

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

**SAN MATEO, CALIFORNIA**

**BASIC FINANCIAL STATEMENTS**

**JUNE 30, 2016**

## TABLE OF CONTENTS

	<u>PAGE</u>
Independent Auditors' Report	1-2
Management's Discussion and Analysis	3-6
Basic Financial Statements:	
Statement of Net Position	Exhibit A 7
Statement of Activities	Exhibit B 8
Governmental Funds Balance Sheet	Exhibit C 9
Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances	Exhibit D 10
Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual	Exhibit E 11
Notes to Basic Financial Statements	12-28
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 <i>Government Auditing Standards</i>	29-30
Independent Auditor's Report on State Compliance	31-32

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, 2016, 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 basic 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, 2016, 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 9, 2016 on our consideration of 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 9, 2016

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, 2016

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, 2016. 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, 2016, First 5 contributed over \$6 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, 2016 by \$15,647,614 (*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, 2016 was \$15,931,223. Of this amount, \$13,161,886 was committed for current executed grants and contracts and for contract amendments not yet executed (obligated); and the remaining \$2,769,337 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 decreased by \$2,891,985 or 32.4% from the previous fiscal year. The decreased funding was a result of strategic decisions.

### **Overview of the Financial Statements**

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

The *statement of net position* presents information on all of First 5's 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, 2016

The *statement of activities* 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 28 of this report.

**Government-wide Financial Analysis**

As of June 30, 2016, First 5 assets exceeded liabilities by \$15,647,614.

**Net Position**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total assets	\$ 18,092,801	\$ 20,210,464	\$ 22,530,643
Total deferred outflows of resources	\$ 208,495	\$ 203,366	\$ -
Total liabilities	\$ 2,632,557	\$ 3,879,848	\$ 2,565,470
Total deferred inflows of resources	\$ 21,125	\$ 240,810	\$ -
Net position	\$ 15,647,614	\$ 16,293,172	\$ 19,965,173

GASB Statement No. 68 – Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27, and GASB Statement No. 71 – Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68. The GASB issued these statements to improve accounting and financial reporting by state and local governments for pensions. As of July 1, 2014, First 5 implemented this Statement and restated the beginning net position by \$569,886 and recognized \$204,061 of beginning deferred outflow of resources for its pension contributions to establish beginning pension liabilities of \$773,947.

**Fiscal Year 2016 Compared to Fiscal Year 2015**

- At the end of fiscal year 2016, total assets decreased by \$2,117,663 (10.5%) when compared to fiscal year 2015. The decrease was primarily due to the decrease in cash and cash equivalents for grant and vendor payments made during the year.
- Total deferred outflows of resources increased by \$5,129 (2.5%).

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, 2016

Fiscal Year 2016 Compared to Fiscal Year 2015 (concluded)

- Total liabilities decreased by \$1,247,291 (32.1%). The decrease was mainly due to less grant and vendor payments due and payable at year end.
- Total deferred inflows of resources decreased by \$219,685 (91.2%) due to a change in deferred pension actuarial assumptions.
- Net position decreased by \$645,558 (4.0%). 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.

Fiscal Year 2015 Compared to Fiscal Year 2014

- At the end of fiscal year 2015, total assets decreased by \$2,320,179 (10.3%) when compared to fiscal year 2014. The decrease was primarily due to the decrease in cash and cash equivalents for grant and vendor payments made during the year.
- Total deferred outflows of resources increased by \$203,366 due to the implementation of GASB 68.
- Total liabilities increased by \$1,314,378 (51.2%). The increase was mainly due to more grant and vendor payments due and payable at year end and the addition of the net pension liability.
- Total deferred inflows of resources increased by \$240,810 due to the implementation of GASB 68.
- Net position decreased by \$3,672,001 (18.4%). 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**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Program revenues	\$ 6,586,370	\$ 6,886,591	\$ 6,604,580
General revenues	248,706	236,513	868,907
Program expenses	<u>(7,480,634)</u>	<u>(10,225,219)</u>	<u>(9,702,418)</u>
Change in net position	(645,558)	(3,102,115)	(2,228,931)
Net position, beginning of period (as restated)	<u>16,293,172</u>	<u>19,395,287</u>	<u>22,194,104</u>
Net position, end of period	<u>\$ 15,647,614</u>	<u>\$ 16,293,172</u>	<u>\$ 19,965,173</u>

