

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

Basic Financial Statements  
with Independent Auditor's Reports

For the Year Ended June 30, 2005

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
FOR THE YEAR ENDED JUNE 30, 2005**

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### **INDEPENDENT AUDITOR'S REPORT**

We have audited the accompanying financial statements of the governmental activities and general fund of the Children and Families Commission of Orange County (Commission), a component unit of the County of Orange, California, as of and for the year ended June 30, 2005, 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 an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Commission is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we express no such opinion. An audit 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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and general fund of the Commission as of June 30, 2005 and the respective changes in financial position thereof and the respective budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2005, on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 12 is not a required part of the basic financial statements, but is 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.

*Mason Jini & Company LLP*

Certified Public Accountants

Los Angeles, California

September 30, 2005

## **Management's Discussion and Analysis (Unaudited)**

This section of the Children and Families Commission of Orange County (Commission) annual financial report presents management's discussion and analysis of the Commission's financial performance during the year ended June 30, 2005. Please read in conjunction with the Commission's basic financial statements and accompanying notes.

### **Financial Highlights**

- The Commission received \$40.2 million in tobacco tax revenue compared to \$39.6 million received in the prior fiscal year, an increase of \$.6 million, or 2%.
- Federal operating grant revenues of \$4.6 million were recorded for FY 2004-05, which includes \$4.3 million in revenue earned from the Medi-Cal Administrative Activities (MAA) program, the first year the Commission became eligible to receive MAA revenue.
- The \$3.5 million in investment income received by the Commission in FY 2004-05 represents an increase of \$1.9 million or 114% compared to the \$1.6 million in investment income received in FY 2003-04.
- The Commission expended a total of \$52.9 million in FY 2004-05 for children's programs and support of those programs, which is an increase of \$11.3 million, or 27% compared to \$41.6 million expended in FY 2003-04.

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

This annual financial report consists of two parts, this management's discussion and analysis and the basic financial statements, including government-wide financial statements, fund financial statements and notes to the basic financial statements. The Commission's financial statements offer key, high-level financial information about its activities.

#### **Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the Commission's finances, in a manner similar to a private-sector business. These statements provide both long-term and short-term information about the Commission's overall financial status.

The statement of net assets includes 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 deteriorating.

The statement of activities presents information showing how the Commission's net assets changed 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.

## Fund Financial Statements

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

Governmental fund financial statements focus on near-term inflows and outflows of spendable resources and on balances of spendable resources available at the end of the year.

The Commission adopts an annual appropriated budget for the general fund. A budgetary comparison statement has been provided for this fund to demonstrate compliance with this budget.

While a nine-member Board of Commissioners governs the Commission, the Commission was created by and ultimately is under the authority of the Orange County Board of Supervisors, in accordance with California State Law, through its appointment of the Board of Commissioners and its ability to remove the commissioners at will. Consequently, the County of Orange Auditor-Controller's Office has designated the Commission as a "discretely presented component unit" of the County of Orange and includes a summary of the Commission's basic financial statements in the County's basic financial statements.

## Financial Statements Analysis

The following is a summary of the Commission's assets, liabilities and net assets comparing FY 2004-05 with FY 2003-04.

	<u>FY 2004-05</u>	<u>FY 2003-04</u>	<u>Percent Increase (Decrease)</u>
<b>Assets:</b>			
Cash	\$ 148,272,297	\$ 148,843,108	0%
Taxes receivable	7,115,594	6,927,432	3%
State school readiness receivable	4,104,308	405,430	912%
Other receivables	4,129,799	346,597	1092%
Equipment, net	16,213	8,780	85%
Total assets	<u>\$ 163,638,211</u>	<u>\$ 156,531,347</u>	5%
<b>Liabilities:</b>			
Accounts payable and accrued liabilities	\$ 16,831,880	\$ 10,529,877	60%
Due to County of Orange	465,860	321,367	45%
Long-term liabilities	139,998	134,954	4%
Total liabilities	<u>17,437,738</u>	<u>10,986,198</u>	59%
<b>Net assets:</b>			
Restricted	146,184,260	145,536,369	0%
Invested in capital assets	16,213	8,780	85%
Total net assets	<u>146,200,473</u>	<u>145,545,149</u>	
Total liabilities and net assets	<u>\$ 163,638,211</u>	<u>\$ 156,531,347</u>	5%

The Commission's total assets of approximately \$163.6 million increased by \$7.1 million, or 5% compared with the prior year, primarily due to an increase in receivables for State School Readiness revenues and an increase in receivables from the Medi-Cal Administrative Activities (MAA) program. The Commission's \$148.3 million cash at end of FY 2004-05 was less than 1% lower than the \$148.8 million cash balance at the end of FY 2003-04. FY 2004-05 was the first fiscal year the Commission's cash balance did not increase at year-end compared to the prior year. The Commission contracted and spent funds for programs in a greater amount in FY 2004-05 compared to each previous fiscal year, which is further discussed in the expense section of this report.

