

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

Basic Financial Statements  
with Independent Auditors' Reports

For the Year Ended June 30, 2007

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
FOR THE YEAR ENDED JUNE 30, 2007**

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## 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, 2007, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and general fund of the Commission, as of June 30, 2007, and the respective changes in financial position thereof, and budgetary comparison information, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 14, 2007 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 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 9 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.

*Vannest, Trow, Day & Co., CP*

Rancho Cucamonga, California  
September 14, 2007

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY**  
**Management's Discussion and Analysis**  
**(Unaudited)**  
**June 30, 2007**

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, 2007. Please read in conjunction with the Commission's basic financial statements and accompanying notes.

**Financial Highlights**

- The Commission received \$37.4 million in tobacco tax revenue compared to \$39.3 million received in the prior fiscal year, a decrease of \$1.9 million, or 5%.
- The Commission had expenses totaling \$51.1 million compared to \$43.3 million incurred in the prior fiscal year, an increase of \$7.8 million, or 18%.
- The Commission's assets at June 30, 2007 were \$172 million, an increase of \$2.5 million or 1%, compared to total assets of \$169.5 million at June 30, 2006.
- The Commission's liabilities at June 30, 2007 were \$20.3 million, an increase of \$3 million or 17%, compared to total liabilities of \$17.3 million at June 30, 2006.

**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.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY**  
**Management's Discussion and Analysis**  
**(Unaudited)**  
**June 30, 2007**

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.

A governing board of nine members, which are appointed by the Orange County Board of Supervisors, administers the Commission. Accordingly, the Commission is discretely presented as a 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.

**Government-wide Financial Statements Analysis**

The following is a summary of the Commission's assets, liabilities and net assets comparing FY 2006-07 with FY 2005-06.

	<u>FY 2006-07</u>	<u>FY 2005-06</u>	<u>Percent Increase (Decrease)</u>
<b>Assets:</b>			
Cash and investments	\$ 163,562,270	\$ 152,403,893	7%
Imprest cash	15,000	-	100%
Taxes receivable	6,402,356	7,242,485	-12%
State school readiness receivable	-	6,658,990	-100%
Other receivables	1,884,479	3,233,073	-42%
Equipment, net	7,942	11,419	-30%
Total assets	<u>\$ 171,872,047</u>	<u>\$ 169,549,860</u>	1%
<b>Liabilities:</b>			
Accounts payable and accrued liabilities	\$ 11,661,759	\$ 10,647,654	10%
Due to County of Orange	192,923	251,997	-23%
Due to other governments	8,272,405	6,210,289	33%
Long-term liabilities	158,265	162,763	-3%
Total liabilities	<u>20,285,352</u>	<u>17,272,703</u>	17%
<b>Net assets:</b>			
Restricted - childrens programs	151,578,753	152,265,738	0%
Invested in capital assets	7,942	11,419	-30%
Total net assets	<u>151,586,695</u>	<u>152,277,157</u>	
Total liabilities and net assets	<u>\$ 171,872,047</u>	<u>\$ 169,549,860</u>	1%

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY**  
**Management's Discussion and Analysis**  
**(Unaudited)**  
**June 30, 2007**

The Commission's total assets of approximately \$172 million increased by \$2.5 million, or 1% compared with the prior year, primarily due to an increase in cash on hand offset by a decrease in receivables from the Medi-Cal Administrative Activities (MAA) program and the State School Readiness program. The Commission's cash of \$163.6 million cash at the end of FY 2006-07 was 7% higher than the cash of \$152.4 million at the end of FY 2005-06, attributable to grantees under expending projected expenditures. Interest earned is a contributing factor due to additional cash being invested and the significant increase in interest rate yield.

The increase in total liabilities of approximately \$3 million or 17% is due to an increase in accounts and retentions payable related to year-end accruals for various contract payments.

The following is a summary of the Commission's revenues, expenses and changes in net assets comparing FY 2006-07 with FY 2005-06.

