

FIRST 5 SAN MATEO COUNTY

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

June 30, 2011 and 2010

FIRST 5 SAN MATEO COUNTY

**FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

TABLE OF CONTENTS

Page

Independent Auditor’s Report	1-2
Management’s Discussion and Analysis	3-6
Basic Financial Statements:	
Government-wide Financial Statements:	
Statements of Net Assets	7
Statements of Activities	8
Fund Financial Statements:	
Balance Sheets.....	9
Statements of Revenues, Expenditures and Changes in Fund Balance.....	10
Notes to the Financial Statements	11-22
Required Supplementary Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.....	23
Notes to the Required Supplementary Information.....	24

Office of Controller



TOM HUENING
CONTROLLER

COUNTY OF SAN MATEO

555 COUNTY CENTER, 4TH FLOOR • REDWOOD CITY • CALIFORNIA 94063

ROBERT G. ADLER
ASSISTANT CONTROLLER

KANCHAN K. CHARAN
DEPUTY CONTROLLER

TELEPHONE: (650) 363-4777

FAX: (650) 363-7888

www.co.sanmateo.ca.us/controller/

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities of First 5 San Mateo County (First 5), a component unit of San Mateo County, California, as of and for the years ended June 30, 2011 and 2010, which collectively comprise First 5's basic financial statements as listed in the table of contents. These financial statements are the responsibility of First 5 San Mateo County's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

As required by various statutes within the California Government Code, County Auditor-Controllers are mandated to perform certain accounting, auditing, and financial reporting functions. These activities, in themselves, necessarily impair *Government Auditing Standards* of independence. Specifically, "auditors should not audit their own work or provide non-audit services in situations where the amounts or services involved are significant and/or material to the subject of the audit." Although the County Controller is statutorily obligated to maintain the accounts of departments, agencies or funds that are contained within the county treasury, we believe adequate safeguards and division of responsibility exist. The Controller is independently elected and is directly accountable to the voters and the Controller's Internal Audit Division, which has the responsibility to perform audits, has no other responsibility for the accounts and records being audited including the approval or posting of the transactions subject to audit. This would therefore enable the reader of this report to rely on the information contained herein.

In our opinion, except for the effects, if any, of the disclosure noted above, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities of the First 5 as of June 30, 2011 and 2010, and the changes in its financial position and the budgetary comparison for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2011 on our consideration of First 5'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 assessing the results of our audits.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 6 and 23 through 24 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.

County of San Mateo Controller

Redwood City, California
October 11, 2011



MANAGEMENT'S DISCUSSION AND ANALYSIS

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

This Management's Discussion and Analysis is intended to serve as a narrative overview and analysis of the financial activities of First 5 for the year ended June 30, 2011. 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 ending June 30, 2011, First 5 implemented the second year of Cycle One, System of Care investments. First 5 invested over \$8.8 million in a wide variety of programs and services for young children and their families in FY 2010-2011.

- The assets of First 5 San Mateo County exceeded its liabilities for the fiscal year ended June 30, 2011 by \$11,449,688 (*net assets*). Of this amount, \$338,189 is nonspendable for a note receivable of \$100,000 (Daly City Partnership-Our Second Home Family Resource Center), the net long-term portion of Other Post Employment Benefits (OPEB) obligation (asset) of \$161,032 and \$77,157 for the long-term portion of compensated absences; \$91,385 is restricted for New Parent Kit Program; \$10,057,410 is committed for current executed grants and contracts and for contract amendments not yet executed (obligated); and the remaining \$878,829 is set aside 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 \$1,440,430 or 19.3% from the previous fiscal year.
- First 5 San Mateo County included \$15,339,885 as a liability to the State of California for amounts payable in accordance with State Assembly Bill 99 (AB99) where each county commission is to remit into the State's Children and Families Health and Human Services fund, 50 percent of its available funding as of June 30, 2010.

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 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 11 through 22 of this report.

Government-Wide Financial Analysis

As of June 30, 2011, First 5 San Mateo County's assets exceeded liabilities by \$11,449,688.