The Commission's taxes receivable of \$7.1 million in FY 2004-05 increased by \$.2 million or 3% compared to the prior year. This is due to an increase in the estimate for tobacco tax revenue which was accrued at the end of FY 2004-05 compared to FY 2003-04. The State School Readiness revenue receivable of \$4.1 million for FY 2004-05 is \$3.7 million or 912% higher than the \$.4 million receivable recorded for FY 2003-04. This is due to an increase in the reimbursement owed by the State Commission to our Commission to conduct the State School Readiness program, which is further discussed in the revenue section of this report.

The \$4.1 million recorded for other receivables in FY 2004-05 increased by \$3.8 million or 1,092% compared to the prior year. This increase results from recording of MAA revenues earned in the current year for activities in four fiscal years (2001-02 through 2004-05) which totals \$4.4 million. Also, the Commission's equipment assets increased by \$7,433 for a total of \$16,213 in FY 2004-05 due to the purchase of a computer server to support the Commission's computer network.

At the end of FY 2004-05, Commission staff identified and accrued all known vendor payment amounts owed by the Commission, but were not paid by year-end. Accounts payable and accrued liabilities were \$16.8 million for FY 2004-05, which increased by \$6.3 million, or 60%, compared to the prior year. This increase is due to an increase in program expenditures in the current year. Also, as shown above for FY 2004-05, the specific liability "Due to the County of Orange" of \$5 million increased by \$2 million, or 45%, compared to the prior year due to an increase in year-end accruals for contract payments to the Orange County Health Care Agency.

The following table summarizes the changes in net assets comparing FY 2004-05 with FY 2003-04.

	<u>FY 2004-05</u>	<u>FY 2003-04</u>	<b>Percent Increase (Decrease)</b>
<b>Revenues:</b>			
<b>Program Revenues</b>			
Tobacco taxes	\$ 40,175,154	\$ 39,551,911	2%
Tobacco taxes for State School			
Readiness program	3,698,878	838,630	341%
Other State operating grants and contributions	476,537	74,746	538%
Interest income earned on tobacco taxes at the State	871,949	71,033	1128%
Federal operating grants	<u>4,601,132</u>	<u>102,545</u>	4387%
Total program revenues	<u>49,823,650</u>	<u>40,638,865</u>	23%
<b>General Revenues</b>			
Investment income	3,499,075	1,635,875	114%
Other revenues	<u>210,602</u>	<u>279,442</u>	-25%
Total general revenues	<u>3,709,677</u>	<u>1,915,317</u>	94%
Total revenues	<u>53,533,327</u>	<u>42,554,182</u>	26%
<b>Expenses:</b>			
Services and supplies	46,969,598	36,055,305	30%
Services and supplies for State School			
Readiness	4,232,963	4,138,987	2%
Salaries and benefits	<u>1,675,442</u>	<u>1,442,324</u>	16%
Total expenses	<u>52,878,003</u>	<u>41,636,616</u>	27%
<b>Change in net assets:</b>	655,324	917,566	-29%
Net assets - beginning of year	<u>145,545,149</u>	<u>144,627,583</u>	1%
Net assets - end of year	<u>\$ 146,200,473</u>	<u>\$ 145,545,149</u>	0%

The Commission recorded total revenues of approximately \$53.5 million in FY 2004-05, which was an increase of \$11.0 million, or 26%, compared with the prior year’s total revenues of \$42.6 million. The increase is due primarily to an increase in revenues recorded for the State School Readiness program, the MAA program, and investment income for FY 2004-05 compared to FY 2003-04.

**Tobacco Tax Revenues**

Tobacco tax revenue increased from \$39.6 million in FY 2003-04 to \$40.2 million in FY 2004-05, an increase of \$.6 million, or 2%. This is the second year that the Commission’s annual tobacco tax revenues increased compared to the prior year. Up until two years ago, the Commission’s annual tobacco tax revenues decreased each year as expected. In FY 1999-00, the Commission received \$49.5 million in tobacco tax revenue, for FY 2000-01: \$44.5 million, for 2001-02: \$43.8 million, and for FY 2002-03: \$38.8 million. However, tobacco revenues for FY 2003-04 increased to \$39.6 million and increased again to \$40.2 million for FY 2004-05.

The increase in tobacco revenues is thought to be due to a combination of factors including, but not limited to, an improvement in the State’s enforcement of tobacco tax regulations, a decrease in tobacco sales via the internet, and an increase in certain immigrant populations that have higher rates of smoking.

Despite the increases in tobacco tax revenues received in FY 2003-04 and FY 2004-05, staff continue to expect a decrease in the Commission's annual tobacco tax revenues in subsequent years, consistent with prior years' trends and the common expectation at the State Commission.

