



**Agenda Item No. 6  
October 3, 2012 Meeting**

**DATE:** September 21, 2012  
**TO:** Children and Families Commission of Orange County  
**FROM:** Christina Altmayer, Interim Executive Director   
**SUBJECT:** FY 2011-12 Annual Financial Reports and Public Hearing

---

**SUMMARY:**

This agenda item provides a comprehensive report on the fiscal results from the fiscal year ending June 30, 2012. This report also addresses the Commission's filing requirements with First 5 California and State Controller's Office. The California Children & Families Act of 1998 (Health & Safety Code Sections 130140 & 130150) requires that each county commission complete an annual audit and program report of the preceding fiscal year, conduct a public hearing on the audit and program reports, and submit both to the State First 5 Commission on or before November 1 of each year. The audit report must also be filed with the State Controller's Office. The annual financial audit and the program reports have been completed and are submitted to the Commission for a public hearing. This report provides a comprehensive update on Annual Financial Audits and Year-End Financial Results.

**Annual Financial Audits**

***Comprehensive Annual Financial Report (CAFR):*** Vavrinek, Trine, Day & Co., LLP (Vavrinek) performed an independent annual audit of Commission financial statements for FY 2011-2012 that included the expanded audit compliance requirements mandated by AB 109/SB 35. The auditors conducted their audit work in accordance with all standards applicable to financial audits, including generally accepted auditing standards, standards and procedures issued by the California State Controller's Office, and Government Auditing Standards issued by the Comptroller General of the United States. The *Comprehensive Annual Financial Report for the Year Ended June 30, 2012* is included as Attachment 1.

***Single Audit Report:*** Vavrinek completed a Single Audit Report for FY 2011-2012 as required by the Single Audit Act Amendments of 1996, Office of Management and Budget (OMB) Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations," the OMB Circular A-133 Compliance Supplement and Government Auditing Standards for entities that have expended \$500,000 or more in federal awards. The *Single Audit Report for the Year Ended June 30, 2012* is included as Attachment 2.

***Results:*** The independent auditors found no instances of noncompliance with state or federal laws and regulations concerning financial matters. The auditors found no significant deficiencies, material weaknesses involving internal controls over financial reporting, or audit adjustments, and rendered unqualified opinions on both the *Commission's Comprehensive Annual Financial*

Commissioners

Interim Executive Director

*Report and Single Audit Report for Year End June 30, 2012.* Vavrinek states these same results in the following reports:

- a. Independent Auditor's Report: "In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and general fund of the Commission, as of June 30, 2012, and the respective changes in financial position thereof, and budgetary comparison information, for the year then ended in conformity with accounting principles generally accepted in the United States of America."
- b. Auditors' Report on Internal Control over Financial Reporting: "The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards."
- c. Auditors' Report on State Compliance: "Based on our audit we found that, for the items tested, the Commission complied with the laws and regulations of the items referred to above." (i.e. AB 109/SB 35 expanded audit requirements)
- d. Auditors' Single Audit Report: "In our opinion, the Commission complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012." (i.e. OMB Circular A-133)

The Commission's CAFR was prepared in compliance with the most up to date guidelines issued by the State Controller.

**Certifications:** In June 2012, the First 5 California requested each county commission's Executive Director to certify compliance with Health and Safety Code Section 130140 (Fiscal Memo 10-01) prior to July 1, 2012 in order to remain eligible to receive Proposition 10 tobacco tax revenues. This certification was submitted to the First 5 California prior to the prescribed deadline. First 5 California also requests that each county commission certify that Commission funds have been used only to supplement, not supplant, existing program funding for grantees. Commission authorization is requested for the Interim Executive Director to provide the First 5 California with a statement that the Children and Families Commission of Orange County did not use its funding to supplant existing program funds.

### **Year-End Financial Results**

Commission tobacco tax revenue for FY 2011-2012 was originally forecasted to be 5 percent lower than FY 2010-2011 revenue. However, actual FY 2011-12 revenue (\$28.9 million) was comparable to FY 2010-2011 revenue (\$28.8 million) or approximately 1 percent higher. This increase may be due in part to increased tobacco sales in the last months of FY 2011-2012 in anticipation of the potential tobacco tax increase associated with Proposition 29 (cancer research tobacco tax) that did not pass in June 2012. Staff is currently reviewing to what degree the FY 2012-2013 Budgeted Revenue should be increased based on the FY 2011-12 actuals. FY 2012-2013 Budgeted Revenue is currently \$26.8 million, a 7.5 percent decrease from FY 2011-2012

actuals. Staff will review first quarter revenue receipts once available and will bring any recommendations to the Commission as part of the Long-Term Financial Plan Update and FY 2012-2013 Amended Budget tentatively scheduled for the November Commission meeting.

#### **STRATEGIC PLAN AND FISCAL SUMMARY:**

The fiscal reports and recommended actions presented in this staff report have been reviewed in relation to the Commission's Strategic Plan and are consistent with applicable goals and outcomes.

#### **PRIOR COMMISSION ACTIONS:**

- September 2012 – Received progress report on the annual external audit process and preliminary year-end financial position
- April 2012 – Approved new agreement for Annual Financial Audit Services
- April 2012 – Annual Review of Strategic Plan, Annual Operating Budget for FY 2012-2013, review and approval of FY 2012-2013 Business Plan
- February 2012 – Strategic Financial Plan - Approved Funding Actions for Round 1 Catalytic Investments and Round 2 Work Plan

#### **RECOMMENDED ACTIONS:**

1. Conduct Public Hearing.
2. Receive the Comprehensive Annual Financial Report for Year Ended June 30, 2012, including State Compliance Report, and authorize the Interim Executive Director to submit the Annual Financial Audit Reports, along with any supporting materials, to the First 5 California Children & Families Commission and to the State Controller's Office.
3. Receive the Single Audit Report for the Year Ended June 30, 2012 and authorize the Executive Director to submit the Single Audit Report with the audit reporting package to the Federal Audit Clearinghouse.

#### **ATTACHMENTS:**

1. Comprehensive Annual Financial Report for Year Ended June 30, 2012
2. Single Audit Report for Year Ended June 30, 2012

**Contacts:** Brenda Manriquez



# Children & Families Commission of Orange County

(a Component Unit of the County of Orange, California)

Comprehensive Annual Financial Report

For the Fiscal Year Ended June 30, 2012



**CHILDREN AND FAMILIES COMMISSION  
OF ORANGE COUNTY**  
(a Component Unit of the County of Orange, California)

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

For the Fiscal Year Ended June 30, 2012

*Prepared by:*

**Finance Department**

**CHILDREN AND FAMILIES COMMISSION  
OF ORANGE COUNTY**  
(a Component Unit of the  
County of Orange, California)

Comprehensive Annual Financial Report

For the Year Ended June 30, 2012

**CHILDREN AND FAMILIES COMMISSION  
OF ORANGE COUNTY**  
(a Component Unit of the  
County of Orange, California)

**COMPREHENSIVE ANNUAL FINANCIAL REPORT**

For the Year Ended June 30, 2012

**Brenda Manriquez, CPA**

**Director of Finance**

**CHILDREN AND FAMILIES COMMISSION  
OF ORANGE COUNTY  
FOR THE YEAR ENDED JUNE 30, 2012**

*Table of Contents*

<b>INTRODUCTORY SECTION:</b>	<i>Page(s)</i>
Letter of Transmittal.....	i
Board of Commissioners.....	iv
Organization Chart.....	v
GFOA Award of Financial Reporting Achievement.....	vi
<b>FINANCIAL SECTION:</b>	
Independent Auditor’s Report.....	1
Management’s Discussion and Analysis (Required Supplementary Information).....	3
Basic Financial Statements:	
Statement of Net Assets.....	14
Statement of Activities.....	15
Governmental Fund Balance Sheet.....	16
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets.....	17
Governmental Fund Revenues, Expenditures, and Changes in Fund Balance.....	18
Reconciliation of the Change in Fund Balance to the Change in Net Assets.....	19
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual.....	20
Notes to Basic Financial Statements.....	21
<b>STATISTICAL SECTION (UNAUDITED):</b>	
Financial Trends	
Net Assets by Component.....	35
Changes in Net Assets.....	37
Fund Balances – General Fund.....	39
Changes in Fund Balance – General Fund.....	41
County Tax Revenue Capacity.....	43
Cigarette Taxes and Other Tobacco Products Surtax Revenue.....	44
Cigarette Distributions and Per Capita Consumption.....	45
Demographic Information	
Demographic Data.....	46
Score Card Orange County.....	47
Capital Assets Statistics.....	48
Principal Employers.....	49
Employees by Function.....	50

**CHILDREN AND FAMILIES COMMISSION  
OF ORANGE COUNTY  
FOR THE YEAR ENDED JUNE 30, 2012**

*Table of Contents (Continued)*

**COMPLIANCE SECTION:**

Independent Auditor's 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> .....	<b>52</b>
Independent Auditor's Report on State Compliance.....	<b>54</b>



October 3, 2012

Board of Commissioners  
Children and Families Commission of Orange County  
17320 Redhill Avenue  
Suite 200  
Irvine, CA 92614

Dear Commissioners,

The Comprehensive Annual Financial Report (CAFR) of the Children and Families Commission of Orange County (the Commission) is hereby submitted. This report contains financial statements that have been prepared in conformity with United States generally accepted accounting principles (GAAP) prescribed for governmental entities. Responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the management of the Commission. To the best of our knowledge and belief, the enclosed data is accurate in all material aspects and is reported in a manner that presents fairly the financial position and changes to the financial position of the Children and Families Commission of Orange County. All disclosures necessary to enable the reader to gain an understanding of the Commission's financial activities have been included.

The CAFR has been audited by the independent certified public accounting firm of Vavrinek, Trine, Day & Co., LLP. The goal of the independent audit was to provide reasonable assurance about whether the basic financial statements of the Commission for the year ended June 30, 2012, are free of material misstatement. The independent certified public accounting firm has issued an unqualified ("clean") opinion on the Commission's financial statements as of and for the year ended June 30, 2012. The independent auditor's report is located at the front of the financial section of this report.

This letter of transmittal is designed to complement and should be read in conjunction with the Management's Discussion and Analysis (MD&A) that immediately follows the independent auditors' report. The MD&A provides a narrative introduction, overview, and an analysis of the basic financial statements.

### **Profile of the Commission**

The Commission was established by the Orange County Board of Supervisors in September 1999 following the passage of Proposition 10, through which California voters made an unprecedented investment in early childhood development. Our activities have been built to develop, adopt, promote and implement early childhood development and school readiness programs during the first five years of life. During the first twelve years, the Commission has made a lasting positive impact in Orange County through its expenditures of approximately \$530 million toward grants, programs and operations that improve the well-being of young children and families in Orange County.

## **Relevant Financial Policies**

### Financial Plan

The Long-Term Financial Plan was reviewed and revised in December 2011 to address current economic issues, emerging program needs, future demand on Commission resources and the successful litigation to overturn AB99. The revised Long-Term Financial Plan includes one-time catalytic funding investments focused on key Commission priorities. The goal of catalytic funding plan is to reduce or eliminate future ongoing support for several major programs. First round catalytic investments totaling \$45 million were made to support Autism/Early Developmental programs, Children's Dental, Emergency Shelters, Early Literacy & Math, Healthy Child Development, and VISTA program transition. Round two catalytic funding priorities consist of investments in Partnerships for Children's Health, Prevention Program Planning, Nutrition and Fitness, and Capacity Building.

The FY 2012-2013 Operating Budget, presented in April 2012, includes the funding actions taken earlier this year to fund catalytic programs with the AB 99 litigation recovery funds, and renew funding for core programs that support the four goal areas. The step-down approach continues to be embedded in the approved Long-Term Financial Plan, and assumes a reduction of base budget program spending from \$30 million to \$29 million in FY 2012-2013 and \$27.5 million in FY 2013-2014. The budget plan continues the reduction of program spending gradually, depending on actual revenue, to bring the total budget in line with the forecasted revenue and a reduction in the long-term sustainability funds.

### Strategic Plan

Although changes in the long-term funding plan were made, the Commission will continue to utilize the Strategic Plan adopted in April 2012 for fiscal year 2012-2013 detailing our continuing commitment to partnering with the Orange County community to improve the lives of expectant parents, children from the prenatal stage through age 5 and their families. This will be the guide by which we will plan, develop, implement and evaluate our activities through 2013.

## **Other Financial Information**

### Internal Control

The management of the Commission is responsible for establishing and maintaining internal controls designed to ensure that the assets of the public entity are protected from loss, theft, or misuse. Management is also responsible for ensuring that adequate accounting data are compiled to allow for the preparation of the basic financial statements in conformity with accounting principles generally accepted in the United States of America. Internal controls are designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

### Budgetary Control

The objective of budgetary control is to ensure that spending is limited to the total amount authorized by the Board of Commissioners. The budget for fiscal year 2011-2012 was adopted on May 4, 2011. The Executive Director has the discretion to adjust the budget as defined within the budget policy of the Board of Commissioners. Monthly financial updates are provided to the Board of Commissioners.

### Risk Management

The Commission manages its risk exposure in part through the purchase of Workers Compensation, Property, General Liability, Auto, Crime and Directors and Officers insurance through the County of Orange.

### **Awards and Acknowledgements**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Commission for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2011. This was the third consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the government must publish an easily readable and efficiently organized CAFR. This report must satisfy both accounting principles generally accepted in the United State of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

I would like to express my sincere appreciation to Commission staff and the staff of the certified public accounting firm of Vavrinek, Trine, Day & Co., LLP. I hope this report will be of interest and use to those in the County of Orange, other governmental agencies, and the public interested in the financial activity of the Commission.