Net Assets

	2011	2010	2009
Total Assets	\$ 30,113,083	\$ 39,591,990	\$ 38,328,205
Total Liabilities	18,663,395	8,381,013	5,881,296
Total Net Assets	\$ 11,449,688	\$ 31,210,977	\$ 32,446,909
Net Assets:			
Restricted	91,385	197,067	35,597
Unrestricted – Committed to programs	11,358,303	31,013,910	32,411,312

- First 5 San Mateo County’s total assets decreased by \$9,478,907 (23.9%). The decrease was primarily due to decrease in security lending collateral and cash and cash equivalents.
- First 5 San Mateo County’s total liabilities increased by \$10,282,382 (122.7%). The increase was mainly due to a one-time payment due to the State of California per AB99 in FY 2011 offset by a decrease in securities lending collateral due.
- First 5 San Mateo County’s net assets decreased by \$19,761,289 (63.3%). First 5’s net assets are divided into *restricted* and *unrestricted* portions. Restricted funding is money received for specific programs or initiatives that must be used exclusively for the purpose designated. Unrestricted funding is money received that is set aside for programs, projects, and activities to be conducted in the future according to a documented plan, budget or financial forecast formally approved by First 5.

Changes in Net Assets

	2011	2010	2009
Program Revenues	\$ 6,640,391	\$ 7,624,122	\$ 8,759,836
General Revenues (Expenses)	340,297	583,779	(1,031,076)
Expenses	(11,402,092)	(9,443,833)	(11,224,492)
Extraordinary item	(15,339,885)	-	-
Change in Net Assets	(19,761,289)	(1,235,932)	(3,495,732)
Net Assets - beginning	31,210,977	32,446,909	35,942,641
Net Assets - ending	<u>\$ 11,449,688</u>	<u>\$ 31,210,977</u>	<u>\$ 32,446,909</u>

- Program Revenues decreased by \$983,731 (12.9%) and General Revenues (Expenses) decreased by \$243,482 (41.7%). The decreases are primarily due to decreases in Proposition 10 allocations, funding from First 5 California for special projects, private grants and investment earnings.
- Expenses increased by \$1,958,259 (20.7%). A majority of the increase is due to increases in contributions to local projects.
- Extraordinary item in FY 2011 for \$15,339,885 relates to an estimate of a one-time financial obligation to the State of California per AB99.

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, 2011, First 5 San Mateo County reported a fund balance of \$11,365,813 a decrease of \$19,756,197 (63.5%) from the prior year. The decrease represents the amount of expenditures in excess of revenues (\$4.4 million) and an extraordinary item for estimated liability to State of California per AB99 (\$15.3 million). The Fund balance is lower than net assets of \$11,449,688 by \$83,875. The difference includes the long-term portion of the compensated absences liability of (\$77,157) and the net OPEB asset of \$161,032 for post-employment benefits. These two amounts are not reported on the fund balance sheet since they are not available and are not due and payable in the current period.

As of June 30, 2011, 85% of First 5 San Mateo County's fund balance is committed to grantees and 3% to contractors through contractual obligations to receive future payments in accordance with First 5 San Mateo County's strategic plan and long-term financial plan. These plans are reviewed and approved by First 5 on an annual basis.

Budgetary Highlights

First 5 San Mateo County's operating budget for FY2010-11 totaled \$12.9 million. The budget closeout revealed an estimated savings of \$1.5 million, which is the excess of approved budgeted expenditures, compared to actual expenditures. A key factor accounting for the budget savings is as follows:

- A decrease in contributions to local projects of \$1.5 million which was attributed to underspends in grantee's contracts for System of Care strategies in Cycle One funding.

The budgetary comparison information can be found on pages 23 and 24 of this report.

Beyond FY 2010-11

To date, First 5 San Mateo County has invested over \$104 million in local programs and has served over 47,200 children prenatally through age five and 29,300 parents and primary caregivers. This investment is the result of a visionary approach to launch large-scale initiatives and to provide funding for programs having the greatest impact in the community.

First 5 San Mateo County's strength lies in its long-term approach to planning and supporting a System of Care that includes the health and safety, family support, and early education efforts for young children. In the context of California's current economic situation, it becomes increasingly important that First 5 directs its efforts and resources to those areas in which the strongest outcomes can be realized and sustained.