#### ***Tobacco Taxes for State School Readiness Program***

In FY 2004-05, the Commission earned \$3.7 million from the State Commission for the State School Readiness Program, an increase of \$2.9 million, or 341%, compared with the prior year. These funds are used to pay for State School Readiness programs conducted by 13 school districts in Orange County who have partnered with the Commission to provide program services. For the first two years of this program, the State Commission provided a significant amount of advanced State funds to operate the program and was recorded as revenue in prior years for the Commission. In FY 2004-05, the Commission expended almost all of the advanced State funds and generated an additional \$3.3 million in State School Readiness expenses that require reimbursement from the State.

It is important to note that while the Commission earned these program revenues from the State Commission, the State has yet to pay these revenues to the Commission. The State has delayed paying the Commission primarily due to the State revising its reporting and disbursement requirements. Commission staff continue to work with staff from the State Commission to resolve the State's reporting and disbursement issues and expect to receive the appropriate amount of State School Readiness revenues due to the Commission in FY 2005-06.

#### ***Interest Income Earned from State Surplus Monetary Investment Funds (SMIF)***

The Commission received a total of \$9 million in State SMIF revenue in FY 2004-05 which was \$8 million higher than the \$1 million in SMIF funds received in FY 2003-04. SMIF revenue comes from interest earned on county tobacco tax allocations that are temporarily held in the State Commission's "clearing house" account. The increase in the Commission's SMIF funds in FY 2004-05 is due to the State paying out back interest owed to county commissions that had accumulated during the previous five years. It is expected that the allocation of SMIF revenue in FY 2005-06 will drop to around \$20,000 based on information from State Commission staff.

#### ***Federal Operating Grants***

In FY 2004-05, the Commission earned \$4.6 million in federal grant funds which is \$4.5 million higher than the \$1 million earned during the prior fiscal year. The \$4.6 million for FY 2004-05 includes \$4.4 million in revenue earned in the current year from the MAA program for expenditures incurred during fiscal years 2001-02 through 2004-05 which became eligible in the current year. Of the \$4.4 million recorded for MAA revenues, the Commission has received actual MAA revenues of \$1.6 million in FY 2004-05 (for claims filed for FYs 2001-02 and 2002-03) and has recorded MAA revenue receivables of \$2.8 million (for estimated claims earned but yet to be paid for FY 2003-04 and FY 2004-05). Federal operating grant funding for FY 2004-05 also includes \$2 million in federal revenues earned from the AmeriCorps program.

#### ***Other State Operating Grants and Contributions***

The Commission earned \$5 million for other state operating grants in FY 2004-05, which was an increase of \$4 million compared to the prior year's total of \$1 million. This increase is primarily due to the Commission earning reimbursements from the State for several State sponsored programs including reimbursement for State-wide fiscal evaluation contracts with the Government Finance Officers Association (GFOA), the State Nutrition Grant, the State Special Needs Program, and other programs.

### ***Investment Income***

The Commission earned \$3.5 million of investment income in FY 2004-05, which was an increase of \$1.9 million or 114% compared to the \$1.6 million earned in the prior year. The increase is the result of a significant improvement in interest rates and earnings obtained by the County Treasurer-Tax Collector in FY 2004-05. The County Treasurer-Tax Collector's Office earned an average rate of 2.2 % in FY 2004-05 for the Commission's funds invested in the investment pool compared to an average rate of 1.24% in FY 2003-04. The Commission's interest earnings had decreased during each of the three previous fiscal years.

### ***Expenses***

The Commission recorded total expenses of approximately \$52.9 million in FY 2004-05, which was an increase of \$11.3 million, or 27%, compared with the prior year's total expenses of \$41.6 million. The increase is due primarily to additional expenditures for children's programs and services in FY 2004-05, compared to FY 2003-04.

For FY 2004-05, the Commission expended approximately \$47.0 million for services and supplies compared to \$36.1 million spent in the prior year, an increase of \$10.9 million, or 30%. The services and supplies expense category consists primarily of expenditures on programs to serve children and families. Contributing to the increase in expenditures for services and supplies in FY 2004-05 is the approximate additional \$4.6 million the Commission spent on Pediatric Health Services and the approximate additional \$2.3 million spent on the School Readiness Nursing Program compared to the prior year.

The Commission program with the largest expenditure each year is the Pediatric Health Services Program, spending a total of \$12.7 million in FY 2004-05. This program is a partnership between the Commission, the Children's Hospital of Orange County (CHOC), and the University of California Irvine (UCI) which provides a wide range of medical services to young children in Orange County including services for basic pediatric care, autism, diabetes, children's' metabolics, and other pediatric programs.

