as follows:

Balance – beginning of year	\$	80,168
Additions		22,435
Retirements		<u>(92,847)</u>
Balance – end of year	\$	<u>9,756</u>
Due within a year	\$	<u>9,638</u>

NOTE 7 - GRANTS REFUNDABLE

First 5 received \$150,000 of private grants from the David and Lucile Packard Foundation for support of First 5's New Parent Kit Program. Of this amount, \$128,062 was unspent as of June 30, 2013.

NOTE 8 - EMPLOYEES' RETIREMENT PLAN

Plan Description

General. First 5 employees are participants in the San Mateo County Employees' Retirement Association (SamCERA), a cost-sharing multiple-employer, defined benefit pension plan established to provide pension benefits for substantially all permanent employees of the County and two special districts. The Board of Retirement of SamCERA governs the County's pension fund. 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.

Benefit Provisions. SamCERA provides service retirement, disability, and death benefits to plan members and beneficiaries based on periodic actuarial valuations. SamCERA has four plans that cover members classified as general, safety or probation, and provides annual cost-of-living adjustments upon retirement 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 of Supervisors with the authority to initiate benefits, and Government Code Section 31592.2 empowers the Board of Retirement to provide certain ad hoc benefits when the reserve of excess earnings exceeds 1% of assets.

Funding Policy

The 1937 Act established the basic obligations for employers and members to make contributions to the pension trust fund. The employer and member contribution rates are based on recommendations made by an independent actuary and adopted by the Board of Retirement. 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. Contribution rates are actuarially determined using the entry age normal method and consist of an amount for normal cost, the estimated amount necessary to finance benefits earned by members during the year, and an amount required to amortize the unfunded actuarial accrued liability (UAAL).

First 5 San Mateo County
(A Discretely Presented Component Unit of the County of San Mateo)
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 8 - EMPLOYEES' RETIREMENT PLAN (concluded)

Annual Pension Cost

First 5's three-year trend information for required contributions is as follows:

<u>Fiscal Year Ended</u>	Annual Required Contributions (ARC)	Percentage of ARC Contributed
6/30/11	\$ 225,859	100.0%
6/30/12	224,758	100.0%
6/30/13	134,381	100.0%

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (OPEB)

First 5 employees are also participants of the postemployment benefit (OPEB) sick leave conversion Retiree Health Plan (a single-employer defined benefit plan) administered by the County. The County's Retiree Health Plan is being managed through the California Employers' Retiree Benefits Trust (CERBT), an irrevocable trust fund that allows public employers to prefund the future cost of their retiree health insurance benefits and other postemployment benefits for their covered employees or retirees.

The CERBT's administrator, the California Public Employees' Retirement System (CalPERS), issues a publicly available financial report consisting of financial statements and required supplementary information for CERBT in aggregate. The report may be obtained by writing to CalPERS, Lincoln Plaza North, 400 Q Street, Sacramento, CA 95811.

Contribution requirements for the members and the County are established and may be amended through negotiations between the County and the bargaining units. First 5 participates in the County's Retiree Health Plan on a cost-sharing basis, and contributed \$41,706 for the fiscal year ended June 30, 2013. The following table shows the components of annual OPEB costs, the amounts contributed to the plan, and changes in First 5's net OPEB assets:

Annual required contribution	\$ <u>41,706</u>
Annual OPEB cost	\$ (39,795)
Contribution made	<u>41,706</u>
Increase in net OPEB obligation (asset)	1,911
Net OPEB obligation (asset) – beginning of year	<u>163,496</u>
Net OPEB obligation (asset) – end of year	<u>\$ 165,407</u>

First 5 San Mateo County
(A Discretely Presented Component Unit of the County of San Mateo)
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 9 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (concluded)

First 5's annual OPEB cost (AOC), the percentage of AOC contributed to the plan, and the net OPEB asset for the past three years are as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of AOC Contributed</u>	<u>Net OPEB Asset</u>
6/30/11	\$ 32,705	111%	\$ 161,032
6/30/12	38,933	106%	163,496
6/30/13	39,795	105%	165,407

Additional information relating to the County's Retiree Health Plan and required OPEB disclosures can be obtained from the County's publicly available Comprehensive Annual Financial Report that may be obtained by writing to County of San Mateo Controller's Office, 555 County Center, 4th Floor, Redwood City, California 94063.