Fiscal Year 2016 Compared to Fiscal Year 2015

- Program revenues decreased by \$300,221 (4.4%) and general revenues increased by \$12,193 (5.2%). The decrease in program revenue was primarily due to decreases in tobacco tax and other grants. The increase in general revenue was primarily due to more investment gains.
- Program expenses decreased by \$2,744,585 (26.8%). The majority of the decrease was due to a decrease in contributions to local projects.

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, 2016

Fiscal Year 2015 Compared to Fiscal Year 2014

- Program revenues increased by \$282,011 (4.3%) and general revenues decreased by \$632,394 (72.8%). The increase in program revenue was primarily due to increases in other grants. The decrease in general revenue was primarily due to less investment gains and the remaining settlement of the Lehman Brothers investment loss recovery.
- Program expenses increased by \$522,801 (5.4%). The majority of the increase was due to an increase in contributions to local projects.

**Fund Financial Analysis**

First 5 uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. As of June 30, 2016, First 5 reported a fund balance of \$15,931,223, a decrease of \$689,316 (4.1%) 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, \$13,161,886 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 the First 5 Commission on an annual basis.

**Budgetary Highlights**

First 5 operating budget for FY15-16 totaled \$8.8 million. The budget closeout revealed an estimated savings of \$1.3 million, which is the excess of approved budgeted expenditures compared to actual expenditures. A key factor accounting for the \$1.3 million positive budget variance was contributions to local projects which were attributed to under spending in grantee's contracts.

*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, 2016

	<u>Governmental Activities</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 16,557,067
Intergovernmental receivable, net	1,332,210
Interest receivable, net	37,459
Net OPEB asset	<u>166,065</u>
Total assets	<u>18,092,801</u>
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>	
Deferred pension contributions	<u>208,495</u>
Total deferred outflows of resources	<u>208,495</u>
 <u>LIABILITIES</u>	
Accounts payable	1,956,734
Salaries and benefits payable	38,779
Long-term liabilities:	
Net pension liability	572,419
Compensated absences:	
Payable in less than one year	26,673
Payable in more than one year	<u>37,952</u>
Total liabilities	<u>2,632,557</u>
 <u>DEFERRED INFLOWS OF RESOURCES</u>	
Deferred pension actuarial	<u>21,125</u>
Total deferred inflows of resources	<u>21,125</u>
 <u>NET POSITION</u>	
Unrestricted	<u>15,647,614</u>
Total net position	<u>\$ 15,647,614</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)

Exhibit B

STATEMENT OF ACTIVITIES  
For the Year Ended June 30, 2016

	<u>Governmental Activities</u>
Program expenses:	
Salaries and wages	\$ 591,756
Employee benefits	214,925
Pension expenses	345,989
General office supplies	38,388
Professional services	232,625
Other administrative expenses	33,246
Contributions to local projects	<u>6,023,705</u>
Total program expenses	<u>7,480,634</u>
 Program revenues:	
Operating grants and contributions:	
Tobacco tax	6,316,574
Other grants	<u>269,796</u>
Total program revenues	<u>6,586,370</u>
Net program revenues (expenses)	<u>(894,264)</u>
 General revenues:	
Investment earnings (losses)	188,563
Other revenue	<u>60,143</u>
Total general revenues	<u>248,706</u>
Change in net position	(645,558)
Net position, beginning of period	<u>16,293,172</u>
Net position, end of period	<u><u>\$ 15,647,614</u></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, 2016

Exhibit C

ASSETS

Cash and cash equivalents	\$ 16,557,067
Intergovernmental receivable, net	1,332,210
Interest receivable, net	<u>37,459</u>
Total assets	<u>\$ 17,926,736</u>