A special accomplishment achieved by the Commission within the Pediatric Health Services Program in FY 2004-05 was the construction of the Garden Grove Children's Health Center. The Commission partnered with Children's Hospital of Orange County, Boys & Girls Club of Garden Grove, and Healthy Smiles for Kids Orange County to construct a 14,000 square foot, two story children's health services facility in the city of Garden Grove. The Commission committed \$4.5 million for the construction of this facility of which \$3.4 million was expended in FY 2004-05. Completed in August 2005, this health center is now being used by CHOC to provide medical services to children, by the Boys & Girls Club of Garden Grove to provide counseling services to children and families, and by Healthy Smiles for Kids to provide dental services to children.

Another significant program achievement by the Commission in FY 2004-05 was the initiation of the School Readiness Nursing Program. The Commission partnered with 23 school districts in Orange County and funded the provision of school readiness nurses at those districts. These specially trained nurses assess the medical needs of children preparing to enter kindergarten and provide information to parents regarding medical needs, health insurance, and other information to assist children to be healthy and ready to learn when they enter kindergarten. The Commission expended \$2.3 million for the School Readiness Nursing program in FY 2004-05.

Also included in the \$46.9 million spent on services and supplies, the Commission spent \$5.5 million on the Bridges for Newborns Program in FY 2004-05. Bridges for Newborns is a partnership between the

Commission and nine birthing hospitals in Orange County to provide counseling on health services and insurance referral services to the parents of children born at those hospitals. As part of the Bridges Program, the Commission distributes to parents a Kit for New Parents that contains instructions and resource materials regarding child rearing and health care, and small medical tools such as thermometers, to assist parents in caring for their newborns.

As noted in the table above, the Commission expended \$4.2 million for the State School Readiness Program in FY 2004-05 which is slightly higher (2%) compared to the \$4.1 million spent in the prior year. Thirteen (13) school districts participated in the Commission's State School Readiness Program in FY 2004-05; the same number as in FY 2003-04. FY 2004-05 is the fourth year of the State's first four year program cycle that the Commission partnered with the State Commission to provide State School Readiness program services. State Commission staff notified the Commission that there should be a new four year cycle of State School Readiness funding available in FY 2005-06, pending final approval by the State Commission.

In addition, in FY 2004-05, the Commission spent \$1.7 million for salaries and benefits compared to \$1.4 million spent the prior year, an increase of \$.3 million, or 16%. The increase was due to the addition of two regular staff positions, the addition of 16 AmeriCorps member extra help positions, authorized annual pay increases, and an increase in retirement and other employee benefit costs in FY 2004-05. During FY 2004-05, the Commission employed 14 regular and 33 extra help positions as compared to 12 regular and 17 extra help positions in FY 2003-04.

The Commission's total net assets at the end of FY 2004-05 were \$146.2 million, compared to \$145.5 million at the end of the prior year, an increase of approximately \$.7 million. Contributing to this increase in net assets was the increase in tobacco taxes, interest earnings, MAA funding, and other revenues earned by the Commission in FY 2004-05 offset by the increase in program expenses, as described earlier in this report.

## **General Fund Budgetary Comparison**

This section contains an explanation of the significant differences between the Commission's Final Budget amounts and actual amounts and the significant differences between the Commission's original and final budget amounts recorded for revenues and expenditures for FY 2004-05 as detailed on the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual (shown on page 15).

The Commission increased its original budget estimate of \$36.5 million for tobacco taxes by \$1.0 million in mid-FY 2004-05 in order to appropriate \$1.0 million for June 2004 (FY 2003-04) tobacco taxes that the State allocated to the Commission in early FY 2004-05. Consequently, the Commission had access to the late allocation of funding for use within the FY 2004-05 budget. In FY 2004-05 the Commission earned actual tobacco taxes of \$40.2 million, which was \$2.6 million higher than the final budget estimate of \$37.6 million. The primary reason for the increase is thought to be due to State's increased enforcement of tobacco tax regulations in FY 2004-05 compared to FY 2003-04. This is further discussed in the section regarding tobacco tax revenues on pages 6 and 7.

The Commission increased its original budget estimate of \$3.9 million for State School Readiness revenue by \$2.3 million mid FY 2004-05 for a new total estimate of \$6.1 million anticipating an increase in program expenditures that did not materialize. The Commission budgeted an estimated \$6.1 million for State School Readiness revenues and did not receive any reimbursements for this program in FY 2004-05. Unfortunately, the State Commission has delayed reimbursing the Commission for this program primarily owing to the State revising its reporting and disbursement requirements. Commission staff are working with staff from the State Commission to resolve the State's reporting and disbursement issues and expect to obtain the appropriate amount of State School Readiness revenues due to the Commission.