NOTE 10 - FUND BALANCE

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which First 5 is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. First 5's fund balances were comprised of the following:

Restricted Fund Balance - includes amounts that can be spent only for specific purposes stipulated by external resources providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource provider.

Committed Fund Balance - includes amounts that can only be used for specific purposes determined by a formal action of First 5's highest level decision-making authority, the First 5 Commission. Commitments may be changed or lifted only by First 5 taking the same formal action that imposed the constraint originally.

Assigned Fund Balance - comprises amounts intended to be used by First 5 for specific purposes that are neither restricted nor committed. Intent is expressed by (1) First 5's Commission or (2) a body (for example: a budget or finance committee) or official to which First 5's Commission has delegated the authority to assign amounts to be used for specific purposes.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed and assigned.

First 5 San Mateo County
(A Discretely Presented Component Unit of the County of San Mateo)
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 10 - FUND BALANCE (concluded)

At fiscal year-end, fund balance reported on the Statement of Revenues, Expenditures and Changes in Fund Balance includes:

Committed

Contracts and amendments to executed contracts:

Grantees	\$ 8,383,267
Others	360,672

Assigned

Total fund balance	\$ 22,038,453
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NOTE 11 - REVENUES

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 Surplus Money Investment Fund allocations and Child Signature Program allocations by First 5 California.

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

Tobacco tax and other revenues are comprised of:

Proposition 10:

Monthly allocations	\$ 6,497,274
Surplus Money Investment Fund	2,305
Child Signature Program	22,440
Total	\$ 6,522,019

Other Grants

First 5 received \$101,172 of other grant refund for support of the Child Health Initiative Program.

Private Grants

First 5 received \$150,000 of private grants from the David and Lucile Packard Foundation for support of First 5's New Parent Kit Program. Of this amount, \$21,938 was spent during the fiscal year ended June 30, 2013.

Investment Earnings (Losses)

Investment losses of \$12,008 for the year ended June 30, 2013, comprise of quarterly interest received from the County Treasurer on investments made by First 5 in the County Pool and the change in fair value of the investments. Interests are recorded in the year earned and available to pay current liabilities.

Interest on investments	\$ 178,420
Change in fair value of investments	(190,428)
Total	\$ (12,008)

First 5 San Mateo County
(A Discretely Presented Component Unit of the County of San Mateo)
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 11 - REVENUES (concluded)

Investment Loss Recovery

In the fiscal year ended June 30, 2009, the County Pool incurred \$155 million of investment losses from the bankruptcy of Lehman Brothers Holdings, Inc. (Lehman Brothers). In April 2012, the County Pool received \$9.3 million as the first of a series of five recovery payments from Lehman Brothers' bankruptcy plan. Recovery payments were distributed to County Pool participants based on the participants' average daily balance in the County Pool for the quarter ended September 30, 2008. First 5's share of the recovery payment was \$180,657 for the year ended June 30, 2013.

NOTE 12 - CONTRIBUTIONS TO LOCAL PROJECTS

Over the years from FY 2000-01 to FY 2008-09, First 5 awarded 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 were designed to allow applicants time and resources to develop an innovative intervention to address a significant opportunity or problem, for which a response did not currently exist or was still evolving. Planning grants ranged from \$5,000 to \$35,000 annually. Implementation grants were for agencies and groups that were clear about their goals, objectives, and strategies and were ready to implement their proposed project. Implementation grants ranged from \$30,000 to \$500,000 annually.

Starting in FY 2009-10, First 5 awarded \$20,167,000 in Cycle One funding to local projects. Cycle One has a three-year term from FY 2009-10 to FY 2011-12. First 5 awarded \$16,499,291 in Cycle Two funding to local projects. Cycle two has a three-year term from FY 2011-12 to FY 2013-14.

