



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, 2011


www.occhildrenandfamilies.com



**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, 2011

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, 2011

Brenda Manriquez, CPA

Director of Finance

**CHILDREN AND FAMILIES COMMISSION
OF ORANGE COUNTY
FOR THE YEAR ENDED JUNE 30, 2011**

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**CHILDREN AND FAMILIES COMMISSION
OF ORANGE COUNTY
FOR THE YEAR ENDED JUNE 30, 2011**

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October 5, 2011

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, 2011, 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, 2011. 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 eleven years, the Commission has made a lasting positive impact in Orange County through its expenditures of approximately \$500 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 April 2011 to address current economic issues, emerging program needs, future demand on Commission resources and legislative diversion of Prop 10 tobacco tax revenues to the State of California (AB99 legislation). The revised Long-Term Financial Plan decreases program funding from \$39.6 million in FY 2010-2011 to \$31.8 million in FY 2011-2012, and assumes that the AB99 legislation is upheld, resulting in a payment of \$51.4 million to the State of California by June 30, 2012. Tiered reductions to program funding in the following two fiscal years will be implemented in order to reach an annual program funding level of \$28 million in FY 2014-2015. The reduced program funding is consistent with the declining revenue stream and seeks to ultimately match future expenses to future revenues.

The FY 2011-2012 Operating Budget, presented in May 2011, approves an overall spending plan at regular funding levels, as well as a spending plan that is compliant with the AB99 legislation enacted during FY 2010-11. In order to continue funding priority initiatives and community investments, the Commission opted to decrease the funding levels for FY 2011-12 in the event that AB99 legislation is legally upheld. In addition, the Commission will revisit funding levels at a time when the outcome of legal challenges to the enacted legislation is determined.

An amended version of the FY 2011-2012 Operating Budget (AB99 compliant) includes detailed program funding information as well as updated revenue projections and will be presented to the Commission in October 2011.

Strategic Plan

Although changes in the long-term funding plan were made, the Commission will continue to utilize the Strategic Plan adopted in May 2011 for fiscal year 2011-2012 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 2012.

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 2010-2011 was adopted on April 7, 2010. 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, 2010. This was the second 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



**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 22, 2011

**CHILDREN AND FAMILIES COMMISSION
OF ORANGE COUNTY
BOARD OF COMMISSIONERS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

BOARD MEMBERS (9)

Bill Campbell (M)
Chair/Board of Supervisors

Sandra Barry (A)
Vice Chair

Maria E. Minon, M.D. (A)
Chair Pro-tem

Kimberly Cripe (A)

Hugh Hewitt (A)

Crystal Kochendorfer (A)

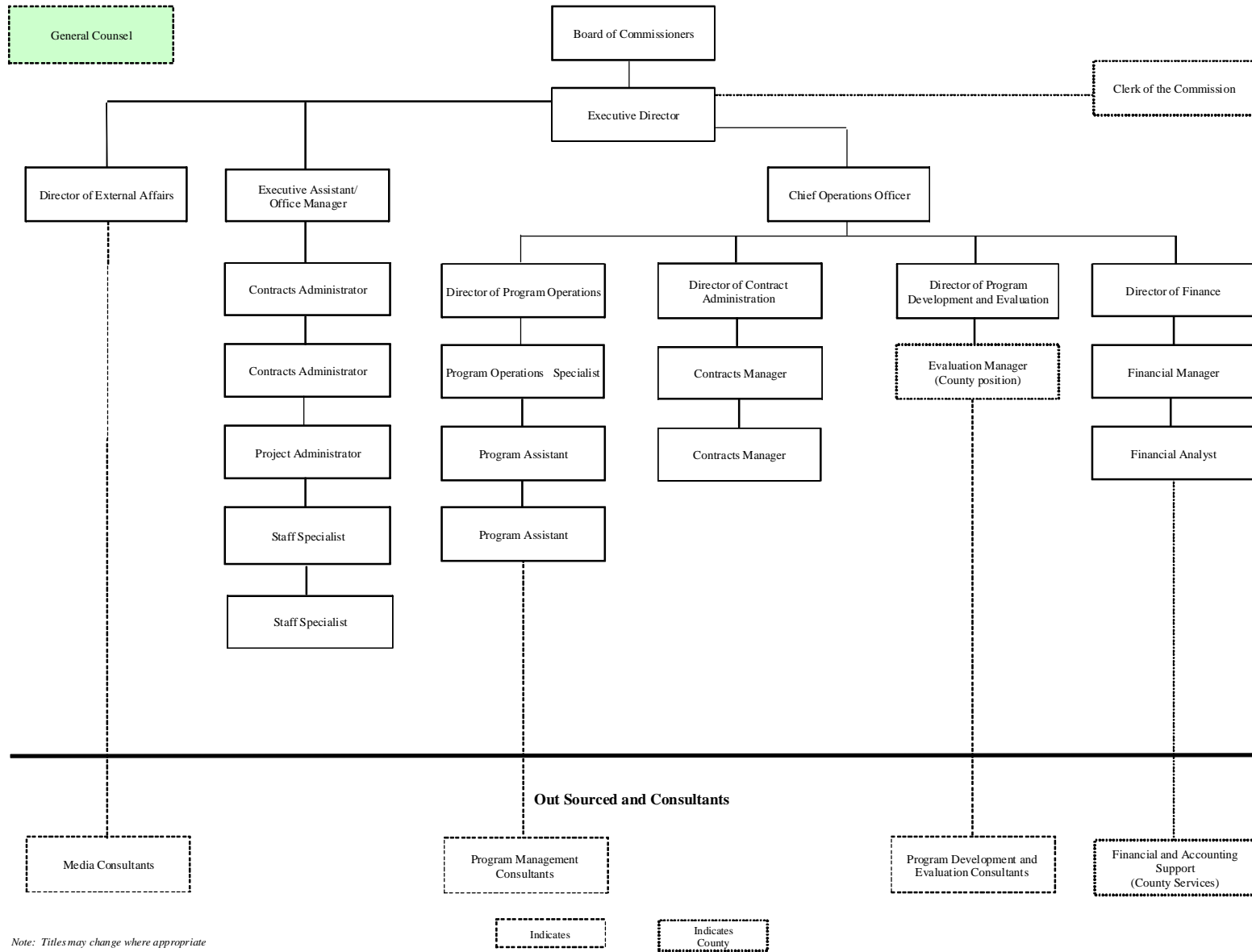
David Riley (M)
Health Care Agency

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

Sally Snyder, R.N. (A)

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

CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY ORGANIZATION CHART FISCAL YEAR 2010-2011





INDEPENDENT AUDITORS' 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, 2011, 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 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, 2011, 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.

As described in Note 1 to the financial statements, the Commission has adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2011, 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.

The management's discussion and analysis on pages 3 through 14 and schedule of employer contributions and funding progress and related notes on pages 34 through 37 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our 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 accompanying supplementary information, such as the introductory section and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory and statistical section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion on them.

Vavrinch, Train, Douglas & Co., LLP

Laguna Hills, California
September 30, 2011

CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY
Management's Discussion and Analysis
(Unaudited)
June 30, 2011

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, 2011. 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 \$30.1 million at the end of the current fiscal year, a decrease of \$72.8 million (70.7%) from the prior fiscal year. The decrease is primarily due to the establishment of a \$51.4 million liability that complies with the AB99 legislation enacted in the current fiscal year.
- As of June 30, 2011, the Commission's governmental fund statements reported an ending fund balance totaling \$30.0 million, a decrease of \$72.8 million (70.8%) from the prior fiscal year.
- Consistent with the implementation of the GASB 54 pronouncement, the total ending fund balance of \$30.0 million was classified into five categories. The Commission's breakdown is as follows: \$0.4 million as nonspendable, \$35.1 million as committed, and (\$5.5) million as unassigned. With a negative unassigned fund balance, the Commission will require future funding resources in order to meet multi-year contractual commitments at this time.

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).

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.

CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY
Management's Discussion and Analysis
(Unaudited)
June 30, 2011

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 governmental 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

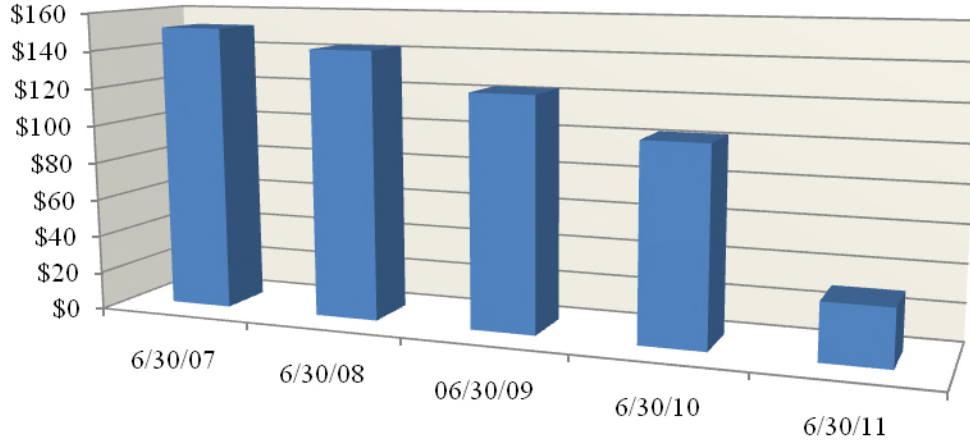
Net Assets. Net assets may serve over time as a useful indicator of a government's financial position. In the case of the Commission, net assets totaled \$30.1 million at the end of the current fiscal year, a 71% decrease from the prior fiscal year. Following is a summary of the government-wide State of Net Assets comparing balances at June 30, 2011 and June 30, 2010.

CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY
Management's Discussion and Analysis
(Unaudited)
June 30, 2011

	<u>FY 2010-11</u>	<u>FY 2009-10</u>	Percent Increase (Decrease)
Assets:			
Cash and investments	\$ 90,100,670	\$ 118,725,998	-24%
Imprest cash	15,000	15,000	0%
Accounts receivable	-	4,495	-100%
Interest receivable	87,099	227,223	-62%
Deposits with others	165,488	33,500	394%
Due from County of Orange	-	345,753	-100%
Due from other governments	5,857,799	5,730,649	2%
Prepaid expense	399,279	-	100%
Equipment, net	235	798	-71%
Total assets	<u>\$ 96,625,571</u>	<u>\$ 125,083,416</u>	-23%
Liabilities:			
Accounts payable and accrued liabilities	\$ 5,692,916	\$ 7,361,457	-23%
Due to County of Orange	827,625	12,126	6725%
Due to other governments	5,412,394	10,349,318	48%
Due to other governments - AB99	51,369,439	-	100%
Retentions payable	3,098,974	4,326,729	-28%
Long-term liabilities	160,393	190,184	-16%
Total liabilities	<u>66,561,741</u>	<u>22,239,814</u>	199%
Net assets:			
Invested in capital assets	235	798	-71%
Unrestricted	30,063,595	102,842,804	-71%
Total net assets	<u>30,063,830</u>	<u>102,843,602</u>	
Total liabilities and net assets	<u>\$ 96,625,571</u>	<u>\$ 125,083,416</u>	-23%

CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY
Management's Discussion and Analysis
(Unaudited)
June 30, 2011

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

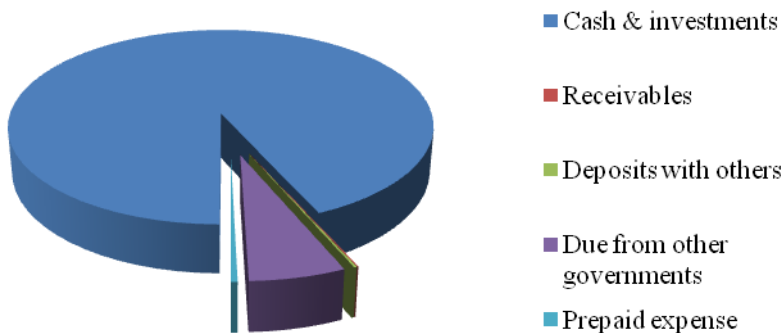


The Commission's net assets as of June 30, 2011 are considered unrestricted and were comprised of the following:

Assets, Current and Other

- Cash and investments totaling \$90.1 million. All of the \$90.1 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 by the Commission's Treasurer for compliance with the Commission's Annual Investment Policy.
- Due from other governments totaling \$5.9 million. Of this amount, \$4.9 million is Prop 10 tobacco tax revenue due from the State of California for May and June 2011 allocations.
- Other current assets totaling \$0.7 million consisting of \$0.1 million in interest receivable, \$0.2 million in deposits with others and \$0.4 million in prepaid expense.

Current Assets
As of June 30, 2011

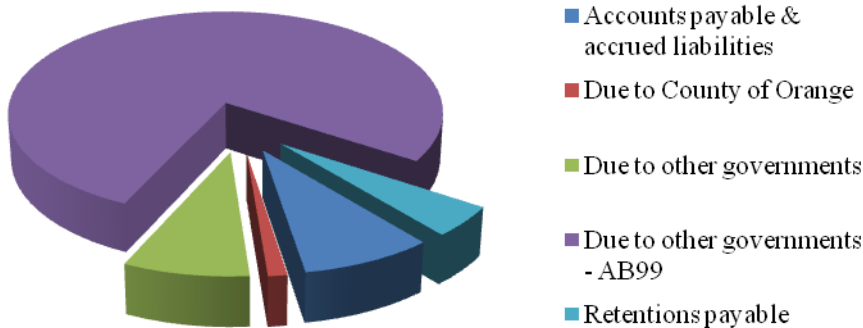


CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY
Management's Discussion and Analysis
(Unaudited)
June 30, 2011

Liabilities

- Accounts payable and due to other governments totaling \$62.4 million. This represented \$11.0 million in payables to grantees for services not yet billed at June 30, 2011 based on established contract terms and a one-time payment of \$51.4 million due to the State as established by AB99 legislation.
- Retentions payable totaling \$3.1 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 \$0.9 million consisting of \$0.8 million in due to the County of Orange and \$0.1 million in accrued wages and benefits.

Current Liabilities
As of June 30, 2011



Changes in Net Assets. For the year ended June 30, 2011, current year operations decreased the Commission's net assets by \$72.8 million or 266%. The following is a summary of the Commission's Statement of Activities comparing revenues, expenses, extraordinary item and changes in net assets for the fiscal years ended June 30, 2011 and June 30, 2010.

CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY
Management's Discussion and Analysis
(Unaudited)
June 30, 2011

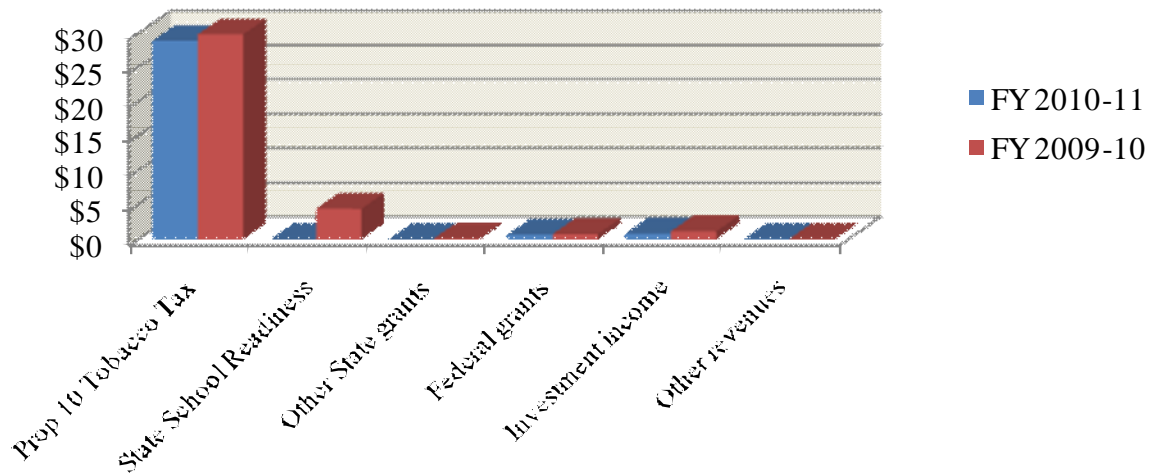
	<u>FY 2010-11</u>	<u>FY 2009-10</u>	<u>Percent Increase (Decrease)</u>
Revenues:			
Program Revenues			
Tobacco taxes	\$ 28,809,921	\$ 29,706,126	-3%
Tobacco taxes for State School Readiness program	-	4,349,489	-100%
Other State operating grants and contributions	-	145,834	-100%
Interest income earned on tobacco taxes at the State	15,331	82,000	-81%
Federal operating grants	641,124	752,152	-15%
Total program revenues	<u>29,466,376</u>	<u>35,035,601</u>	-16%
General Revenues			
Investment income	818,294	1,141,118	-28%
Other revenues	26,983	40,509	-33%
Total general revenues	<u>845,277</u>	<u>1,181,627</u>	-28%
Total revenues	<u>30,311,653</u>	<u>36,217,228</u>	-16%
Expenses:			
0-5 Child development programs	49,431,679	46,836,184	6%
State School Readiness programs	-	6,844,534	-100%
Salaries and benefits	2,290,307	2,415,467	-5%
Total expenses	<u>51,721,986</u>	<u>56,096,185</u>	-8%
Extraordinary item: Accrual of AB99 liability	<u>51,369,439</u>	<u>-</u>	100%
Change in net assets:	(72,779,772)	(19,878,957)	266%
Net assets - July 1	102,843,602	122,722,559	-16%
Net assets - June 30	<u>\$ 30,063,830</u>	<u>\$ 102,843,602</u>	-71%