Sincerely,



Michael M. Ruane  
Executive Director

**CHILDREN AND FAMILIES COMMISSION  
OF ORANGE COUNTY  
BOARD OF COMMISSIONERS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**BOARD MEMBERS (9)**

---

Sandra Barry (A)  
Chair

Kimberly Cripe (A)  
Vice Chair

Bill Campbell (M)  
Board of Supervisors/  
Chair Pro-tem

Katherine Ahn, DDS (A)

Maria E. Minon, M.D. (A)

Hugh Hewitt (A)

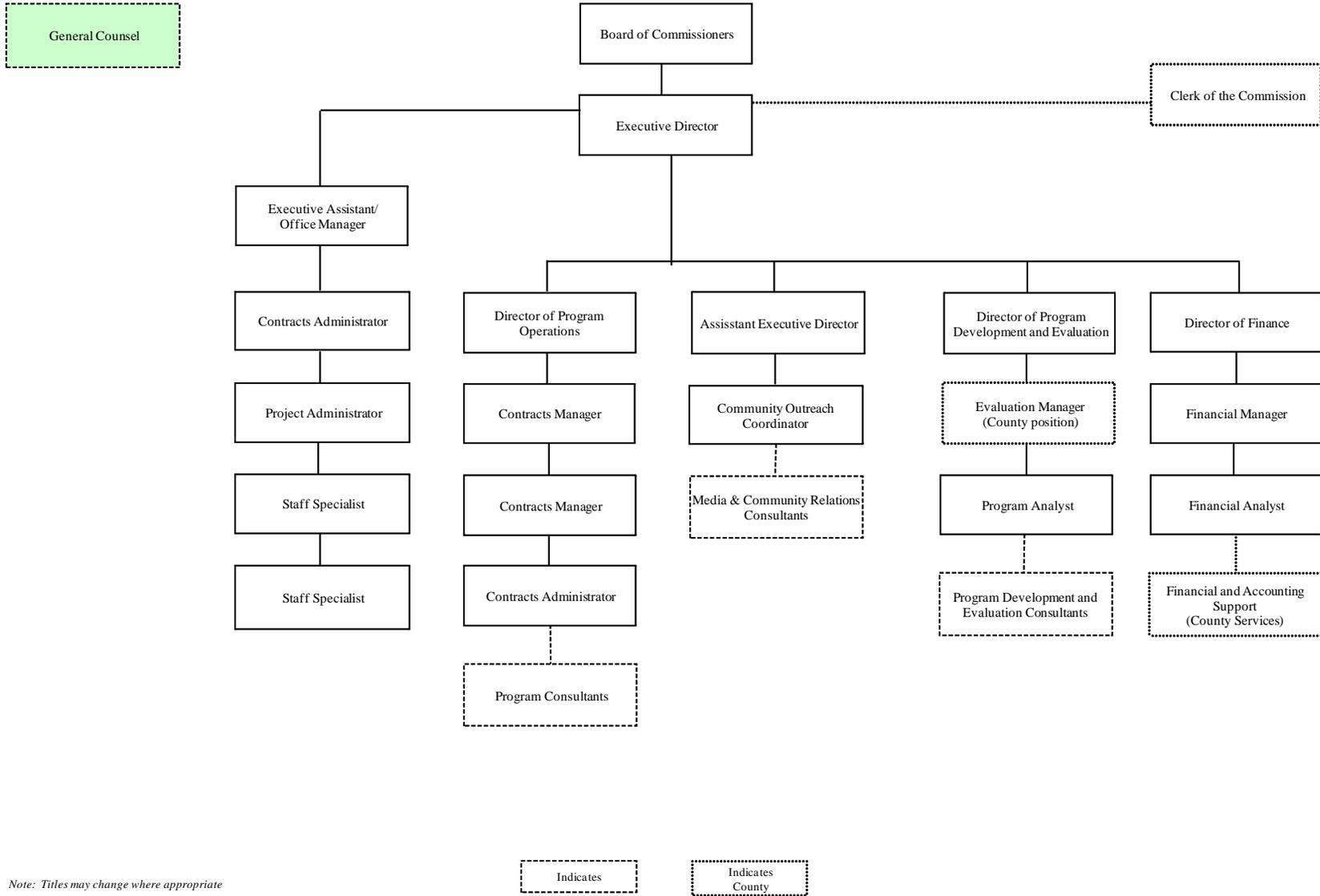
Sandra Pierce (A)

Mark Refowitz (M)  
Health Care Agency

Michael L. Riley, Ph.D. (M)  
Social Services Agency

(M) Mandatory members  
(A) At-large members

**Children and Families Commission of Orange County  
Organization Chart  
Fiscal Year 2011-2012**





**The Government Finance Officers Association  
of the United States and Canada**

*presents this*

## **AWARD OF FINANCIAL REPORTING ACHIEVEMENT**

*to*

### **Finance Department**

**Children & Families Commission of Orange County, California**



*The award of Financial Reporting Achievement is presented by the Government Finance Officers Association to the individual(s) designated as instrumental in their government unit achieving a Certificate of Achievement for Excellence in Financial Reporting. A Certificate of Achievement is presented to those government units whose annual financial reports are judged to adhere to program standards and represents the highest award in government financial reporting.*

Executive Director

Date March 9, 2012



## INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners  
Children and Families Commission of Orange County

We have audited the accompanying financial statements of the governmental activities and the general fund of the Children and Families Commission of Orange County (the Commission), a component unit of the County of Orange, California as of and for the year ended June 30, 2012, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 audit provides a reasonable basis for our 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 general fund of the Commission, as of June 30, 2012, and the respective changes in financial position, and budgetary comparison information for the general fund for the year 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 September 21, 2012, on our consideration of the Commission'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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 13 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's financial statements as a whole. The introductory section and statistical section, are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*Vavrinch, Train, Day & Co., LLP*

Laguna Hills, California  
September 21, 2012

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**(UNAUDITED)**  
**JUNE 30, 2012**

As management of the Children and Families Commission of Orange County (Commission), we offer readers of the Commission's Comprehensive Annual Financial Report this overview and analysis of the financial activities for the fiscal year ended June 30, 2012. Please read in conjunction with the Commission's basic financial statements and accompanying notes.

**Financial Highlights**

- The assets of the Commission exceeded its liabilities by \$79.0 million at the end of the current fiscal year, an increase of \$48.9 million (163%) from the prior fiscal year. The increase is primarily due to the reversal of a \$51.4 million liability accrued in the prior fiscal year based on AB99 legislation. The legislation was challenged and overturned in court and was no longer required to be remitted to the State by June 30, 2012.
- As of June 30, 2012, the Commission's governmental fund statements reported an ending fund balance totaling \$78.7 million, an increase of \$48.7 million (163%) from the prior fiscal year.
- Consistent with the implementation of the GASB 54 pronouncement, the total ending fund balance of \$78.7 million was classified into three categories. The Commission's breakdown is as follows: \$0.01 million as nonspendable, \$45.1 million as committed, \$33.6 as assigned.

**Overview of the Financial Statements**

This comprehensive annual financial report consists of two parts, this management's discussion and analysis and the basic financial statements, including government-wide financial statements, governmental fund financial statements and notes to the basic financial statements. The Commission's financial statements, prepared in accordance with generally accepted accounting principles (GAAP), offer key, high-level financial information about the activities during the reporting period.

**Government-Wide Financial Statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the Commission's finances and activities. These statements are prepared using the full accrual basis of accounting and a total economic resource measurement focus, in order to provide both long-term and short-term information about the Commission's overall financial status. A detailed definition of these methods is described in Note 1 of the basic financial statements.

The *Statement of Net Assets* presents information on all of the Commission's assets and liabilities with the difference between assets and liabilities reported as net assets. Changes in net assets may serve as a useful indicator of whether the financial position of the Commission is improving or declining.

The *Statement of Activities* presents changes in the Commission's net assets during the 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 future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)  
JUNE 30, 2012**

**Fund Financial Statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related and legal requirements. All of the Commission's activities are accounted for in the general fund.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources available at the end of the year*. Such information may be useful in evaluating the Commission's near-term financing requirements.

Because the focus of government funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Commission's near-term financial decisions. Reconciliations are presented for the Balance Sheet of governmental funds and the Statement of Revenues, Expenditures and Changes in Fund Balances of governmental funds to facilitate comparison between governmental funds and governmental activities.

Governmental Fund Financial Statements are prepared on a modified accrual basis, which means that they measure only current financial resources and uses. Capital assets and long-term liabilities are not presented in the Governmental Fund Financial Statements, as they do not represent current available resources or obligations. The Commission adopts an annual appropriated budget for the general fund. A budgetary comparison statement for the general fund is presented in the basic financial statements to demonstrate compliance with the adopted budget.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the basic financial statements.

**Analysis of the Commission's Government-wide Financial Statements**

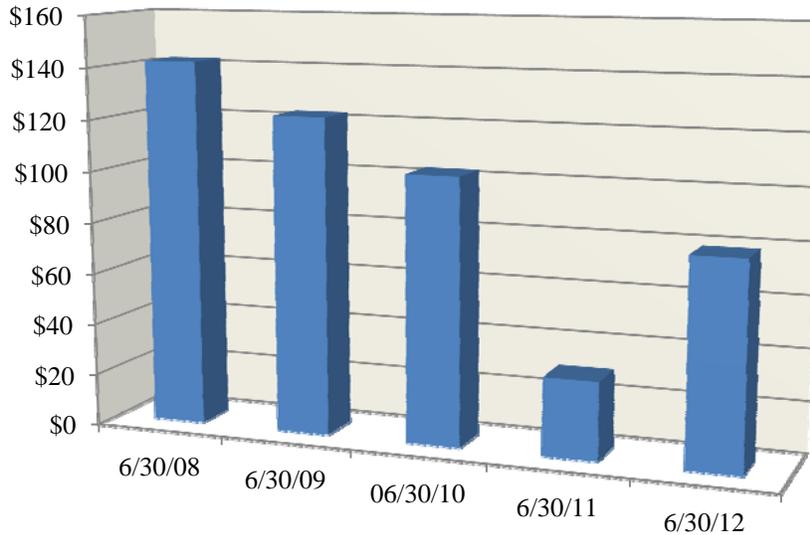
**Net Assets.** Net assets may serve over time as a useful indicator of a government's financial position. In the case of the Commission, net assets totaled \$79.0 million at the end of the current fiscal year, a 163% increase from the prior fiscal year. Following is a summary of the government-wide Statement of Net Assets comparing balances at June 30, 2012 and June 30, 2011.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)  
JUNE 30, 2012**

	<u>FY 2011-12</u>	<u>FY 2010-11</u>	<u>Percent Increase (Decrease)</u>
<b>Assets:</b>			
Cash and investments	\$ 83,017,827	\$ 90,100,671	-8%
Imprest cash	15,000	15,000	0%
Interest receivable	71,795	87,099	-18%
Deposits with others	93,624	165,488	-43%
Due from other governments	6,156,065	5,857,799	5%
Prepaid expense	65,657	399,279	-84%
Equipment, net	-	235	-100%
Total assets	<u>\$ 89,419,968</u>	<u>\$ 96,625,571</u>	-7%
<b>Liabilities:</b>			
Accounts payable and accrued liabilities	\$ 3,939,555	\$ 5,692,916	-31%
Due to County of Orange	77,574	827,625	-91%
Due to other governments	3,898,071	5,412,394	-28%
Due to other governments - AB99	-	51,369,439	-100%
Retentions payable	2,384,936	3,098,974	-23%
Long-term liabilities	134,347	160,393	-16%
Total liabilities	<u>10,434,483</u>	<u>66,561,741</u>	-84%
<b>Net assets:</b>			
Invested in capital assets	-	235	-100%
Unrestricted	78,985,485	30,063,595	163%
Total net assets	<u>78,985,485</u>	<u>30,063,830</u>	
Total liabilities and net assets	<u>\$ 89,419,968</u>	<u>\$ 96,625,571</u>	-7%

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)  
JUNE 30, 2012**

**Total Net Assets  
Comparison of Last Five Fiscal Years  
(\$ in millions)**



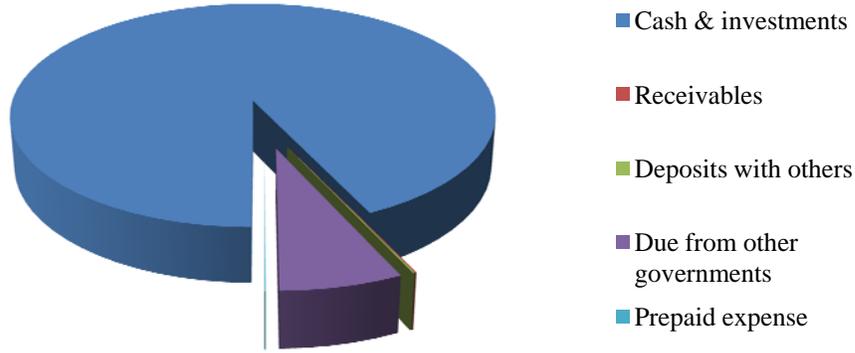
The Commission's net assets as of June 30, 2012 are considered unrestricted because their use is not for a purpose narrower than the fund and were comprised of the following:

Assets, Current and Other

- Cash and investments totaling \$83.0 million. All of the \$83.0 million was invested in the Orange County Investment Pool (OCIP), except for a small petty cash fund held at the Commission. The investments in OCIP are managed by the County Treasurer and reviewed for compliance with the Commission's Annual Investment Policy.
- Due from other governments totaling \$6.2 million. Of this amount, \$5.1 million is Prop 10 tobacco tax revenue due from the State of California for May and June 2012 allocations.
- Other current assets totaling \$0.2 million consisting of \$0.1 million in interest receivable and \$0.1 million in deposits with others and prepaid expense.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)  
JUNE 30, 2012**

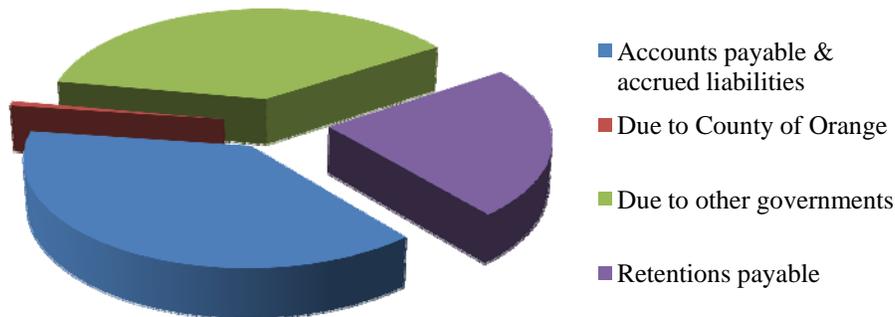
**Current Assets  
As of June 30, 2012**



Liabilities

- Accounts payable and due to other governments totaling \$7.8 million. Payables to grantees for services not yet billed at June 30, 2012 are based on established contract terms.
- Retentions payable totaling \$2.4 million. Retentions payable are held until end of contract audits are completed and received by the Commission to ensure compliance with contract terms.
- Other current liabilities totaling \$0.2 million consisting of \$0.1 million in due to the County of Orange and \$.01 million in accrued wages and benefits.