In 2011, First 5 San Mateo County commenced a Strategic Plan review process (2011-2016) to guide future investments. At the same time, First 5's Long-Term Financial Plan was revised. With the continued decline in Proposition 10 revenue expected in the upcoming years, the Long-Term Financial Plan utilizes a step-down funding approach to invest in programs and services for young children. Additionally, First 5's comprehensive evaluation plan monitors progress and outcomes of individual programs and services as well as assessing the impact of specific strategies such as: home visitation, early childhood mental health, and care coordination. First 5 San Mateo County is committed to maximizing its available funds for high quality, outcome-based programs and services for today's children and for the future, and will continue to strategically approach funding decisions utilizing its Strategic Plan, comprehensive evaluation and long-term financial planning process. The result of these efforts will help guide the Commission's multi-faceted role as a funder, systems change agent, community partner and good steward of funds.

Requests for Information

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

BASIC FINANCIAL STATEMENTS
Government-Wide Financial Statements

**First 5 San Mateo County
Statements of Net Assets
June 30, 2011 and 2010**

	Governmental Activities	
	2011	2010
Assets		
Cash and cash equivalents (Note 2)	\$ 28,563,339	\$ 32,689,050
Securities lending collateral (Note 2(g))	-	5,009,991
Receivables, net:		
Intergovernmental (Note 3)	1,198,860	1,525,950
Interest	89,852	89,477
Note (Note 4)	100,000	120,000
Net OPEB Asset (Note 9)	161,032	157,522
Total Assets	30,113,083	39,591,990
Liabilities		
Accounts payable (Note 5)	3,181,357	3,246,896
Salaries and benefits payable	64,996	55,571
Securities lending collateral due (Note 2(g))	-	5,009,991
Due to State of California per AB99 (Note 6)	15,339,885	-
Compensated absences:		
Payable in more than one year (Note 7)	77,157	68,555
Total Liabilities	18,663,395	8,381,013
Net Assets		
Restricted for:		
Lucile Packard Grant (Note 10)	91,385	197,067
Unrestricted	11,358,303	31,013,910
Total Net Assets	\$ 11,449,688	\$ 31,210,977

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, 2011 and 2010

	Governmental Activities	
	2011	2010
Expenses		
Salaries and wages	\$ 812,329	\$ 736,498
Employee benefits	475,444	356,942
General office supplies	42,848	38,726
Professional services	875,553	797,387
Other administrative expenses	53,583	57,549
Contributions to local projects (Note 12)	8,897,161	7,456,731
Other expenses	245,174	-
Total Program Expenses	11,402,092	9,443,833
Program Revenues		
Operating grants and contributions:		
Tobacco tax (Note 11(a))	6,629,891	7,417,523
Private grants (Note 11(b))	10,500	206,599
Total Program Revenues	6,640,391	7,624,122
Net Program Revenue (Expense)	(4,761,701)	(1,819,711)
General Revenues (Expenses)		
Securities lending activities:		
Securities lending income	-	3,100
Securities lending expenses	-	(2,435)
Investment earnings (Note 11(c))	304,082	544,700
Other revenue	36,215	38,414
Total General Revenues (Expenses)	340,297	583,779
Extraordinary Item		
Due to State of California per AB99 (Note 6)	(15,339,885)	-
Change in Net Assets	(19,761,289)	(1,235,932)
Net Assets - Beginning	31,210,977	32,446,909
Net Assets - Ending	\$ 11,449,688	\$ 31,210,977

The accompanying notes are an integral part of these financial statements

BASIC FINANCIAL STATEMENTS
Fund Financial Statements

**First 5 San Mateo County
Balance Sheets
June 30, 2011 and 2010**

	2011	2010
Assets		
Cash and cash equivalents (Note 2)	\$ 28,563,339	\$ 32,689,050
Securities lending collateral (Note 2(g))	-	5,009,991
Receivables, net:		
Intergovernmental (Note 3)	1,198,860	1,525,950
Interest	89,852	89,477
Note (Note 4)	100,000	120,000
Total Assets	\$ 29,952,051	\$ 39,434,468
Liabilities and Fund Balance		
Liabilities		
Accounts payable (Note 5)	\$ 3,181,357	\$ 3,246,896
Salaries and benefits payable	64,996	55,571
Due to State of California per AB99 (Note 6)	15,339,885	-
Securities lending collateral due (Note 2 (g))	-	5,009,991
Total Liabilities	18,586,238	8,312,458
Fund balance (Note 10)		
Nonspendable	338,189	346,077
Restricted	91,385	197,067
Committed	10,057,410	20,994,722
Assigned	878,829	9,584,144
Total Fund Balance	11,365,813	31,122,010
Total Liabilities and Fund Balance	\$ 29,952,051	\$ 39,434,468
 Reconciliation of Fund Balance Sheet to the Statement of Net Assets:		
Total fund balance - from above	\$ 11,365,813	\$ 31,122,010
Amounts reported in the Statement of Net Assets are different because:		
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the fund		
Net OPEB asset (obligation)	161,032	157,522
Compensated absenses	(77,157)	(68,555)
Net Assets (page 7)	\$ 11,449,688	\$ 31,210,977