	<b>FY 2006-07</b>	<b>FY 2005-06</b>	<b>Percent Increase (Decrease)</b>
<b>Revenues:</b>			
<b>Program Revenues</b>	\$ 42,400,307	\$ 42,728,931	-1%
<b>General Revenues</b>			
Investment income	7,954,594	6,506,090	22%
Other revenues	41,527	176,257	-76%
Total general revenues	7,996,121	6,682,347	20%
Total revenues	50,396,428	49,411,278	2%
<b>Expenses:</b>			
0-5 Child development programs	42,972,440	36,171,850	19%
State School Readiness programs	5,856,371	4,921,544	19%
Salaries and benefits	2,258,080	2,241,200	1%
Total expenses	51,086,891	43,334,594	18%
<b>Change in net assets:</b>	(690,462)	6,076,684	-111%
Net assets - July 1	152,277,157	146,200,473	4%
Net assets - June 30	\$ 151,586,695	\$ 152,277,157	0%

**Revenues**

The Commission recorded total revenues of approximately \$50.4 million in FY 2006-07 which was an increase of \$1 million, or 2%, compared with the prior year's total revenues of \$49.4 million. The increase is due primarily to an increase in Federal operating grants and investment income offset by a decrease in tobacco taxes.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY**  
**Management's Discussion and Analysis**  
**(Unaudited)**  
**June 30, 2007**

***Tobacco Tax Revenues***

Tobacco tax revenue decreased from \$39.3 million in FY 2005-06 to \$37.4 million in FY 2006-07, a decrease of \$1.9 million, or 5%. The Commission's annual tobacco tax revenues has decreased as expected based on assumptions supported by the State Commission.

The decrease in tobacco revenues is 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, and a decrease in the number of smokers.

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

In FY 2006-07, the Commission earned \$1.6 million from the State Commission for the State School Readiness Program, a decrease of \$1 million, or 36%, 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. During FY 2005-06, the Commission received revenues from the State Commission for the State School Readiness Program for multiple years in arrears; in FY 2006-07, the Commission received revenues for only the current fiscal year.

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

The Commission received a total of \$0.2 million in State SMIF revenue in FY 2006-07 which was \$0.02 million more than SMIF funds received in FY 2005-06. SMIF revenue comes from interest earned on County tobacco tax allocations that are temporarily held in the State Commission's "clearing house" account.

***Federal Operating Grants***

In FY 2006-07, the Commission earned \$2.5 million in federal grant funds which is \$2.2 million more than the \$0.3 million earned during the prior fiscal year. The increase is due to the receipt of prior year Medi-Cal Administrative Activity (MAA) revenue that became eligible for disbursement in FY 2006-07 and the statewide expansion of the Vista contract in October 2006.

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

The Commission earned \$0.7 million for other state operating grants in FY 2006-07, which was an increase of \$0.4 million compared to the prior year's total of \$0.3 million. The increase is primarily due to prior year State Special Needs Program revenue that became available and was received in FY 2006-07.

***Investment Income***

The Commission earned \$8 million of investment income in FY 2006-07, which was an increase of \$1.5 million or 22% compared to the \$6.5 million earned in the prior year. The increase is the result of increased cash on hand and a significant improvement in interest rates and earnings obtained by the County Treasurer-Tax Collector in FY 2006-07. The County Treasurer-Tax Collector's Office earned an average rate of 5.15% in FY 2006-07 for the Commission's funds invested in the investment pool compared to an average rate of 4.8% in FY 2005-06.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY**  
**Management's Discussion and Analysis**  
**(Unaudited)**  
**June 30, 2007**

***Expenses***

The Commission recorded total expenses of approximately \$51.1 million in FY 2006-07, which was an increase of \$7.8 million, or 18%, compared with the prior year's total expenses of \$43.3 million. The increase is due primarily to expenditures for children's programs and services, specifically in School Readiness Nursing (\$.5 million, 28% increase), Healthy Children Grants (\$.9 million, 64% increase), School Readiness Program Expansion (\$.7 million, \$0 in prior year), MAA Funded Children's Health Program (\$.7 million, 1,340% increase), AmeriCorps/Vista (\$.6 million, 45% increase) and Public Outreach and Communication (\$.4 million, 78% increase).

For FY 2006-07, the Commission expended approximately \$43 million for 0-5 child development programs compared to \$36.2 million spent in the prior year, an increase of \$6.8 million, or 19%. These expenses were used primarily on programs to serve children and their families. Contributing to the increase in FY 2006-07 is the increased spending on School Readiness Nursing, Healthy Children Grants, School Readiness Program Expansion, MAA Funded Children's Health Program, AmeriCorps/Vista, and Public Outreach and Communication compared to the prior year as noted above.

