CHILDREN AND FAMILIES COMMISSION
OF ORANGE COUNTY

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

COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2017

Prepared by:

Michael Garcell, CPA

Finance Manager

CHILDREN AND FAMILIES COMMISSION
OF ORANGE COUNTY
FOR THE YEAR ENDED JUNE 30, 2017

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September 24, 2017

Board of Commissioners
Children and Families Commission of Orange County
1505 East 17th Street, Suite 230
Santa Ana, CA 92705

Dear Commissioners,

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

The CAFR has been audited by the independent certified public accounting firm of Vavrinek, Trine, Day & Co., LLP. The goal of the independent audit was to provide reasonable assurance about whether the basic financial statements of the Commission for the year ended June 30, 2017, are free of material misstatement. The independent certified public accounting firm has issued an unmodified ("clean") opinion on the Commission's financial statements as of and for the year ended June 30, 2017. The independent auditor's report is located at the front of the financial section of this report.

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

Profile of the Commission

The Commission was established by the Orange County Board of Supervisors in September 1999 following the passage of Proposition 10, through which California voters made an unprecedented investment in early childhood development. The Commission's activities have been built to develop, adopt, promote and implement programs to support early childhood development. Since inception, the Commission has made a lasting positive impact in Orange County through its expenditures of approximately $745 million toward grants, programs and operations that improve the well-being of young children and families in Orange County.

Relevant Financial Policies

Financial Plan
In December 2016, the Board of Commissioners reviewed the updated Long Term Financial Plan (LTFP). The LTFP, which is reviewed annually to incorporate the prior year-end financials as well as updated revenue projections, continues to anticipate annual decreases in Proposition 10 tobacco tax collections. Since its peak in 2000, the Commission has had an overall reduction of over 45% in revenue, and tobacco revenue is projected to continue to decline at a rate of 3% to 4% annually.

Recent legislation and voter initiatives have been passed that will directly affect tobacco tax sales and tax revenue. An increase to the legal age for the purchase of tobacco products from 18 to 21, a new licensing fee administered by the Board of Equalization to cover administrative costs previously charged to First 5's, and the passage of Proposition 56, a $2.00 tax increase, are all expected to have varying degrees of impact on tobacco tax revenue. The following table from First 5 California using information from the Legislative Analyst's Office provides an early estimate of the impact on annual revenue.

Tobacco Legislation and Measures: Estimated Revenue Impact					
	Annual Licensing Fee	Age Increase to 21	$2 Tax Increase	Expanded Definition of Tobacco Products	Total
Orange County	$282,490	$-1,505,180	Neutral	$1,842,326	$619,636

A large one-time decline of 17.55% in tobacco tax revenue is anticipated to occur in fiscal-year 2017-18 due to the lag in implementing the backfill provision of Proposition 56 passed in November 2016. An increase of 16.20% is projected by First 5 California in fiscal-year 2018-19 to follow the large decline. Given this decline and overall volatility, the Board of Commissioners directed staff to develop three-year funding renewal recommendations, working under the direction of Commissioner-led funding renewal panels.

Under the direction of Commissioner-led program review teams, staff developed three-year funding renewal recommendations which were presented and approved by the Board of Commissioners at their February 2017 meeting. The program review teams used core program criteria to review the portfolio of programs funded by the Commission to determine which programs align with the Commission's mission and operations. Core programs were those that met one or more of the following criteria:

1. Aligns outcome-oriented goals with the Commission' s Strategic Plan
2. Provides a financial or social Return on Investment
3. Pursues leveraging or sustainability strategies
4. Provides a critical partnership to advancing the Commission's goals
5. Serves an extremely vulnerable population

Strategic Plan
The Proposition 10 initiative requires that each county commission review its Strategic Plan on at least an annual basis and revise the plan as necessary or appropriate. The Strategic Plan addresses the health and early education needs of young children and their families and identifies program specific measures that accurately reflect the diverse services the Commission funds. The Strategic Plan

focuses on Orange County's priorities and initiatives in the goal areas of Healthy Children, Strong Families, Early Learning and Capacity Building. The vision and mission that children are healthy and ready to learn remains the overall goal of all Commission-funded programs.

The Commission's first Strategic Plan was approved in February 2000. In 2014, the core elements of the Strategic Plan were reviewed and revised to provide a framework for guiding decisions resulting in updated goal statements and updated values and guiding principles. The framework of the evaluation elements required for grantee reporting and the foundation for all evaluation work was updated in 2015. In April 2017, the Strategic Plan was updated to reflect current activities and include the core program criteria used to evaluate the current program portfolio and guide funding recommendations.

As Proposition 10 revenues continue to decline, achieving the mission requires the Commission to be increasingly innovative and creative in working with community partners and other funders to develop sustainable services. This is not a new role, but a relatively larger emphasis as the Commission looks ahead. This focus is reflected in the Commission's catalytic investment strategies that are helping to develop resources to better leverage regional, state and national funders as well as bringing additional state and federal dollars to Orange County.

Looking ahead, the Commission's new strategic direction will focus on early learning from a system level approach. The business plan adopted in April 2017 for fiscal-year 2017-18 reflects the new direction and was developed with consideration to the detailed assessment and recommendations provided by The Bridgespan Group. New concepts used to guide the business plan development include identifying implementing actions to deepen impact; applying core program criteria and a renewal positions the Commission to increase catalytic investments; expanding the use Early Developmental Index data; and sustainability planning, and assessing staffing needs and work load demands.

Other Financial Information

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

<u>Budgetary Control</u>
The objective of budgetary control is to ensure that spending is limited to the total amount authorized by the Board of Commissioners. The initial budget for fiscal year 2016-2017 was adopted on May 4, 2016 with subsequent adjustments approved on October 5, 2016 and April 5, 2017. The Executive Director has the discretion to adjust the budget as defined within the budget policy of the Board of Commissioners. Monthly financial highlights are provided to the Board of Commissioners.

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

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Commission for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2016. This was the seventh consecutive year that the Commission has achieved this prestigious award. In order to be awarded a Certificate of Achievement, the Commission must publish an easily readable and efficiently organized CAFR. This report must satisfy both accounting principles generally accepted in the United State of America and applicable legal requirements.