The Commission increased its original budget estimate of \$0.2 million to \$0.8 million for Other State Operating Grants in mid-FY 2004-05 upon learning that the Commission was eligible to receive these additional grant revenues in FY 2004-05. In FY 2004-05, the Commission received \$.2 million in Other State Operating Grants which was \$.6 million less than the \$.8 million budgeted for these grants. This revenue category includes funding for the State Nutrition Network Grant, State Preschool for All, State Reimbursement for GFOA contracts, and VISTA Statewide Reimbursement Revenue. The reason for these revenues coming in lower than budgeted was due to lower than expected Commission expenditures for these programs and to a delay in payment of some of these revenues by the granting agencies.

The Commission received actual revenues of \$871,949 on interest earned on tobacco taxes at the State level compared to \$20,000 budgeted for this revenue. This revenue, which the State defines as "Surplus Monetary Investment Funds" (SMIF), comes from interest earned on county tobacco tax allocations that are temporarily held in the State Commission's "clearing house". The increase in SMIF funds received by the Commission in FY 2004-05 is due to the State paying out back interest owed to county commissions for interest that had accumulated during the previous five years.

The Commission received \$1.8 million for Federal Operating Grants in FY 2004-05 which was \$1.6 million higher than the \$.2 million budget estimate. The primary reason for the increase in actual revenues compared to budget is the Commission received \$1.6 million in federal Medi-Cal Administrative Activity (MAA) revenue in FY 2004-05. This is the first payment of MAA revenues received by the Commission and is for the Commission's MAA claims for FY 2001-02 and FY 2002-03. The Commission did not include a budget estimate for the MAA revenue due to the ongoing uncertainty as to when these revenues would be disbursed to the Commission.

The Commission conservatively increased its original budget estimate of \$1.8 million to \$2.7 million for investment income in mid-FY 2004-05 after observing the steady improvement in interest rates and income earned on the Commission's investments in the County Treasurer's investment pool. The Commission received \$3.5 million for investment income in FY 2004-05 which was \$.80 million higher than the budget estimate of \$2.7 million. Interest rates earned by the Commission's funds in the County's investment pool improved substantially in FY 2004-05 and out performed the conservative interest rate used to project interest revenues for the original FY 2004-05 Budget. Specifically, the Commission's funds in the investment pool earned an average of 2.2% in FY 2004-05 compared to the initial budget projection of about 1.1%.

Regarding FY 2004-05 budgeted expenditures, the Commission increased its original budget estimate of \$87.6 million by \$14.9 million to a new total of \$102.5 million for services and supplies to account for the carry forward of unspent program commitments from the prior fiscal year that are rebudgeted at the start of FY 2004-05. Regarding FY 2004-05 actual expenditures, the Commission spent \$47.0 million for services and supplies in FY 2004-05, which was \$55.5 million under the total services and supplies budget of \$102.5 million. The Commission historically has budgeted all anticipated revenues, together with prior year unexpended resources, for program needs as approved in the Commission's Ten Year Financial Plan; however, the Commission does not fully expend all revenues for program needs in each year the revenues are received. The Commission executes as many contracts for services and expends as much program funding as reasonably possible during the year. Any funding that is not expended in any fiscal year is carried forward, rebudgeted as necessary, and is spent for approved programs in subsequent fiscal years.

Also, the Commission spent \$4.2 million for the State School Readiness program compared to a budget of \$6.0 million for this program. In building the FY 2004-05 Budget, staff estimated that the 13 school districts participating in the State School Readiness program would generate a larger amount of program expenses. The projected increase in these expenditures, approximately \$2.2 million did not materialize in FY 2004-05.

The Commission's expenditures for salaries and benefits was \$1.7 million in FY 2004-05 was under the budget amount of \$1.8 million by roughly \$.1 million. The savings resulted primarily from under spending funds budgeted for the Commission's extra help AmeriCorps member positions.

### **Impact of State Legislation Affecting State and County Children and Families Commissions**

Two bills, Senate Bill 35 and Assembly Bill 109, were passed in September 2005 at the California State Legislature that will impact the fiscal and managerial operations of the state and county children and families commissions. SB 35 expands the requirements for commission annual financial audits and internal quality control functions. AB 109 requires commissions to adopt formal policies regarding conflict of interest regulations for commissioners, for contracting and purchasing operations, to require the establishment of limits by percentage that each commission can spend for administrative functions, and to establish standards for salaries and benefits for commission employees. The new requirements are not thought to have a significant financial impact on the operations of the Children and Families Commission of Orange County. Nonetheless, Commission staff has closely followed the development of this legislation, have studied all that is entailed, and have begun to plan for the implementation of this legislation.