The Commission expended \$5.9 million for the State School Readiness Program in FY 2006-07 which is 19% higher than \$4.9 million spent in the prior year. Thirteen (13) school districts participated in the Commission's State School Readiness Program in FY 2006-07; the same number as in FY 2005-06. The increase of \$1 million is due to the Commission's emphasis on using as much State funding as possible to administer the State School Readiness Program, while still meeting the necessary match requirements with funds from the participating school districts.

In addition, in FY 2006-07, the Commission spent \$2.3 million for salaries and benefits compared to \$2.2 million spent the prior year, an increase of less than 1%. The increase was due primarily to hiring additional staff, cost of living adjustments and retirement costs.

The Commission's total net assets at the end of FY 2006-07 were \$151.6 million, compared to \$152.3 million at the end of the prior year, a decrease of less than 1%. Contributing to the decrease in net assets was the decrease in tobacco taxes earned by the Commission and the increase in Federal grant revenues, interest income and program expenses in FY 2006-07.

The Commission did not have any significant capital asset or long-term debt activity during FY 2006-07.

**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 2006-07 as detailed on the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

FY 2006-07 the Commission earned actual tobacco taxes of \$37.4 million, which was \$.1 million less than the final budget estimate of \$37.5 million. The decrease falls in line with State Commission expectations and prior years' trends.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY**  
**Management's Discussion and Analysis**  
**(Unaudited)**  
**June 30, 2007**

The Commission increased its original budget estimate of \$3.9 million for State School Readiness revenue by \$2.5 million during FY 2006-07 for a new total estimate of \$6.4 million. This increase was due to FY 2005-06 State School Readiness revenues that had not yet been received. Historically, State School Readiness revenue receipts from the State were a year to two years in arrears, however FY 2006-07 revenues were received within the fiscal year.

In FY 2006-07, the Commission received \$0.7 million in Other State Operating Grants which was \$0.4 million less than the \$1.1 million budgeted for these grants. This revenue category includes funding for the State Reimbursement for GFOA contracts and VISTA Statewide Reimbursement Revenue from other California counties. 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 program contracts being administered for some of these revenues.

The Commission increased its original budget estimate of \$0.6 million for Federal Operating Grants by \$2.9 million during FY 2006-07 for a new total budget estimate of \$3.5 million. This increase is to account for prior year Medi-Cal Administrative Activity (MAA) revenue that became eligible for disbursement and for the statewide expansion of the Vista contract in October 2006. The Commission received \$2.5 million for Federal Operating Grants in FY 2006-07 which was \$1 million less than the \$3.5 million budget estimate. The primary reason for the decrease in actual revenues compared to budget is the Commission's final contract for the new statewide Federal Vista program allowed for less revenue allocations than anticipated.

The Commission increased its original budget estimate of \$6.8 million to \$7 million for investment income to account for the County Treasurer's investment fees originally netted against investment income for budget purposes. The Commission received \$8 million for investment income in FY 2006-07 which was \$1 million higher than the budget estimate of \$7 million. Interest rates earned by the Commission's funds in the County's investment pool improved in FY 2006-07 and out performed the conservative interest rate used to project interest revenues for the original FY 2006-07 Budget.

Regarding FY 2006-07 budgeted expenditures, the Commission decreased its original budget estimate of \$67.0 million by \$4.7 million to a new total of \$62.3 million for 0-5 Child development programs and State school readiness programs to account for the \$2.0 million in the Homeless Prevention program being made available for future years and for the elimination of the prior year local match contingency. Regarding FY 2006-07 actual expenditures, the Commission spent \$48.8 million for 0-5 Child development programs and State school readiness programs in FY 2006-07, which was \$13.5 million under the total respective budget of \$62.3 million. The Commission historically 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 program 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, re-budgeted as necessary, and is spent for approved programs in subsequent fiscal years.