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, 2011 and 2010

	2011	2010
Revenues		
Tobacco tax (Note 11(a))	\$ 6,629,891	\$ 7,417,523
Investment earnings (Note 11(c))	304,082	544,700
Securities lending income	-	3,100
Private grants (Note 11(b))	10,500	206,599
Other revenue	-	8,804
Total Revenues	6,944,473	8,180,726
Expenditures		
Salaries and benefits	1,246,466	1,061,806
Services and supplies	971,984	893,661
Securities lending expenditures	-	2,435
Contributions to local projects (Note 12)	8,897,161	7,456,731
Other	245,174	-
Total Expenditures	11,360,785	9,414,633
Excess (Deficiency) of Revenues over Expenditures	(4,416,312)	(1,233,907)
Extraordinary Item		
Due to State of California per AB99 (Note 6)	(15,339,885)	-
Net Change in Fund Balance	(19,756,197)	(1,233,907)
Fund Balance - Beginning	31,122,010	32,355,917
Fund Balance - Ending	\$ 11,365,813	\$ 31,122,010

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	\$ (19,756,197)	\$ (1,233,907)
---	-----------------	----------------

Amounts reported in the Statement of Activities 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 governmental funds:

Change in net OPEB obligation/asset	3,510	3,121
Change in compensated absences	(8,602)	(5,146)
Change in Net Assets (page 8)	\$ (19,761,289)	\$ (1,235,932)

The accompanying notes are an integral part of these financial statements

BASIC FINANCIAL STATEMENTS
Notes to the Financial Statements

**FIRST 5 SAN MATEO COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

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 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 County Strategic Plan approved by the First 5 Commission and approved through the County budget process.

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

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

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities on pages 7 and 8) are reported using the *economic resources measurement focus* and the *accrual* basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Contributions to 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, federal grants, private grants and other revenues.

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

**FIRST 5 SAN MATEO COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) 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.

d) 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. See Note 1 of the notes to the required supplementary information for detail.

e) Other Post Employment 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.

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). 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 activity. 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 Investment Policy annually, and all amendments to the policy must be approved by the County Board.

**FIRST 5 SAN MATEO COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

2. CASH AND CASH EQUIVALENTS (continued)

The fair value of cash and cash equivalents of First 5's investment in the County Pool is reported in the accompanying financial statements at amounts based upon First 5's pro-rated share of the fair value provided by the Treasurer for the entire County Pool portfolio. At fiscal year-end the fair value was \$28,563,339 (2010: \$32,689,050). The contractual withdrawal value (book value) was \$28,500,198 (2010: \$32,572,550).

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	7 years	AAA	100	100
Obligations of U.S. Agencies or government sponsored enterprises	7 years	AAA	100	40
U.S. Agencies Callables	7 years	AAA	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	40	5
Repurchase agreements secured by U.S. Treasury or agency obligation	92 days	AAA	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)	-	-	-	Up to the current state limit
Shares of beneficial interest	-	Money Market A1/P1	10	5
Mortgage backed securities/CMO's	5 years	A	20	5
Asset backed securities	5 years	AAA	20	5

**FIRST 5 SAN MATEO COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

2. CASH AND CASH EQUIVALENTS (continued)

At June 30, 2011, 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. government securities	0.045 - 2.125%	7/14/11 - 6/30/16	1.98	AAA
U.S. government agency securities	0.020 - 2.815%	7/5/11 - 11/23/15	1.11	AAA
U.S. government agency securities: floating rate	0.096 - 0.202%	8/1/11 - 5/1/12	0.39	AAA
Corporate bonds	0.875 - 5.900%	8/1/12 - 5/19/16	3.00	AAA, AA+,AA,AA-
Floating rate securities				AA+, AA-, A+, A, A-
	0.301 - 1.875%	1/24/12 - 5/30/14	1.99	A+, A, A-
Commercial papers	0.090 - 0.180%	7/14/11 - 8/26/11	0.08	AA+, AA-
Certificate of deposits	0.476 - 0.926%	1/19/12 - 1/18/13	1.05	AA-, A+
Repurchase agreements	-	7/1/11	*	AAA