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

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

Sincerely,

Kimberly Goll
Executive Director

CHILDREN AND FAMILIES COMMISSION
OF ORANGE COUNTY
BOARD OF COMMISSIONERS
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

COMMISSION BOARD MEMBERS (9)

Sandra Barry (A)
Chair

Richard P. Mungo, DDS (A)
Vice Chair

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

Kimberly Cripe (A)

Andrew Do (M)
Board of Supervisors

Gregory Haulk (A)

Sandra Pierce (A)

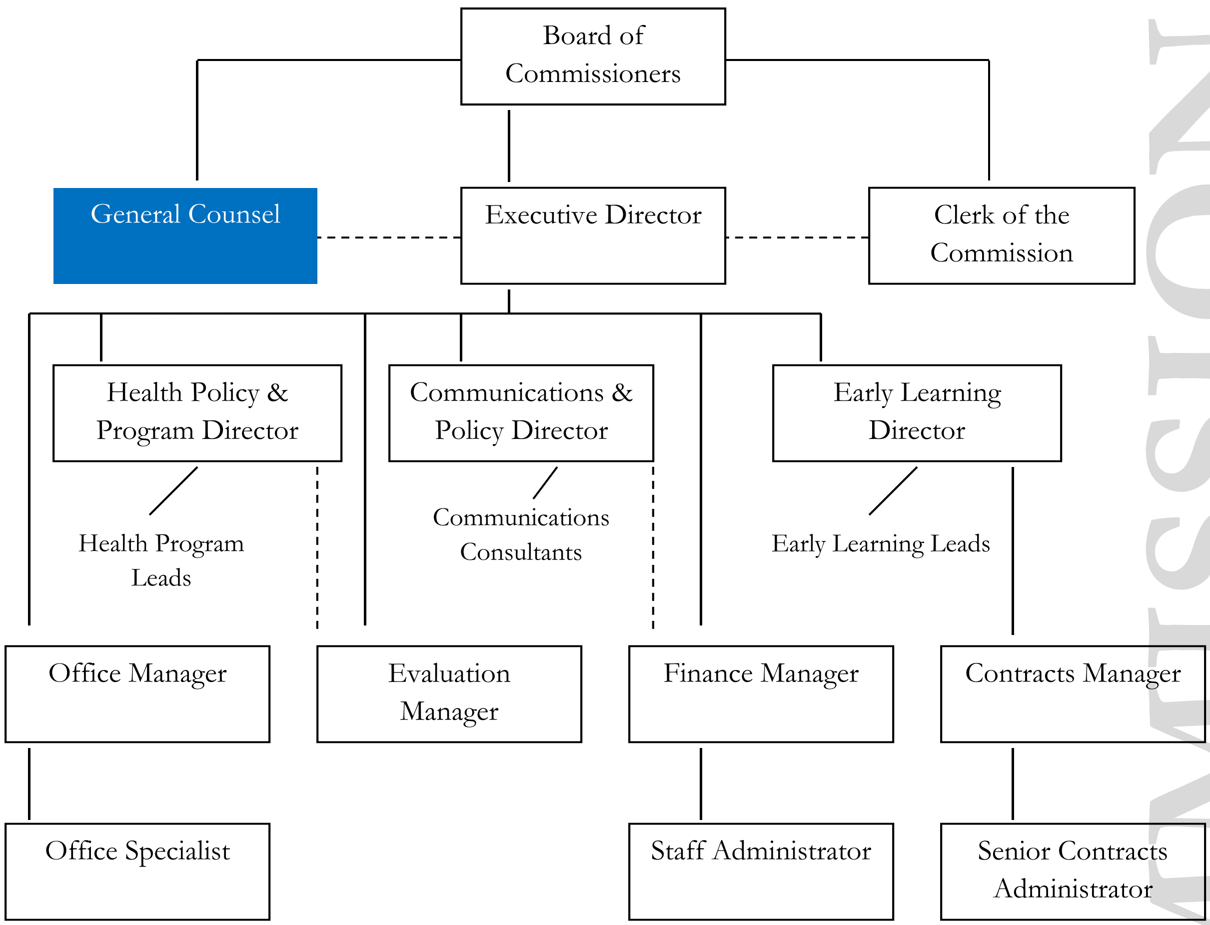
Michael Ryan (M)
Social Services Agency

Richard Sanchez (M)
Health Care Agency

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

COMMISSION

CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY ORGANIZATION CHART FOR THE FISCAL YEAR ENDED JUNE 30, 2017



Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Children and Families Commission

of Orange County, California

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2016

Christopher P. Morrill

Executive Director/CEO

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying 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, 2017, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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 the general fund of the Commission as of June 30, 2017, and the respective changes in financial position thereof and the budgetary comparison for the general fund for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

25231 Paseo De Alicia, Suite 100 Laguna Hills, CA 92653 Tel: 949.768.0833 www.vtdcpa.com Fax: 949.768.8408

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion, schedule of proportionate share of the net pension liability and the schedule of the Commission contribution on pages 3-15, 43 and 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The introductory section, schedule of First 5 California Funding, and statistical section, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of First 5 California Funding is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of First 5 California Funding is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2017, on our consideration of the Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, California
September 18, 2017

As management of the Children and Families Commission of Orange County (Commission), we offer readers of the Commission's Comprehensive Annual Financial Report this overview and analysis of the financial activities for the fiscal year ended June 30, 2017. Please read in conjunction with the Commission's basic financial statements and accompanying notes.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the Commission as reported on the Statement of Net Position exceeded its liabilities and deferred inflows of resources by $44 million at the end of the current fiscal year, a decrease of $7.6 million (-14.7%) from the prior fiscal year. The decrease in Net Position is primarily due to the Intergovernmental Transfer payment to the California Department of Health Care Services of $6.5 million which represents a large payment that will produce budget savings in future years by leveraging funds for specific Commission programs.

- As of June 30, 2017, the Commission's governmental fund statements reported an ending fund balance totaling $47.3 million, a decrease of $7.3 million (-13.4%) from the prior fiscal year which correlates with the change in net position.

- The total ending fund balance of $47.3 million was classified into the following categories: $5.6 million as non-spendable, $21.8 million as committed, and $20 million as assigned.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements

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

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

The *Statement of Activities* presents changes in the Commission's net position during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but not received, unused vacation leave, net pension liability).