The Commission spent \$2.3 million for salaries and benefits in FY 2006-07 which was under the budget amount of \$2.5 million by roughly \$.2 million. The savings resulted primarily from a delay in filling vacated positions throughout the year.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY**  
**Management's Discussion and Analysis**  
**(Unaudited)**  
**June 30, 2007**

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

On January 1, 2006, Senate Bill 35 and Assembly Bill 109 became effective. Both bills included provisions which establish additional requirements for the state and all county children and families commissions. SB 35 expanded the requirements for commission annual financial audits and internal quality control functions. AB 109 required 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 have been adopted and implemented by the Children and Families Commission of Orange County. There is no other known legislation for FY 2006-07 that impacts the operations of the Commission.

**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 Finance at 17320 Red Hill Avenue, Suite 200, Irvine, California 92614.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
STATEMENT OF NET ASSETS**

**JUNE 30, 2007**

	Governmental Activities
<b>ASSETS</b>	
Cash and investments in County Treasury	\$ 163,562,270
Imprest cash	15,000
Accounts receivable	7,324
Interest receivable	1,468,252
Due from other governments	6,811,259
Capital assets, net of accumulated depreciation	7,942
<b>TOTAL ASSETS</b>	<b>171,872,047</b>
<b>LIABILITIES</b>	
Accounts payable	8,597,476
Due to County of Orange	192,923
Due to other governments	6,613,058
Retentions payable	4,675,634
Accrued wages and benefits	47,996
Compensated absences:	
Payable within one year	107,596
Payable after one year	50,669
<b>TOTAL LIABILITIES</b>	<b>20,285,352</b>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	7,942
Restricted for:	
Restricted by enabling legislation for use on children's programs	151,578,753
<b>TOTAL NET ASSETS</b>	<b>\$ 151,586,695</b>

See accompanying notes to the basic financial statements.

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

**FOR THE YEAR ENDED JUNE 30, 2007**

	Expenses	Program Revenues Operating Grants And Contributions	Net (Expense) Revenue and Changes in Net Assets Governmental Activities
Governmental Activities:			
Child development	\$ 51,086,891	\$ 42,400,307	\$ (8,686,584)
General Revenues:			
Investment income			7,954,594
Miscellaneous			41,527
Total General Revenues			7,996,121
Change in Net Assets			(690,462)
Net Assets, July 1			152,277,157
Net Assets, June 30			\$ 151,586,695

See accompanying notes to the basic financial statements.

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

**JUNE 30, 2007**

	General Fund
<b>ASSETS</b>	
Cash and investments in County Treasury	\$ 163,562,270
Imprest cash	15,000
Accounts receivable	7,324
Interest receivable	1,468,252
Due from other governments	6,811,259
Total Assets	\$ 171,864,105
<b>LIABILITIES AND FUND BALANCES</b>	
<b>LIABILITIES</b>	
Accounts payable	\$ 8,597,476
Due to County of Orange	192,923
Due to other governments	6,613,058
Retentions payable	4,675,634
Accrued wages and benefits	47,996
Deferred revenue	263,000
Total Liabilities	20,390,087
<b>FUND BALANCES</b>	
Reserved for:	
Imprest fund	15,000
Reserved for encumbrances	22,151,367
Reserved for children's programs	5,378,112
Unreserved:	
Designated for future funding cycles and operating budget	123,929,539
Total Fund Balances	151,474,018
Total Liabilities and Fund Balances	\$ 171,864,105

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, 2007**

Fund balances of governmental funds	\$ 151,474,018
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.	7,942
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(158,265)
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>263,000</u>
Net Assets of governmental activities	<u><u>\$ 151,586,695</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, 2007**

REVENUES

Prop 10 Tobacco Tax	\$ 37,356,314
Prop 10 State School Readiness	10,461,757
Other State operating grants and contributions	669,897
Investment income earned on tobacco taxes at the State level ( SMIF)	430,669
Federal operating grants	2,237,302
Investment income	7,954,594
Other revenue	41,527
	59,152,060

EXPENDITURES

Salaries and benefits	2,262,578
Expenditures related to the "Zero to Five" Program	42,968,962
Services and supplies for State School Rediness program	5,856,371
	51,087,911

Change in Fund Balance	8,064,149
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FUND BALANCE, July 1	143,409,869
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FUND BALANCE, June 30	\$ 151,474,018
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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, 2007**