**Current Liabilities  
As of June 30, 2012**



**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)  
JUNE 30, 2012**

**Changes in Net Assets.** For the year ended June 30, 2012, current year operations increased the Commission's net assets by \$48.9 million. The following is a summary of the Commission's Statement of Activities comparing revenues, expenses and changes in net assets for the fiscal years ended June 30, 2012 and June 30, 2011.

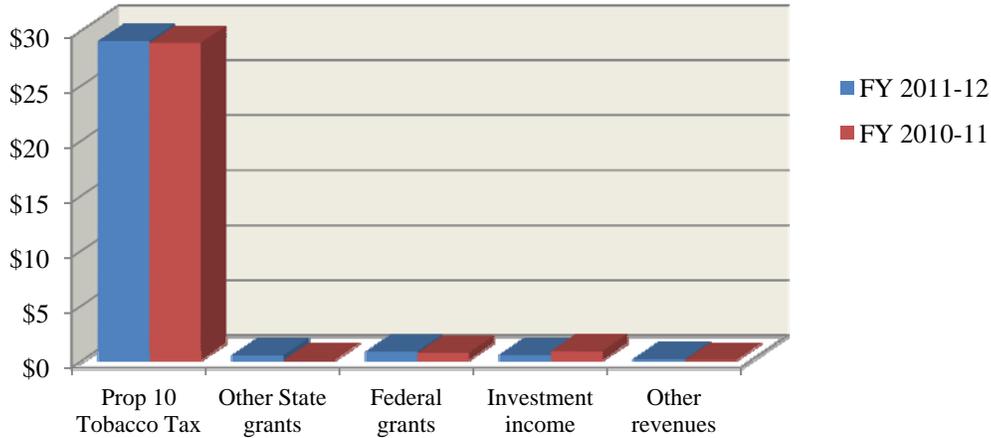
	<u>FY 2011-12</u>	<u>FY 2010-11</u>	<b>Percent Increase (Decrease)</b>
<b>Revenues:</b>			
<b>Program Revenues</b>			
Tobacco taxes	\$ 28,988,350	\$ 28,809,921	1%
Other State operating grants and contributions	435,487	-	100%
Interest income earned on tobacco taxes at the State	11,612	15,331	-24%
Federal operating grants	768,246	641,124	20%
Total program revenues	<u>30,203,695</u>	<u>29,466,376</u>	3%
<b>General Revenues</b>			
Investment income	481,976	818,294	-41%
Other revenues	90,786	26,983	236%
Total general revenues	<u>572,762</u>	<u>845,277</u>	-32%
Total revenues	<u>30,776,457</u>	<u>30,311,653</u>	2%
<b>Expenses:</b>			
0-5 Child development programs	31,155,315	49,431,679	-37%
Salaries and benefits	2,068,926	2,290,307	-10%
Total expenses	<u>33,224,241</u>	<u>51,721,986</u>	-36%
Extraordinary item: Reversal of AB99 liability	<u>51,369,439</u>	<u>(51,369,439)</u>	100%
<b>Change in net assets:</b>	48,921,655	(72,779,772)	-167%
Net assets - July 1	30,063,830	102,843,602	-71%
Net assets - June 30	<u>\$ 78,985,485</u>	<u>\$ 30,063,830</u>	163%

Total revenues

The Commission's total revenues are comprised of both program revenues, which are restricted to one or more specific program uses, and general revenues.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)  
JUNE 30, 2012**

**Total Revenues  
Comparison of Current and Prior Fiscal Year  
(\$ in millions)**



- *Program revenues*  
The Commission's program revenues totaled \$30.2 million in FY 2011-12 and accounted for 98.1% of total revenues. This represented a increase of \$0.7 million (2%) from FY 2010-11 program revenues.
  - Tobacco Tax revenue includes revenues from taxes levied on tobacco products by the State of California and distributed amongst all counties based on the percentage of county birthrates as established in Proposition 10. This revenue increased by \$0.2 million (1%) from the prior fiscal year.
    - The California Children and Families Commission (First 5 California) forecasted a decline of 3-5% each fiscal year in the tobacco tax revenue allocation models. These models are calculated using birthrate data and tobacco sales and usage.
  - Other State operating grants and contributions includes revenue from the state-wide CARES Plus grant. The Commission applied for and was awarded this grant for the first time in FY 2011-12 and therefore, the revenue increased by \$0.4 million (100%) from the prior fiscal year.
  - Federal operating grants includes revenues from federal grant programs of VISTA, MAA (Medical Administrative Activities), and ARRA Health Research grant. These revenues increased by \$0.1 million (20%) due to FY 2011-12 being the first full year of the ARRA Health Research grant.
- *General revenues*  
The Commission's general revenues totaled \$0.6 million in FY 2011-12 and accounted for 1.9% of total revenues. General revenues include all revenues that do not qualify as program revenues, such as investment income, royalties and miscellaneous revenues.

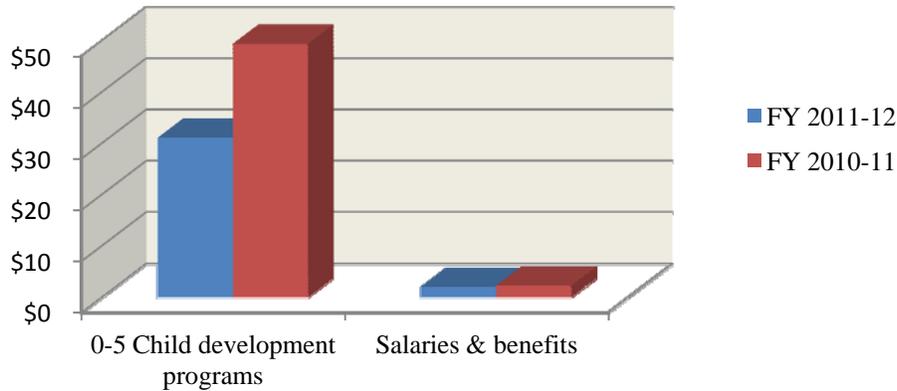
**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)  
JUNE 30, 2012**

- The largest general revenue, investment income, decreased by \$0.3 million (41%) from the prior fiscal year.
- The decrease in investment income from the Orange County Investment Pool (OCIP), which is administered by the County Treasurer, is due to the overall lower returns in the fixed income markets combined with less available investable cash balances. During FY 2011-12, OCIP had an annual average yield of 0.54% in comparison to an annual average yield of 0.67% in FY 2010-11.

Governmental Activities Expenses

Total expenses decreased by \$18.5 million (36%) from the prior fiscal year. The decrease is comprised of decreased expenses of \$18.3 million in 0-5 Child development programs and \$0.2 million in salaries and benefits.

**Total Expenses  
Comparison of Current and Prior Fiscal Year  
(\$ in millions)**



- 0-5 Child development programs decreased by \$18.3 million (37%) from the prior fiscal year to fund programs serving children and families within the Commission's four strategic goal areas of Healthy Children, Ready to Learn, Strong Families and Capacity Building. Contributing to the decrease in FY 2011-12 is decreased spending on Pediatric Health Services programs (\$3.7 million), Bridges programs (\$2.7 million), Health Access programs (\$0.6 million), Fitness/Nutrition programs (\$6.4 million), Homeless programs (\$1.0 million), Early Literacy programs (\$1.1 million) and Early Learning programs (\$2.2 million), offset by increased spending on the new CARES Plus program (\$0.4 million).
- Salaries and benefits decreased by \$0.2 million (10%) from the prior fiscal year due to vacant positions resulting in salary savings offset by increases in retirement and benefit costs in the current fiscal year.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)  
JUNE 30, 2012**

Extraordinary Item

In the prior fiscal year, the Commission recognized an extraordinary item for the accrual of a liability related to the \$51.4 million payment due by June 30, 2012 as defined in AB99. This legislation was immediately challenged and was in the process of litigation at the end of the prior fiscal year. In November 2011, a Fresno County judge ruled AB 99 was illegal and the state legislature could not collect the funds from county commissions. In March 2012, the state informed First 5 commissions that no appeal would be sought on the court's ruling. Accordingly, the commission has recognized the AB 99 court ruling as an extraordinary item, for the fiscal year ending June 30, 2012, which reverses the original obligation established as a liability in the prior year.

**Analysis of the Commission's Governmental Fund Statements**

As noted earlier, the Commission uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

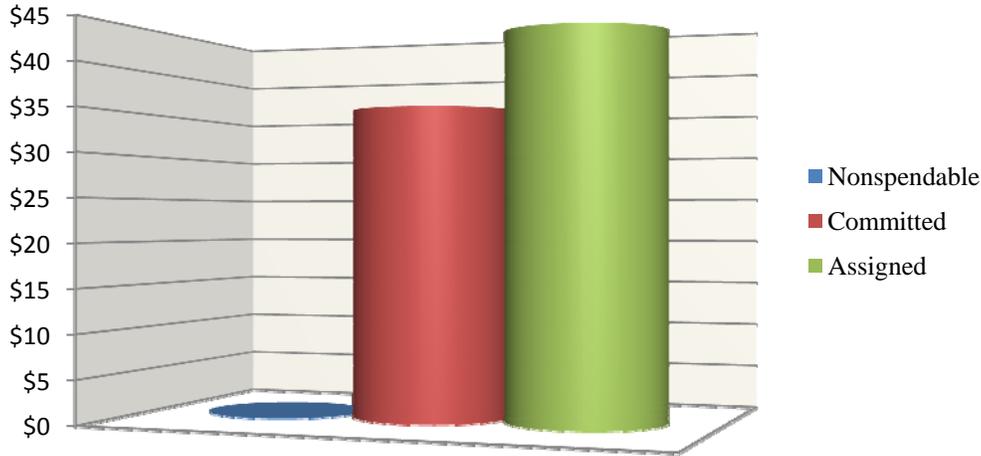
**Governmental Funds.** The general government functions are contained in the general fund of the Commission. The focus of the Commission's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Commission's financing requirements. In particular, fund balance may serve as a useful measure of a government's net resources, both committed and available for future operational needs.

As of the end of the current fiscal year, the Commission's general fund reported total ending fund balance of \$78.7 million, an increase of \$48.7 million (163%) in comparison with the prior fiscal year.

Total fund balance increased due to the reversal of the one-time AB99 liability accrual (see notes to the financial statements for further detail), offset by the use of \$2.6 million in fund balance reserves to bridge the gap between current year revenue and expenditures.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)  
JUNE 30, 2012**

**Fund Balance Classifications  
As of June 30, 2012  
(\$ in millions)**



**General Fund Budgetary Highlights**

**Budget Amendments.** The budget amendments are approved annually during the fiscal year for the General Fund in order to reflect the most current revenue trends and to account for shifts in funding objectives.

- Total budgeted revenues were increased by \$1.6 million in the Prop 10 tobacco tax revenue line item. The increase was based on mid-year trends reported by the California Children & Families Commission and actual receipts of tobacco tax distributions and the establishment of budgeted revenues for CARES Plus, VISTA and ARRA Health Research grants.
- Total budgeted appropriations were increased by \$2.3 million in the 0-5 child development program expenditures line item. The major components of the increase are summarized as follows:
  - Healthy Children – increase of \$0.3 million for the carryover of prior year unspent funds in Bridges, Health Access and Education and Fitness/Nutrition programs.
  - Strong Families – increase of \$0.4 million for the carryover over of prior year unspent funds in Family Support Services and Homeless Prevention programs.
  - Early Learning - increase of \$0.6 million comprised of \$0.2 million of carryover of prior year unspent funds in Early Literacy programs, and \$0.4 million in new appropriations for the CARES Plus program implementation.
  - Capacity Building – increase of \$0.7 million comprised of \$0.2 million of carryover of prior year unspent funds in Evaluation and Reporting, Technical Assistance and Capacity Building Grants, and \$0.5 million in new appropriations to VISTA for increased program capacity.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
(UNAUDITED)  
JUNE 30, 2012**

**Budget to Actual Comparisons.** This section contains an explanation of the significant differences between the Commission's Final Budget amounts and actual amounts recorded for revenues and expenditures for FY 2011-12 as detailed on the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

- Total actual revenues exceeded budgeted revenues in FY 2011-12 by \$1.5 million. An increase in actual Prop 10 tobacco tax revenues comprised the bulk of the variance. Prop 10 tobacco taxes were higher than expected due to unknown factors being researched by the Commission.
- Total budgeted appropriations exceeded actual expenditures in FY 2011-12 by \$4.3 million.
  - 0-5 child development program expenditures were less than budgeted appropriations by \$4.3 million. The variance is primarily due to timing of program costs, which will be carried over to the FY 2012-13 budget, in the following areas: Community Clinics (\$0.5 million), Pediatric Dental (\$0.4 million), Pediatric Health Services (\$1.0 million), School Readiness Nursing (\$0.2 million), Homeless Prevention (\$1.0 million), and Early Learning programs (\$0.5 million). Professional and Technical Services contributed an additional \$0.2 million in savings due to lower AB99 litigation costs than expected and a planned reduction in consultants.
  - Salaries and benefits actual expenditures were more than budgeted appropriations by \$0.1 million. The increase was due to increased costs associated with staff retirements offset by savings from positions not filled during the current fiscal year.

**Related Events**

The State projects a continuing decrease of State Tax Allocations revenue and a decrease in the share allocated to the Children and Families Commission of Orange County due to a proportionally lower birth rate combining for a projected annual revenue decrease estimated at 3% per year.

The State of California continues to experience fiscal difficulties in Fiscal Year 2012-2013. The Commission has continued partnering with the County of Orange to identify potential reductions to safety net services in the FY 2012-13 State Budget and to incorporate those needs into the ongoing review of the Commission's financial plan.