* Weighted average maturity is less than 0.01 year.

c) 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 A1 or better by Standard & Poor's, or P1 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 Pool was rated AA+/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.

d) County Pool: Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the County Pool's investment in a single issuer of securities. For each authorized investment type, state law restricts the maximum percentage allowed in the portfolio and per issuer. See Note 2(b) above. As of June 30, 2011, the County Pool is in compliance with the guidelines mentioned in Note 2(b) above. The County Pool has more than five percent of its total investment with the following issuers as of June 30, 2011: 13% in Federal Home Loan Bank, 12% in Federal Home Loan Mortgage Corporation and 10% in Federal National Mortgage Association.

e) 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 is, the greater its price sensitivity to changes in interest rates. The County manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to three years or less in accordance with its investment policy. As of June 30, 2011, the County Pool had a weighted average maturity of 1.5 years and its investment in floating rate securities was \$213 million which are tied to the three-month London Interbank Offered Rate (LIBOR) index.

**FIRST 5 SAN MATEO COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

2. CASH AND CASH EQUIVALENTS (continued)

f) County Pool: Foreign Currency Risk

Foreign currency risk is the risk that changes in the exchange rates will adversely affect the fair values 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.

g) Securities Lending Activity

State statutes and the County Investment Policy permit the use of a securities lending program with its principal custodian bank. The investment policy allows the custodial bank (Custodian) to lend up to 20% of the portfolio within the established guidelines. The custodial agreement with the County’s Custodian authorizes the Custodian to loan securities in the County investment portfolio under such terms and conditions as the County’s Custodian deems advisable and to permit the loaned securities to be transferred into the name of the borrowers. The loaned securities represent securities on loan to brokers or dealers or other borrowers by the County Pool.

The County receives interest from the borrower for the use of the loaned securities. If the loaned securities are not returned by the borrower, the County’s Custodian is responsible for replacement of the loaned securities with other securities of the same issuer, class and denomination, or if such securities are not available on the open market, the County’s Custodian is required to credit the County’s account with the market value of such unreturned loaned securities. All securities loan agreements can be terminated on demand within a period specified in each agreement by either the County or the borrowers. The County stopped participating in securities lending activity in October 2010 and had no securities out on loan as of June 30, 2011 (2010: \$5,009,991).

3. INTERGOVERNMENTAL RECEIVABLE

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

	<u>2011</u>	<u>2010</u>
Proposition 10 allocation for:		
May	\$ 584,851	\$ 575,387
June	610,483	601,199
	<u>1,195,334</u>	<u>1,176,586</u>
School Readiness	-	344,758
Surplus Money Investment Fund (SMIF)	3,526	4,606
Total	<u>\$ 1,198,860</u>	<u>\$ 1,525,950</u>

4. NOTE RECEIVABLE

The June 30, 2011 Note receivable balance of \$100,000 (2010: \$120,000) represents the balance remaining from First 5’s eighty percent share (\$200,000) of an initial loan of \$250,000 provided jointly by First 5 and County of San Mateo to Bayshore Child Care Services on April 15, 2003. An amendment to the agreement with the grantee during fiscal year 2003/2004 increased the total loan amount to \$300,000 by increasing the County’s obligation from \$50,000 to \$100,000. The amendment extended the project completion date from June 30, 2004 to June 30, 2006, thereby also extending the ten-year post completion project-monitoring period. The loan is to assist with costs associated with a project for the development of a neighborhood resource center offering educational opportunities and services to children up to the age of five years.

**FIRST 5 SAN MATEO COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

4. NOTE RECEIVABLE (continued)

The loan is unsecured, bears a zero percent interest rate and is being forgiven at the rate of ten percent (\$20,000) for each full year, beginning April 1, 2007, as the project continues its approved use per the terms and conditions of the loan agreement. If the grantee breaches any of the terms and conditions, First 5 and the County may demand immediate payment of the principal. As of June 30, 2011, \$100,000 has been forgiven.