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

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

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

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

Notes to the Financial Statements

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

ANALYSIS OF THE COMMISSION'S GOVERNMENT-WIDE FINANCIAL STATEMENTS

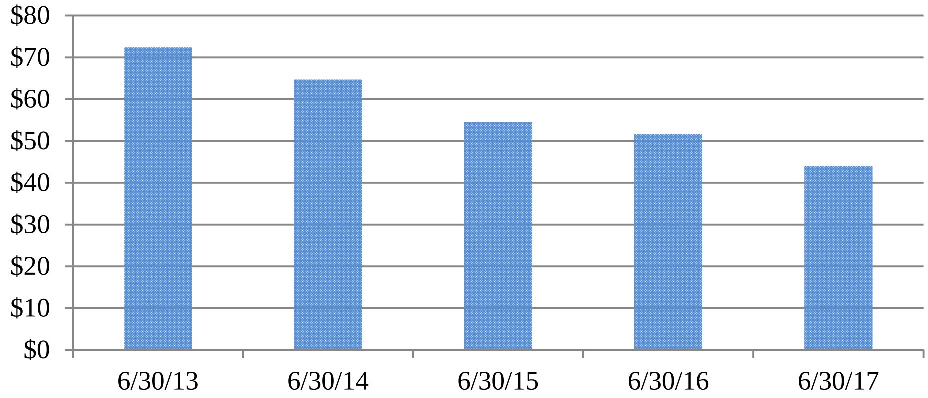
Net Position

Net position may serve over time as a useful indicator of a government's financial position. In the case of the Commission, net position was $44 million at the end of the current fiscal year, a 14.7% decrease from the prior fiscal year. Following is a summary of the government-wide Statement of Net Position comparing balances at June 30, 2017 and June 30, 2016.

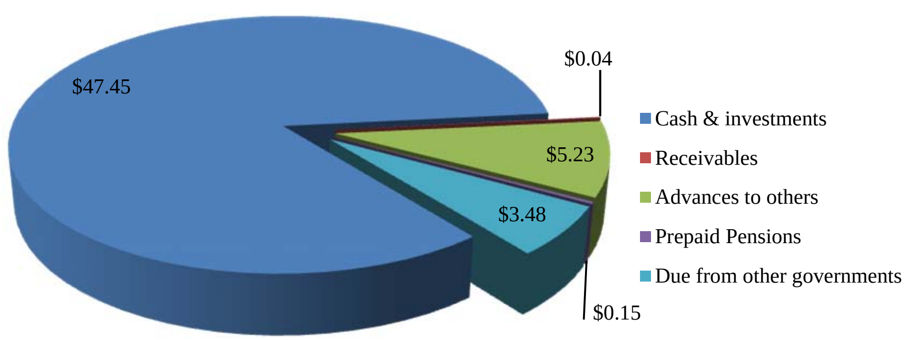
The Commission's net position as of June 30, 2017 is considered unrestricted because their use is not for a purpose narrower than the Commission's purpose and were comprised of the following:

	June 30, 2017	June 30, 2016	Percent Increase (Decrease)
Assets:			
Cash and investments	$47,439,195	$53,166,960	-10.8%
Imprest cash	10,000	10,000	-
Interest receivable	41,580	35,598	16.8%
Due from County of Orange	51,512	22,235	131.7%
Due from other governments	3,424,844	6,100,344	-43.9%
Prepaids	151,151	143,501	5.3%
Advances to others	5,230,813	6,998,301	-25.3%
Total assets	56,349,094	66,476,939	-15.2%
Deferred Outflows of Resources:			
Deferred Outflows - pensions	566,972	863,465	34.3%
Liabilities:			
Accounts payable and accrues liabilities	2,817,755	5,044,349	-44.1%
Due to County of Orange	37,200	9,242	302.5%
Due to other governments	4,120,481	4,030,954	2.2%
Retentions payable	1,260,538	1,400,694	-10.0%
Accrued wages and benefits	27,358	77,596	-64.7%
Compensated absences:			
Payable within one year	37,620	49,740	-24.4%
Payable after one year	8,500	13,909	-38.9%
Net Pension Liability	3,158,290	4,066,522	-22.3%
Total liabilities	11,467,742	14,693,006	-22.0%
Deferred Inflows of Resources:			
Deferred Inflows - pensions	1,413,459	1,025,887	37.8 %
Net Position:			
Unrestricted	44,034,865	51,621,511	-14.7%
Total net position	$44,034,865	$51,621,511	-14.7%

Net Position
Comparison of Last Five Fiscal Years
($ in millions)



Assets
As of June 30, 2017



Assets, Current and Other

- Cash and investments totaled $47.4 million. All of the $47.4 million was invested in the Orange County Investment Pool (OCIP), except for a small petty cash fund held at the Commission. The investments in OCIP are managed by the County Treasurer and reviewed for compliance with the Commission's Annual Investment Policy. Cash and investments decreased by 10.8% due to the Intergovernmental Transfer payment to the California Department of Health Care Services of $6.5 million which represents a large payment that will produce budget savings in future years by leveraging funds for specific Commission programs. The Commission provided three years of funding for previously planned early childhood health programs, and through this leveraging, five years of services will be provided resulting in two-year's worth of savings in the Commission's program budget.

- Due from other governments totaled $3.4 million. Of this amount, $2.4 million is Prop 10 tobacco tax revenue due from the State of California for May and June 2017 allocations and $.9 million for the First 5 California IMPACT Program.

- Advances to others totaled $5.2 million and represents funds advanced to contractors for services not provided by June 30, 2017. $3.1 million was remaining as an advance for Emergency Shelter Catalytic programs and $2.1 million is remaining for Early Literacy and Math programs. The advances cover future periods up to FY 2020.

- Other current assets consist of $0.04 million in interest and $0.15 million in prepaids.

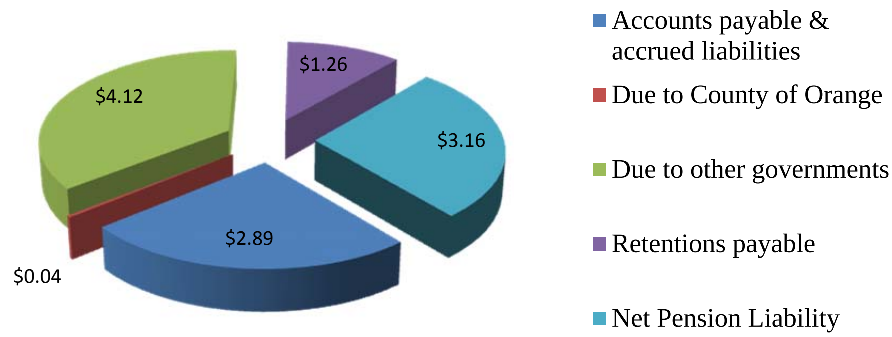
Deferred Outflows of Resources

- The Commission participates in a cost-sharing multiple-employer pension plan, the Orange County Employees Retirement System. As a participant, the Commission is required to report its proportionate share of deferred outflows of resources related to pensions.