**Requests for Financial Information**

This comprehensive annual financial report is intended to provide the public with an overview of the Commission's financial operations and condition for the fiscal year ended June 30, 2012. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance, Children & Families Commission of Orange County, 17320 Red Hill Avenue, Suite 200, Irvine, California 92614.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2012**

	GOVERNMENTAL ACTIVITIES
<b>ASSETS</b>	
Cash and investments in County Treasury	\$ 83,017,827
Imprest cash	15,000
Interest receivable	71,795
Deposits with others	93,624
Due from County of Orange	3,738
Due from other governments	6,152,327
Prepaid item	65,657
<b>TOTAL ASSETS</b>	<b>89,419,968</b>
<b>LIABILITIES</b>	
Accounts payable	3,862,837
Due to County of Orange	77,574
Due to other governments	3,898,071
Retentions payable	2,384,936
Accrued wages and benefits	76,718
Compensated absences:	
Payable within one year	87,838
Payable after one year	46,509
<b>TOTAL LIABILITIES</b>	<b>10,434,483</b>
<b>NET ASSETS</b>	
Unrestricted	78,985,485
<b>TOTAL NET ASSETS</b>	<b>\$ 78,985,485</b>

See accompanying notes to the basic financial statements.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2012**

	Expenses	Program Revenues Operating Grants And Contributions	Net (Expense) Revenue and Changes in Net Assets Governmental Activities
Governmental Activities:			
Child development	\$ 33,224,241	\$ 30,203,695	\$ (3,020,546)
General Revenues:			
Investment income			481,976
Miscellaneous			90,786
Total General Revenues			572,762
Extraordinary Item: Reversal of AB99 liability			51,369,439
Change in Net Assets			48,921,655
Net Assets, July 1			30,063,830
Net Assets, June 30			\$ 78,985,485

See accompanying notes to the basic financial statements.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
GOVERNMENTAL FUND BALANCE SHEET  
JUNE 30, 2012**

	<u>General Fund</u>
<b>ASSETS</b>	
Cash and investments in County Treasury	\$ 83,017,827
Imprest cash	15,000
Interest receivable	71,795
Deposits with others	93,624
Due from County of Orange	3,738
Due from other governments	6,152,327
Prepaid item	65,657
	<u>65,657</u>
Total Assets	<u>\$ 89,419,968</u>
 <b>LIABILITIES AND FUND BALANCES</b>	
<b>LIABILITIES</b>	
Accounts payable	\$ 3,862,837
Due to County of Orange	77,574
Due to other governments	3,898,071
Retentions payable	2,384,936
Accrued wages and benefits	76,718
Deferred revenue	402,988
	<u>402,988</u>
Total Liabilities	<u>10,703,124</u>
 <b>FUND BALANCES</b>	
Nonspendable fund balance	65,657
Committed fund balance	45,090,000
Assigned fund balance	33,561,187
	<u>33,561,187</u>
Total Fund Balances	<u>78,716,844</u>
Total Liabilities and Fund Balances	<u>\$ 89,419,968</u>

See accompanying notes to the basic financial statements.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
RECONCILIATION OF GOVERNMENTAL FUND BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2012**

Fund balances of governmental funds \$ 78,716,844

Amounts reported for governmental activities 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 funds. (134,347)

Certain revenues in the governmental funds are deferred  
because they are not collected within the prescribed time  
period after year-end. However, the revenues are included  
on the accrual basis used in the government-wide 402,988

Net Assets of governmental activities \$ 78,985,485

See accompanying notes to the basic financial statements.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
GOVERNMENTAL FUND STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2012**

	General Fund
<b>REVENUES</b>	
Prop 10 Tobacco Tax	\$ 28,988,350
Investment income earned on tobacco taxes at the State level	11,612
Other State operating grants and contributions	145,487
Federal operating grants	903,770
Investment income	481,976
Other revenue	90,786
	30,621,981
<b>EXPENDITURES</b>	
Current:	
Salaries and benefits	2,094,972
Expenditures related to the "Zero to Five" Program	31,155,080
	33,250,052
Excess (deficiency) of revenues over (under) expenditures	(2,628,071)
<b>EXTRAORDINARY ITEM</b>	
Reversal of AB99 Liability	51,369,439
Change in Fund Balance	48,741,368
FUND BALANCE, July 1	29,975,476
FUND BALANCE, June 30	\$ 78,716,844

See accompanying notes to the basic financial statements.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
RECONCILIATION OF THE CHANGE IN FUND BALANCE  
TO THE CHANGE IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2012**

Net changes in fund balance - total governmental funds \$ 48,741,368

Amounts reported for governmental activities in the statement of revenues, expenditures, and changes in fund balance differs from the amounts reported in the statement of activities because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense.

Depreciation expense (235)

Compensated absences expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This amount represents the net change in the compensated absences liability. 26,046

Certain revenues in the governmental funds are deferred because they are not collected within the prescribed time period after year-end. However, the revenues are included on the accrual basis used in the government-wide statements. 154,476

Change in net assets of governmental activities \$ 48,921,655

See accompanying notes to the basic financial statements.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE-BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2012**

	Budgeted Amouts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Prop 10 Tobacco Tax	\$ 26,809,800	\$ 27,369,400	\$ 28,988,350	\$ 1,618,950
Investment income earned on tobacco taxes at the State level	15,000	15,000	11,612	(3,388)
Other State operating grants and contributions	-	450,000	145,487	(304,513)
Federal operating grants	235,000	839,238	903,770	64,532
Investment income	500,000	500,000	481,976	(18,024)
Other revenue	-	-	90,786	90,786
Total Revenues	<u>27,559,800</u>	<u>29,173,638</u>	<u>30,621,981</u>	<u>1,448,343</u>
<b>EXPENDITURES</b>				
Current:				
Salaries and benefits	2,024,000	2,024,000	2,094,972	(70,972)
Expenditures related to the "Zero to Five" Program	33,198,025	35,497,620	31,155,080	4,342,540
Capital outlay	49,000	49,000	-	49,000
Total Expenditures	<u>35,271,025</u>	<u>37,570,620</u>	<u>33,250,052</u>	<u>4,320,568</u>
Excess (Deficiency) of revenues over (under) expenditures	<u>(7,711,225)</u>	<u>(8,396,982)</u>	<u>(2,628,071)</u>	<u>5,768,911</u>
<b>EXTRAORDINARY ITEM</b>				
Reversal of AB99 Liability	-	-	51,369,439	51,369,439
Net Change in Fund Balance	<u>(7,711,225)</u>	<u>(8,396,982)</u>	<u>48,741,368</u>	<u>57,138,350</u>
FUND BALANCE, July 1	<u>29,975,476</u>	<u>29,975,476</u>	<u>29,975,476</u>	<u>-</u>
FUND BALANCE, June 30	<u>\$ 22,264,251</u>	<u>\$ 21,578,494</u>	<u>\$ 78,716,844</u>	<u>\$ 57,138,350</u>

See accompanying notes to the basic financial statements.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 1 – ORGANIZATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity**

The Children and Families Commission of Orange County (the Commission) was established by the Orange County Board of Supervisors in 1999 under the provisions of the California Children and Families Act of 1998 (Act). The Commission is a public entity legally separate and apart from the County. The purpose of the Commission is to develop, adopt, promote and implement early childhood development and school readiness programs in the County of Orange consistent with the goals and objectives of the Act. The Commission's programs are funded primarily by taxes levied by the State of California on tobacco products.

A governing board of nine members, which are appointed by the County Board of Supervisors, oversees the Commission. Three members are considered Mandatory Members, comprised of representatives of the County Health Care Agency, Social Services Agency and Board of Supervisors. Other members are considered At-Large Members. The Board of Supervisors Mandatory Member serves for a one-year term without limitation on the number of terms he/she may serve. Other Mandatory Members serve until removed by the Board of Supervisors. At-Large Members serve for terms ranging from two to four years, not to exceed eight consecutive years. The County Board of Supervisors may remove any Commission Member at any time. The Commission is considered a discretely presented component unit of the County of Orange.

Upon termination of the commission, all assets of the Commission shall be returned to the State of California. The liabilities of the Commission shall not become liabilities of the County upon either termination of the Commission or the liquidation or disposition of the Commission's remaining assets.

**Basis of Accounting and Measurement Focus**

The basic financial statements of the Commission are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Government-Wide Financial Statements

Government-wide financial statements consist of the statement of net assets and the statement of activities. These statements are presented on an economic resources measurement focus. All economic resources and obligations of the reporting government are reported in the financial statements.

The government-wide financial statements have been prepared on the accrual basis of accounting. Under the accrual basis of accounting all assets and liabilities of the Commission are included on the statement of net assets. The difference between the Commission's assets and liabilities is its net assets. Net assets represent the resources the Commission has available for use in providing services. The Commission's net assets are classified as:

Unrestricted – This category represents neither restrictions or invested in capital assets and may be used by the Commission for any purpose though they may not be necessarily liquid.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 1 – ORGANIZATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

The statement of activities presents a comparison of the direct expenses and program revenues for the Commission's governmental activities. Program revenues include grants and contributions restricted for the operational requirements of a particular program. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. Program revenues include tobacco taxes, First 5 Cares Plus and federal revenues. General revenues are all revenues that do not qualify as program revenues and include investment income and miscellaneous income. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

Fund Financial Statements

The fund financial statements consist of the balance sheet, the statement of revenues, expenditures and changes in fund balance, and the statement of revenues, expenditures and changes in fund balance – budget and actual of the Commission's general fund. These statements are presented on a current financial resources measurement focus. Generally, only current assets and current liabilities are included on the balance sheet. The statement of revenues, expenditures and changes in fund balance for the governmental fund generally presents increases (revenues) and decreases (expenditures) in net current assets. All operations of the Commission are accounted for in the general fund.

The fund financial statements have been prepared on the modified accrual basis of accounting. Revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Revenues are considered available if they are received within 60 days after year-end. Revenues susceptible to accrual include tax revenues, grant revenues and investment income. Expenditures are recognized in the accounting period in which the fund liability is incurred except for compensated absences, which are recognized when due and payable at year-end.

Capital assets, net of accumulated depreciation

Equipment is not considered to be financial resources and therefore, is not reported as an asset in the fund financial statements. Equipment is capitalized and reported at cost, net of accumulated depreciation in the government-wide financial statements. There were no additions to the capital assets in the current year.

Capital assets are recorded at cost. The Commission capitalizes assets with cost in excess of \$5,000 and a useful life greater than one year. The Commission depreciates capital assets using a straight-line method over the estimated useful life of each asset. The estimated useful life used for the capital assets, comprised only of equipment, ranges from 5 to 10 years.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 1 – ORGANIZATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

**Adjustments Between Fund Financial Statements and Government-Wide Financial Statements**

Depreciation expense for the year ended June 30, 2012 amounted to \$235 and is included in the child development function in the statement of activities.

Deferred Revenue

Under the modified accrual basis of accounting, revenue is recognized in the fund financial statements if it has been collected after year-end within the Commission's established availability period of 60 days. All other accrued revenues due the Commission are deferred at year-end in the fund financial statements. Deferred revenue of \$402,988 at June 30, 2012 was recognized as revenue in the government-wide financial statements.

Long-Term Liabilities

Compensated absence obligations are considered long-term in nature and are reported in the fund financial statements as expenditures in the period paid or when due and payable at year-end under the modified accrual basis of accounting. The compensated absences have been accrued in the government-wide financial statements and are included in long-term liabilities. The compensated absences are liquidated by the general fund.

**Due to other governments**

Due to other governments represents amounts owed to grantees and governmental agencies for services provided to the Commission in accordance with the Commission's strategic plan.

**Retentions payable**

The Commission retains a percentage of amounts billed by grantees and vendors in accordance with executed contracts. Upon fulfilling the requirements of the grantee agreement or contract, the amounts are released.

**Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Also, the preparation of the financial statements inherently requires the rounding of amounts and estimates. Management believes that any differences due to rounding are trivial. The Commission's significant estimates are recorded in accounts payable and due to other governments and pertain to accruals for services provided by grantees and vendors but not invoiced as of June 30, 2012.

**Budget and Budget Reporting**

The Commission is required by County ordinance to prepare a budget each year based on estimates of revenues and expected expenditures. The Commission's Board of Commissioners adopted an annual budget of expenditures for the year ended June 30, 2012, which is prepared on the modified accrual basis of accounting. The accompanying statement of revenues, expenditures and changes in fund balance – budget and actual includes the budgeted expenditures for the year, along with management's estimate of revenues for the year. The legal level of budgetary control is at the total fund level.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 1 – ORGANIZATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

**Encumbrances**

The Commission utilizes an encumbrance system as a management control technique to assist in controlling expenditures. Unencumbered appropriations lapse at the end of the fiscal year.

**Fund Balance**

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. With the implementation of GASB 54, the Commission established the following classifications and definitions of fund balance for the year ended June 30, 2012:

Nonspendable – Resources that cannot be spent because they are not in an expendable form (e.g. prepaid asset, inventory) or must be maintained intact (e.g. endowment principal).

Restricted – Resources that are constrained to specific purposes by an external provider (e.g. grantors, contributors, governmental laws and regulations) or by constitutional provisions or enabling legislation.

Committed – Resources with self-imposed limitations, evidenced by the Commission’s formal action (resolution), and require both the approval of the highest level of decision making authority (Board of Commissioners) and the same formal action to remove or modify the limitations. Includes legally enforceable multi-year contracts not yet spent, and specific agreements approved but not yet executed.

Assigned – Resources with self-imposed limitations but do not require approval by the highest level of decision making authority (may be a body, committee or individual designated by Board of Commissioners) or the same level of formal action to remove or modify limitations. Contracts approved by the Board of Commissioners, including funds approved for the Round 2 Catalytic Investment Plan, and contracts approved by the Executive Director (contracts up to \$50,000) would be classified as assigned. Also includes appropriation of a portion of existing fund balance sufficient to eliminate subsequent year’s budget deficit, resources assigned to specific program for which there is an approved budget, and resources approved by the Commission for a long range financial plan.

Unassigned – Resources that cannot be reported in any other classification.

The Commission’s spending priority is to spend restricted fund balance first, followed by committed, assigned and unassigned fund balance.