Total revenues

The Commission's total revenues are comprised of both program revenues and general revenues.

CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY
Management's Discussion and Analysis
(Unaudited)
June 30, 2011

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



- *Program revenues*
 The Commission's program revenues totaled \$29.5 million in FY 2010-11 and accounted for 97.2% of total revenues. This represented a decrease of \$5.5 million (16%) from FY 2009-10 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 decreased by \$0.9 million (3%) 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.
 - In FY 2009-10, the greater decrease than forecasted in tobacco tax revenues was thought to be due to a combination of factors including, but not limited to, an increase in tobacco sales via the internet and purchases outside the State of California, a decrease in the number of smokers and the implementation of a federal tobacco tax in March 2009 (SCHIP).
 - In FY 2010-11, the effects of the shift in tobacco tax purchases and the implementation of the federal tobacco tax appear to have leveled off and the annual decline in revenues has aligned with the State revenue allocation models again.
- Tobacco Tax Revenue for State School Readiness program includes revenues received from the California Children & Families Commission for a state-wide initiative implemented to supplement funding to local schools. This revenue decreased by \$4.3 million (100%) from the prior fiscal year due to the end of the state-wide initiative in FY 2009-2010.

CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY
Management's Discussion and Analysis
(Unaudited)
June 30, 2011

- Other State operating grants and contributions includes revenue special needs and school readiness grants. This revenue decreased by \$0.1 million (100%) from the prior fiscal year due to the end of the related programs in the prior fiscal year.
- Federal operating grants includes revenues from federal grant programs of VISTA, MAA (Medical Administrative Activities), and ARRA Health and Research grant. These revenues decreased by \$0.1 million (15%) due to the shift in administration of the AmeriCorps program to the State, a reduction in claims related to the MAA program, and the end of the VISTA ARRA grant (American Recovery and Reinvestment Act) in the current fiscal year.

General revenues

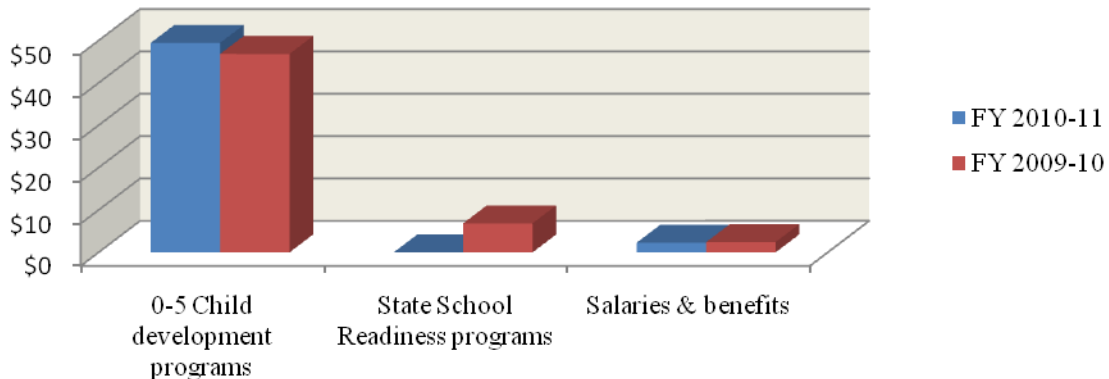
The Commission's general revenues totaled \$0.8 million in FY 2010-11 and accounted for 2.8% of total revenues. General revenues include all revenues that do not qualify as program revenues, such as investment income, royalties and miscellaneous revenues.

- The largest general revenue, investment income, decreased by \$0.3 million (28%) 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 2010-11, OCIP had an annual average yield of 0.67% in comparison to an annual average yield of 1.02% in FY 2009-10.

Governmental Activities Expenses

Total expenses decreased by \$4.3 million (8%) from the prior fiscal year. The net decrease is comprised of increased expenses of \$2.6 million in 0-5 Child development programs, offset by decreased expenses of \$6.8 million in State School Readiness program and \$0.1 million in salaries and benefits.

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



CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY
Management's Discussion and Analysis
(Unaudited)
June 30, 2011

- 0-5 Child development programs increased by \$2.5 million (6%) 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 increase in FY 2010-11 is increased spending on Pediatric Health Services programs (\$0.2 million), and Fitness/Nutrition programs (\$5.1 million), offset by decreased spending on Homeless Prevention programs (\$0.7 million), AmeriCorps/Vista program (\$1.0 million), Evaluation & Reporting expenses (\$0.5 million) and Administrative expenses (\$0.2 million).
- State School Readiness program expenses decreased by \$6.8 million (100%) from the prior fiscal year due to the end of the state-wide initiative in FY 2009-10.
- Salaries and benefits decreased by \$0.1 million (5%) 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.

Extraordinary Item

The extraordinary item - AB99 liability was a one-time increase in total expenses of \$51.4 million due to the passage of the legislation in the current fiscal year to offset the State's budget deficit in Health and Human Services programs. The legislation is currently being litigated; however, the payment is due by June 30, 2012 and has been accrued accordingly.

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.

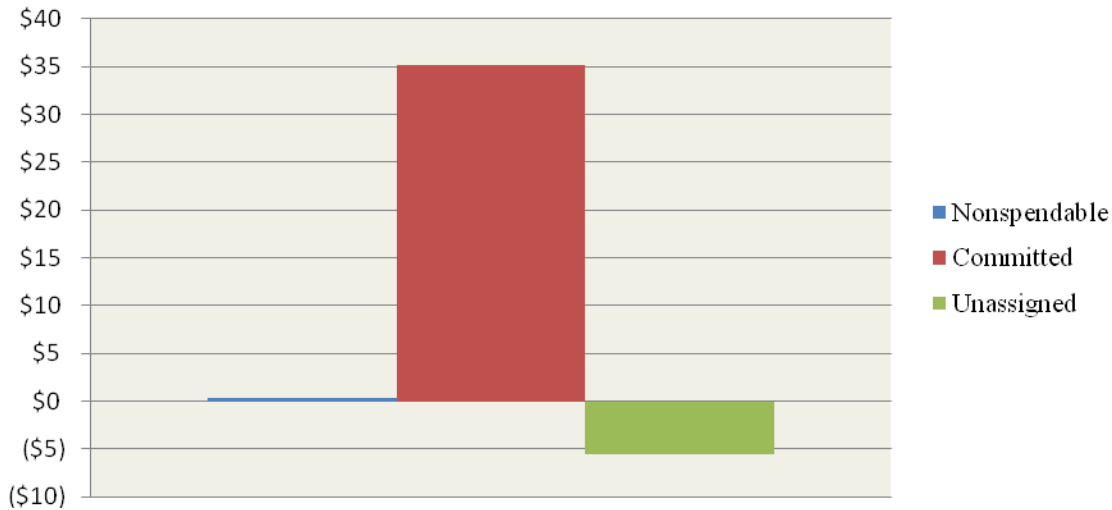
Governmental Funds. The general government functions are contained in the general fund of the Commission. The focus of the Commission's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Commission's 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 \$30 million, a decrease of \$72.8 million (71%) in comparison with the prior fiscal year.