LIABILITIES AND FUND BALANCES

Liabilities:	
Accounts payable	\$ 1,956,734
Salaries and benefits payable	<u>38,779</u>
Total liabilities	<u>1,995,513</u>
Fund balances:	
Committed	13,161,886
Assigned	<u>2,769,337</u>
Total fund balances	<u>15,931,223</u>
Total liabilities and fund balances	<u>\$ 17,926,736</u>

**Reconciliation of the Governmental Funds Balance Sheet with the Governmental Activities Statement of Net Position:**

Total Governmental Funds Fund Balances	\$ 15,931,223
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	166,065
Deferred pension contributions	208,495
Net pension liability	(572,419)
Deferred pension actuarial	(21,125)
Compensated absences	<u>(64,625)</u>
Net Position of Governmental Activities	<u>\$ 15,647,614</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 STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES  
For the Year Ended June 30, 2016

Exhibit D

Revenues:	
Tobacco tax	\$ 6,316,574
Investment earnings (losses)	188,563
Other grants	269,796
Other revenue	<u>19,465</u>
Total revenues	<u>6,794,398</u>
Expenditures:	
Salaries and benefits	1,155,750
Services and supplies	304,259
Contributions to local projects	<u>6,023,705</u>
Total expenditures	<u>7,483,714</u>
Excess of revenues over (under) expenditures	(689,316)
Fund balance, beginning of period	<u>16,620,539</u>
Fund balance, end of period	<u><u>\$ 15,931,223</u></u>

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

Net Change in Fund Balances	\$ (689,316)
-----------------------------	--------------

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 the governmental fund:

Change in net OPEB asset	(244)
Change in deferred pension contributions	5,129
Change in net pension liability	(162,596)
Change in deferred pension actuarial	219,685
Change in compensated absences	<u>(18,216)</u>
Change in Net Position of Governmental Activities	<u><u>\$ (645,558)</u></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)

Exhibit E

STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES

Budget and Actual  
For the Year Ended June 30, 2016

	Original Budget	Final Budget	Actual (Budgetary Basis)	Variance with Final Budget
Revenues:				
Tobacco tax	\$ 5,782,637	\$ 6,019,233	\$ 6,316,574	\$ 297,341
Investment earnings (losses)	108,668	108,668	136,034	27,366
Other grants	185,000	271,162	269,796	(1,366)
Other revenue	-	11,783	19,465	7,682
Total revenues	6,076,305	6,410,846	6,741,869	331,023
Expenditures:				
Salaries and benefits	1,183,525	1,239,185	1,155,750	83,435
Services and supplies	398,910	410,210	311,660	98,550
Contributions to local projects	6,424,334	7,158,382	6,023,705	1,134,677
Total expenditures	8,006,769	8,807,777	7,491,115	1,316,662
Excess of revenues over (under) expenditures	\$ (1,930,464)	\$ (2,396,931)	(749,246)	\$ 1,647,685
Fund balance, beginning of period			16,594,997	
Fund balance, end of period			\$ 15,845,751	

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, 2016

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 Activities) 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 Activities report the change in net position in a net program cost format to demonstrate the degree to which the expenses of First 5 are offset by its program revenues - tobacco tax and private grants. First 5 has no business-type activities.

The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

First 5 San Mateo County  
(A Discretely Presented Component Unit of the County of San Mateo)  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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. With this measurement focus, only current assets and current liabilities are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in current assets. Revenues are recognized as soon as they are both measurable and available. “Measurable” means that the amount of the transaction can be determined. 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.

The emphasis of fund financial statements is on major governmental funds. All remaining governmental funds are aggregated and reported as non-major funds, regardless of their fund type. Major funds are those that have assets, liabilities, revenue or expenditures equal to ten percent of their fund-type total. The General Fund is always a major fund. First 5 may also select other funds it believes should be presented as major funds.

First 5 reports the following major governmental fund types: the General Fund is First 5’s primary operating fund. It is used to account for all activities, except those required to be accounted for in another fund.

B. Program Revenues

Program revenues in the financial statements include tobacco tax and other funding from First 5 California, other grants, and private grants.