As the note receivable amount will be forgiven and no repayments are anticipated, the asset reported in the fund balance sheet is offset by including the same amount in the unspendable portion of the fund balance. See Note 10.

5. ACCOUNTS PAYABLE

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

	<u>2011</u>	<u>2010</u>
Funding due to grantees	\$ 2,809,421	\$ 2,900,059
Services and supplies	371,936	346,837
Total	<u>\$ 3,181,357</u>	<u>\$ 3,246,896</u>

6. DUE TO STATE OF CALIFORNIA (ASSEMBLY BILL 99)

On March 24, 2011, the Governor of California signed Assembly Bill 99 (AB99) to establish the Children and Families Health and Human Services Fund (Fund) which will be used to provide health and human services, including direct health care services to children from birth through age 5. To cover the cost of the new Fund, by the end of fiscal year 2011-12, each county commission not exempt per AB99 is to remit into the Fund, 50 percent of its county commission funding, which includes total nonspendable, restricted, committed and assigned local children and families trust funds as of June 30, 2010. First 5's conservative estimate of this obligation to the Fund as of June 30, 2011 is \$15,339,885, which is classified as a current liability on the government-wide *Statements of Activities* and governmental fund *Balance Sheets*; and as an Extraordinary Item on the government-wide *Statements of Activities* and governmental fund *Statements of Revenues, Expenditures, and Changes in Fund Balance*. AB99 was subject to appeal as of June 30, 2011.

7. 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. A liability for these amounts is reported in the governmental fund *Balance Sheet* only if they have matured, for example, as a result of employee resignations and retirements.

The change in the compensated absences balance for the current fiscal year was as follows:

<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2011</u>	<u>Due Within One Year</u>
<u>\$ 68,555</u>	<u>\$ 8,602</u>	<u>\$ -</u>	<u>\$ 77,157</u>	<u>\$ -</u>

**FIRST 5 SAN MATEO COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

8. EMPLOYEES' RETIREMENT PLAN

a) 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.

b) Funding Policy

The 1937 Act established the basic obligations for employers and members to make contributions to the pension trust fund. The employer and member contribution rates are based on recommendations made by an independent actuary and adopted by the Board of Retirement. Participating employers are required by statutes to contribute the amounts necessary to fund the estimated benefits accruing to SamCERA members not otherwise funded by member contributions or expected investment earnings. 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).

c) Annual Pension Cost

Separate information is not available for First 5 as to the funding policy, annual pension cost, and required supplementary information related to funding progress and trend information. Refer to the County's basic financial statements for further information.

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

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed
6/30/2009	\$106,123	100.0%
6/30/2010	106,265	100.0%
6/30/2011	Not available at this time	Not available at this time

9. OTHER POSTEMPLOYMENT BENEFITS

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.

**FIRST 5 SAN MATEO COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

9. OTHER POSTEMPLOYMENT BENEFITS (continued)

As a discretely presented component unit of the County, First 5 was required to implement Governmental Accounting Standards Board Statements (Statements) No. 45 and 50 beginning in the fiscal year ended June 30, 2008. These Statements established standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosure, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

For the fiscal year ended June 30, 2011, the County contributed \$17.4 million, or 100%, of the actuarially required contributions to the Retiree Health Plan, of which First 5's share is 36,215. The following table shows the components of First 5's annual OPEB cost for the year, the amount contributed to the plan, and changes in First 5's net OPEB obligation to the Retiree Health Plan:

Annual required contribution	\$ 36,215
Annual OPEB cost	32,705
Contribution made	(36,215)
Increase in net OPEB obligation (asset)	(3,510)
Net OPEB obligation (asset) - beginning of year	(157,522)
Net OPEB obligation (asset) - end of year	<u>\$ (161,032)</u>

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Contribution	Net OPEB Obligation (Asset)
6/30/09	10,256	122.0%	(154,401)
6/30/10	26,488	111.8%	(157,522)
6/30/11	32,705	110.7%	(161,032)

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.

10. FUND BALANCE

As prescribed by GASB Statement 54, governmental funds report fund balance in classifications based primarily on the extent to which the County is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of June 30, 2011, fund balance for the governmental fund is comprised of the following:

- (a) *Nonspendable Fund Balance*- includes amounts that are (i) not in spendable form or (ii) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: long-term notes receivable and long-term portion of the compensated absences and net OPEB obligation (asset).