Total fund balance decreased due to the one-time AB99 liability accrual (see notes to the financial statements for further detail) and the use of \$21.3 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, 2011

Fund Balance Classifications
As of June 30, 2011
(\$ 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 decreased by \$622,000 in the Prop 10 tobacco tax revenue line item. The decrease was based on mid-year trends reported by the California Children & Families Commission and actual receipts of tobacco tax distributions.
- Total budgeted appropriations were increased by \$8,867,389 in the 0-5 child development program expenditures line item. The major components of the increase are summarized as follows:
 - Health Access and Education – increase of \$945,000 comprised of \$0.4 million of carryover of prior year unspent funds, \$0.5 million of new appropriations for increased capacity through facility expansion, and \$0.2 million of new appropriations for new programs at the YMCA facility opened in FY 2010-11.
 - Fitness/Nutrition – increase of \$6,519,500 for the carryover over of prior year unspent funds related to the YMCA program facility that was paid out in FY 2010-11.
 - Ready to Learn - increase of \$1,296,575 in early literacy and early learning programs not included in original budget due to realignment of program contracts.

CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY
Management's Discussion and Analysis
(Unaudited)
June 30, 2011

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 2010-11 as detailed on the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

- Total budgeted revenues exceeded actual revenues in FY 2010-11 by \$1.0 million (3%). Decreases in actual Prop 10 tobacco tax revenues and investment income comprised the bulk of the variance. Prop 10 tobacco taxes were lower than expected due to decreased tobacco sales, and investment income had lower actual rates of return.
- Total budgeted appropriations exceeded actual expenditures in FY 2010-11 by \$3.9 million.
 - 0-5 child development program expenditures were less than budgeted appropriations by \$3.7 million. During the fiscal year, savings in all four strategic goal areas were negotiated by the Commission within the grantees' current contracts in order to prepare for reduced funding as a result of the AB99 legislation implementation. In addition, actions to reduce administrative functions (other than salaries and benefits) were also taken during the fiscal year. The savings are detailed as follows:
 - Healthy Children – \$1.4 million (including Health Access/Education and School Readiness Nursing programs)
 - Strong Families - \$1.4 million (including Homeless Prevention and Family Support Services)
 - Ready to Learn - \$0.9 million (including School Readiness and Early Literacy programs)
 - Administrative functions - \$0.4 million (including Professional and Technical Services and Strategic Communications)
 - Salaries and benefits actual expenditures were less than budgeted appropriations by \$0.2 million. Salary savings resulted from positions not filled during the current fiscal year.

FY 2011-12 Operating Budget

The Fiscal Year 2011-12 Operating Budget was adopted by the Commission in May 2011. Due to the pending litigation regarding AB99, the Commission adopted an AB99 compliant budget which included reductions to program funding based on the assumption that approximately \$51 million will be paid to the State by June 30, 2012. The total budgeted appropriations are approximately \$35.3 million, which is a net decrease of \$20.2 million (36.4%) from the final adopted Fiscal Year 2010-11 Operating Budget. The net decrease reflects the impact of the following:

- \$20.8 million (41.0%) decrease in 0-5 child development program funding. Recommendations were made by funding review panels and approved by the Commission. Recommendation factors included the following:
 - Impact to fewest number of children
 - Protection of critical services to the most at-risk and vulnerable children
 - Capacity of program continuance, absent Commission funding
 - Degree to which Commission funding provides leverage for drawdown of state and federal funding

CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY
Management's Discussion and Analysis
(Unaudited)
June 30, 2011

- \$1.0 million (24%) decrease in administrative functions comprised of reductions in professional/technical services (\$0.3 million), Commission salaries and benefits (\$0.4 million), strategic communications (\$0.2 million) and office supplies (\$0.1 million).
- \$1.8 million (100%) increase in one-time catalytic set-aside. The one-time allocation will support the transition of direct health services, including clinical and specialty services, and will be re-evaluated mid-year based on the FY 2011-12 first and second quarter actual revenues.

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 2011-2012. The Commission has continued partnering with the County of Orange to identify potential reductions to safety net services in the FY 2011-12 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, 2011. 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, 2011

	GOVERNMENTAL ACTIVITIES
ASSETS	
Cash and investments in County Treasury	\$ 90,100,671
Imprest cash	15,000
Interest receivable	87,099
Deposits with others	165,488
Due from other governments	5,857,799
Prepaid expense	399,279
Capital assets, net of accumulated depreciation	235
TOTAL ASSETS	96,625,571
LIABILITIES	
Accounts payable	5,608,886
Due to County of Orange	827,625
Due to other governments	5,412,394
Due to State of California- AB99	51,369,439
Retentions payable	3,098,974
Accrued wages and benefits	84,030
Compensated absences:	
Payable within one year	100,267
Payable after one year	60,126
TOTAL LIABILITIES	66,561,741
NET ASSETS	
Invested in capital assets	235
Unrestricted	30,063,595
TOTAL NET ASSETS	\$ 30,063,830

See accompanying notes to the basic financial statements.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY
STATEMENT OF ACTIVITIES**

FOR THE YEAR ENDED JUNE 30, 2011

	Expenses	Program Revenues Operating Grants And Contributions	Net (Expense) Revenue and Changes in Net Assets Governmental Activities
Governmental Activities: Child development	\$ 51,721,985	\$ 29,466,374	\$ (22,255,610)
General Revenues:			
Investment income			818,294
Miscellaneous			26,983
Extraordinary Item:			
AB99 liability			(51,369,439)
Total General Revenues and Extraordinary Item			(50,524,162)
Change in Net Assets			(72,779,772)
Net Assets, July 1			102,843,602
Net Assets, June 30			\$ 30,063,830

See accompanying notes to the basic financial statements.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY
GOVERNMENTAL FUND BALANCE SHEET**

JUNE 30, 2011

	General Fund
ASSETS	
Cash and investments in County Treasury	\$ 90,100,671
Imprest cash	15,000
Interest receivable	87,099
Deposits with others	165,488
Due from other governments	5,857,799
Prepaid expense	399,279
	\$ 96,625,336
LIABILITIES AND FUND BALANCES	
LIABILITIES	
Accounts payable	\$ 5,608,886
Due to County of Orange	827,625
Due to other governments	5,412,394
Due to State of California- AB99	51,369,439
Retentions payable	3,098,974
Accrued wages and benefits	84,030
Deferred revenue	248,513
	66,649,862
FUND BALANCES	
Nonspendable fund balance	399,279
Committed fund balance	35,123,581
Unassigned fund balance	(5,547,384)
	29,975,476
Total Fund Balances	29,975,476
Total Liabilities and Fund Balances	\$ 96,625,336

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, 2011

Fund balances of governmental funds	\$ 29,975,476
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	235
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(160,393)
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.	<u>248,513</u>
Net Assets of governmental activities	<u><u>\$ 30,063,830</u></u>

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, 2011

	<u>General Fund</u>
REVENUES	
Prop 10 Tobacco Tax	\$ 28,809,920
Investment income earned on tobacco taxes at the State level	15,331
Federal operating grants	686,722
Investment income	818,294
Other revenue	26,983
	<u>30,357,250</u>
EXPENDITURES	
Current:	
Salaries and benefits	2,320,098
Expenditures related to the "Zero to Five" Program	49,431,114
	<u>51,751,212</u>
Total Expenditures	<u>51,751,212</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(21,393,962)</u>
EXTRAORDINARY ITEM	
Accrual of AB99 liability	<u>(51,369,439)</u>
Change in Fund Balance	(72,763,401)
FUND BALANCE, July 1	<u>102,738,877</u>
FUND BALANCE, June 30	<u>\$ 29,975,476</u>