- Commission contributions of $308,036, including early payments, made subsequent to the measurement date (December 31, 2016) of the collective net pension liability are required to be reported as deferred outflows of resources related to pensions. FY 2014/15 was the first year Governmental Accounting Standards Board Statement No. 68 requires deferred outflows of resources related to pensions be recognized in the Commission financial statements. Deferred outflows of resources also include $258,936 for the net differences between projected and actual earnings on pension plan over the measurement period ending December 31, 2016.

- Note 8 to the Commission financial statements provides further detail of all deferred outflows of resources recognized in FY 2016-17.

Liabilities
As of June 30, 2017



Liabilities

- Accounts payable and due to other governments totaling $6.9 million. Payables to grantees for services not yet billed at June 30, 2017 are based on established contract terms. This balance represents a decrease of 23% from the prior year due to both timely invoicing of program partners and the planned step-down of overall program expenditures.

- Retentions payable totaling $1.3 million. Retentions payable are held until end of contract audits are completed and received by the Commission to ensure compliance with contract terms.

- Other current liabilities totaling $0.11 million consisting of amounts due to the County of Orange and accrued wages, benefits and compensated absences.

- Net pension liability of $3.16 million is reported and represents a decrease of $.9 million or 22% from the liability for the prior year. The three contributing factors to the decrease were the change in proportionate share, the difference in actual and projected earnings on pension plan investments, and the difference between expected and actual experience.

Deferred Inflows of Resources

- The Commission participates in a cost-sharing multiple-employer pension plan, the Orange County Employees Retirement System. As a participant, the Commission is required to report its proportionate share of deferred inflows of resources related to pensions.

- Governmental Accounting Standards Board Statement No. 68 requires deferred inflows of resources related to pensions be recognized in the Commission financial statements. Total deferred inflows of resources of $1,413,459 are the results of differences between expected and actual experience, changes of assumptions, and changes in the Commission's proportionate share occurring over the measurement period ending December 31, 2016.

- Note 8 to the Commission financial statements provides further detail of all deferred inflows of resources recognized in FY 2016-17.

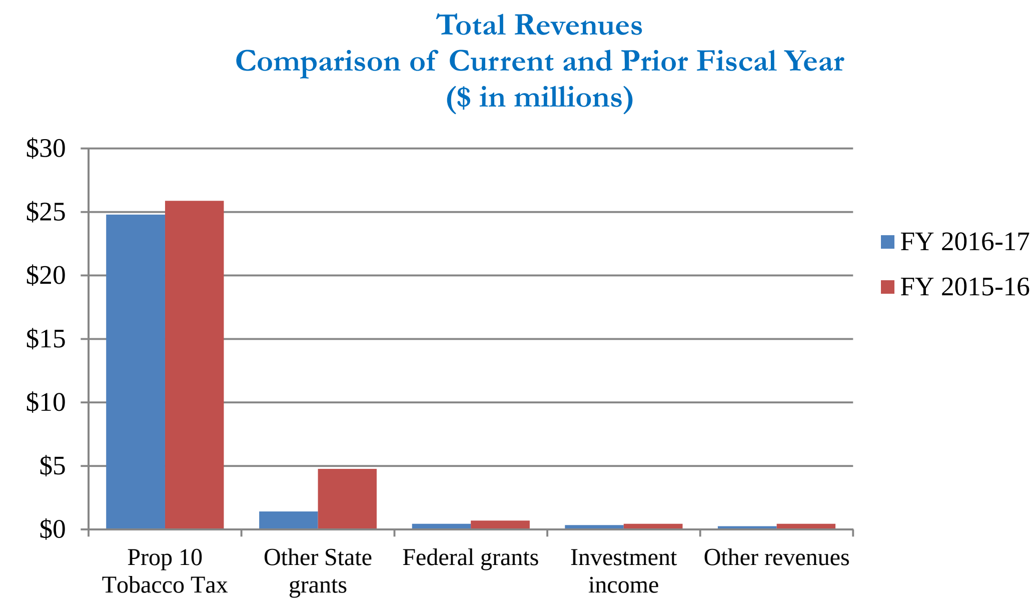
Changes in Net Position

For the year ended June 30, 2017, current year operations decreased the Commission's net position by $7.6 million. The decrease is due to the Intergovernmental Transfer payment to the California Department of Health Care Services of $6.5 million which represents a large payment that will produce budget savings in future years by leveraging funds for specific Commission programs. The following is a summary of the Commission's Statement of Activities comparing revenues, expenses and changes in net position for the fiscal years ended June 30, 2017 and June 30, 2016.

	FY 2016-17	FY 2015-16	Percent Increase (Decrease)
Revenues:			
Program Revenues			
Tobacco taxes	$24,790,836	$25,879,036	-4.20%
Other State operating grants and contributions	976,964	2,288,809	-57.32%
Interest income earned on tobacco taxes at the State	20,192	12,315	63.96%
Federal operating grants and other contributions	445,121	696,686	-36.11%
Total program revenues	26,233,113	28,876,846	-9.16%
General Revenues			
Investment income	343,403	441,810	-22.27%
Other revenues	230,677	429,235	-46.26%
Total general revenues	574,080	871,045	-34.09%
Total revenues	26,807,193	29,747,891	-9.89%
Expenses:			
0-5 Child development programs	33,178,190	30,870,890	7.47%
Salaries and benefits	1,215,649	1,727,197	-29.62%
Total expenses	34,393,839	32,598,087	5.51%
Change in net position:	(7,786,646)	(2,850,196)	
Net position – July 1	51,621,511	54,471,707	-5.23%
Net position – June 30	$44,034,865	$51,621,511	-14.70%

Total revenues

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



- *Program revenues*
  The Commission's program revenues totaled $26.2 million in FY 2016-17 and accounted for 97.9% of total revenues. This represented a decrease of $2.6 million (-9.16%) from FY 2015-16 program revenues.