Net changes in fund balance - total governmental funds \$ 8,064,149

Amounts reported for governmental activities in the statement of activities differs from the amounts reported in the statement of activities because:

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

Depreciation expense (3,478)

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. 4,498

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. (8,755,632)

Change in net assets of governmental activities \$ (690,462)

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, 2007**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Prop 10 Tobacco Tax	\$ 37,500,000	37,500,000	\$ 37,356,314	\$ (143,686)
Prop 10 School Readiness	3,865,682	6,359,653	10,461,757	4,102,104
Other State operating grants and contributions	1,049,837	1,049,837	669,897	(379,940)
Investment income earned on tobacco taxes at the State level	20,000	20,000	430,669	410,669
Federal operating grants	569,850	3,501,654	2,237,302	(1,264,352)
Investment income	6,800,000	7,000,000	7,954,594	954,594
Other revenue	40,000	40,000	41,527	1,527
Total Revenues	49,845,369	55,471,144	59,152,060	3,680,916
<b>EXPENDITURES</b>				
Salaries and benefits	2,565,719	2,492,480	2,262,578	229,902
Expenditures related to the "Zero to Five" Program	59,188,796	56,293,662	42,968,962	13,324,700
Services and supplies for State School Rediness program	7,833,201	6,042,952	5,856,371	186,581
Capital outlay	25,000	25,000	-	25,000
Total Expenditures	69,612,716	64,854,094	51,087,911	13,766,183
Net Change in Fund Balance	(19,767,347)	(9,382,950)	8,064,149	17,447,099
FUND BALANCE, July 1	143,409,869	143,409,869	143,409,869	-
FUND BALANCE, June 30	\$ 123,642,522	\$ 134,026,919	\$ 151,474,018	\$ 17,447,099

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, 2007**

**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 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. 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, 2007**

**NOTE 1 – ORGANIZATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(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 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. Depreciation expense for the year ended June 30, 2007 amounted to \$3,478 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 \$263,000 at June 30, 2007 was recognized as revenue in the government-wide financial statements.

Long-Term Liabilities

As of June 30, 2007, the Commission estimated its liability for vested compensated absences to be \$158,265. 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 \$111,255 and decreased by \$115,753 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, 2007**

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

**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.

**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.

**Capital assets, net of accumulated depreciation**

Capital assets are recorded at cost. The Commission capitalizes assets with cost in excess of \$5,000 and a useful life greater than one year. The Commission depreciates capital assets using a straight-line method over the estimated useful life of each asset. The estimated useful life used for the capital assets, comprised only of equipment, 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. 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, 2007.

**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, 2007, which is prepared on the modified accrual basis of accounting. The accompanying statement of revenues, expenditures and changes in fund balance budget and actual includes the budgeted expenditures for the year, along with management's estimate of revenues for the year. The legal level of budgetary control is at the total fund level.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2007**

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

**Encumbrances**

The Commission utilizes an encumbrance system as a management control technique to assist in controlling expenditures. 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.

**Effect of New Governmental Accounting Standards Board Pronouncements**

GASB Statement No. 45 – In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. This statement becomes effective for the fiscal year ended June 30, 2008.

**Reclassifications**

Certain amounts in the financial statements have been reclassified from the presentation in the prior year report as follows:

<u>Current Year Presentation</u>	<u>Prior Year Presentation</u>
Cash and investments in County Treasury	Cash and investments
Imprest Cash	Cash and investments
Accounts receivable	Other receivables
Interest receivable	Due from County of Orange
Due from other governments	Taxes receivable
Due from other governments	State school readiness receivable
Retentions payable	Accounts payable and Due to other governments
Accrued wages and benefits	Accounts payable

**NOTE 2 – CASH AND INVESTMENTS**

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

Cash and investments in County Treasury	\$ 163,562,270
Imprest Cash	15,000
	<hr/>
Total Cash and Investments	\$ 163,577,270
	<hr/> <hr/>

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007**

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

Cash and investments consisted of the following at June 30, 2007:

Orange County Investment Pool:		
Equity in pooled Money Market fund		\$ 114,277,890
U.S. Treasury obligations		49,284,380
Imprest Cash		15,000
Total Cash and Investments		\$ 163,577,270

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 District’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	3 years	None	None
Orange County Investment Pool	N/A	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 236 days as of June 30, 2007. The Commission’s equity in the Pool was 3.6% of the total Pool.