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, 2011

Net changes in fund balance - total governmental funds	\$ (72,763,401)
<p>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:</p>	
<p>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.</p>	
Depreciation expense	(563)
<p>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.</p>	
	29,791
<p>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.</p>	
	<u>(45,599)</u>
Change in net assets of governmental activities	<u><u>\$ (72,779,772)</u></u>

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, 2011**

	Budgeted Amouts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Prop 10 Tobacco Tax	\$ 30,122,000	\$ 29,500,000	\$ 28,809,920	\$ (690,080)
Investment income earned on tobacco taxes at the State level	125,000	125,000	15,331	(109,669)
Federal operating grants	660,000	660,000	686,722	26,722
Investment income	1,100,000	1,100,000	818,294	(281,706)
Other revenue	-	-	26,983	26,983
Total Revenues	<u>32,007,000</u>	<u>31,385,000</u>	<u>30,357,250</u>	<u>(1,027,751)</u>
EXPENDITURES				
Current:				
Salaries and benefits	2,495,502	2,495,502	2,320,098	175,404
Expenditures related to the "Zero to Five" Program	44,257,003	53,124,392	49,431,114	3,693,278
Capital outlay	53,000	53,000	-	53,000
Total Expenditures	<u>46,805,505</u>	<u>55,672,894</u>	<u>51,751,212</u>	<u>3,921,682</u>
Excess (Deficiency) of revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>(21,393,962)</u>	<u>21,393,962</u>
EXTRAORDINARY ITEM				
Accrual of AB99 liability	-	-	(51,369,439)	51,369,439
Net Change in Fund Balance	(14,798,505)	(24,287,894)	(72,763,401)	54,263,369
FUND BALANCE, July 1	<u>102,738,877</u>	<u>102,738,877</u>	<u>102,738,877</u>	<u>-</u>
FUND BALANCE, June 30	<u>\$ 87,940,372</u>	<u>\$ 78,450,983</u>	<u>\$ 29,975,476</u>	<u>\$ 54,263,369</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, 2011**

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 of net assets. Net assets represent the resources the Commission has available for use in providing services. The Commission's net assets are classified as follows:

Invested in Capital Assets – This amount represents the Commission's capital assets, net of accumulated depreciation.

CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

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

Government-Wide Financial Statements (Continued)

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.

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.

Adjustments Between Fund Financial Statements and Government-Wide Financial Statements

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 equipments, ranges from 5 to 10 years.

Depreciation expense for the year ended June 30, 2011 amounted to \$563 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 \$248,513 at June 30, 2011 was recognized as revenue in the government-wide financial statements.

CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

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

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. 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, 2011.

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, 2011, 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.

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 in FY 2010-2011, the Commission established the following classifications and definitions of fund balance for the year ended June 30, 2011:

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).

CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

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

Fund Balance (Continued)

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, 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 or the same level of formal action to remove or modify limitations. The Executive Director has authority to approve contracts up to \$50,000, such contracts 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.

Minimum Fund Balance Policy

The policy of the Commission is to maintain a minimum fund balance equal to 25% of the Commission’s annual operating budget. The fund balance will be used to mitigate the impact on contracted services due to unanticipated circumstances and events, provide adequate resources for cash flow, and to mitigate short-term effects of revenue shortages. The amount of the minimum fund balance is subject to approval by the Board of Commissioners as part of the annual budget adoption. At June 30, 2011, the Commission did not maintain the minimum fund balance due to the accrual of the AB99 payment due to the State.

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

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.

Effect of New Governmental Accounting Standards Board (GASB) Pronouncements

GASB Statement No. 54 – 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. This statement is effective in June 30, 2011. The Commission has implemented this statement for the fiscal year ended June 30, 2011.

CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

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

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

GASB Statement No. 57 – In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. This statement addresses the use and reporting of the alternative measurement method are effective immediately. The provisions related to the frequency and timing of measurements are effective for actuarial valuations first used to report funded status information in OPEB plan financial statements. This statement is effective in June 30, 2011. The Commission has determined that this statement is not applicable.

GASB Statement No. 59 – In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*. This statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This statement is effective in June 30, 2011. The Commission has determined that this statement is not applicable.

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 not effective until June 30, 2012. 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, 2011

NOTE 2 – CASH AND INVESTMENTS

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

Cash and investments in County Treasury	\$ 90,100,670
Imprest Cash	15,000
Total Cash and Investments	\$ 90,115,670

Cash and investments consisted of the following at June 30, 2011:

Orange County Investment Pool:	
Equity in pooled Money Market fund	\$ 90,100,670
Imprest Cash	15,000
Total Cash and Investments	\$ 90,115,670

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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
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 342 days as of June 30, 2011. The Commission’s equity in the Pool was 2.89% of the total Pool. For further information regarding the Orange County Investment Pool, refer to the County of Orange Comprehensive Annual Financial Report.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

NOTE 2 – CASH AND INVESTMENTS (Continued)

Cash on deposit with the Treasurer at June 30, 2011 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 and matrix pricing. The fair value adjustment at June 30, 2011 increased the Commission’s investment income by \$42,599. 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, 2011, the Orange County Investment Pool was assigned by S&P at a AAAm Principal Stability Fund Rating.

The Commission’s credit risk policy for investments under the Specific Long-Term Investment Program (SL-TIP) are limited to the following ratings:

<u>Investment Type</u>	<u>Minimum Rating</u>
Short term debt	A-1, P-1, F1
Long term debt	AA/AAA
Repurchase agreements	A-1

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, 2011, were as follows:

Due from State Commission:	
Prop 10 revenue for:	
May 2011	\$ 2,542,798
June 2011	2,654,240
Surplus Money Investment Fund Allocations	15,331
Due from other governmental agencies for:	
Medi-Cal Administrative Activities (MAA)	520,327
ARRA Health Research Grant	35,189
Vista funds	89,914
Total Due from Other Governments	<u>\$ 5,857,799</u>

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

NOTE 4 – CAPITAL ASSETS

The capital assets balance at June 30, 2011 consists of the following activity:

	<u>Balance June 30, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2011</u>
Capital assets depreciable:				
Equipment	\$ 26,783	\$ -	\$ -	\$ 26,783
Less accumulated depreciation:				
Equipment	(25,985)	(563)	-	(26,548)
Total Capital Assets (Net)	<u>\$ 798</u>	<u>\$ (563)</u>	<u>\$ -</u>	<u>\$ 235</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, 2011, were as follows:

Due to local government agencies:	
FY 2010-2011 Contract Payment Accruals	<u>\$ 5,412,394</u>

NOTE 6 – DUE TO STATE OF CALIFORNIA/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 will be used, upon appropriation, by the California State Legislature for health and human services. The bill requires \$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 is \$51,369,439 and is due by June 30, 2012. In accordance with the legislation, no 2012-2013 commission revenues will be paid until the full AB 99 payment is made. Accordingly, the commission has accrued the AB 99 obligation as a liability at June 30, 2011. The AB 99 liability has been reflected as an extraordinary item in the financial statements.

A lawsuit has been filed by the Commission against the State challenging that the AB 99 bill violates the intent of Proposition 10. Refer to Note 9 for additional details.

Due to State of California:	
AB99 liability payment due 6/30/12	<u>\$ 51,369,439</u>

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

NOTE 7 – COMPENSATED ABSENCES

The vested compensated absences liability balance at June 30, 2011 consists of the following activity:

<u>Balance June 30, 2010</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2011</u>	<u>Due Within One Year</u>
\$ 190,184	\$ 129,276	\$ 159,067	\$ 160,393	\$ 100,267

NOTE 8 – FUND BALANCE (GASB 54)

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. The Commission established these fund balance classifications in FY 2010-2011 and the balances at June 30, 2011 consist of the following:

Nonspendable:		
Prepaid retirement		\$ 399,279
Committed for:		
Contractual obligations		35,123,581
Unassigned		<u>(5,547,384)</u>
Total Fund Balance		<u>\$ 29,975,476</u>

The committed Fund Balance exceeds Total Fund Balance by \$5,547,384. As a result, the Commission will be reviewing its committed Fund Balance in the 2011-12 fiscal year to consider reallocations in order to eliminate the negative Unassigned Fund Balance.