C. Net Position

The government-wide financial statements utilize a net position presentation. Net position is categorized as invested capital assets (net of related debt), restricted and unrestricted.

Invested in Capital Assets, Net of Related Debt - This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

First 5 San Mateo County  
(A Discretely Presented Component Unit of the County of San Mateo)  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Net Position (concluded)

Restricted Net Position - This category presents external restrictions imposed by creditors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted Net Position - This category represents net position of First 5 not restricted for any project or other purpose.

D. Deferred Outflows and Inflows of Resources

Pursuant to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, First 5 recognized deferred outflows and inflows of resources.

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. A deferred outflow of resources is defined as a consumption of net position by the government that is applicable to a future reporting period and will not be recognized as an outflow of resources (expense/expenditure) until then. First 5 has one such item which is reported in notes 2J, 2K and 7.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. A deferred inflow of resources is defined as an acquisition of net position by the government that is applicable to a future reporting period and will not be recognized as an inflow of resources (revenue) until then. First 5 has one such item which is reported in notes 2J, 2K and 7.

E. 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.

F. 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.

First 5 San Mateo County  
(A Discretely Presented Component Unit of the County of San Mateo)  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. 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.

H. 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.

I. 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, 2016, First 5 received \$6,316,574, which amounts to 92% 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.

J. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of First 5's pension plan and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by SamCERA. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value.

First 5 San Mateo County  
(A Discretely Presented Component Unit of the County of San Mateo)  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (concluded)

K. Implementation of Governmental Accounting Standards Board (GASB) Statements

GASB Statement No. 72 – Fair Value Measurement and Application

In February 2015, GASB issued this Statement to improve accounting and financial reporting by state and local governments' investments by enhancing the comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. As of July 1, 2015, First 5 implemented this Statement.

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 in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. 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 \$16,557,067 as of June 30, 2016. The contractual withdrawal values (book values) were \$16,506,314 as of June 30, 2016.

Fair Value of Investments

First 5 categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

First 5 has the following recurring fair value measurements as of June 30, 2016:

San Mateo County Investment Pool (Level 2 inputs)	<u>\$ 16,557,067</u>
---	----------------------

First 5 San Mateo County  
(A Discretely Presented Component Unit of the County of San Mateo)  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2016

NOTE 3 - CASH AND CASH EQUIVALENTS (continued)

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
Commercial paper	270 days or less	A1/P-1/F1	40	5
Negotiable certificates of deposit	5 years	A1/P-1/F1	30	5
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
Mortgage backed securities/CMO's	5 years	A or AA	20	5
Asset backed securities	5 years	AAA	20	N/A
Corporate bonds, medium term notes and covered bonds	5 years	AA/A	30	5
U.S. Instrumentalities	5 years	AA	30	N/A
CA Municipal Obligations	5 years	AA	30	5
Repurchase agreements secured by U.S. Treasury of agency obligation	92 days	A-1	100	See limitation for Treasuries and Agencies above
Local Agency Investment Fund (LAIF)	N/A	N/A	N/A	Up to the current state limit
Shares of beneficial interest	N/A	A1/P1	10	5
Local Government Investment Pools (LGIPs)	N/A	N/A	10	5

At June 30, 2016, 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>
Certificates of deposit	0.85%	9/1/16	0.25	A-1+
Commercial paper	0.00%	7/7/16-11/16/16	0.18	A-1, A-1+
LAIF	0.58%	7/1/16	0.08	N/A
Repurchase agreements	0.40%	7/1/16	0.08	AA+
U.S. Treasury notes	0.63%-1.75%	11/30/16-1/31/23	2.97	AA+
Federal agency floating rate securities	0.51%-0.60%	2/27/17-12/20/14	1.08	AA+
Federal agency securities	0.00%-2.00%	7/5/16-11/30/20	1.16	AA+
U.S. Instrumentalities	0.88%-1.63%	7/19/18-5/24/21	3.15	AAA
Floating rate securities	0.69%-1.50%	7/13/16-8/17/20	1.50	AA-, A, AA, A+, AA+
Corporate bonds	0.75%-2.30%	7/22/16-4/7/21	1.64	AA-, A, AA, AAA, A+, AA+

First 5 San Mateo County  
(A Discretely Presented Component Unit of the County of San Mateo)  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2016

NOTE 3 - CASH AND CASH EQUIVALENTS (concluded)

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, 2016, the investment pool has five percent or more of its total investments with the following issuers: 56.1% in Government Agencies, 15.8% in Corporate Securities, 9.6% in Commercial Paper, 7.8% in U.S. Treasuries (notes, t-bills and cash management bills), and 7.4% in Repurchase Agreements.