**FIRST 5 SAN MATEO COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

10. FUND BALANCE (continued)

- (b) *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 provide.
- (c) *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.
- (d) *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.

At fiscal year-end, fund balance reported on the *Statements of Revenues, Expenditures and Changes in Fund Balance* on page 10 includes:

	<u>2011</u>	<u>2010</u>
Nonspendable		
Note receivable	\$ 100,000	\$ 120,000
Long-term portion of compensated Absences	77,157	68,555
Long-term portion of net OPEB obligation (asset)	161,032	157,522
Restricted		
David and Lucile Packard Grant – New Parent Kit Program	91,385	197,067
Committed		
Approved contracts and amendments to current executed Contracts:		
Grantees	9,547,435	16,038,373
Others	349,975	808,633
Approved contracts and amendments to current contracts not yet executed (obligations)	160,000	4,147,716
Assigned	878,829	9,584,144
Total Fund Balance (page 10)	<u>\$ 11,365,813</u>	<u>\$ 31,122,010</u>

11. 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 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, 2011 AND 2010**

11. REVENUES (continued)

Tobacco tax and other revenues are comprised of:

	<u>2011</u>	<u>2010</u>
Proposition 10 money:		
Monthly allocation	\$ 6,626,365	\$ 6,686,680
Surplus Money Investment Fund Allocations	3,526	4,606
First 5 CA Special Funding	-	726,237
Total	<u>\$ 6,629,891</u>	<u>\$ 7,417,523</u>

b) Private Grants

The amount represents the following private grants received by First 5:

	<u>2011</u>	<u>2010</u>
Silicon Valley Community Foundation – Support for First 5’s Repayable Loan Program	\$ 10,500	\$ -
David and Lucile Packard Foundation Grants:		
Fiscal leveraging and fiscal sustainability analysis	-	6,599
For activities supporting the new parent kit program	-	200,000
Total	<u>\$ 10,500</u>	<u>\$ 206,599</u>

c) Investment Earnings

Investment earnings of \$304,082 comprise of quarterly interest received from the County Treasurer on investments made by First 5 in the County Pool (\$299,903) and \$4,179 in interest earned from Repayable Loan Program (RLP). See Note 13 below for details of RLP. Interest is recorded in the year it is earned and available to pay current liabilities.

12. CONTRIBUTIONS TO LOCAL PROJECTS

Over the years, FY 2000-01 to FY 2008-09, First 5 has 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. The current year Cycle One investment was \$4,147,716.

**FIRST 5 SAN MATEO COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

12. CONTRIBUTIONS TO LOCAL PROJECTS (continued)

Grant contributions spent during fiscal year 2010-11:

Special Projects :

First 5 Service Corps Study:

Child Care Coordinating Council \$20,142

Cycle 1 Continuation funding:

Child Care Coordinating Council SamCARES	1,148,748
Child Care Coordinating Council WMG	179,321
Child Care Coordinating Council SmartKids	351,581
Child Care Coordinating Council- "Building Kids Up Service Corp Program"	147,112
Community Gatepath-"Demonstration Site"	289,542
Community Gatepath- "Knowledge Center"	124,332
Community Gatepath- "Parent Services"	16,692
Daly City Peninsula Partnership	229,205
San Mateo County Health Department-"Pre-to-Three Initiative"	1,035,421
Jewish Family and Children Services	488,164
Legal Aid Society of SMC	42,800
Lucile Packard Children's Hospital	388,459
San Mateo County Office of Education	1,498,302
San Mateo Community Health Authority	419,264
Shelter Network	230,000
Silicon Valley Community Foundation- "School Readiness Initiative Program"	767,068
South San Francisco Unified School District	14,831
Star Vista- "Healthy Homes"	630,633
Star Vista- "School Readiness Initiative Program"	854,860

Subtotal \$ 8,856,335

Various adjustments 20,684

Total per *Statements of Activities* (page 8) and *Statements of Revenues, Expenditures, and Changes in Fund Balance* (page 10) \$ 8,897,161

13. REPAYABLE LOAN PROGRAM

In September 2010, the First 5 Commission authorized a repayable loan program (RLP) for qualified State contracted childcare providers. The purpose of the RLP is to assist providers that provide services to children ages 0-5, receive at least 75% of funding from the State, and have exhausted all lines of credit with emergency funding due to the State's Budget impasse. The term of the RLP is from September 27, 2010 through March 31, 2011 and was administered internally with a \$25,000 contribution from Silicon Valley Community Foundation to offset administrative costs in order to waive 1% interest charge to the providers. A total of \$417,890 was awarded to five qualifying childcare providers during the year and all loans were paid off within the year.