Grant contributions for the year ended June 30, 2013 include:

Cycle One Funding:

Child Care Coordinating Council	\$ 13,823
Silicon Valley Community Foundation	469,351
SRI International	32,863

Cycle Two Funding:

Child Care Coordinating Council (Service Corps Project)	158,286
Child Care Coordinating Council (Supporting Quality Community Based Child Care)	123,246
Community Gate path-“Demonstration Site”	306,975
Legal Aid Society - WMG	50,000
Lucile Salter Packard - WMG	298,371
San Mateo Community Health Authority	564,672
San Mateo Health System - Family Health Services	1,000,592
San Mateo County Office of Education	1,031,266
Shelter Network	233,998
Silicon Valley Community Foundation	645,603
South County Community Health Center	244,871
South San Francisco Unified School District - WMG	10,981
Star Vista (Early Childhood Mental Health)	397,000
Star Vista (Healthy Homes)	627,233
Star Vista (Bridges to Success)	904,860

(continued on the following page)

First 5 San Mateo County
(A Discretely Presented Component Unit of the County of San Mateo)
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 12 - CONTRIBUTIONS TO LOCAL PROJECTS (concluded)

Contractors:	
Community Gatepath (Demo Site Database)	11,029
Sannie Yue (Child Signature Program)	80,045
Edirle Menezes (Child Signature Program)	56,355
Diana Harlick Consulting (KNP - Phase 2)	9,059
Kristin Reinsberg (KNP - Phase 2)	550
SVCF (Regional 2012 Family Story Survey Project)	174,969
WBCP	7,100
SRI International (F5SMC System of Care Comp Evaluation)	214,068
San Mateo County Office of Education (CCELP)	65,507
WBCP (F5SMC 2012 Community Report)	10,939
Kristin Reinsberg (Bella Vista ECMH)	4,750
Silicon Valley Community Foundation (Regional 2012 Kindergarten Readiness Assessment)	79,932
Other	<u>17,269</u>
Total	<u>\$ 7,845,563</u>

NOTE 13 - GRANT COMMITMENTS

First 5's commitments to grantees as of June 30, 2013 were as follows:

Cycle Two Funding	<u>\$ 8,383,267</u>
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NOTE 14 - PROGRAM EVALUATION

First 5 spent \$364,664 on program evaluation during the fiscal year ended June 30, 2013.

NOTE 15 - LEASE OBLIGATIONS

First 5 leases office facilities and other equipment categorized as noncancelable operating leases expiring on October 31, 2013. The operating lease is currently in the negotiations stage. Total costs for such leases were \$108,954 for the year ended June 30, 2013. The future minimum lease payments for the office facilities lease are as follows:

July 1, 2013 through October 31, 2013	<u>\$ 37,512</u>
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First 5 San Mateo County
(A Discretely Presented Component Unit of the County of San Mateo)
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2013

NOTE 16 - RELATED PARTY TRANSACTIONS

The required composition of the Board of Commissioners includes members from the County and other local governments, the San Mateo County Superintendent of Schools and community based organizations which serve children ages 0-5. 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.

Expenditures of grant awards to organizations represented by Commissioners for the year ended June 30, 2013 were as follows:

San Mateo Community Health Authority	\$ 564,672
San Mateo Health System - Family Health Services	1,000,592
San Mateo County Office of Education	<u>1,096,773</u>
Total	<u><u>\$ 2,662,037</u></u>

NOTE 17 - BUDGETARY ACCOUNTING AND ENCUMBRANCES

First 5 adopts an annual operating 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 the budget excludes unrealized gains and losses and changes to the liabilities for compensated absences and postemployment benefits other than pensions (OPEB). The financial statements record unrealized gains and losses, compensated absences, and OPEB as required by generally accepted accounting principles (GAAP).

First 5 uses an encumbrance system in the County's general ledger system, IFAS, to assist in controlling expenditures. Purchase orders, contracts, and other commitments for the expenditures of monies are recorded under this system in order to reserve applicable appropriations. Any encumbrances outstanding at year-end are included in committed fund balance as they do not constitute expenditures or liabilities.