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, 2016, the County Pool had a weighted average maturity of 1.06 years and its floating rate securities were \$328 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, 2016:

Proposition 10 allocation - May	\$ 497,884
Proposition 10 allocation - June	595,313
Surplus Money Investment Fund (SMIF)	2,900
Child Signature Program (CSP) #3	44,133
Impact Grant	20,075
Race to the Top Grant	<u>171,905</u>
Total	<u>\$ 1,332,210</u>

First 5 San Mateo County  
(A Discretely Presented Component Unit of the County of San Mateo)  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2016

NOTE 5 - ACCOUNTS PAYABLE

Accounts payable is comprised of funding due to grantees and amounts due to vendors for services and supplies at the fiscal year ended June 30, 2016:

Funding due to grantees	\$ 1,833,182
Services and supplies	<u>123,552</u>
Total	<u><u>\$ 1,956,734</u></u>

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, 2016 were as follows:

Balance – beginning of year	\$ 46,409
Additions	46,342
Retirements	<u>(28,126)</u>
Balance – end of year	<u><u>\$ 64,625</u></u>
Due within a year	<u><u>\$ 26,673</u></u>

NOTE 7 - EMPLOYEES' RETIREMENT PLAN

Plan Description

*General.* The San Mateo County Employees' Retirement Association (SamCERA) is a cost-sharing multiple-employer, defined benefit pension plan that provides benefits for substantially all permanent employees of the County, and two special districts. SamCERA was founded in 1944 under the authority granted by Article XVI of the Constitution of the State of California and the County Employees' Retirement Law of 1937 (the 1937 Act), and is not subject to the provisions of the Employee Retirement Income Security Act of 1974. SamCERA is a Pension Trust Fund of the participating employers.

Management of SamCERA is vested in the Board of Retirement consisting of nine members. SamCERA is governed by the California Constitution, the 1937 Act and the by-laws, procedures, and policies adopted by the Board of Retirement. Pursuant to the County Employees Retirement Law of 1937, board members include the County Treasurer, two general members of SamCERA elected by their peers, four members appointed by the County Board, one member from SamCERA's safety members, and one member from the retired membership.

The Board of Retirement undertakes the administrative and fiduciary responsibility over the pension plan. 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.

First 5 San Mateo County  
(A Discretely Presented Component Unit of the County of San Mateo)  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2016

NOTE 7 - EMPLOYEES' RETIREMENT PLAN (continued)

*Benefit Provisions.* SamCERA provides service retirement, disability, and death benefits to plan members and beneficiaries based on defined benefit formulas using final average compensation, years of service, and age factors to calculate benefits payable. SamCERA has seven tiers that cover members classified as general, safety, or probation, and provides annual cost-of-living adjustments upon retirement to members of Tiers 1, 2, 4, 5, 6, and 7. The benefits of Tier 3 are reduced by a portion of Social Security benefits received by the member. The 1937 Act vests the County Board with the authority to initiate benefits, while Government Code Section 31592.2 empowers the Board of Retirement to provide certain ad hoc benefits when the Section 31592 reserve exceeds 1% of assets.

SamCERA has seven tiers covering members classified as general, safety or probation. Members in Tiers 1, 2, 4, 5, and 6 with 10 years of continuous service (permanent part-time employees need equivalent of 5 years of full-time service and 10 years of membership) may retire at age 50. Members in Tier 3 with 10 years of continuous service may retire at age 55. Members in Tier 7 with 5 years of service may retire at age 52.