Fund Balance Category Descriptions

Nonspendable – consists of prepaid retirement contributions for FY 2011-2012. Refer to Note 10 for further details.

Committed for contractual obligations – consists of contract amounts approved and executed as of June 30, 2011 for FY 2011-2012 and balances remaining on contracts for FY 2010-2011. Total encumbrances outstanding as of June 30, 2011 were \$12,797,593.

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 except as discussed below.

CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

NOTE 9 – CONTINGENCIES (Continued)

AB99 was signed into effect on March 24, 2011 requiring \$1 billion of the combined state and local children and families funds to be deposited in the Children and Families Health and Human Services 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 is \$51,369,439 and is due by June 30, 2012. Twelve First 5 Commissions, including the Children and Families Commission of Orange County, have filed a lawsuit against the State challenging the legality of Assembly Bill 99 (AB99). On August 30, the Fresno Superior Court heard arguments from the attorneys for the First 5 Commissions. The Commission recorded the obligation under AB99 pending the outcome of the lawsuit.

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. Certain required supplemental information for OCERS has been included in the RSI.

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 29.85% for the year ended June 30, 2011. 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 6.4% for the year ended June 30, 2011.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

NOTE 10 – DEFINED BENEFIT PENSION PLAN (Continued)

The Commission’s annual required contribution to OCERS was \$431,625 for the year ended June 30, 2011. The Commission’s actual and actuarially required contributions were as follows:

<u>Fiscal Year Ending</u>	<u>Annual Required Contributions (ARC)</u>	<u>Percentage of ARC Contributed</u>
6/30/2009	\$ 435,600	100.00%
6/30/2010	404,289	100.00%
6/30/2011	431,625	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. With the average interest yield of the Orange County Investment Pool (OCIP) continuing to remain flat at an estimate 1.2%, most plan sponsors opted to participate in the early payment plan and have pre-paid 100% of their estimate employer contribution for FY 2011-2012. The Commission’s estimated total employer contribution for FY 2011-12 at \$432,823 and the discounted pre-payment at \$399,279. This pre-payment was considered a prudent multi-year budgeting decision that amounted to an administrative cost savings of approximately \$33,500. The Commission authorized the pre-payment in January 2011 once it was determined that the 10% administrative expenditure cap would not be exceeded and the Commission’s financial position would not be negatively impacted.

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.

2012	\$ 197,196
2013	197,196
2014	197,196
2015	49,299
	<u>\$ 640,887</u>

Rent expense was \$197,196 for the year ended June 30, 2011.

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, 2011 was \$49,605. The Commission incurred expenses totaling \$674,221 for all other County services provided during the year ended June 30, 2011. Of the \$827,625 owed to the County of Orange, related party transactions at June 30, 2011 was \$19,438 and the remaining \$808,187 was for Health Care Agency and Social Services Agency program expenses.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

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, 2011, the Commission expended \$817,868 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 2010-2011 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, 2011, 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, 2011 were \$38,023 which equaled the required contributions.

<u>Fiscal Year Ending</u>	<u>Annual Required Contributions (ARC)</u>	<u>Percentage of ARC Contributed</u>
6/30/2009	\$ 42,960	100.00%
6/30/2010	28,404	100.00%
6/30/2011	38,023	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.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
JUNE 30, 2011**

Orange County Employees Retirement System

Plan Year Ended December 31	Annual Required Contributions	Actual Contributions ⁽¹⁾	Percentage Contributed
2005	227,892,000	227,892,000	100.0%
2006	277,368,000	277,368,000	100.0%
2007	326,736,000	326,736,000	100.0%
2008	359,673,000	360,365,000 ⁽²⁾	100.2%
2009	337,496,000	338,387,000 ⁽³⁾	100.3%
2010	372,437,000	372,437,000	100.0%

⁽¹⁾ Excludes transfers from County Investment Account. See below.

Plan Year Ended December 31	Transfers from County Investment Account
2005	9,675,000
2006	0 *
2007	0
2008	0
2009	34,900,000
2010	11,000,000

* Revised based on information provided in 2011 as part of the reallocation of contributions and benefit payments by Rate Group.

⁽²⁾ Revised based on information provided in 2011 as part of the reallocation of contributions and benefit payments by Rate Group.

⁽³⁾ Includes \$891,000 in additional contributions made by OCFA towards the reduction of their UAAL.

See accompanying note to the required supplementary information.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS
JUNE 30, 2011**

Orange County Employees Retirement System

Actuarial Valuation Date December 31	Valuation Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a)] / (c)
2005	5,786,617,000	8,089,627,000	2,303,010,000	71.53%	1,276,764,000	180.38%
2006	6,466,085,000	8,765,045,000	2,298,960,000	73.77%	1,322,952,000	173.78%
2007	7,288,900,000	9,838,686,000	2,549,786,000	74.08%	1,457,159,000	174.98%
2008	7,748,380,000	10,860,715,000	3,112,335,000	71.34%	1,569,764,000	198.27%
2009	8,154,687,000	11,858,578,000	3,703,891,000	68.77%	1,618,491,000	228.85%
2010	8,672,592,000	12,425,873,000	3,753,281,000	69.79%	1,579,239,000	237.66%

See accompanying note to the required supplementary information.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY
REQUIRED SUPPLEMENTARY INFORMATION
INFORMATION FOR THE ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

Valuation Date	December 31, 2010
Actuarial cost method	Entry Age Normal Actuarial Cost Method
Amortization method	Level percent of payroll for total unfunded liability (3.50% payroll growth assumed)
Remaining amortization period	24 years closed (declining) amortization of outstanding balance of December 31, 2004 UAAL. The outstanding balance of the UAAL established in the December 31, 2009 valuation as a result of including additional premium pay items as pensionable salary and the new UAAL established in the December 31, 2010 valuation as a result of reallocating contributions and benefit payments among Rate Groups are also amortized over a 24-year period, in the December 31, 2010 valuation. Any increases or decreases in UAAL that arise in future years due to actuarial gains or losses will be amortized over separate 15-year periods. Any increases or decreases in UAAL due to changes in actuarial assumptions are amortized over separate 30-year periods.
Asset valuation method	Market value of assets less unrecognized returns in each of the last five years. Unrecognized return is equal to the difference between the actual and the expected return on a market value basis, and is recognized over a five-year period. The Valuation Value of Assets is the Actuarial Value of Assets reduced by the value of the non-valuation reserves.

Actuarial assumptions:

Investment rate of return	7.75%
Inflation rate	3.50%
Real across-the-board salary increase	0.00%
Projected salary increases*	4.50% to 11.50% for General members; 4.50% to 13.50% for Safety members based on service.
Cost of living adjustments	3.00%

Plan membership:

Retired members and beneficiaries	12,762
Terminated members entitled to, but not yet receiving benefits	4,308
Active members	<u>21,742</u>
Total	<u>38,812</u>

See accompanying note to the required supplementary information.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2011**

NOTE 1 – ORANGE COUNTY EMPLOYEES’ RETIREMENT SYSTEM (OCERS)

The Commission participates in the Orange County Employees Retirement System (OCERS), which is a cost-sharing, multiple-employer, defined benefit pension plan. OCERS issues a stand-alone annual financial report, but production of the year ended December 31, 2010 report has been delayed and is not publicly available.

The included schedule of funding progress and schedule of employer contributions with related notes is presented at the OCERS plan level. As a cost-sharing participant, the Commission’s annual required contribution for the year ended December 31, 2010 was approximately .11% of the OCERS total annual required contribution of \$372,437,000. OCERS reported a total of 21,742 active members which includes 15 Commission employees.

CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY
STATISTICAL SECTION ⁽¹⁾
(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.	39
<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 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.

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

	Fiscal Year						
	2011	2010	2009	2008	2007	2006	2005
Restricted			\$ 122,720,258	\$ 142,142,025	\$ 151,578,753	\$ 152,265,738	\$ 146,184,260
Invested in capital assets	\$ 235	\$ 798	2,301	5,121	7,942	11,419	16,213
Unrestricted ⁽¹⁾	30,063,595	102,842,804					
Total net assets	<u>\$ 30,063,830</u>	<u>\$ 102,843,602</u>	<u>\$ 122,722,559</u>	<u>\$ 142,147,146</u>	<u>\$ 151,586,695</u>	<u>\$ 152,277,157</u>	<u>\$ 146,200,473</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.