  - Tobacco Tax revenue includes revenues from taxes levied on tobacco products by the State of California and distributed amongst all counties based on the percentage of county birthrates as established in Proposition 10. This revenue decreased by $1.1 million (-4.2%) from the prior fiscal year.
    - The California Children and Families Commission (First 5 California) forecasts a decline of 3% to 4% each fiscal year in the tobacco tax revenue allocation models. These models are calculated using birthrate data and tobacco sales and usage provided by the California Department of Finance.

  - Other State operating grants and contributions for FY 2016/17 includes revenue from the state-wide IMPACT program which is a new program funded by First 5 California compared to the prior-year CARES Plus and Child Signature Programs ended 6/30/2016.

  - Federal operating grants includes revenues from the federal AmeriCorps VISTA and Medical Administrative Activities (MAA). The decrease in federal revenues is due to the receipt of revenue for one year of MAA funding in FY 2016/17 compared to the receipt of two years of revenue in FY 2015/16.

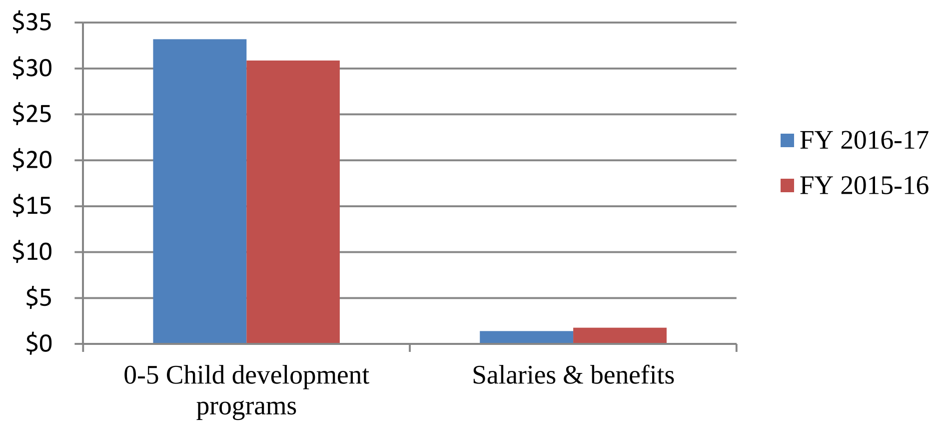
- *General revenues*
  The Commission's general revenues totaled $0.57 million in FY 2016-17 and accounted for 2.1% of total revenues. General revenues include all revenues that do not qualify as program revenues, such as investment income and other miscellaneous revenues.

  - Investment income decreased by $.098 million from the prior fiscal year. The decrease in investment income from the Orange County Investment Pool (OCIP), which is administered by the County Treasurer, is due to the overall lower cash balance maintained by the Commission after the $6.5 million Intergovernmental payment.

Governmental Activities Expenses

Total expenses increased by $1.8 million (5.51%) from the prior fiscal year. The increase is due to the Intergovernmental Transfer payment to the California Department of Health Care Services of $6.5 million which represents a large payment that will produce budget savings in future years by leveraging funds for specific Commission programs. Without the significant payment, total expenses would have decreased. FY 2016-17 was the fourth year for Round 1 and 2 Catalytic funding.

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



- Zero-to-five child development programs increased by $2.3 million (7.4%) from the prior fiscal year to fund programs serving children and families within the Commission's four strategic goal areas of Healthy Children, Ready to Learn, Strong Families and Capacity Building. The increase is due to the previously mentioned Intergovernmental Transfer totaling $6.5 million. Overall, reduced program spending is a component of the Commission's long-term financial plan. Prop 10 tobacco tax revenue has been and will continue as a declining revenues source. To focus on sustainability and service delivery while allowing for decreased revenue, the long-term financial plan incorporates a step-down approach to annual program funding over the next ten years.

- Salaries and benefits decreased by $.511 million (-29.6%) from the prior fiscal year due to two staff positions that were vacant during the year. The positions will be filled in the next fiscal year.

ANALYSIS OF THE COMMISSION'S GOVERNMENTAL FUND STATEMENTS

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

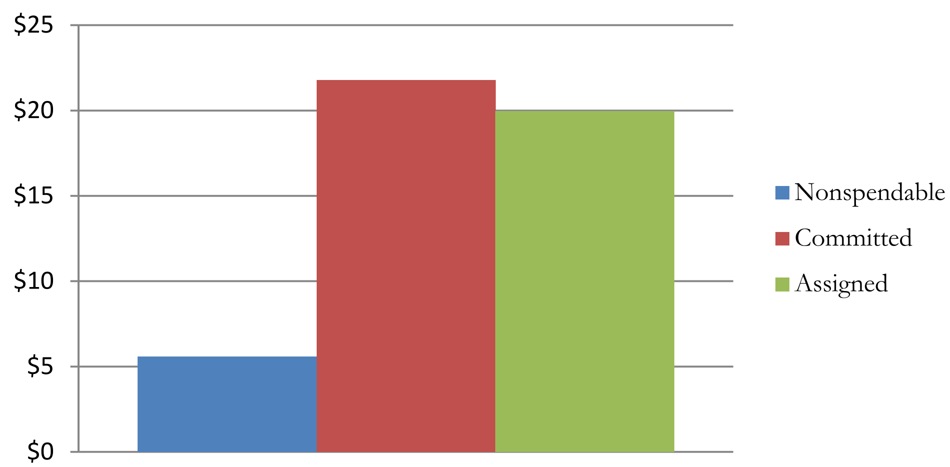
Governmental Funds

The activities are contained in the general fund of the Commission. The focus of the Commission's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the Commission's financing requirements. In particular, fund balance may serve as a useful measure of a government's net resources, both committed and available for future operational needs. First 5 California program revenues of approximately $.9 million were not received within the Commission's period of availability and, as such, are recorded as deferred inflows on the Governmental Fund Balance Sheet.

As of the end of the current fiscal year, the Commission's general fund reported total ending fund balance of $47.3 million, a decrease of $7.3 million (-13%) in comparison with the prior fiscal year.

The total fund balance decrease was mostly due to the Intergovernmental Transfer payment of $6.5 million. The payment represented a large expenditure in FY 2016/17 that will produce budget savings in future years by leveraging funds for specific Commission programs. The much smaller portion of the decrease is to the Catalytic program payments. Funding for Catalytic programs is not budgeted from current year revenue but draws on fund balance from prior years. The remaining decrease was fund balance used to bridge the gap between current year revenue and expenditures as planned for in the Commission's financial plan.