General members in Tiers 1, 2, 4, 5, and 6 may retire at any age after 30 years of service. Safety members and Probation members may retire at any age after 20 years of service. A member who leaves county service may withdraw his or her contributions, plus any accumulated interest. Members with five years of service, permanent part-time employees with five years of full-time service, or non-contributory members (Tier 3) with 10 years of service, may elect a deferred retirement when terminating their employment with the County.

In addition to the basic member and the cost sharing contributions, certain plan members (except those in tier 3) are required to make contributions to fund the Cost of Living Adjustments (COLA). Certain members in tiers 1, 2 and 4 contribute a specific percentage of the retirement COLA cost. All members in tiers 5 and 6 contribute 50% of the COLA. Members in tier 7 contribute 50% of the aggregate normal cost rate for their plan.

*Contributions.* The 1937 Act established the basic obligations for employers and members to make contributions to the pension trust fund. The employer and member contribution rates are based on recommendations made by an independent actuary and adopted by the Board of Retirement. The 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. Employer contribution rates for each tier are determined pursuant to Government Code Section 31453 of the 1937 Act. 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. Contributions to the plan from First 5 were \$182,614 for the year ended June 30, 2016.

For the fiscal year ended June 30, 2016, the contributions recognized as part of pension expense for the plan were as follows:

Contributions – employer	\$ 182,614
Contributions – employee	47,981

First 5 San Mateo County  
(A Discretely Presented Component Unit of the County of San Mateo)  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2016

NOTE 7 - EMPLOYEES' RETIREMENT PLAN (continued)

Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2016, First 5 reported \$572,419 of net pension liabilities for its proportionate share of the net pension liability. The net pension liability of the plan is measured as of June 30, 2015, and the total pension liability for the plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015. First 5's proportion of the net pension liability was based on statutory contributions. First 5's proportionate share of the net pension liability was 0.11% as of June 30, 2015, which was an increase of 0.01% from its share measured as of June 30, 2014.

For the year ended June 30, 2016, First 5 recognized pension expense of \$120,396. At June 30, 2016, First 5 reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected pension experience	\$ -	\$ (24,638)
Changes in pension-related assumptions	22,612	-
Differences between projected and actual earnings on pension investments	-	45,763
Change in proportionate share of net pension liability	1,656	-
Difference in actual and proportionate share of pension contributions	1,613	-
Pension contributions subsequent to measurement date	182,614	-
Total	\$ 208,495	\$ 21,125

First 5 reported \$182,614 as deferred outflows of resources related to contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

<u>Fiscal Year Ended</u>			
6/30/17		\$	(11,809)
6/30/18			(11,809)
6/30/19			(11,806)
6/30/20			40,180
6/30/21			-
Thereafter			-

First 5 San Mateo County  
(A Discretely Presented Component Unit of the County of San Mateo)  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2016

NOTE 7 - EMPLOYEES' RETIREMENT PLAN (continued)

Actuarial Assumptions

The total pension liabilities in the June 30, 2015 actuarial valuations were determined using the entry age normal actuarial cost methods, an assumed 7.25% investment return, an assumed 3.50% annual total payroll growth rate, an inflation rate of 3.00% and an actuarial value on assets using a five-year smoothed method based on the difference between expected and actual market value of the assets as of the valuation date. Mortality rates are based on RP-2000 mortality tables. Further details can be found in the June 30, 2015 valuation report.

The actuarial assumptions used to determine the liabilities for the June 30, 2015 valuation are based on the results of the actuarial experience study for the period ending April 30, 2014.