### **Contacting the Commission's Financial Management**

This financial report is designed to provide the public with an overview of the Commission's financial operations and condition. If you have questions about this report or need additional information, you can contact the Commission's Director of Accounting & Financial Planning at 17320 Red Hill Avenue, Suite 200, Irvine, California 92614.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY**  
**STATEMENT OF NET ASSETS AND GOVERNMENTAL FUND BALANCE SHEET**  
**JUNE 30, 2005**

	<b>Fund</b>	<b>(Note 1)</b>	<b>Assets</b>
<b>Assets</b>			
Cash	\$ 148,272,297	\$ -	\$ 148,272,297
Taxes receivable	7,115,594	-	7,115,594
State school readiness receivable	4,104,308	-	4,104,308
Other receivables	3,354,532	-	3,354,532
Due from County of Orange	775,267	-	775,267
Equipment, net	-	16,213	16,213
Total assets	\$ 163,621,998	\$ 16,213	\$ 163,638,211
 <b>Liabilities</b>			
Accounts payable and accrued liabilities	\$ 11,604,802	\$ -	\$ 11,604,802
Due to County of Orange	465,860	-	465,860
Due to other governmental agencies	5,227,078	-	5,227,078
Deferred revenue	7,226,510	(7,226,510)	-
Long-term liabilities - compensated absences	-	139,998	139,998
Total liabilities	24,524,250	(7,086,512)	17,437,738
 <b>Fund balance/net assets</b>			
<b>Fund balance</b>			
Reserved for encumbrances	16,586,404	(16,586,404)	-
Reserved for children's programs	32,771,294	(32,771,294)	-
Unreserved:			
Designated for future funding cycles and operating budget	89,740,050	(89,740,050)	-
Total fund balance	139,097,748	(139,097,748)	-
 <b>Net assets</b>			
Restricted net assets - children's programs	-	146,184,260	146,184,260
Invested in capital assets	-	16,213	16,213
Total net assets	-	146,200,473	146,200,473
Total liabilities and fund balance/net assets	\$ 163,621,998	\$ 16,213	\$ 163,638,211

See accompanying notes to the basic financial statements.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Fund</u>	<u>(Note 1)</u>	<u>Activities</u>
<b>Revenues</b>			
<b>Program Revenues</b>			
State operating grants and contributions:			
Tobacco taxes	\$ 40,175,154	\$ -	\$ 40,175,154
Tobacco taxes for State School Readiness program	-	3,698,878	3,698,878
Tobacco taxes for First 5 Service Corps Initiative			
Tobacco taxes for Annual Statewide Conference			
Other State operating grants and contributions	193,567	282,970	476,537
Interest income earned on tobacco taxes at the State level that was allocated to the Commission	871,949	-	871,949
Federal operating grants	1,848,076	2,753,056	4,601,132
Total program revenues	<u>43,088,746</u>	<u>6,734,904</u>	<u>49,823,650</u>
<b>General Revenues</b>			
Investment income	3,499,075	-	3,499,075
Other revenues	181,836	28,766	210,602
Total general revenues	<u>3,680,911</u>	<u>28,766</u>	<u>3,709,677</u>
 Total revenues	 <u>46,769,657</u>	 <u>6,763,670</u>	 <u>53,533,327</u>
<b>Expenditures/expenses</b>			
Services and supplies	46,965,745	3,853	46,969,598
Services and supplies for State School Due to County of Orange			
Readiness program	<u>4,232,963</u>	-	4,232,963
Salaries and benefits	1,670,398	5,044	1,675,442
Capital outlay	11,286	(11,286)	-
Total expenditures/expenses	<u>52,880,392</u>	<u>(2,389)</u>	<u>52,878,003</u>
 Deficiency of revenues under expenditures	 (6,110,735)	 6,110,735	 -
 Change in net assets	 -	 655,324	 655,324
<b>Fund balance/net assets</b>			
Beginning of year	145,208,483	336,666	145,545,149
End of year	<u>\$ 139,097,748</u>	<u>\$ 7,102,725</u>	<u>\$ 146,200,473</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  
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Budget</u>	<u>Actual</u>	<u>Variance (Negative)</u>
<b>Revenues</b>			
State operating grants and contributions:			
Tobacco taxes	\$ 37,564,404	\$ 40,175,154	\$ 2,610,750
Tobacco taxes for State School			
Readiness program	6,145,381	-	(6,145,381)
Other State operating grants and contributions	776,000	193,567	(582,433)
Interest income earned on tobacco taxes at the State			
level that was allocated to the Commission	20,000	871,949	851,949
Federal operating grants	204,000	1,848,076	1,644,076
Investment income	2,700,000	3,499,075	799,075
Other revenues	125,000	181,836	56,836
Total revenues	<u>47,534,785</u>	<u>46,769,657</u>	<u>(765,128)</u>
<b>Expenditures</b>			
Services and supplies	102,542,785	46,965,745	55,577,040
Services and supplies for State School			
Due to County of Orange			
Readiness program	<u>5,975,086</u>	4,232,963	1,742,123
Salaries and benefits	1,845,337	1,670,398	174,939
Capital outlay	20,000	11,286	8,714
Total expenditures	<u>110,383,208</u>	<u>52,880,392</u>	<u>57,502,816</u>
Deficiency of revenues			
under expenditures	<u>\$ (62,848,423)</u>	(6,110,735)	<u>\$ 56,737,688</u>
Fund balance - Beginning of year		<u>145,208,483</u>	
Fund balance - End of year		<u>\$ 139,097,748</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, 2005**