The net change in fund balance under budgetary basis on page 11 is reconciled to the net change in fund balance under GAAP basis on page 10 as follows:

Deficiency of revenues over expenditures/net change in fund balance – budgetary basis	\$ 2,267,796
Changes in unrealized (gain)/loss on cash equivalents	<u>190,428</u>
Deficiency of revenue over expenditures/net change in fund balance – GAAP basis	<u><u>\$ 2,458,224</u></u>

NOTE 18 - EXPENDITURES IN EXCESS OF BUDGET

In fiscal year ended June 30, 2013, services and supplies expenditures exceeded budget by \$27,217 primarily because there was \$25,000 in membership fees that were not in the budget. However, total expenditures for the year reflect a positive variance.

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

Board of Commissioners
First 5 San Mateo County
San Mateo, California

We have audited, in accordance with the 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, the financial statements of the governmental activities and the major fund of First 5 San Mateo County, a discretely presented component unit of the County of San Mateo, California, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise First 5 San Mateo County's basic financial statements, and have issued our report thereon dated September 26, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered First 5 San Mateo County's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of First 5 San Mateo County's internal control. Accordingly, we do not express an opinion on the effectiveness of First 5 San Mateo County's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether First 5 San Mateo County's financial statements are free from 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 audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of First 5 San Mateo County's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering First 5 San Mateo County's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

R.J. Ricciardi, Inc.

R.J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
September 26, 2013

INDEPENDENT AUDITORS' REPORT ON
STATE COMPLIANCE

Board of Commissioners
First 5 San Mateo County
San Mateo, California

Compliance

We have audited the basic financial statements of First 5 San Mateo County, a discretely presented component unit of the County of San Mateo, California, as of and for the year ended June 30, 2013 and have issued our report thereon dated September 26, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have also audited First 5 San Mateo County's compliance with the requirements specified in the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, issued by the State Controller's Office, applicable to First 5 San Mateo County's statutory requirements identified below for the year ended June 30, 2013.

Management's Responsibility

Compliance with the requirements referred to above is the responsibility of First 5 San Mateo County's management.

Auditor's Responsibility

Our responsibility is to express an opinion on First 5 San Mateo County's compliance based on our audit.

We conducted our compliance audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, issued by the State Controller's Office. Those standards and the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the statutory requirements listed below occurred. An audit includes examining, on a test basis, evidence about First 5 San Mateo County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of First 5 San Mateo County's compliance with those requirements.

In connection with the audit referred to above, we selected and tested transactions and records to determine First 5 San Mateo County's compliance with the state laws and regulations applicable to the following items:

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

Opinion

In our opinion, First 5 San Mateo County complied, in all material respects, with the compliance requirements referred to above that are applicable to the statutory requirements listed above for the year ended June 30, 2013.

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

R.J. Ricciardi, Inc.

R.J. Ricciardi, Inc.
Certified Public Accountants

San Rafael, California
September 26, 2013

First 5 San Mateo County
(A Discretely Presented Component Unit of the County of San Mateo)
STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS
For the Year Ended June 30, 2013

Finding 2012-1 Program Evaluation

Criteria:

In accordance with Health and Safety Code section 130151 (b)(7), a county commission must have policies and practices with respect to the amount it spends on program evaluation and the documented results of these expenditures. First 5's practice is to monitor evaluation costs using its annual budget.

Condition:

During our review of First 5's compliance with its practice on evaluation costs, we noted that actual evaluation costs consisted of two components - consultant fees and salaries and benefits costs for an evaluation program specialist. Current year evaluation consultant fees of \$222,159 were within the budgeted amount of \$304,000. However, since salaries and benefits were budgeted in total for the entire organization, we compared in total and found that actual salaries and benefits expenditures of \$1,243,021 exceeded the budget of \$1,056,000 by \$187,021.

Cause and Effect:

First 5 planned to reduce its personnel during the fiscal year ended June 30, 2012. However, implementation of the reduction plan was delayed to August 2012, and resulted in additional salaries and benefits costs for the fiscal year.

Management Response:

Salary and benefits expenditures for First 5 staff are appropriated in one line item under Org 19510. This includes all administrative, program, and evaluation staff. Management will conduct a cost analysis of salary and benefits in fiscal year 2013 and will use the County's integrated financial accounting system (IFAS) to separately track the spending for the three components (e.g. using job ledgers to differentiate expenditures).

Status:

This finding has been resolved satisfactorily.