The long-term expected rate of return on pension plan investments was determined using a building-block approach in which a median (or expected) geometric rate of return is developed for each major asset class. The median rates are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentages. The target allocation and estimates of the median geometric rates of return for each major asset class are shown in the table below. The asset class return assumptions are presented on a nominal basis, and all assumptions include a base inflation rate assumption of 2.0%.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Rate of Return</u>
Domestic Equity	30%	7.30%
International Equity	20%	8.50%
Fixed Income	20%	3.10%
Alternatives	16%	8.40%
Risk Parity	8%	5.90%
Real Estate	6%	5.70%
Cash	-0%	1.50%
Total	<u>100%</u>	

Discount Rate

The investment rate of return assumption used to measure the total pension liability was 7.45%. The projection of cash flows used to determine the discount rate assumed that employer and member contributions will be made at the funding requirements under SamCERA's funding policy and the legal requirements under the County Employees Retirement Law of 1937. In addition, San Mateo County intends to contribute additional amounts over the next 10 years to accelerate the elimination of the unfunded actuarial accrued liability. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return, gross of administrative expenses.

First 5 San Mateo County  
(A Discretely Presented Component Unit of the County of San Mateo)  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2016

NOTE 7 - EMPLOYEES' RETIREMENT PLAN (concluded)

SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

	2016
First 5's proportion of the collective net pension liability (asset)	0.11%
First 5's proportionate share of the collective net pension liability (asset)	\$ 572,419
First 5's covered-employee payroll	\$ 756,154
First 5's proportionate share of the collective net pension liability as a percentage of covered payroll	75.70%
Plan fiduciary net position as a percentage of the total pension liability	87.53%

SCHEDULE OF FIRST 5 CONTRIBUTIONS

	2015
Contractually required contribution	\$ 170,517
Contributions in relation to the contractually required contribution	170,517
Contribution deficiency (excess)	\$ 0
Covered payroll	\$ 756,154
Contributions as a percentage of covered payroll	22.55%

NOTE 8 - 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.

First 5 San Mateo County  
(A Discretely Presented Component Unit of the County of San Mateo)  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2016

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (OPEB) (concluded)

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 \$40,678 for the fiscal year ended June 30, 2016. 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>40,678</u>
Annual OPEB cost	\$ (40,922)
Contribution made	<u>40,678</u>
Decrease in net OPEB asset	(244)
Net OPEB asset – beginning of year	<u>166,309</u>
Net OPEB asset – end of year	<u>\$ 166,065</u>

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>
6/30/14	\$ 38,541	102%	\$ 166,076
6/30/15	34,940	101%	166,309
6/30/16	40,922	99%	166,065

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 9 - 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 the 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 originally imposed the constraint.

First 5 San Mateo County  
(A Discretely Presented Component Unit of the County of San Mateo)  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2016

NOTE 9 - FUND BALANCE (concluded)

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 Statement of Revenues, Expenditures and Changes in Fund Balance includes:

**Committed**

Contracts and amendments to executed contracts:

Grantees	\$ 12,336,554
Others	825,332

**Assigned**

Total fund balance	<u>\$ 15,931,223</u>
--------------------	----------------------

NOTE 10 - 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, the Impact Grant 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	\$ 6,094,699
Surplus Money Investment Fund	2,900
Child Signature Program	198,900
Impact Grant	<u>20,075</u>
Total	<u>\$ 6,316,574</u>

Other Grants

Other grants are comprised of:

Race to the Top Grant	\$ 269,002
Wellness Grant	<u>794</u>
Total	<u>\$ 269,796</u>

First 5 San Mateo County  
(A Discretely Presented Component Unit of the County of San Mateo)  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2016

NOTE 10 - REVENUES (concluded)

Investment Earnings (Losses)

Investment earnings of \$188,563 for the year ended June 30, 2016, 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. Interest is recorded in the year earned and is available to pay current liabilities.

Interest on investments	\$ 136,034
Change in fair value of investments	52,529
Total	\$ 188,563

NOTE 11 - PENSION EXPENSES

Pension expenses are comprised of:

County retirement contribution	\$ 184,671
OPEB cost	40,922
Pension expense (changes in net pension liability)	120,396
Total	\$ 345,989

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 \$26,188,072 in Cycle Two funding to local projects. Cycle Two has a three-year term from FY 2011-12 to FY 2013-14 and has been extended through December 31, 2015. During the year ended June 30, 2016, First 5 awarded \$16,767,506 in Cycle Three funding to local projects. Cycle Three has a five-year term from FY 2015-16 to FY 2019-20.