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

**Reporting Entity**

The Children and Families Commission of Orange County (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. Since the County Board of Supervisors can impose its will on the Commission, the Commission is considered a 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

Financial reporting is based upon all GASB pronouncements, as well as the FASB Statements and Interpretations, APB Opinions and Accounting Research Bulletins that were issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. FASB pronouncements issued after November 30, 1989 are not followed in the preparation of the accompanying 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. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

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

**Basis of Accounting and Measurement Focus (Continued)**

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.

Adjustments Between Fund Financial Statements and Government-Wide Financial Statements

Equipment

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 was a \$11,286 addition to the capital assets in the current year for a new server. Depreciation expense for the year ended June 30, 2005 amounted to \$3,853 and is included in services and supplies in the government-wide financial statements.

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 \$7,226,510 at June 30, 2005 was recognized as revenue in the government-wide financial statements.

Long-Term Liabilities

As of June 30, 2005, the Commission estimated its liability for vested compensated absences to be \$139,998. 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 increased by \$107,513 and decreased by \$102,469 during the year. The compensated absences are liquidated by the general fund.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

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

**Fund Balance**

The net assets of the Commission are constrained by state law for use for early childhood development and school readiness programs. As such, in accordance with GASB No. 34, the fund balance has been reclassified to restricted net assets on the statement of net assets.

**Equipment**

Equipment is 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 equipment using a straight-line method over the estimated useful life of each asset. The estimated useful life used for the equipment range from 5 to 10 years.

**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.

**Budget and Budgetary 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, 2005, 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.

**Encumbrances**

The Commission utilizes an encumbrance system as a management control technique to assist in controlling expenditures. Under this procedure, encumbrances representing purchase orders, contracts and other commitments are reported on the balance sheet as reservations of fund balances at year-end since they do not constitute expenditures or liabilities. Unencumbered appropriations lapse at the end of the fiscal year.

**NOTE 2 – CASH**

Substantially all cash at June 30, 2005 is held by the Orange County Treasurer's Money Market Fund of the Investment Pool (Pool). The Commission's deposit in the Pool is similar to a demand deposit and amounts can be withdrawn at any time without prior written notice. The Commission has adopted the County's Investment Policy. 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.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

**NOTE 2 – CASH** (continued)

Cash on deposit with the Treasurer at June 30, 2005 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, 2005 reduced the Commission's investment income by \$124,126. 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. The weighted average maturity of the County's Pool is approximately 142 days as of June 30, 2005.

**NOTE 3 – DEFINED BENEFIT PENSION PLAN**

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.

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 with 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 17.55% for the year ended June 30, 2005.

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 5.11% for the year ended June 30, 2005.

The Commission's actual and actuarially required contributions for the years ended June 30, 2005, 2004 and 2003 were \$186,916, \$128,422, \$80,729, respectively.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005**

**NOTE 4 – CONTINGENCIES**

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

**NOTE 5 – COMMITMENTS**

The Commission leases office space from a third party under a lease, which expires in July 2006 (FY 2006-07). The future minimum rental payments due under the lease are as follows:

2006	\$200,425
2007	16,749
	\$ 217,174

Rent expense was \$174,619 for the year ended June 30, 2005.

**NOTE 6 – STATE SCHOOL READINESS PROGRAM**

The Commission participates in the State School Readiness Program and receives funds to be used to coordinate, develop, implement and sustain a system of collaborative school-based or linked services, programs and informal support based on research or promising practices to improve “school readiness” for children, families, communities and schools. A local match of the program funds expended each year is required and can be met through a cash match, including Commission funds, new expenditures by school districts and local public agencies in excess of existing local investments that are specifically targeted to an element of the School Readiness Program, or funds from private sources such as foundations and businesses.