Cash on deposit with the Treasurer at June 30, 2007 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, 2007 increased the Commission's investment income by \$148,193. 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.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007**

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

The Commission has set aside deposits for future-needs of a long-term nature and entered into an agreement with the County Treasurer to manage a specific long-term investment portfolio (SLIP) for these deposits. The SLIP agreement sets forth the investment policy for these identified deposits. The investments are limited to U. S. Treasury securities with a maximum maturity of three years. The investments will be held to maturity unless market conditions dictate otherwise.

As of June 30, 2007, the Commission had the following investments in the SLIP:

Investments	Maturities	Fair Value
U.S. Treasury Bills	7/31/07-10/15/09	\$ 49,284,380

These investments are stated at fair value at June 30, 2007 and the fair value adjustment at year-end decreased the Commission's investment income by \$113,534.

Interest Risk

The Commission manages its exposure to interest rate risk by limiting the maximum maturity of U.S. Treasury securities to three years. At June 30, 2007, the weighted average maturity of the SLIP was 1.16 years. The stated interest rates on the U.S. Treasury securities comprising the SLIP range from 3.13 to 4.88 percent.

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Commission will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. At year-end, the Commission's SLIP was held in a separate custody account with a third party custodian in the County's name.

Credit Risk

Obligations of the U. S. government are not considered to have credit risk. The Pool had a credit rating of AAA as of June 30, 2007.

Concentration of Credit Risk

At June 30, 2007, the investments in the SLIP consisted of 100% U.S. Treasury securities.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2007**

**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, 2007, were as follows:

Due from State Commission:	
Prop 10 revenue for:	
May 2007	\$ 2,879,671
June 2007	3,295,604
Surplus Money Investment Fund Allocations	227,081
Due from other governmental agencies for:	
Medi-Cal Administrative Activities (MAA)	164,091
AmeriCorps	98,908
Vista funds	145,904
Total Due from Other Governments	<u><u>\$ 6,811,259</u></u>

**NOTE 4 – 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 25.89% for the year ended June 30, 2007.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007**

**NOTE 4 – DEFINED BENEFIT PENSION PLAN (Continued)**

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 3.4% for the year ended June 30, 2007.

The Commission's annual required contribution to OCERS was \$380,907 for the year ended June 30, 2007. The Commission's actual and actuarially required contributions were as follows:

Fiscal Year Ending	Annual Required Contributions (ARC)	Percentage of ARC Contributed
6/30/2005	\$ 186,916	100.00%
6/30/2006	514,914	100.00%
6/30/2007	380,907	100.00%

**NOTE 5 – 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 6 – COMMITMENTS**

The Commission leases office space from a third party under a long-term operating lease, which expires in July 2011 (FY 2011-12). The future minimum rental payments due under the lease are as follows.

2008	\$ 271,805
2009	279,532
2010	288,261
2011	297,081
2012	24,818
	<u>\$ 1,161,497</u>

Rent expense was \$278,580 for the year ended June 30, 2007.

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

**NOTE 7 – 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 2006-07 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 2005-06. Specifically, the Commission was required to provide a local match of 100% of the State funds expended for the Phase 1A non-implementation funds and 100% of the Phase 1B non-implementation funds expended for the year ended June 30, 2006.

There is no match requirement for the 2006 implementation funds expenditures. For the fiscal year ended June 30, 2006, the Commission's management asserts that the matching requirement has been met.

**NOTE 8 – 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, 2007 was \$52,087. The Commission incurred expenses totaling \$610,935 for all other County services provided during the year ended June 30, 2007. The amount owed to the County of Orange at June 30, 2007 was \$192,923.

**NOTE 9 – 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, 2007, the Commission expended \$1,634,922 for program evaluation.



**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 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, 2007, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated September 14, 2007. 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 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 control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Commission's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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 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*.

We noted certain matters that we reported to management of the Commission, in a separate letter dated September 14, 2007.

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

A handwritten signature in black ink that reads "Vavrinich, Trine, Dug & Co., LLP". The signature is written in a cursive, flowing style.

Rancho Cucamonga, California  
September 14, 2007