**FIRST 5 SAN MATEO COUNTY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011 AND 2010**

14. GRANTS COMMITMENTS

At June 30, 2011, First 5’s commitments to grantees were as follows:

	<u>2011</u>	<u>2010</u>
Cycle One funding	\$ 9,547,435	\$ 16,038,373
Total	<u>\$ 9,547,435</u>	<u>\$ 16,038,373</u>

15. PROGRAM EVALUATION

The commission spent \$480,377 on program evaluation during the audit period.

16. 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 the current fiscal year.

17. LEASE OBLIGATIONS

First 5 leases office facilities and other equipment categorized as noncancelable operating leases. Total costs for such leases were \$99,055 for the year ended June 30, 2011 (2010: \$95,617). The future minimum lease payments for the office facilities lease are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2012	100,212
2013	33,731

18. 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.

Organization:	<u>Related Expenditure Amounts</u>
San Mateo County Health Systems	\$ 1,035,421
San Mateo County Office of Education	1,498,302
Total	<u>\$ 2,533,723</u>

REQUIRED SUPPLEMENTARY INFORMATION

First 5 San Mateo County
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts- Budgetary Basis (Note 1)</u>	<u>Variance with Final budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Tobacco tax (Note 11(a))	\$ 6,200,000	\$ 6,200,000	\$ 6,629,891	\$ 429,891
Investment earnings (Note 11(c))	283,000	283,000	357,439	74,439
Private grants (Note 11(b))	-	-	10,500	10,500
Total Revenues	<u>6,483,000</u>	<u>6,483,000</u>	<u>6,997,830</u>	<u>514,830</u>
Expenditures				
Salaries and benefits	1,284,382	1,250,000	1,246,466	3,534
Services and supplies	909,000	1,210,090	971,984	238,106
Contributions to local projects (Note 12)	10,701,090	10,400,000	8,897,161	1,502,839
Other	-	-	245,174	(245,174)
Total Expenditures	<u>12,894,472</u>	<u>12,860,090</u>	<u>11,360,785</u>	<u>1,499,305</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>\$ (6,411,472)</u>	<u>\$ (6,377,090)</u>	(4,362,955)	<u>\$ 2,014,135</u>
Extraordinary Item				
Due to State of California per AB99 (Note 6)			<u>(15,339,885)</u>	
Net Change in Fund Balance			(19,702,840)	
Fund Balances - Beginning			<u>30,501,268</u>	
Fund Balances - Ending			<u><u>\$ 10,798,428</u></u>	

The accompanying notes are an integral part of these financial statements

**FIRST 5 SAN MATEO COUNTY
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2011 AND 2010**

1. BUDGETARY ACCOUNTING AND ENCUMBRANCES

The Board adopts an annual operating budget, which can be amended by the Board throughout the year. As discussed in Note 1(d) of the notes to the basic financial statements, the basis used to prepare the budget is the same as the basis used to reflect actual revenues and expenditures, except for unrealized gains and losses under GASB 31 which are not included and First 5 did not include the liability 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). Adjustments were made to certain budgeted accounts to reflect changes made in financial statement presentation.

First 5 uses an encumbrance system in 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 actual net change in fund balance under budgetary basis on page 23 is reconciled to the net change in fund balance under GAAP basis on page 10 as follows:

	<u>2011</u>	<u>2010</u>
Excess (deficiency) of revenues over expenditures/ net change in fund balance – budgetary basis	\$ (4,362,955)	\$ (1,452,422)
Unrealized (gains) losses under GASB 31	<u>(53,357)</u>	<u>218,515</u>
Excess (deficiency) of revenues over expenditures/ net change in fund balance – GAAP basis	<u>\$ (4,416,312)</u>	<u>\$ (1,233,907)</u>

2. EXPENDITURES IN EXCESS OF BUDGET

In fiscal year ended June 30, 2011, other expenditures exceeded the budget by \$245,174 due to an unexpected write-off of prior year receivable from the State for the School Readiness Initiative Program that was closed during the current year; however, total expenditures for the year reflect a favorable balance.