The State’s policies and procedures for reporting program costs and requesting program funding have evolved since the program’s inception, and based on current State policies, the Commission is entitled to current year funding based on achieving the matching requirements in the prior year. Consequently, to be eligible for FY 2004-05 State School Readiness revenues, the Commission was required to verify that the Commission obtained sufficient, required local funds to match the expenditure of State School Readiness Program funds during FY 2003-04. Specifically, the Commission was required to provide a local match of 100% of the State funds expended for the Phase IA non-implementation funds and 100% of the Phase IB non-implementation funds expended for the year ended June 30, 2004. There is no match requirement for the 2004 implementation funds expenditures. The Commission’s expenditures and match requirements for the year ended June 30, 2004 are as follows:

	<b>General Fund Expenditures</b>	<b>Local Match Percent Requirement</b>	<b>Local Match Requirement</b>
Phase IA non-implementation funds	\$1,546,980	100%	\$1,546,980
Phase IB non-implementation funds	1,686,337	100%	1,686,337
Implementation funds	116,988	0%	-
	\$3,350,305		\$3,233,317

The Commission provided a local expenditure match of \$3,263,496 the year ended June 30, 2004 and, accordingly, has met the matching requirement. In addition, the school districts participating in the State School Readiness program provided local expenditure match of \$6,747,421.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

**NOTE 7 - 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, 2005 was \$41,261. The Commission incurred expenses totaling \$748,210 for all other County services provided during the year ended June 30, 2005.

**NOTE 8 – NEW GOVERNMENTAL ACCOUNTING STANDARDS**

In November 2003, GASB issued Statement No. 42, "*Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.*" The statement establishes accounting and financial reporting standards for impairment of capital assets and is effective for fiscal periods beginning after June 30, 2005. A capital asset is considered impaired when its service utility has declines significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. The Commission intends to implement the new reporting requirements for the fiscal year 2005-06 financial statements.

In April 2004, GASB issued Statement No. 43, "*Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.*" This statement establishes uniform financial reporting standards for other postemployment benefits (OPEB) plans and is effective for fiscal periods beginning after June 20, 2006. The approach followed in this statement generally is consistent with the approach adopted for defined benefit pension plans with modifications to reflect differences between pension plans and OPEB plans. The statement applies for OPEB trust funds included in the financial reports of plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plans, the public employee retirement systems, or third parties that administers of multi-employer OPEB plans that are not a trust fund. Because the Commission participates in a cost-sharing multiple employer plan and is not required to report the pension plan in its financial statements, this Statement is not applicable.

In May 2004, GASB issued Statement No. 44, "*Economic Condition Reporting: The Statistical Section – an amendment of NCGA Statement 1.*" This statement amends the portions of NCGA (National Council on Governmental Accounting) Statement 1, *Governmental Accounting and Financial Reporting Principles*, which guide the preparation of the statistical section and is effective for fiscal periods beginning after June 30, 2005. These amendments add new information that financial users have identified as important and eliminates certain previous requirements. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to the basic financial statements, and required supplementary information, to assess the economic condition of a government. The Commission is currently evaluating the effects of this Statement on its financial reporting. .

In June 2004, GASB issued Statement No. 45, "*Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.*" This statement addresses how state and local governments should account for and report costs and obligation related to postemployment healthcare and other nonpension benefits and is effective for fiscal periods beginning after December 15, 2006. Annual OPEB costs for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2005**

**NOTE 8 – NEW GOVERNMENTAL ACCOUNTING STANDARDS (continued)**

This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. The Commission plans to implement the new reporting requirements in its fiscal year 2007-08 financial statements.

In December 2004, GASB issued Statement No. 46, "*Net Assets Restricted Enabling Legislation – An amendment of GASB Statement No. 34.*" This Statement establishes and modifies requirements related to restrictions of net assets resulting from enabling legislation. It amends GASB Statement No. 34, "*Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, paragraph 34. GASB Statement No. 34, "*Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Government*"s, requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. This Statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government—such as citizens, public interest groups, or the judiciary—can compel a government to honor. The Statement states that the legal enforceability of an enabling legislation restriction should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if a government has other cause for reconsideration. Although the determination that a particular restriction is not legally enforceable may cause a government to review the enforceability of other restrictions, it should not necessarily lead a government to the same conclusion for all enabling legislation restrictions. This Statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Finally, this Statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation. The Commission plans to implement the new reporting requirements in its fiscal year 2005-2006 financial statements.

In June 2005, GASB issued Statement No. 47, "*Accounting for Termination Benefits*". This Statement provides guidance to governmental employers for measuring, recognizing, and reporting liabilities and expense/expenditures related to all termination benefits, including voluntary termination benefits, without limitation as to the period of time during which the benefits are offered, and involuntary termination benefits. The Commission plans to implement the new reporting requirements in its fiscal year 2007-08 financial statements.



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Children and Families Commission of Orange County  
Irvine, California

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

We have audited the financial statements of the governmental activities and the general fund of the Children and Families Commission of Orange County (Commission), a component unit of the County of Orange, California, as of and for the year ended June 30, 2005, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated September 30, 2005. 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*

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Commission in a separate letter dated September 30, 2005.

#### *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 grants 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 the Board of Commissioners, Commission management, and the California Children and Families Commission, and is not intended to be and should not be used by anyone other than these specified parties.

*Mason Jini & Company LLP*  
Certified Public Accountants

Los Angeles, California  
September 30, 2005