Refer to Note 8 for additional details regarding the GASB 54 classification of fund balance.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 1 – ORGANIZATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
**(Continued)**

**Effect of New Governmental Accounting Standards Board (GASB) Pronouncements**

GASB Statement No. 60 – In November 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This Statement is not effective until June 30, 2013. The Commission has not determined the effect of this Statement.

GASB Statement No. 61 – In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*. This Statement is to results in financial reporting entity financial statements being more relevant by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of a financial reporting entity. This Statement is not effective until June 30, 2013. The Commission has not determined the effect of this Statement.

GASB Statement No. 62 – In June 2011, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in FASB and AICPA pronouncements issued on or before November 30, 1989 which does not conflict with our contradict GASB pronouncements. This Statement is not effective until June 30, 2013. The Commission has not determined the effect of this Statement.

GASB Statement No. 63 – In June 2011, GASB issued Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Positions*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and the resulting net position. This Statement is not effective until June 30, 2013. The Commission has not determined the effect of this Statement.

GASB Statement No. 64 – In June 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB No. 53*. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. This Statement is effective June 30, 2012. This Statement is not applicable to the Commission.

GASB Statement No. 65 – In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement is effective in June 30, 2014. The Commission has not determined the effect of this Statement.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 1 – ORGANIZATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued)**

GASB Statement No. 66 – In March 2012, GASB issued Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statement No. 10 and No. 62*. This Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This Statement is effective June 30, 2014. The Commission has not determined the effect of this Statement.

GASB Statement No. 67 – In June 2012, GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement is effective June 30, 2014. The Commission has not determined the effect of this Statement.

GASB Statement No. 68 – In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*. This Statement is to improve accounting and financial reporting by state and local governments for pensions. This Statement is effective June 30, 2015. The Commission has not determined the effect of this Statement.

**NOTE 2 – CASH AND INVESTMENTS**

Cash and investments are classified in the financial statements as follows:

Cash and investments in County Treasury	\$ 83,017,827
Imprest Cash	<u>15,000</u>
Total Cash and Investments	<u><u>\$ 83,032,827</u></u>

Cash and investments consisted of the following at June 30, 2012:

Orange County Investment Pool:	
Equity in pooled Money Market fund	\$ 83,017,827
Imprest Cash	<u>15,000</u>
Total Cash and Investments	<u><u>\$ 83,032,827</u></u>

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

Investments Authorized by the California Government Code and the Commission’s Investment Policy

The table below identifies the investment types that are authorized by the California Government Code or the Commission’s investment policy, where more restrictive. The table also identifies certain provisions of the California Government Code or the Commission’s investment policy, where more restrictive, that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	N/A	None	None
U.S. Government Agency Securities	N/A	None	30%
Commercial Paper	N/A	25%	5%
Negotiable Certificates of Deposit	N/A	30%	5%
Repurchase Agreements	N/A	50%	5%
Banker’s Acceptances	N/A	40%	30%
Money Market Mutual Funds	5 years	20%	None
Municipal Debt	N/A	30%	5%
Asset Backed Securities	N/A	10%	5%
Medium-Term Notes	N/A	30%	5%
Orange County Investment Pool	397 days	None	None

The Commission’s deposit in the Orange County Treasurer’s Money Market Fund of the Investment Pool (Pool) is similar to a demand deposit and amounts can be withdrawn at any time without prior written notice. The County’s Investment Policy Statement establishes policies governing the Pool. Interest is apportioned to the Commission monthly based on the average daily balances on deposit with the County Treasurer. The County Treasury Oversight Committee, established in December 1995, conducts Pool oversight. The weighted average maturity of the Pool is approximately 359 days as of June 30, 2012. The Commission’s equity in the Pool was 2.67% of the total Pool. For further information regarding the Orange County Investment Pool, refer to the County of Orange Comprehensive Annual Financial Report.

Cash on deposit with the Treasurer at June 30, 2012 is stated at fair value. The Pool values participant shares on an amortized cost basis during the year and adjusts the value at year-end to fair value based on quoted market prices. The fair value adjustment at June 30, 2012 increased the Commission’s investment income by \$21,616. Investments in pools managed by other governments are not subject to categorization because they are not evidenced by securities that exist in physical or book entry form.

Credit Risk

The County Treasurer’s Investment Policy limits investments in any specific purpose investment portfolio to the short-term category to mitigate interest rate risk and defines a minimum credit rating from Moody’s and Standard & Poors (S&P) for issuers of financial instruments to minimize credit risk. For an issuer of short-term debt, the rating must be no less than P-1 (Moody’s) or A-1 (S&P) while an issuer of long-term debt shall be rated no less than A. At June 30, 2012, the Orange County Investment Pool was assigned by S&P at a AAAm Principal Stability Fund Rating.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 3 – DUE FROM OTHER GOVERNMENTS**

The due from other governments account represents amounts due to the Commission from the California Children and Families Commission (“State Commission”) for Prop 10 related revenues and other governmental agencies. The amounts due to the Commission at June 30, 2012, were as follows:

Due from State Commission:		
Prop 10 revenue for:		
May 2012		\$ 2,279,647
June 2012		2,830,179
Surplus Money Investment Fund Allocations		11,612
First 5 CARES Plus Program		435,487
Due from other governmental agencies for:		
Medi-Cal Administrative Activities (MAA)		357,751
ARRA Health Research Grant		70,509
Vista funds		167,142
Total Due from Other Governments		<u>\$ 6,152,327</u>

**NOTE 4 – CAPITAL ASSETS**

The capital assets balance at June 30, 2012 consists of the following activity:

	Balance June 30, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets depreciable:				
Equipment	\$ 26,783	\$ -	\$ -	\$ 26,783
Less accumulated depreciation:				
Equipment	(26,548)	(235)	-	(26,783)
Total Capital Assets (Net)	<u>\$ 235</u>	<u>\$ (235)</u>	<u>\$ -</u>	<u>\$ -</u>

**NOTE 5 – DUE TO OTHER GOVERNMENTS**

The due to other governments account represents amounts due to the State of California and other local governmental agencies. The amounts due to the other governments at June 30, 2012, were as follows:

Due to local government agencies:		
FY 2011-2012 Contract Payment Accruals		<u>\$ 3,898,071</u>
Total Due to Other Governments		<u>\$ 3,898,071</u>

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 6 – REVERSAL OF AB99 LIABILITY/EXTRAORDINARY ITEM**

On March 24, 2011, the governor signed Assembly Bill 99 (AB99) into law. AB 99 established the Children and Families Health and Human Services Fund (Fund). As specified in the legislation, the Fund was to be used, upon appropriation, by the California State Legislature for health and human services. The bill required \$1 billion of the combined state and local children and families funds to be deposited in the Fund for the 2011-12 fiscal year. The amount required from each first five commission (AB 99 payment) represents 50% of the fund balance as of June 30, 2010. For the Orange County Children and Families Commission, the AB 99 liability amount was \$51,369,439 and was due by June 30, 2012. The Children and Families commission of Orange County along with other First 5 Commissions, filed a lawsuit against the State challenging the legality of Assembly Bill 99 (AB99). In November 2011, a Fresno County judge ruled AB 99 was illegal and the state legislature could not collect the funds from county commissions. In March 2012, the state informed First 5 commissions that no appeal would be sought on the court’s ruling.

Accordingly, the commission has recognized the AB 99 court ruling as an extraordinary item, for the fiscal year ending June 30, 2012, which reverses the original obligation established as a liability in the prior year.

**EXTRAORDINARY ITEM**

Reversal of AB99 Liability	<u>\$51,369,439</u>
----------------------------	---------------------

**NOTE 7 – COMPENSATED ABSENCES**

The vested compensated absences liability balance at June 30, 2012 consists of the following activity:

Balance July 1, 2011	Increases	Decreases	Balances June 30, 2012	Due Within One Year
\$ 160,393	\$ 147,289	\$ 173,335	\$ 134,347	\$ 87,838

**NOTE 8 – FUND BALANCE (GASB 54)**

Fund balance is classified using a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Fund balance at June 30, 2012 consists of the following:

	June 30, 2012
Nonspendable:	
Prepaid retirement	\$ 65,657
Committed for:	
Round 1 Catalytic Investments	45,000,000
Round 2 Catalytic Investments	90,000
Assigned for:	
Round 2 Catalytic Investments	9,910,000
Contractual Obligations - Child Development	23,651,187
Total fund balance	\$ 78,716,844

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 8 – FUND BALANCE (GASB 54) (Continued)**

Fund Balance Category Descriptions

Nonspendable – consists of additional prepaid retirement contributions originally for FY 2011-2012 to be used in FY 2012-2013. Refer to Note 10 for further details.

Committed – consists of contract amounts approved by Commission action as of June 30, 2012 for FY 2012-2013 and future years of Commission Round 1 and Round 2 Catalytic Investments.

Assigned – consists of FY 2012-2013 programs that were approved by the Board of Commissioners, including contracts relating to Commission Round 2 Catalytic Investments, and contracts approved by the Executive Director.

**NOTE 9 – CONTINGENCIES**

The Commission is involved in various legal proceedings from time to time in the normal course of business. In management's opinion, the Commission is not involved in any legal proceeding that will have a material adverse effect on financial position or changes in financial position of the Commission.

**NOTE 10 – DEFINED BENEFIT PENSION PLAN**

*Plan Description.* All full-time employees of the Commission participate in the Orange County Employees Retirement System (OCERS), which is a cost-sharing, multiple-employer, defined benefit pension plan. OCERS provides for retirement, death, disability and cost-of-living benefits, and is subject to the provisions of the County Employees Retirement Act of 1937 and other applicable statutes.

Members employed by the County of Orange or a participating agency prior to September 21, 1979, are designated as Tier I members. Members employed after September 21, 1979 are designated as Tier II members. The establishment of Tier II resulted in a reduced allowance beginning at age 50. A member's retirement allowance is based upon the member's age at retirement, final compensation and the total years of service under the system. If an employee terminates before rendering five years of service under the system, the employee forfeits the right to receive benefits and is entitled to withdraw employee contributions made together with accumulated interest. If an employee terminates after five years of service, the employee may elect to leave the accumulated deposits in the retirement fund and be granted a deferred retirement allowance at the time the member would have been entitled to the allowance if service had been continued. OCERS issues a stand-alone annual financial report, which can be obtained by writing to the Orange County Employees Retirement System, 2223 Wellington Avenue, Santa Ana, California 92702.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 10 – DEFINED BENEFIT PENSION PLAN (Continued)**

*Funding Policy.* In accordance with County Board of Supervisors resolutions establishing contribution rates, the Commission makes periodic contributions to OCERS in amounts such that, when combined with employees’ contributions and investment income, will fully provide for all employees’ benefits by the time they retire. The Commission’s contribution rate as a percentage of payroll for General members was 27.97% for the year ended June 30, 2012. Members are required to contribute a percentage of their annual compensation to OCERS as a condition of employment. For Tier I members, the normal rate of contribution is based on the member’s age at entry in OCERS, and is calculated to provide an annual annuity equal to 1/200 of the member’s “final compensation” for each year of service rendered at age 60 for General members. For Tier II General members, the rate of contribution is calculated to provide an annual annuity equal to 1/120 of the member’s “final compensation” for each year of service rendered at age 60. The member average contribution rate was approximately 6.45% for the year ended June 30, 2012.

The Commission’s annual required contribution to OCERS was \$412,774 for the year ended June 30, 2012. The Commission’s actual and actuarially required contributions were as follows:

Fiscal Year Ending	Annual Required Contributions (ARC)	Percentage of ARC Contributed
6/30/2010	\$ 404,289	100.00%
6/30/2011	431,625	100.00%
6/30/2012	412,774	100.00%

*Prepayment of 2011-2012 contributions.* In January 2011, the OCERS Board of Retirement authorized the offer of a 7.75% discount to plan sponsors for the early payment of their employer contributions for FY 2011-2012. Subsequently, the Commission authorized the pre-payment of \$399,279 in January 2011. As of June 30, 2012, \$65,657 remained in the prepayment account and will be applied towards the Commission’s employer required OCERS contributions for FY 2012-2013.

**NOTE 11 – COMMITMENTS**

The Commission leases office space from a third party under a long-term operating lease, which expires on September 30, 2014 (FY 2014-15). The future minimum rental payments due under the lease are as follows.

2013	\$ 197,196
2014	197,196
2015	49,299
	<u>\$ 443,691</u>

Rent expense was \$197,196 for the year ended June 30, 2012.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 12 – RELATED PARTY TRANSACTIONS**

The Commission contracts with the County to provide accounting, banking and investment, purchasing, human resources, risk management and other administrative services. The Commission participates in the County's risk management programs (commercial and self-insurance programs) for general and automobile liability insurance, public official liability, rental interruption, personal property, worker's compensation, group health indemnified plans, group salary continuance plan, group dental plan and unemployment benefit plan. The Commission records its portion of related insurance premiums charged by the County as an expense. Insurance expense for the year ended June 30, 2012 was \$57,020. The Commission incurred expenses totaling \$525,976 for all other County services provided during the year ended June 30, 2012. The amount owed to the County of Orange for related party transactions at June 30, 2012 was \$77,574.

**NOTE 13 – PROGRAM EVALUATION**

In accordance with the *Standards and Procedures for Audits of California Counties Participating in the California Children and Families Program*, issued by the California State Controller, the Commission is required to disclose the amounts expended during the fiscal year on program evaluation. Program evaluation costs pertain to those activities undertaken to support the collection, production, analysis and presentation of evaluation information for Commission management, Commissioners and other interested parties.

For the year ended June 30, 2012, the Commission expended \$566,309 for program evaluation.

**NOTE 14 – RETIREE MEDICAL PLAN – OTHER POSTEMPLOYMENT BENEFITS**

*Plan Description.* In accordance with the Commission's participation agreement entered into in July 2007, the Commission is a participant in the County of Orange Retiree Medical Plan (the Plan). The County of Orange has established the Plan as a single-employer defined benefit retiree medical plan. The Plan provides a grant for medical benefits to eligible retirees and their dependents and lump-sum payments for employees separating from employment prior to being eligible for the grant. The County Board of Supervisors maintains the authority to establish and amend the Plan's benefit provisions. The financial statements and required supplementary information of the Plan are included in the County of Orange's fiscal year 2011-2012 Comprehensive Annual Financial Report (CAFR). The Commission is reported in the County's CAFR as a discretely presented component unit. That report may be obtained by contacting the County of Orange, Auditor Controller, 12 Civic Center Plaza, Room 200, Santa Ana, California 92702.

