

**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, 2008

**CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY
FOR THE YEAR ENDED JUNE 30, 2008**

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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, 2008, 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 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, 2008, 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.

As described in Note 1, the Commission has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 45 – *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as of July 1, 2007.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2008 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 11 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.

Vorwerk, True, Day & Co., LLP

Rancho Cucamonga, California
September 19, 2008

CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY
Management's Discussion and Analysis
(Unaudited)
June 30, 2008

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, 2008. Please read in conjunction with the Commission's Basic Financial Statements and accompanying notes.

Financial Highlights

- The Commission received \$35.5 million in tobacco tax revenue compared to \$37.4 million received in the prior fiscal year, a decrease of \$1.9 million, or 5%.
- The Commission had expenses totaling \$59.6 million compared to \$51.1 million incurred in the prior fiscal year, an increase of \$8.5 million, or 17%.
- The Commission's assets at June 30, 2008 were \$156.3 million, a decrease of \$15.6 million or 9%, compared to total assets of \$171.9 million at June 30, 2007.
- The Commission's liabilities at June 30, 2008 were \$14.2 million, a decrease of \$6.1 million or 30%, compared to total liabilities of \$20.3 million at June 30, 2007.
- The Commission's net assets at June 30, 2008 were \$142.1 million, a decrease of \$9.4 million or 6%, compared to net assets of \$151.6 million at June 30, 2007.

Overview of the Financial Statements

This annual financial report consists of two parts, Management Discussion and Analysis and the Basic Financial Statements, including Government-Wide Financial Statements, Governmental Fund Financial Statements and Notes to Basic Financial Statements. The Commission's financial statements, prepared in accordance with generally accepted accounting principles (GAAP), offer key, high-level financial information about the activities during the reporting period.

Government-Wide Financial Statements

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

The statement of net assets 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 describes changes to the Commission's net assets during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.