First 5 San Mateo County  
(A Discretely Presented Component Unit of the County of San Mateo)  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2016

NOTE 12 - CONTRIBUTIONS TO LOCAL PROJECTS (concluded)

Grant contributions for the year ended June 30, 2016 include:

Cycle Two Funding:

Child Care Coordinating Council (Service Corps Project)	\$ 5,226
Silicon Valley Community Foundation (Bridges to Success)	428,918
Contractors:	
SRI International (System of Care Comprehensive Evaluation)	88,076

Cycle Three Funding:

Community Gatepath (Watch Me Grow)	1,072,330
Family Connections (Nurturing Family Intensive Supports)	179,737
Peninsula Family Services (Therapeutic Child Development Centers)	271,262
Ravenswood Family Health Center - South (Oral Health Initiative)	300,000
San Mateo Community Health Authority (Children Health Initiatives)	350,000
San Mateo County Office of Education (EQ+IP)	1,581,947
San Mateo Health System - Family Health Services (Oral Health System Project)	15,000
Silicon Valley Community Foundation (PreK-3 <sup>rd</sup> Grade Articulation and Alignment)	22,312
Star Vista (Early Childhood Services)	1,154,974
Contractors:	
Dental Elite (Kit For New Parents)	20,500
First 5 Contra Costa (Early Learning Project - Regional Cost Sharing)	20,000
Runyon Saltzman Einhorn (Communications Consultation Services)	101,355
Santa Clara First 5 (Regional Cost Sharing)	7,665
Viva Strategy + Communications (Strategic Consultation)	41,625

Other Funding:

Child Care Coordinating Council (IMPACT)	2,229
Institute for Human & Social Development (Child Signature Program 3)	63,833
San Mateo County Office of Education (IMPACT)	7,122
San Mateo County Office of Education (Race to the Top - Early Learning Challenges)	258,155
Contractors:	
Other	31,439
Total	<u>\$ 6,023,705</u>

NOTE 13 - GRANT COMMITMENTS

First 5's commitments to grantees as of June 30, 2016 were as follows:

Cycle Three Funding	\$ 11,554,083
Other Funding	<u>1,607,803</u>
Total	<u>\$ 13,161,886</u>

NOTE 14 - PROGRAM EVALUATION

First 5 spent \$225,282 on program evaluation during the fiscal year ended June 30, 2016.

First 5 San Mateo County  
(A Discretely Presented Component Unit of the County of San Mateo)  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2016

NOTE 15 - LEASE OBLIGATIONS

First 5 leases office facilities and other equipment categorized as noncancelable operating leases expiring on October 31, 2016. Total costs for such leases were \$80,844 for the year ended June 30, 2016. The future minimum lease payments for the office facilities lease are as follows:

Fiscal year ending June 30, 2017 (through October 31, 2016)	\$ <u>29,633</u>
---	------------------

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 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, 2016 were as follows:

San Mateo Health System - Family Health Services	\$ <u>15,000</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, OFAS, 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	\$ 749,246
Changes in unrealized (gain)/loss on cash equivalents	(52,529)
Minor expense adjustments not accounted for in the budget	<u>(7,401)</u>
Deficiency of revenue over expenditures/net change in fund balance – GAAP basis	<u>\$ 689,316</u>

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, 2016, 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, and have issued our report thereon dated September 9, 2016.

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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity'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 9, 2016

INDEPENDENT AUDITORS' REPORT ON  
STATE COMPLIANCE

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

Compliance

We have 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, 2016.

Management's Responsibility

Management is responsible for compliance with the requirements of the laws and regulations applicable to the California Children and Families Act.

Auditor's Responsibility

Our responsibility is to express an opinion on First 5 San Mateo County's compliance with the requirements referred to above based on our audit. We conducted our audit of compliance 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 requirements referred to above that could have a direct and 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 on compliance. However, 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 could have a direct and material effect on the California Children and Families Program for the year ended June 30, 2016.

*R.J. Ricciardi, Inc.*

R.J. Ricciardi, Inc.  
Certified Public Accountants

San Rafael, California  
September 9, 2016