*Funding Policy.* The contribution requirements of plan members and the Commission are those established for the County of Orange and may be amended by the County Board of Supervisors. For the fiscal year ended June 30, 2012, the Commission was required to contribute 2.7% of covered payroll. The contractually required contribution was determined by the County of Orange, as the percentage actuarially determined in accordance with the parameters of GASB 45. The Annual Required Contribution (ARC) represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period of thirty years. The Commission's contributions to the Plan for the fiscal year ended June 30, 2012 were \$33,639 which equaled the required contributions.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2012**

**NOTE 14 – RETIREE MEDICAL PLAN – OTHER POSTEMPLOYMENT BENEFITS (Continued)**

<u>Fiscal Year Ending</u>	<u>Annual Required Contributions (ARC)</u>	<u>Percentage of ARC Contributed</u>
6/30/2010	\$ 28,404	100.00%
6/30/2011	38,023	100.00%
6/30/2012	33,639	100.00%

Plan members are currently not required to contribute to the plan but retirees are required to pay for the cost of retiree medical benefits in excess of their grant amount.

For additional details, actuarial assumptions, funded status of the plan and required supplementary information refer to the County’s CAFR.

**NOTE 15 – FIRST 5 CALIFORNIA CARES PLUS PROGRAM**

CARES Plus is designed to improve the quality of early learning programs by focusing on increasing the quality, effectiveness, and retention of early educators. As a statewide professional development program, its main objectives are to improve both the quality of early learning programs, and ultimately, learning and developmental outcomes for young children. The Commission participates in Phase 1 and Phase 2 of the CARES Plus program. The Commission received \$145,487 in Phase 1 CARES Plus funding for the period ending June 30, 2012. Phase 1 funds have no matching requirements, but Phase 2 funds will require a 3 to 1 Commission match to each dollar of First 5 funding.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
STATISTICAL SECTION  
(UNAUDITED)**

The information in this section is not covered by the Independent Auditor's Report, but it is presented as supplemental data for the benefit of the readers of the comprehensive annual financial report. The objectives of statistical section information are to provide financial statement users with additional detailed information as a context for understanding what the financial statements, notes to financial statements, and required supplementary information say about the Commission's economic condition.

	<u>Pages</u>
<u>Financial Trends</u> These schedules contain trend information to help the reader understand how the Commission's financial performance and well-being have changed over time.	35
<u>Revenue Capacity</u> These schedules contain trend information to help the reader assess the Commission's most significant revenue base.	43
<u>Demographic Information</u> These schedules offer economic and demographic indicators to help the reader understand how the information in the Commission's financial report relates to the services the Commission provides and the activities it performs.	46
<u>Operating Information</u> This schedule contains infrastructure data to help the reader understand how the Information in the Commission's financial report relates to the services the Commission performs.	50

Sources: Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant years.

<sup>(1)</sup> Since certain data (i.e. total personal income, per capita personal income and unemployment) are not considered relevant to Commission operations, substitute information specific to the Commission is presented.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
NET ASSETS BY COMPONENT  
LAST EIGHT FISCAL YEARS\***

	Fiscal Year			
	2012	2011	2010	
Restricted				\$ 122,720,258
Invested in capital assets		\$ 235	\$ 798	2,301
Unrestricted <sup>(1)</sup>	\$ 78,985,485	30,063,595	102,842,804	
Total net assets	<u>\$ 78,985,485</u>	<u>\$ 30,063,830</u>	<u>\$ 102,843,602</u>	<u>\$ 122,722,559</u>

\* Statistical information is presented as of the first fiscal year that GASB 34 was implemented.

(1) In fiscal year 2010, the Commission presented the information as unrestricted.

<b>Fiscal Year</b>			
<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
\$ 142,142,025	\$ 151,578,753	\$ 152,265,738	\$ 146,184,260
5,121	7,942	11,419	16,213
<u>\$ 142,147,146</u>	<u>\$ 151,586,695</u>	<u>\$ 152,277,157</u>	<u>\$ 146,200,473</u>

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY**  
**CHANGES IN NET ASSETS**  
**LAST EIGHT FISCAL YEARS\***

	Fiscal Year			
	2012	2011	2010	2009
Revenues:				
Prop 10 Tobacco taxes	\$ 28,988,350	\$ 28,809,921	\$ 29,706,126	\$ 33,396,055
Prop 10 State School Readiness			4,349,489	4,294,144
Prop 10 CARES Plus	435,487			
Other State operating grants and contributions			145,834	104,166
Investment income earned on tobacco taxes at the State Level (SMIF)	11,612	15,331	82,000	82,479
Federal operating grants	593,400	641,124	752,152	1,020,269
Investment income	481,976	818,294	1,141,118	3,944,954
Other revenue	265,632	26,983	40,509	210,659
Extraordinary Item: Reversal of AB99 liability	51,369,439			
<b>Total revenues</b>	<b>82,145,896</b>	<b>30,311,653</b>	<b>36,217,228</b>	<b>43,052,726</b>
Expenses:				
Current:				
Salaries and benefits	2,094,872	2,290,308	2,415,467	2,439,415
Expenses related to "Zero to Five" Program	30,727,603	49,431,678	46,836,184	54,377,591
Services and supplies for State School Readiness program			6,844,534	5,660,307
Services and supplies for First 5 CARES Plus program	401,766			
Extraordinary Item: Accrual of AB99 liability		51,369,439		
<b>Total expenses</b>	<b>33,224,241</b>	<b>103,091,425</b>	<b>56,096,185</b>	<b>62,477,313</b>
<b>Change in net assets</b>	<b>\$ 48,921,655</b>	<b>\$ (72,779,772)</b>	<b>\$ (19,878,957)</b>	<b>\$ (19,424,587)</b>

\* Statistical information is presented as of the first fiscal year that GASB 34 was implemented.

<b>Fiscal Year</b>			
<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
\$ 35,494,096	\$ 37,356,314	\$ 39,332,323	\$ 40,175,154
4,114,774	1,706,125	2,554,681	3,698,878
352,597	669,897	330,598	476,537
190,332	430,669	203,588	871,949
1,020,556	2,237,302	307,741	4,601,132
8,854,562	7,954,594	6,506,090	3,499,075
148,113	41,527	176,257	210,602
50,175,030	50,396,428	49,411,278	53,533,327
2,323,471	2,258,080	2,241,058	1,675,442
51,331,591	42,972,440	36,171,992	46,969,598
5,959,517	5,856,371	4,921,544	4,232,963
59,614,579	51,086,891	43,334,594	52,878,003
\$ (9,439,549)	\$ (690,463)	\$ 6,076,684	\$ 655,324

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
FUND BALANCES – GENERAL FUND  
LAST EIGHT FISCAL YEARS\***

	<b>Fiscal Year</b>			
	<b>2012</b>	<b>2011**</b>	<b>2010</b>	<b>2009</b>
Reserved				
Reserved for imprest fund			\$ 15,000	\$ 15,000
Reserved for encumbrances			43,044,502	70,245,812
Reserved for contractual obligations			24,677,280	27,017,022
Reserved for capital projects			2,500,050	4,000,000
Reserved for First 5 California initiatives				
Unreserved				
Designated for program operations			2,495,502	3,128,463
Designated for future funding cycles and operating budget			30,006,543	18,115,319
Total fund balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 102,738,877</u>	<u>\$ 122,521,616</u>

	<b>Fiscal Year</b>			
	<b>2012</b>	<b>2011**</b>	<b>2010</b>	<b>2009</b>
FUND BALANCES				
Nonspendable fund balance	\$ 65,657	\$ 399,279	\$ -	\$ -
Restricted fund balance				
Committed fund balance	45,090,000	35,123,581	67,721,782	97,262,834
Assigned fund balance	33,561,187		5,010,552	7,143,463
Unassigned fund balance		(5,547,385)	30,006,543	18,115,319
Total fund balances	<u>\$ 78,716,844</u>	<u>\$ 29,975,475</u>	<u>\$ 102,738,877</u>	<u>\$ 122,521,616</u>

\* Statistical information is presented as of the first fiscal year that GASB 34 was implemented.

\*\* In fiscal year 2011, the Commission presented the information in accordance with GASB 54.

<b>Fiscal Year</b>			
<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
\$ 15,000	\$ 15,000	\$ -	\$ -
2,207,285	22,151,367	20,116,494	16,586,404
68,027,433		33,553,325	32,771,294
5,000,000			
8,690,731	5,378,112		
58,252,130	123,929,539	89,740,050	89,740,050
<u>\$ 142,192,579</u>	<u>\$ 151,474,018</u>	<u>\$ 143,409,869</u>	<u>\$ 139,097,748</u>

<b>Fiscal Year</b>			
<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
\$ -	\$ -	\$ -	\$ -
8,690,731	5,378,112		
70,234,718	22,151,367	53,669,819	49,357,698
5,015,000	15,000		
58,252,130	123,929,539	89,740,050	89,740,050
<u>\$ 142,192,579</u>	<u>\$ 151,474,018</u>	<u>\$ 143,409,869</u>	<u>\$ 139,097,748</u>

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
CHANGES IN FUND BALANCES – GENERAL FUND  
LAST EIGHT FISCAL YEARS\***

	Fiscal Year			
	2012	2011	2010	2009
Revenues:				
Prop 10 Tobacco taxes	\$ 28,988,350	\$ 28,809,921	\$ 29,706,126	\$ 33,396,055
Prop 10 State School Readiness			4,349,489	4,294,144
Other State operating grants and contributions	145,487		145,834	104,166
Investment income earned on tobacco taxes at the State Level (SMIF)	11,612	15,331	82,000	82,479
Federal operating grants	903,770	686,722	840,427	757,061
Investment income	481,976	818,294	1,141,118	3,944,954
Other revenue	90,786	26,983	40,509	210,659
Extraordinary Item: Reversal of AB99	51,369,439			
Total revenues	<u>81,991,420</u>	<u>30,357,251</u>	<u>36,305,503</u>	<u>42,789,518</u>
Expenditures:				
Current:				
Salaries and benefits	2,094,972	2,320,099	2,409,027	2,425,403
Expenditures related to "Zero to Five" Program	31,155,080	49,431,115	46,834,681	54,374,771
Services and supplies for State School Readiness program			6,844,534	5,660,307
Services and supplies for First 5 CARES Plus program				
Capital outlay				
Extraordinary Item: Accrual of AB99 liability		51,369,439		
Total expenditures	<u>33,250,052</u>	<u>103,120,653</u>	<u>56,088,242</u>	<u>62,460,481</u>
Excess of revenues over expenditures	<u>\$ 48,741,368</u>	<u>\$ (72,763,402)</u>	<u>\$ (19,782,739)</u>	<u>\$ (19,670,963)</u>

\* Statistical information is presented as of the first fiscal year that GASB 34 was implemented.

<b>Fiscal Year</b>			
<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
\$ 35,527,837	\$ 37,356,314	\$ 39,332,323	\$ 40,175,154
4,114,774	10,461,757		
352,597	669,897	311,792	193,567
190,332	430,669		871,949
1,130,638	2,237,302	1,432,084	1,848,076
8,854,562	7,954,594	6,506,090	3,499,075
148,113	41,527	36,867	181,836
50,318,853	59,152,060	47,619,156	46,769,657
2,312,004	2,262,578	2,218,293	1,670,398
51,328,771	42,968,962	36,167,198	46,965,745
5,959,517	5,856,371	4,921,544	4,232,963
			11,286
59,600,292	51,087,911	43,307,035	52,880,392
\$ (9,281,439)	\$ 8,064,149	\$ 4,312,121	\$ (6,110,735)

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
FIRST 5 CALIFORNIA COUNTY TAX REVENUE CAPACITY**

<b>Actual Revenues Received (1)</b>	<u><b>Orange County</b></u>	<u><b>State Total</b></u>
2003/2004	\$39,551,911	\$458,509,867
2004/2005	\$40,175,154	\$474,651,747
2005/2006	\$39,332,323	\$468,897,022
2006/2007	\$37,356,302	\$451,562,723
2007/2008	\$35,527,837	\$442,394,748
2008/2009	\$33,396,055	\$424,449,499
2009/2010	\$29,706,126	\$381,995,574
2010/2011	\$28,809,921	\$374,284,018
2011/2012	\$28,988,350	\$377,690,133

**Projected Revenues (2)**

2012/2013	\$26,090,767	\$341,644,800
2013/2014	\$24,986,902	\$328,844,800
2014/2015	\$23,892,790	\$316,044,800

\* Historical data and projected revenues are presented to communicate tax revenue capacity as a declining revenue source

(1) Source: First 5 California County Funds Distributions; historical data is presented as of the first fiscal year that GASB 34 was implemented.