Fund Balance Classifications
As of June 30, 2017
($ in millions)



Budget Amendments

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

- Total budgeted revenues were increased by $.97 million. The amendments were based on projected receipts of new $.92 million in Dental Transformation Initiative reimbursements and other minor miscellaneous adjustments.

- Total budgeted appropriations were increased by $6 million in the 0-5 child development program expenditures line items not including amounts budgeted for Catalytic programs. The major components of the increase are summarized as follows:

    - Healthy Children - total increase of $5.77 million due to $4.84 million in funds budgeted the anticipated Intergovernmental Transfer (IGT) transaction with Cal Optima to leverage federal funding to support investments in children's health and $.92 budgeted for the Dental Transformation Initiative.

    - Capacity Building – decrease of $0.19 million for carryover of prior year unspent funds in Capacity Building Grants.

    - Catalytic Round 1 and 2 Program Funding was increased by $2 million for the anticipated Intergovernmental Transfer (IGT) transaction with Cal Optima to leverage federal funding to support investments in children's health.

Budget to Actual Comparisons

This section contains an explanation of the significant differences between the Commission's Final Budget amounts and actual amounts recorded for revenues and expenditures for FY 2016-17 as detailed on the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual.

- Total actual revenues were slightly less than budgeted revenues in FY 2016-17 by nearly $.2 million. While FY 2016-17 tobacco revenues exceeded estimates by $0.63 million, anticipated reimbursements of $0.92 for the Dental Transformation Initiative budgeted in revenue were not received due to the delayed start of the program. The revised start date for the dental program is July 1, 2017.

- Total budgeted appropriations exceeded actual expenditures in FY 2016-17 by $4.25 million due to underspending in different program areas as well as salary and benefits.

    - 0-5 child development program expenditures were less than budgeted appropriations by $3.6 million. Nearly $1.7 million of the variance is due to the delayed start of the Dental Transformation Initiative and the slower than expected start of the First 5 IMPACT program. Another $1 million in underspending occurred in Pediatric Health Services and Capacity Building. A significant portion of this $1 million unspent amount will be included as a carryover appropriation in the FY 2017/18 budget.

    - Salaries and benefits actual expenditures were less than budgeted appropriations by $0.7 million due to vacant staff positions.

- Catalytic expenditures were $7 million compared to the final budget of $6.9 million. FY 2016-17 was the fifth year Round 1 and 2 catalytic funds were disbursed. The total funding amount of approximately $56.3 million was approved by the Commission as detailed below. Expenditures will be recognized as services are provided and deliverables met for each separate Catalytic program. At budget adoption, the timing of FY 2016-17 distributions and expense recognition were not known. Each Catalytic program has a unique scope and budget. Final payment terms are included in the contracts approved by the Commission for each Catalytic program. Remaining Catalytic funding will be included in future year budgets as defined in the related Catalytic contract payment and deliverable schedules.

Commission Catalytic funding	
Round 1:	
Children's Dental Programs	20,000,000
Early Developmental Services / Autism Program	7,000,000
Year-Round Emergency Shelter	7,000,000
Early Literacy and Math	5,000,000
Healthy Child Development	5,500,000
VISTA/AmeriCorps transition feasibility	25,000
	$44,525,000
Round 2:	
Capacity Building	$3,000,000
Partnership for Children's Health	3,074,160
Prevention Services	500,000
Nutrition and Fitness	500,000
Pediatric Vision Services	1,500,000
Catalytic Unallocated and Matching Funds	3,198,100
	$11,772,260

CURRENTLY KNOWN FACTS, DECISIONS OR CONDITIONS

The State Department of Finance projects a continuing decrease of tobacco revenue. The rate of decline is caused by both intended and unintended factors, which include federal legislation, state initiatives, First 5 California's education and outreach efforts, and comprehensive smoking cessation programs to reduce tobacco use. Demographic factors, specifically birthrates, also have an impact on the individual county allocations of the statewide tobacco revenue. In May 2016, Governor Brown signed five of six bills related to tobacco products. Two of the bills had an immediate impact on the amount of tobacco tax allocated to the Commission. The legal age to purchase or consume tobacco was increased from 18 to 21, and an annual Board of Equalization (BOE) licensing fee of $265 for tobacco retailers replaced the former one-time fee. The new fee will create savings in the BOE fees the Commission pays annually resulting in additional revenue.

In November 2016, voters approved Proposition 56 adding a $2.00 tobacco tax and expending the definition of tobacco products. A backfill provision was included in Proposition 56, but there will be a delay in the calculation and transfer of backfill funds to be transferred to First 5 Commissions. Due to this delay, revenue over the next two fiscal year is expected to be highly volatile. The Commission's tobacco tax revenue budget for FY 2017/18 projects a 17.55% decline followed by a 16.20 increase in FY 2018/19.

The Commission's financial plan will continue to conservatively estimate future-year revenues and continue planned reductions in annual program funding to account for declining revenues. Portions of fund balance will be used in future years to bridge some of the gap between services and projected revenue.

REQUESTS FOR FINANCIAL INFORMATION

This comprehensive annual financial report is intended to provide the public with an overview of the Commission's financial operations and condition for the fiscal year ended June 30, 2017. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Executive Director, Children & Families Commission of Orange County, 1505 East 17th Street, Suite 230, Santa Ana, California 92705.

CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY
STATEMENT OF NET POSITION
JUNE 30, 2017

	GOVERNMENTAL ACTIVITIES
ASSETS	
Cash and investments in County Treasury	$ 47,439,195
Imprest cash	10,000
Interest receivable	41,580
Due from County of Orange	51,512
Due from other governments	3,424,844
Prepaids	151,150
Advances to others	5,230,813
Total Assets	56,349,094
DEFERRED OUTLFOWS OF RESOURCES	
Deferred outflows - pensions	566,972
LIABILITIES	
Accounts payable	2,817,755
Due to County of Orange	37,200
Due to other governments	4,120,481
Retentions payable	1,260,538
Accrued wages and benefits	27,358
Compensated absences:	
Payable within one year	37,620
Payable after one year	8,500
Net pension liability	3,158,290
Total Liabilities	11,467,742
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows - pensions	1,413,459
NET POSITION	
Unrestricted	44,034,865
TOTAL NET POSITION	$ 44,034,865

See accompanying notes to the basic financial statements.

CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

		Program Revenues	Net (Expense) Revenue and Changes in Net Position
	Expenses	Operating Grants And Contributions	Governmental Activities
Governmental Activities:			
Child development	$ 34,393,839	$ 26,233,113	$ (8,160,726)
General Revenues:			
Investment income			343,403
Miscellaneous			230,677
Total General Revenues			574,080
Change in Net Position			(7,586,646)
Net Position, July 1			51,621,511
Net Position, June 30			$ 44,034,865

See accompanying notes to the basic financial statements.

CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY
GOVERNMENTAL FUND BALANCE SHEET
JUNE 30, 2017

		General Fund
ASSETS		
Cash and investments in County Treasury	$	47,439,195
Imprest cash		10,000
Interest receivable		41,580
Due from County of Orange		51,512
Due from other governments		3,424,844
Prepaid Pensions		336,898
Advances to others		5,230,813
Total Assets	$	56,534,842
LIABILITIES		
Accounts payable	$	2,817,755
Due to County of Orange		37,200
Due to other governments		4,120,481
Retentions payable		1,260,538
Accrued wages and benefits		27,358
Total Liabilities		8,263,332
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows - unavailable revenue		977,136
Total Deferred Inflows of Resources		977,136
FUND BALANCES		
Nonspendable fund balance		5,567,711
Committed fund balance		21,769,602
Assigned fund balance		19,957,061
Total Fund Balances		47,294,374
Total Liabilities, Deferred Inflows of Resources and Fund Balances	$	56,534,842

See accompanying notes to the basic financial statements.

CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2017

Fund balances of governmental funds	$ 47,294,374
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Prepaid expense included as a deferred outflow on the accrual basis used in the government-wide statements	(185,748)
Deferred outflows of resources related to pensions	566,972
Long-term liabilities, including Net Pension Liability, are not due and payable in the current period and therefore are not reported in the funds.	(3,204,410)
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.	977,136
Deferred inflows of resources related to pensions	(1,413,459)
Net Position of governmental activities	$ 44,034,865

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, 2017

	General Fund
REVENUES	
Prop 10 Tobacco Tax	$ 24,790,836
Investment income earned on tobacco taxes at the State level	20,192
Other State operating grants and contributions	1,419,176
Federal operating grants	445,121
Investment income	343,403
Other revenue	230,677
Total Revenues	27,249,405
EXPENDITURES	
Current:	
Salaries and benefits	1,407,753
Expenditures related to the "Zero to Five" Programs	26,146,461
Catalytic Round 1 and 2 Program Funding	7,031,729
Total Expenditures	34,585,943
Change in Fund Balance	(7,336,538)
FUND BALANCE, July 1	54,630,912
FUND BALANCE, June 30	$ 47,294,374

See accompanying notes to the basic financial statements.

CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL FUND TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2017

Net changes in fund balance - total governmental funds	$	(7,336,538)
Amounts reported for governmental activities in the statement of revenues, expenditures, and changes in fund balance differs from the amounts reported in the statement of activities because:		
Governmental funds report pension contributions as expenditures. However, in the Statements of Activities, pension expense is measured as the change in the net pension liability and the amortization of deferred outflows and inflows related to pensions. This amount represents the change in pension related amounts.		174,575
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.		17,529
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.		(442,212)
Change in net position of governmental activities	$	(7,586,646)

See accompanying notes to the basic financial statements.

CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2017

	Budgeted Amouts		Actual	Variance with Final Budget - Positive
	Original	Final	Amounts	(Negative)
REVENUES				
Prop 10 Tobacco Tax	$ 24,159,351	$ 24,159,351	$ 24,790,836	$ 631,485
Investment income earned on tobacco taxes at the State level	-	-	20,192	20,192
Other State operating grants and contributions	1,833,530	2,749,038	1,419,176	(1,329,862)
Federal operating grants	180,000	180,000	445,121	265,121
Investment income	150,000	150,000	343,403	193,403
Other revenue	163,000	212,600	230,677	18,077
Total Revenues	26,485,881	27,450,989	27,249,405	(201,584)
EXPENDITURES				
Current:				
Salaries and benefits	2,116,912	2,116,912	1,407,753	709,159
Expenditures related to the "Zero to Five" Program	24,728,871	29,783,848	26,146,461	3,637,387
Catalytic Round 1 and 2 Program Funding	4,936,458	6,936,458	7,031,729	(95,271)
Total Expenditures	31,782,241	38,837,218	34,585,943	4,251,275
Net Change in Fund Balance	(5,296,360)	(11,386,229)	(7,336,538)	4,452,859
FUND BALANCE, July 1	54,630,912	54,630,912	54,630,912	-
FUND BALANCE, June 30	$ 49,334,552	$ 43,244,683	$ 47,294,374	$ 4,452,859

See accompanying notes to the basic financial statements.

NOTE 1 – ORGANIZATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

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

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

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

Basis of Accounting and Measurement Focus

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

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

<u>Government-Wide Financial Statements</u>

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

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

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

Government-Wide Financial Statements, (Continued)

Unrestricted – This category represents neither restrictions nor net investment in capital assets and may be used by the Commission for any purpose though they may not be necessarily liquid.

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

Fund Financial Statements

The fund financial statements consist of the balance sheet, the statement of revenues, expenditures and changes in fund balance, and the statement of revenues, expenditures and changes in fund balance – budget and actual of the Commission's general fund. These statements are presented on a current financial resources measurement focus. Generally, only current assets, deferred inflows of resources, 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 resources. 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.

Fair Value Measurement

Governmental Accounting Standards Board ("GASB") Statement No. 72, *Fair Value Measurement and Application*, provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements. The Commission categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The Commission does not have any investments that are measured using Level 3 inputs.

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

Deferred Outflows and Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period and will not be recognized as an inflow of resources (revenue) until that time. A deferred outflow of resources is defined as a consumption of the net position by the Commission that is applicable to a future reporting period. The Commission has a deferred inflow, unavailable revenue, which occurs only under a modified accrual basis of accounting. Accordingly, the items are reported only in the governmental fund balance sheet. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available. The Commission also recognizes deferred outflows and inflows related to pensions under the accrual basis of accounting. These items are reported only in the government-wide Statement of Net Position.