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

	<u>Fiscal Year</u>						
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Revenues:							
Prop 10 Tobacco taxes	\$ 28,809,921	\$ 29,706,126	\$ 33,396,055	\$ 35,494,096	\$ 37,356,314	\$ 39,332,323	\$ 40,175,154
Prop 10 State School Readiness	-	4,349,489	4,294,144	4,114,774	1,706,125	2,554,681	3,698,878
Other State operating grants and contributions	-	145,834	104,166	352,597	669,897	330,598	476,537
Investment income earned on tobacco taxes at the State Level (SMIF)	15,331	82,000	82,479	190,332	430,669	203,588	871,949
Federal operating grants	641,124	752,152	1,020,269	1,020,556	2,237,302	307,741	4,601,132
Investment income	818,294	1,141,118	3,944,954	8,854,562	7,954,594	6,506,090	3,499,075
Other revenue	26,983	40,509	210,659	148,113	41,527	176,257	210,602
Total revenues	<u>30,311,653</u>	<u>36,217,228</u>	<u>43,052,726</u>	<u>50,175,030</u>	<u>50,396,428</u>	<u>49,411,278</u>	<u>53,533,327</u>
Expenses:							
Current:							
Salaries and benefits	2,290,308	2,415,467	2,439,415	2,323,471	2,258,080	2,241,058	1,675,442
Expenses related to "Zero to Five" Program	49,431,678	46,836,184	54,377,591	51,331,591	42,972,440	36,171,992	46,969,598
Services and supplies for State School Readiness program		6,844,534	5,660,307	5,959,517	5,856,371	4,921,544	4,232,963
Extraordinary Item: Accrual of AB99 liability	51,369,439						
Total expenses	<u>103,091,425</u>	<u>56,096,185</u>	<u>62,477,313</u>	<u>59,614,579</u>	<u>51,086,891</u>	<u>43,334,594</u>	<u>52,878,003</u>
Change in net assets	<u>\$ (72,779,772)</u>	<u>\$ (19,878,957)</u>	<u>\$ (19,424,587)</u>	<u>\$ (9,439,549)</u>	<u>\$ (690,463)</u>	<u>\$ 6,076,684</u>	<u>\$ 655,324</u>

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

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY
FUND BALANCES - GENERAL FUND
LAST SEVEN FISCAL YEARS***

	Fiscal Year						
	2011**	2010	2009	2008	2007	2006	2005
Reserved							
Reserved for imprest fund		\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ -	\$ -
Reserved for encumbrances		43,044,502	70,245,812	2,207,285	22,151,367	20,116,494	16,586,404
Reserved for contractual obligations		24,677,280	27,017,022	68,027,433	-	33,553,325	32,771,294
Reserved for capital projects		2,500,050	4,000,000	5,000,000	-	-	-
Reserved for First 5 California initiatives				8,690,731	5,378,112		
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	58,252,130	123,929,539	89,740,050	89,740,050
Total fund balances	\$ -	\$ 102,738,877	\$ 122,521,616	\$ 142,192,579	\$ 151,474,018	\$ 143,409,869	\$ 139,097,748

	Fiscal Year						
	2011**	2010	2009	2008	2007	2006	2005
FUND BALANCES							
Nonspendable fund balance	\$ 399,279	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restricted fund balance	-	-	-	8,690,731	5,378,112	-	-
Committed fund balance	35,123,581	67,721,782	97,262,834	70,234,718	22,151,367	53,669,819	49,357,698
Assigned fund balance		5,010,552	7,143,463	5,015,000	15,000	-	-
Unassigned fund balance	(5,547,385)	30,006,543	18,115,319	58,252,130	123,929,539	89,740,050	89,740,050
Total fund balances	\$ 29,975,475	\$ 102,738,877	\$ 122,521,616	\$ 142,192,579	\$ 151,474,018	\$ 143,409,869	\$ 139,097,748

* 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.

For informational purposes, the Commission has shown fund balance for GASB 54, retroactively.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY
CHANGES IN FUND BALANCES - GENERAL FUND
LAST SEVEN FISCAL YEARS***

	Fiscal Year						
	2011	2010	2009	2008	2007	2006	2005
Revenues:							
Prop 10 Tobacco taxes	\$ 28,809,920	\$ 29,706,126	\$ 33,396,055	\$ 35,527,837	\$ 37,356,314	\$ 39,332,323	\$ 40,175,154
Prop 10 State School Readiness	-	4,349,489	4,294,144	4,114,774	10,461,757	-	-
Other State operating grants and contributions	-	145,834	104,166	352,597	669,897	311,792	193,567
Investment income earned on tobacco taxes at the State Level (SMIF)	15,331	82,000	82,479	190,332	430,669	-	871,949
Federal operating grants	686,722	840,427	757,061	1,130,638	2,237,302	1,432,084	1,848,076
Investment income	818,294	1,141,118	3,944,954	8,854,562	7,954,594	6,506,090	3,499,075
Other revenue	26,983	40,509	210,659	148,113	41,527	36,867	181,836
Total revenues	30,357,250	36,305,503	42,789,518	50,318,853	59,152,060	47,619,156	46,769,657
Expenditures:							
Current:							
Salaries and benefits	2,320,098	2,409,027	2,425,403	2,312,004	2,262,578	2,218,293	1,670,398
Expenditures realted to "Zero to Five" Program	49,431,114	46,834,681	54,374,771	51,328,771	42,968,962	36,167,198	46,965,745
Services and supplies for State School Readiness program		6,844,534	5,660,307	5,959,517	5,856,371	4,921,544	4,232,963
Capital outlay	-	-	-	-	-	-	11,286
Extraordinary Item: Accrual of AB99 liability	51,369,439						
Total expenditures	103,120,651	56,088,242	62,460,481	59,600,292	51,087,911	43,307,035	52,880,392
Excess of revenues over expenditures	\$ (72,763,401)	\$ (19,782,739)	\$ (19,670,963)	\$ (9,281,439)	\$ 8,064,149	\$ 4,312,121	\$ (6,110,735)

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

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

Actual Revenues Received (1)	<u>Orange County</u>	<u>State Total</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	\$28,809,920	\$374,284,018
<hr/>		
Projected Revenues (2)		
2011/2012	\$27,455,693	\$357,719,200
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 2008-09

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
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 i/	37.47
1988-89	499,712,000 h/	4,273,000	503,984,000	4,968,000	9,994,000 i/	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 i/	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 l/	767,000 l/	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 2009-10

- 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 stocks.

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 2009-10

Fiscal year	Reported distributions			Apparent per capita consumption (a.) (In packages)
	Total	Tax paid	Tax exempt	
1	2	3	4	5
2009-10	1,002,000,000	972,000,000	30,000,000	25.9
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 r
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 2009-10