(2) Source: First 5 California County Tax Revenue Projections for 2010/11 to 2014/15 (Updated 5/18/11 utilizing DOF May Revise 2011 Tobacco Tax Projections and DOF 2009 Birth Projections for California State and Counties 1980-2018)

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
STATE OF CALIFORNIA-CIGARETTE TAXES AND OTHER TOBACCO PRODUCTS  
SURTAX REVENUE, 1959-60 TO 2010-11**

Fiscal year	Cigarette tax				Other tobacco products surtax	
	Revenue a/	Distributors' discounts b/	Gross value of tax indicia c/	Refunds	Revenue	Rate (%)
1	2	3	4	5	6	7
2010-11	\$828,831,000	\$7,105,000	\$835,937,000	\$1,308,000	\$77,016,000	33.02%
2009-10	838,709,000	7,187,000	845,896,000	1,583,000	84,617,000	41.11%
2008-09	912,724,000	7,819,000	920,543,000	626,000	85,506,000	45.13%
2007-08	955,030,000	8,185,000	963,215,000	727,000	85,929,000	45.13%
2006-07	998,723,000	8,558,000	1,007,281,000	1,330,000	79,946,000	46.76%
2005-06	1,026,497,000	8,795,000	1,035,293,000	1,707,000	67,348,000	46.76%
2004-05	1,024,272,000	8,778,000	1,033,051,000	1,653,000	58,441,000	46.76%
2003-04	1,021,366,000	8,755,000	1,030,121,000	4,721,000	44,166,000	46.76%
2002-03	1,031,772,000	8,845,000	1,040,617,000	13,248,000	40,996,000	48.89%
2001-02	1,067,004,000	9,146,000	1,076,150,000	10,774,000	50,037,000	52.65% d/
2000-01	1,110,692,000	9,503,000	1,120,195,000	8,741,000	52,834,000	54.89%
1999-00	1,166,880,000	9,980,000	1,176,859,000	9,413,000	66,884,000	66.50%
1998-99	841,911,000 e/	7,206,000	849,117,000	6,808,000	42,137,000 f/	61.53% f/
1997-98	612,066,000	5,244,000	617,309,000	5,448,000	39,617,000	29.37%
1996-97	629,579,000	5,394,000	634,973,000	5,060,000	41,590,000	30.38%
1995-96	639,030,000	5,469,000	644,499,000	6,193,000	32,788,000	31.20%
1994-95	656,923,000	5,628,000	662,551,000	11,159,000	28,460,000	31.20%
1993-94	647,993,000 g/	5,553,000	653,546,000	8,353,000	19,773,000	23.03%
1992-93	667,479,000	5,715,000	673,195,000	9,138,000	21,480,000	26.82%
1991-92	711,275,000	6,086,000	717,362,000	7,791,000	22,016,000	29.35%
1990-91	729,612,000	6,242,000	735,854,000	7,904,000	24,064,000	34.17%
1989-90	770,042,000 h/	6,581,000	776,623,000	11,615,000	24,956,000 h/	37.47
1988-89	499,712,000 h/	4,273,000	503,984,000	4,968,000	9,994,000 h/	41.67
1987-88	254,869,000	2,180,000	257,049,000	2,970,000		
1986-87	257,337,000	2,202,000	259,539,000	2,661,000		
1985-86	260,960,000	2,231,000	263,190,000	2,834,000		
1984-85	265,070,000	2,267,000	267,337,000	2,390,000		
1983-84	265,265,000	2,267,000	267,532,000	2,756,000		
1982-83	273,748,000	2,336,000	276,084,000	2,060,000		
1981-82	278,667,000	2,383,000	281,050,000	1,843,000		
1980-81	280,087,000	2,395,000	282,482,000	1,567,000		
1979-80	272,119,000	2,327,000	274,446,000	1,645,000		
1978-79	270,658,000	2,315,000	272,973,000	1,408,000		
1977-78	275,042,000	2,352,000	277,394,000	1,239,000		
1976-77	270,502,000	2,315,000	272,817,000	832,000		
1975-76	269,852,000	2,309,000	272,161,000	927,000		
1974-75	264,182,000	2,262,000	266,444,000	745,000		
1973-74	259,738,000	2,222,000	261,960,000	632,000		
1972-73	253,089,000	2,167,000	255,256,000	626,000		
1971-72	248,398,000	2,127,000	250,525,000	677,000		
1970-71	240,372,000	2,058,000	242,430,000	552,000		
1969-70	237,220,000	2,032,000	239,253,000	455,000		
1968-69	238,836,000	2,046,000	240,882,000	492,000		
1967-68	208,125,000 v	1,862,000	209,987,000	328,000		
1966-67	75,659,000	1,543,000	77,202,000	129,000		
1965-66	74,880,000	1,528,000	76,407,000	88,000		
1964-65	74,487,000	1,520,000	76,007,000	61,000		
1963-64	71,530,000	1,459,000	72,989,000	71,000		
1962-63	70,829,000	1,445,000	72,274,000	79,000		
1961-62	68,203,000	1,390,000	69,593,000	47,000		
1960-61	66,051,000 j/	1,675,000 k/	67,726,000	76,000		
1959-60	61,791,000 v	767,000 v	62,558,000	67,000		

Source: State Board of Equalization 2009-2010 Annual Report: Cigarette Taxes and Other Tobacco Products Surtax Revenue, 1959-60 to 2010-11

- a. Net of refunds for tax indicia on cigarettes that become unfit for use (See column 5).
- b. A discount of .85 percent of gross value of tax indicia is granted to distributors for affixing the stamps. From July 1, 1960, until August 1, 1967, the discount rate was 2 percent.
- c. Includes sales of indicia purchased on credit. Effective July 16, 1961, distributors have been able to purchase tax indicia on credit.
- d. From July 1, 2001, through September 9, 2001, the surtax rate on smokeless tobacco ranged from 131 percent for moist snuff to 490 percent for chewing tobacco. Effective September 10, 2001, the surtax rate on smokeless tobacco was lowered to 52.65 percent.
- e. Effective January 1, 1999, the overall tax rate on cigarettes was increased from 37 cents to 87 cents per pack under voter-approved Proposition 10. The additional 50-cent-per-pack tax was imposed to raise funds for early childhood development programs. Excludes \$87,978,766 in 1998-99 from the floor stocks taxes for both cigarettes and other tobacco products levied on January 1, 1999.
- f. From July 1, 1998, through December 31, 1998, the surtax rate was 26.17 percent for other tobacco products. Effective January 1, 1999, the new surtax imposed under Proposition 10 raised the combined surtax rate to 61.53 percent for other tobacco products. The new surtax is equivalent (in terms of the wholesale costs of other tobacco products) to a 50-cent-per-pack tax on cigarettes.
- g. Effective January 1, 1994, the overall tax rate on cigarettes was increased from 35 cents to 37 cents per pack. The additional 2-cent-per-pack tax was imposed to raise funds for breast cancer research and education.
- h. Effective January 1, 1989, an additional 25-cent-per-pack surtax was imposed on cigarettes and a new 41.67 percent surtax was imposed on other tobacco products. Excludes \$57,927,856 in 1988-89 and \$595,000 in 1989-90 from the floor stocks tax levied on January 1, 1989.
- i. Effective August 1, 1967, the tax rate was increased from 3 cents to 7 cents per pack. On October 1, 1967, the rate was further increased to 10 cents per pack, with the stipulation that 30 percent of the tax be allocated to cities and counties. Includes \$6,515,209 from the 4-cent-per-pack floor stocks tax levied on August 1, 1967; and \$4,889,485 from the 3-cent-per-pack floor stocks tax imposed October 1, 1967.
- j. Refunds made for distributors' discounts in the 1960-61 fiscal year on purchases made in the 1959-60 fiscal year have been deducted. These refunds amounted to \$324,000.
- k. Effective July 1, 1960, a discount was allowed at the time tax indicia were purchased.
- l. Includes \$2,673,048 from the 3-cent per pack floor stocks tax imposed July 1, 1959; and also includes the amount of distributors' discounts which were refunded after purchase of indicia. During July and August of 1959, the tax was collected by invoice and no discount was allowed on these collections of \$8,123,700, nor on the \$2,673,048 tax on floor

Note: Detail may not compute to total due to rounding.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
STATE OF CALIFORNIA-CIGARETTE DISTRIBUTIONS AND PER CAPITA CONSUMPTION,  
1959-60 TO 2010-11**

Fiscal year	Reported distributions			Apparent per capita consumption (a.) (In packages)
	Total	Tax paid	Tax exempt	
1	2	3	4	5
2010-11	989,000,000	961,000,000	28,000,000	26.4
2009-10	1,002,000,000	972,000,000	30,000,000	26.9 r.
2008-09	1,090,000,000	1,058,000,000	32,000,000	28.5
2007-08	1,131,000,000	1,107,000,000	24,000,000	29.9
2006-07	1,177,000,000	1,158,000,000	20,000,000	31.3
2005-06	1,209,000,000	1,190,000,000	19,000,000	32.5
2004-05	1,224,000,000	1,187,000,000	37,000,000	33.3
2003-04	1,234,000,000	1,184,000,000	50,000,000	34.0
2002-03	1,227,000,000	1,196,000,000	31,000,000	34.5
2001-02	1,271,000,000	1,237,000,000	34,000,000	36.3
2000-01	1,324,000,000	1,288,000,000	37,000,000	38.5
1999-00	1,390,000,000	1,353,000,000	38,000,000	41.2
1998-99	1,568,000,000	1,523,000,000	45,000,000	47.3
1997-98	1,717,000,000	1,668,000,000	48,000,000	52.6
1996-97	1,777,000,000	1,716,000,000	61,000,000	55.2
1995-96	1,811,000,000	1,742,000,000	69,000,000	56.9
1994-95	1,871,000,000	1,791,000,000	80,000,000	59.2
1993-94	1,903,000,000	1,824,000,000	79,000,000	60.6
1992-93	2,010,000,000	1,923,000,000	86,000,000	64.5
1991-92	2,144,000,000	2,050,000,000	94,000,000	69.8
1990-91	2,196,000,000	2,102,000,000	93,000,000	72.8
1989-90	2,311,000,000	2,219,000,000	92,000,000	78.2
1988-89	2,431,000,000	2,353,000,000	78,000,000	84.7
1987-88	2,657,000,000	2,570,000,000	87,000,000	94.9
1986-87	2,690,000,000	2,595,000,000	95,000,000	98.4
1985-86	2,730,000,000	2,632,000,000	98,000,000	102.3
1984-85	2,781,000,000	2,673,000,000	108,000,000	106.7
1983-84	2,792,000,000	2,675,000,000	117,000,000	109.9
1982-83	2,889,000,000	2,761,000,000	128,000,000	115.8
1981-82	2,947,000,000	2,811,000,000	136,000,000	120.4
1980-81	2,966,000,000	2,825,000,000	141,000,000	123.6
1979-80	2,892,000,000	2,744,000,000	148,000,000	122.9
1978-79	2,887,000,000	2,730,000,000	157,000,000	125.1
1977-78	2,940,000,000	2,774,000,000	166,000,000	130.0
1976-77	2,900,000,000	2,728,000,000	172,000,000	130.9
1975-76	2,909,000,000	2,722,000,000	187,000,000	133.7
1974-75	2,857,000,000	2,664,000,000	193,000,000	133.7
1973-74	2,827,000,000	2,620,000,000	207,000,000	134.4
1972-73	2,762,000,000	2,553,000,000	209,000,000	133.2
1971-72	2,720,000,000	2,505,000,000	215,000,000	132.9
1970-71	2,635,000,000	2,424,000,000	211,000,000	130.5
1969-70	2,594,000,000	2,393,000,000	201,000,000	130.2
1968-69	2,616,000,000	2,409,000,000	207,000,000	133.0
1967-68	2,596,000,000	2,383,000,000	213,000,000	134.0
1966-67	2,737,000,000	2,573,000,000	164,000,000	143.8
1965-66	2,706,000,000	2,547,000,000	159,000,000	144.9
1964-65	2,679,000,000	2,534,000,000	145,000,000	146.7
1963-64	2,564,000,000	2,433,000,000	131,000,000	144.3
1962-63	2,545,000,000	2,409,000,000	136,000,000	147.9
1961-62	2,450,000,000	2,320,000,000	130,000,000	147.3
1960-61	2,382,000,000	2,258,000,000	124,000,000	147.8
1959-60	2,190,000,000	2,085,000,000	105,000,000	139.7

Source: State Board of Equalization 2009-2010: Annual Report Cigarette Distributions and Per Capita Consumption, 1959-60 to 2010-11

a. Based on reported distributions and latest estimate of January 1 population for each fiscal year.

r. Revised.

Note: Detail may not compute to total due to rounding.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
DEMOGRAPHIC DATA**

	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
Total Population	3,017,105	2,998,820	2,982,790	2,965,829	2,955,425	2,957,137	2,956,473	2,939,733	2,914,419	2,889,905
White	1,312,418	1,363,087	1,383,364	1,392,586	1,405,485	1,423,283	1,439,227	1,447,963	1,453,276	1,458,041
Hispanic	1,005,236	1,008,604	986,104	972,550	961,383	953,194	943,436	928,977	912,149	894,753
Asian & Pacific Islander	579,968	510,352	499,281	488,521	478,200	471,594	466,022	457,035	445,830	436,407
Black	44,499	44,641	44,520	44,336	44,328	44,454	44,504	44,397	44,230	44,064
Other/Multi-Race	74,984	72,136	69,521	67,836	66,029	64,612	63,284	61,361	58,934	56,640
Female	1,530,203	1,512,752	1,505,167	1,496,612	1,491,352	1,491,824	1,490,897	1,482,044	1,469,077	1,456,254
Male	1,486,902	1,486,068	1,477,623	1,469,217	1,464,073	1,465,313	1,465,576	1,457,689	1,445,342	1,433,651
Under 5 years	188,107	194,723	200,988	202,945	206,581	211,862	215,185	216,027	215,595	215,302
5-9 years	195,446	200,944	206,588	209,284	211,386	214,222	218,740	222,701	226,100	228,607
10-14 years	209,907	209,260	218,622	222,735	226,066	228,892	229,527	226,559	221,305	214,550
15-19 years	228,354	222,780	219,706	215,560	211,947	209,182	206,124	202,996	200,166	198,376
20-24 years	218,338	209,857	210,065	209,122	208,119	207,329	205,261	201,562	197,484	194,730
25-34 years	422,638	411,027	407,538	406,889	410,873	420,513	433,062	444,037	454,288	464,427
35-44 years	438,116	447,102	463,117	468,042	472,297	477,416	481,743	482,978	482,564	481,660
45-54 years	442,524	443,950	431,378	422,705	413,346	405,181	397,440	388,866	380,310	372,891
55-59 years	175,875	172,474	165,260	163,804	161,041	157,034	152,133	146,880	140,817	133,371
60-64 years	145,988	142,894	132,056	125,167	120,075	116,676	113,220	108,649	103,451	99,290
65-74 years	187,335	183,812	171,707	166,405	162,709	160,296	158,012	154,978	151,806	149,338
75-84 years	114,319	111,930	111,338	110,392	109,762	108,681	107,286	105,784	103,938	101,841
85+	50,158	48,067	44,427	42,779	41,223	39,853	38,740	37,716	36,595	35,522

Sources: State of California, Department of Finance, Race/Ethnic Population with Age and Sex Detail, 2000–2050. Sacramento, CA, May 2012.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
CHILDREN'S SCORECARD ORANGE COUNTY TRENDS, 2000-2009**