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

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

	2011 ^(*1)	2010 ^(*1)	2009 ^(*1)	2008 ^(*2)	2007 ^(*2)	2006 ^(*2)	2005 ^(*2)	2004 ^(*2)	2003 ^(*2)	2002 ^(*2)	2001 ^(*2)
Total Population	3,257,546	3,227,836	3,190,126	3,124,206	3,089,756	3,067,286	3,055,514	3,031,583	3,000,092	2,959,691	2,917,008
White	1,407,959	1,419,887	1,426,206	1,331,056	1,352,824	1,377,579	1,406,957	1,430,578	1,450,300	1,465,135	1,478,528
Hispanic	1,187,780	1,158,270	1,128,167	1,096,976	1,069,822	1,045,627	1,025,142	1,000,599	973,652	943,988	914,077
Asian & Pacific Islander	540,913	529,670	517,155	564,134	540,356	521,159	503,889	484,747	464,603	443,278	422,001
Black	44,852	44,873	44,606	45,366	45,238	45,217	45,345	45,282	45,095	44,760	44,391
Other/Multi-Race	76,042	75,136	73,992	86,675	81,517	77,703	74,181	70,377	66,442	62,530	58,011
Female	1,641,696	1,625,960	1,606,431	1,579,737	1,561,046	1,548,819	1,542,174	1,529,171	1,512,299	1,490,917	1,468,395
Male	1,615,850	1,601,876	1,583,695	1,544,470	1,528,709	1,518,467	1,513,340	1,502,412	1,487,793	1,468,774	1,448,613
Under 5 years	227,966	226,510	224,350	219,213	219,792	220,781	222,641	220,370	217,124	214,036	212,507
5-9 years	218,076	219,097	218,110	212,836	209,084	207,514	206,356	210,123	215,247	220,604	224,904
10-14 years	212,808	213,337	216,341	208,950	213,507	218,604	223,493	225,556	224,496	220,861	214,412
15-19 years	237,686	238,830	237,934	229,856	225,940	221,111	217,132	212,244	207,822	204,214	202,163
20-24 years	235,174	227,272	219,540	214,666	211,419	212,385	215,568	215,857	213,412	208,251	203,058
25-34 years	444,530	441,587	439,562	460,591	457,787	458,770	464,961	470,739	473,770	474,164	473,594
35-44 years	479,110	484,402	488,687	487,412	489,275	491,483	493,016	492,293	490,389	487,944	484,629
45-54 years	477,831	473,882	465,774	444,155	435,139	425,578	415,633	404,897	394,987	385,273	376,922
55-59 years	193,237	186,913	181,150	169,337	166,905	166,710	163,164	156,820	151,057	144,950	135,910
60-64 years	163,920	159,382	151,927	138,282	132,662	124,676	120,539	116,776	111,972	106,141	101,711
65-74 years	206,384	198,123	190,466	172,872	165,845	161,313	159,395	157,421	155,249	152,909	151,065
75-84 years	110,535	109,486	108,730	112,252	111,692	110,970	109,469	107,242	105,414	103,133	100,612
85+	50,289	49,015	47,555	53,784	50,709	47,391	44,147	41,245	39,153	37,211	35,521

Sources: (*1) State of California, Department of Finance, Race/Ethnic Population with Age and Sex Detail, 2000–2050. Sacramento, CA, July 2007.

(*2) State of California, Department of Finance, E-3 Race / Ethnic Population Estimates with Age and Sex Detail, 2000–2008. Sacramento, CA, June 2010.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY
CHILDREN'S SCORECARD ORANGE COUNTY TRENDS, 1998-2008**

	2008	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
<u>GOOD HEALTH</u>											
Total Births*	42,456	44,026	42,145	41,909	45,049	45,345	44,760	45,462	46,980	46,478	46,186
Total percentage of women who received early prenatal care*	87.8%	88.0%	91.0%	91.5%	91.7%	91.6%	90.8%	89.3%	88.1%	86.5%	85.3%
Women with prenatal care in the first trimester*	37,267	38,727	38,364	38,365	41,306	41,516	40,654	40,612	41,415	40,220	39,376
Newborns with low birth weight (less than 2,500 grams)*	2,705	2,879	2,816	2,826	2,782	2,718	2,710	2,666	2,560	2,564	2,539
Percent of Newborns with low birth weight*	6.4%	6.5%	6.4%	6.4%	6.2%	6.0%	6.1%	5.9%	5.4%	5.5%	5.5%
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	101
Percent of children with Health Insurance											
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%	66.0%
Infant Deaths*	202	187	224	211	179	200	216	206	231	204	207
Infant Mortality Rate (per 1,000 live births)*	4.8	4.2	5.1	4.8	4	4.4	4.8	4.5	4.9	4.4	4.5
Birth rate per 1,000 females ages 15-19 in Orange County*	25.9	27.7	29.9	29.8	30.1	30.7	32.3	34.9	38.2	39.8	45.8
Breastfeeding Percentages (any)*	84.9%	86.2%	85.0%	84.6%	83.2%	84.1%	84.8%	84.5%	83.9%	83.3%	80.1%
Breastfeeding Percentages (exclusive)*	38.0%	29.8%	30.6%	28.6%	26.1%	26.9%	29.0%	30.5%	31.3%	31.9%	32.3%
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	10,145
<u>ECONOMIC WELL-BEING</u>											
Children receiving financial assistance through CalWORKS*	31,932	32,040	33,618	36,245	37,384	38,997	38,999	39,826	44,195	47,987	57,250
Percent of children receiving CalWORKS of total population under 18*	4.0%	4.0%	4.0%	5.0%	5.0%	5.0%	5.0%	5.0%	6.0%	6.0%	8.0%
Number of students receiving free and reduced lunch*	197,671	184,956	193,802	200,340	196,430	198,167	190,979	183,524	182,003	176,980	169,528
Percentage of students receiving free and reduced lunch*	40.0%	39.0%	39.0%	39.0%	38.0%	38.0%	38.0%	37.0%	38.0%	38.0%	37.0%
Number of participants served by the WIC program*	117,188	107,595	95,635	98,635	99,115	97,882	103,264	99,632	98,482	95,195	98,806
Total number of child support cases*	94,860	94,769	97,425	98,503	99,134	102,040	99,903	102,043	106,961	113,558	122,183
Total child support collections \$ (in millions)*	180	178.3	177.6	178	172.3	164.6	163.8	159.3	143.5	119.5	98.6
<u>EDUCATIONAL ACHIEVEMENT</u>											
Total public school enrollment*	504,136	503,225	503,955	510,114	513,744	515,464	512,105	503,351	494,178	483,360	471,404
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	142,551
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	5,176
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	28.7
Total number of students K-12 receiving special education*	50,588	50,206	49,325	51,444	50,306	50,817	49,577	48,398	46,843	47,370	45,574
<u>SAFE HOMES AND COMMUNITIES</u>											
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	25,312
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	3,883
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	5,091
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	374
Total juvenile arrests for youth 10 to 17 years of age*	14,927	15,015	14,036	13,014	13,033	13,580	13,646	14,986	15,528	17,755	18,702
Total number of juveniles referred to probation, 10 to 18 years*	12,456	11,900	10,852	10,772	10,092	10,491	10,770	10,688	11,044	12,033	12,506

* The 16th Annual Report on the Condition of Children in Orange County 2010 presents date through calendar year 2008. 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 indices.

**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

2011

Employer	Number of Employees	Rank	Percentage of Total County Employment
University of California, Irvine	20,650	1	1.30%
Walt Disney Co.	20,000	2	1.26%
County of Orange	17,655	3	1.11%
St. Joseph Health System	11,965	4	0.75%
Boeing Co.	8,060	5	0.51%
Bank of America Corp.	6,500	6	0.41%
Yum Brands Inc.	6,500	6	0.41%
Supervalu Inc.	5,900	8	0.37%
Kaiser Permanente	5,397	9	0.34%
Target Corp.	5,325	10	0.33%

2002

Employer	Number of Employees	Rank	Percentage of Total County Employment
Walt Disney Co.	21,275	1	1.36%
County of Orange	17,751	2	1.14%
University of California, Irvine	14,981	3	0.96%
Boeing Co.	11,179	4	0.72%
Albertsons Inc.	9,500	5	0.61%
St. Joseph Health System	9,435	6	0.60%
Tenet Healthcare Corp.	8,389	6	0.54%
SBC Communications, Inc.	7,100	8	0.46%
Target Corp.	4,878	9	0.31%
Bank of America Corp.	4,813	10	0.31%

Source: Orange County Business Journal, Book of Lists, 2011 and Orange County CEO Budget Office

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

	Fiscal Year						
	2011	2010	2009	2008	2007	2006	2005
Number of Employees by Function							
General Administration	7	7	7	8	7	8	8
Finance	2	2	2	1	2	3	2
Contracts Administration	5	5	5	5	5	5	2
Program Management & Evaluation	3	4	4	4	2	2	2
Total Employees	17	18	18	18	16	18	14

* Table presents Regular and Limited-Term Employees



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, 2011, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated September 30, 2011. Our report included an explanatory paragraph regarding the Commission's adoption of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, effective July 1, 2010. 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.



Laguna Hills, California
September 30, 2011

In our opinion, 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, 2011.

This report is intended solely for the information and use of management, the Board of Commissioners, the State Commission, the County 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.

Vavriach, Train, Day & Co., LLP

Laguna Hills, California
September 30, 2011