	2009	2008	2007	2006	2005	2004	2003	2002	2001	2000
<b><u>GOOD HEALTH</u></b>										
Total Births*	40,431	42,456	44,026	42,145	41,909	45,049	45,345	44,760	45,462	46,980
Total percentage of women who received early prenatal care*	88.2%	87.8%	88.0%	91.0%	91.5%	91.7%	91.6%	90.8%	89.3%	88.1%
Women with prenatal care in the first trimester*	35,650	37,267	38,727	38,364	38,365	41,306	41,516	40,654	40,612	41,415
Newborns with low birth weight (less than 2,500 grams)*	2,670	2,705	2,879	2,816	2,826	2,782	2,718	2,710	2,666	2,560
Percent of Newborns with low birth weight*	6.6%	6.4%	6.5%	6.4%	6.4%	6.2%	6.0%	6.1%	5.9%	5.4%
Infants taken into protective custody due to positive testing for alcohol/drug exposure at birth*	81	107	158	164	165	203	120	121	93	98
Children adequately immunized at age 2*	81.1%	76.9%	78.9%	78.9%	77.6%	71.4%	73.8%	71.4%	69.7%	70.0%
Infant Deaths*	165	202	187	224	211	179	200	216	206	231
Infant Mortality Rate (per 1,000 live births)*	4.1	4.8	4.2	5.1	4.8	4	4.4	4.8	4.5	4.9
Birth rate per 1,000 females ages 15-19 in Orange County*	23.6	25.9	27.7	29.9	29.8	30.1	30.7	32.3	34.9	38.2
Breastfeeding Percentages (any)*	88.0%	***								
Breastfeeding Percentages (exclusive)*	39.2%	***								
Number of children under 18 served by children and youth services*	12,864	12,552	12,334	11,962	12,203	13,724	14,007	13,590	12,893	11,089
<b><u>ECONOMIC WELL-BEING</u></b>										
Children receiving financial assistance through CalWORKS*	35,962	31,932	32,040	33,618	36,245	37,384	38,997	38,999	39,826	44,195
Percent of children receiving CalWORKS of total population under 18*	4.5%	4.0%	4.0%	4.0%	5.0%	5.0%	5.0%	5.0%	5.0%	6.0%
Number of students receiving free and reduced lunch*	211,179	197,671	184,956	193,802	200,340	196,430	198,167	190,979	183,524	182,003
Percentage of students receiving free and reduced lunch*	43.0%	40.0%	39.0%	39.0%	39.0%	38.0%	38.0%	38.0%	37.0%	38.0%
Number of participants served by the WIC program*	104,622	117,188	107,595	95,635	98,635	99,115	97,882	103,264	99,632	98,482
Total number of child support cases*	103,598	94,860	94,769	97,425	98,503	99,134	102,040	99,903	102,043	106,961
Total child support collections \$ (in millions)*	180.3	179.6	179	176.8	176.9	171.9	166.1	163.5	159.3	143.5
<b><u>EDUCATIONAL ACHIEVEMENT</u></b>										
Total public school enrollment*	502,239	504,136	503,225	503,955	510,114	513,744	515,464	512,105	503,351	494,178
Number of English learner students*	140,887	142,833	141,762	144,118	149,535	153,055	159,145	156,725	150,653	146,450
Average \$ expenditure per pupil for grades K-12*	8,724	8,844	8,008	7,360	6,944	6,750	6,715	6,557	6,156	5,536
Average class size for all grade levels*	27.4	26.1	28.8	28.9	29.3	29.2	27.4	28.1	27.9	28.2
Total number of students K-12 receiving special education*	51,394	51,486	51,047	51,131	52,243	51,049	51,514	50,236	49,013	
<b><u>SAFE HOMES AND COMMUNITIES</u></b>										
Total number of child abuse registry reports*	38,900	41,119	36,593	33,381	34,909	37,015	27,704	25,607	26,005	28,180
Average monthly number of children in out-of-home care*	2,466	2,668	2,562	2,394	2,566	2,772	2,939	3,253	3,475	3,768
Average monthly number of dependents of the court*	3,433	3,675	3,447	3,187	3,399	3,674	4,007	4,256	4,618	5,008
Emancipation Services Program: monthly average youth served*	1,717	1,775	1,778	1,807	1,866	1,872	1,803	1,794	1,586	
Total number of children placed in adoptive homes*	345	406	343	295	373	424	513	475	419	428
Total juvenile arrests for youth 10 to 17 years of age*	14,354	14,927	15,015	14,036	13,014	13,033	13,580	13,646	14,986	15,528
Total number of juveniles referred to probation, 10 to 18 years*	11,531	12,456	11,900	10,852	10,772	10,092	10,491	10,770	10,688	11,044

\* The 17th Annual Report on the Condition of Children in Orange County 2010 presents data through calendar year 2009. Data through FY 2009-10 not yet available.

\*\* The Public Schools Accountability Act (PSAA) of 1999 (Chapter 3, Statutes of 1999), requires that the California Department of Education (CDE) annually calculate APIS for California public schools and publish school rankings based on these indicies.

\*\*\* Methodologies used to collect data have been revised. 2009 data and prior years should not be compared.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
CAPITAL ASSETS STATISTICS**

Capital Assets (equipment) are used by the Commission for general operating and administrative functions. Proposition 10 funds (tobacco taxes) were not used to purchase any capital assets.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
PRINCIPAL EMPLOYERS**

**2012\***

<b>Employer</b>	<b>Number of Employees</b>	<b>Rank</b>	<b>Percentage of Total County Employment</b>
Walt Disney Co.	22,000	1	1.38%
University of California, Irvine	21,291	2	1.34%
St. Joseph Health System	12,048	3	0.76%
Boeing Co.	7,700	4	0.48%
Bank of America Corp.	6,300	5	0.40%
Yum Brands Inc.	6,300	6	0.40%
Kaiser Permanente	5,968	6	0.37%
Target Corp.	5,527	8	0.35%
Cedar Fair LP	5,200	9	0.33%
California State University, Fullerton	5,173	10	0.32%

**2003\*\***

<b>Employer</b>	<b>Number of Employees</b>	<b>Rank</b>	<b>Percentage of Total County Employment</b>
Walt Disney Co.	21,000	1	1.35%
University of California, Irvine	15,000	2	0.96%
CKE Restaurants Inc	14,000	3	0.90%
Boeing Co.	10,800	4	0.69%
Albertson's	8,700	5	0.56%
St. Joseph Health System	8,500	6	0.54%
Tenet Healthcare	8,300	6	0.53%
Yum Brands Inc.	6,500	8	0.42%
SBC Communications	5,900	9	0.38%
Target Corp.	5,400	10	0.35%

\* Source: Orange County Business Journal, Book of Lists, 2012 (list includes corporations, hospitals and universities)

\*\* Source: OC ALMANAC - Largest Employers in Orange County, 2002-2003 (list includes corporations, hospitals and universities)

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
EMPLOYEES BY FUNCTION  
LAST EIGHT FISCAL YEARS**

	Fiscal Year			
	2012	2011	2010	2009
Number of Employees by Function				
General Administration	6	7	7	7
Finance	2	2	2	2
Contracts Administration	4	5	5	5
Program Management & Evaluation	3	3	4	4
Total Employees	<u>15</u>	<u>17</u>	<u>18</u>	<u>18</u>

\* Table presents Regular and Limited-Term Employees

<b>Fiscal Year</b>			
<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
8	7	8	8
1	2	3	2
5	5	5	2
4	2	2	2
<b>18</b>	<b>16</b>	<b>18</b>	<b>14</b>



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

To the Board of Commissioners  
Children and Families Commission of Orange County

We have audited the financial statements of the governmental activities and the general fund of the Children and Families Commission of Orange County (the Commission), a component unit of the County of Orange, California, as of and for the year ended June 30, 2012, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated September 21, 2012. 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.

Internal Control Over Financial Reporting

Management of the Commission is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

*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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our 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*.

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



Laguna Hills, California  
September 21, 2012



**INDEPENDENT AUDITOR’S REPORT ON STATE COMPLIANCE**

To the Board of Commissioners  
 Children and Families Commission of Orange County

We have audited the basic financial statements of the Children and Families Commission of Orange County’s (the Commission), a component unit of the County of Orange, as of and for the year ended June 30, 2012 and have issued our report thereon dated September 21, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have also audited the Commission’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 the Commission’s statutory requirements identified below for the year ended June 30, 2012. Compliance with the requirements referred to above is the responsibility of the Commission’s management. Our responsibility is to express an opinion on the Commission’s compliance based on our audit.

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

In connection with the audit referred to above, we selected and tested transactions and records to determine the Commission’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

In our opinion, the Children and Families Commission of Orange County complied, in all material respects, with the compliance requirements referred to above that are applicable to the statutory requirements listed above for the year ended June 30, 2012.

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

*Vavrieh, Train, Day & Co., LLP*

Laguna Hills, California  
September 21, 2012

**CHILDREN AND FAMILIES COMMISSION OF  
ORANGE COUNTY**

**SINGLE AUDIT REPORT  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
FISCAL YEAR ENDED JUNE 30, 2012**

**TABLE OF CONTENTS**

	<b>PAGE</b>
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>	1
Independent Auditors' Report on Compliance with Requirements That Could have a Direct and Material Effect on Each Major Program, Internal Control Over Compliance and the Schedule of Expenditures of Federal Awards in Accordance with OMB Circular A-133	3
Schedule of Expenditures of Federal Awards	5
Notes to Schedule of Expenditures of Federal Awards	6
Schedule of Findings and Questioned Costs	
I. Summary of Auditors' Results	7
II. Financial Statement Findings	8
III. Federal Award Findings and Questioned Costs	9
Schedule of Prior Year Audit Findings and Recommendations	10



**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**

To the Board of Commissioners  
Children and Families Commission of Orange County

We have audited the financial statements of the governmental activities and the general fund of the Children and Families Commission of Orange County (the Commission), a component unit of the County of Orange, California, as of and for the year ended June 30, 2012, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated September 21, 2012. 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.

Internal Control Over Financial Reporting

Management of the Commission is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

*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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our 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*.

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

*Vavrinch, Train, Dog Co., LLC*

Laguna Hills, California  
September 21, 2012



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM, INTERNAL CONTROL OVER COMPLIANCE AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS IN ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Commissioners  
Children and Families Commission of Orange County

Compliance

We have audited the Children and Families Commission of Orange County's (the Commission) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Commission's major federal programs for the year ended June 30, 2012. The Commission's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Commission's management. Our responsibility is to express an opinion on the Commission's compliance 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Commission's compliance with those requirements.

In our opinion, the Commission complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control over Compliance

Management of the Commission is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Commission's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities and the general fund of the Children and Families Commission of Orange County (the Commission), a component unit of the County of Orange, California, as of and for the year ended June 30, 2012, and have issued our report thereon dated September 21, 2012, which contained an unqualified opinion on those financial statements. Our audit was conducted for the purpose of forming our opinions on the financial statements that collectively comprise the Commission's financial statements. The accompanying schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by *OMB Circular A-133*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

This report is intended solely for the information and use of management, the County Board of Supervisors, Board of Commissioners, the County Commission, the State Commission, the State Controller's Office, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Laguna Hills, California

September 21, 2012

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

**FOR THE YEAR ENDED JUNE 30, 2012**

<u>Federal Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b>Corporation for National and Community Services:</b>			
Volunteers in Service to America (VISTA) [1]	94.013		\$ 382,497
<b>U.S. Department of Health and Human Services:</b>			
NIH Recovery Act Research Support - ARRA [1]			
Passed through from:			
The University of California, Irvine Medical Assistance Program	93.701	2010-2490	127,404
Passed through from:			
County of Orange Medi-Cal Administrative Activities	93.778	03-75080	<u>112,988</u>
<b>Subtotal - U.S Department of Health and Human Services</b>			<u>240,392</u>
Total Expenditures of Federal Awards			<u><u>\$ 622,889</u></u>

[1] Denotes a major Federal Financial Assistance Program

See accompanying notes to Schedule of Expenditures of Federal Awards.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY**  
**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED JUNE 30, 2012**

***NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES***

**A. General**

The accompanying Schedule of Expenditures of Federal Awards presents the activity of all federal award programs of the Children and Families Commission of Orange County (Commission). The Commission's reporting entity is defined in Note #1 of the Commission's basic financial statements. All federal awards received directly from federal agencies as well as federal awards passed through from other government agencies are included on the Schedule of Expenditures of Federal Awards.

**B. Basis of Accounting**

The accompanying Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting, which is described in Note #1 of the Commission's Financial Statements.

**C. Medi-Cal Administrative Activities**

The Single Audit Act defines major federal award programs based upon total federal expenditures of the grantee during the period reported and risk of the programs audited. The Schedule of Expenditures of Federal Awards includes expenditures incurred for Medi-Cal Administrative Activities (CFDA No. 93.778) in the fiscal year 2010-2011, which were approved for reimbursement by the grantor agency in the fiscal year 2011-2012.

**D. Relationship to Basic Financial Statements**

Federal awards revenues are generally reported within the Commission's financial statements under the financial statement caption "Federal Operating Grants" for the Governmental Fund.

**E. Relationship to Federal Financial Reports**

Amounts reported in the accompanying Schedule of Expenditures to Federal Awards agree with the amounts reported in the related federal financial reports. However, certain federal financial reports are filed based on cash expenditures. As such, certain timing differences may exist in the recognition of revenues and expenditures between the Schedule of Expenditures of Federal Awards and the federal financial reports.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**I. SUMMARY OF AUDITORS' RESULTS**

**FINANCIAL STATEMENTS**

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

**FEDERAL AWARDS**

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>No</u>
Identification of major programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>94.013</u>	<u>Volunteers in Service to America (VISTA)</u>
<u>93.701</u>	<u>NIH Recovery Act Research Support - ARRA</u>
<u> </u>	<u> </u>
<u> </u>	<u> </u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**II. FINANCIAL STATEMENT FINDINGS**

None noted.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2012**

**III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None noted.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY**

**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS AND RECOMMENDATIONS  
FOR THE YEAR ENDED JUNE 30, 2012**

None noted.