Capital assets, net of accumulated depreciation

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

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

Adjustments Between Fund Financial Statements and Government-Wide Financial Statements

Prepaid Pension

Prepaid pension contributions are reported as a prepaid asset in the fund financial statements and in the Statement of Net Position. The prepaid pension contributions, at the fund level, pertain to the contributions required for the related payroll periods of July 1, 2017 to June 30, 2018. Because the next actuarial valuation to determine the Commission's net pension liability will occur on December 31, 2017, $185,748 of the prepaid contributions is recognized as a deferred outflow of resources on the government wide statements to account for the portion that will be applied to the calculation of net pension liability.

Deferred Outflows and Inflows of Resources

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 recognized as deferred inflows in the fund financial statements. Unavailable revenue of $977,136 at June 30, 2017 was recognized as revenue in the government-wide financial statements.

The Government Wide Statement of Net Position has reportable deferred outflows and inflows of resources related to pensions. Note 8 to these financial statements provides further detail for the pension related deferred outflows and inflows of resources.

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

Adjustments Between Fund Financial Statements and Government-Wide Financial Statements (Continued)

Long-Term Liabilities

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

In government-wide financial statements, retirement plans (pensions) are required to be recognized and disclosed using the accrual basis of accounting regardless of the amount recognized as pension expenditures on the governmental fund statements, which use the modified accrual basis of accounting.

In general, the Commission recognizes a net pension liability, which represents the Commission's proportionate share of the excess of the total pension liability over the fiduciary net position reflected in the actuarial report provided by the Orange County Employees Retirement System (OCERS). The net pension liability is measured as of OCERS' prior fiscal year end December 31, 2016. Changes in the net pension liability are recorded, in the period incurred, as pension expense or as deferred inflows of resources or deferred outflows of resources depending on the nature of the change. The changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources (that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience) are amortized in the respective pension plan and are recorded as a component of pension expense beginning with the period in which they are incurred.

Due to other governments

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

Retentions payable

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

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Also, the preparation of the financial statements inherently requires the rounding of amounts and estimates.

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

Budget and Budget Reporting

The Commission is required by County ordinance to prepare a budget each year based on estimates of revenues and expected expenditures. The Commission's Board of Commissioners adopted an annual budget of expenditures for the year ended June 30, 2017, which is prepared on the modified accrual basis of accounting. The accompanying statement of revenues, expenditures and changes in fund balance – budget and actual includes the budgeted expenditures for the year, along with management's estimate of revenues for the year. The legal level of budgetary control is at the total fund level.

Fund Balance

Fund balance classifications comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The Commission established the following classifications and definitions of fund balance for the year ended June 30, 2017:

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

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

Committed - Resources with self-imposed limitations and require both the approval of the highest level of decision making authority (Board of Commissioners) and the same formal action to remove or modify the limitations. The formal action required by the Board of Commissioners for funds to be committed is action by the way of resolution allocating funding for a specific purpose, program or initiative.

Assigned - Resources with self-imposed limitations but do not require approval by the highest level of decision making authority (may be a body, committee or individual designated by Board of Commissioners) or the same level of formal action to remove or modify limitations. Includes appropriation of a portion of existing fund balance sufficient to eliminate subsequent year's budget deficit, resources assigned to specific program for which there is an approved budget, and resources approved by the Commission for a long range financial plan.

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

Fund balance of governmental funds is reported in various categories based on the nature of the limitations requiring the use of resources for specific purposes. The Commission itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purpose determined by a formal action of the Commission. The Commission is the highest level of decision-making authority for the government that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (adoption of another resolution) to remove or revise the limitation.

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

Fund Balance (Continued)

Amounts in the assigned fund balance classification are intended to be used by the Commission for specific purposes but do not meet the criteria to be classified as committed. The Commission adopts an annual budget and gives authority to the Executive Director and staff to assign fund balance for the approved program budget allocations. Unlike commitments, an additional action does not normally have to be taken for the removal of an assignment.

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

Refer to Note 6 for additional details regarding the GASB 54 classification of fund balance.

Encumbrances

The Commission utilizes an encumbrance system as a management control technique to assist in controlling expenditures. Encumbrances of $20.5 million represent Board-approved future year contracts for Catalytic Programs ($12.7 million) and annual programs and operations ($7.8 million). The most significant Catalytic Program encumbrance is for Children's Dental ($9.7 million). The four significant program encumbrance balances are for the Bridges Maternal Child Health Network, Pediatric Health Services, and First 5 IMPACT programs totaling $4.7 million. Encumbrances for Catalytic Programs are reported in Committed fund balance and encumbrances for other programs are reported in Assigned fund balance.

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Children and Families Commission Orange County Employees Retirement System (OCERS) plan and additions to/deductions from OCERS' fiduciary net position have been determined on the same basis as they are reported by OCERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Effect of New Governmental Accounting Standards Board (GASB) Pronouncements

Effective This Fiscal Year

GASB Statement No. 74 – In June 2015, GASB issued Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans.* The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016, or the 2016-2017 fiscal year. The Commission has determined that this Statement does not have a material impact on the financial statements.

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

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

GASB Statement No. 77 – In August 2015, GASB issued Statement No. 77 – *Tax Abatement Disclosures.* The objective of this Statement is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs. The requirements of this Statement are effective for the financial statements for periods beginning after December 15, 2015, or the 2016-2017 fiscal year. The Commission has determined that this Statement does not have a material impact on the financial statements.

GASB Statement No. 78 – In December 2015, GASB issued Statement No 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans.* The Statement amends the scope and applicability of GASB Statement No. 68 to exclude certain types of cost-sharing multiple-employer plans. The Statement is effective for the periods beginning after December 15, 2015. The Commission has determined that this Statement does not have a material impact on the financial statements.

GASB Statement No. 80 – In January 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The objective of the Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended.* The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The Statement is effective for the reporting periods beginning after June 15, 2016. The Commission has determined that this Statement does not have a material impact on the financial statements.

GASB Statement No. 82 – In March 2016, GASB issued Statement No. 82, *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of the Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, the Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. The Statement is effective for the reporting periods beginning after June 15, 2016. The Commission has implemented this Statement as of July 1, 2016.

Effective in Future Fiscal Years

GASB Statement No. 75 – In June 2015, GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement is effective for fiscal years beginning after June 15, 2017, or the 2017-2018 fiscal year. The Commission has not determined the effect on the financial statements.

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

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

GASB Statement No. 81 – In March 2016, GASB issued Statement No. 81, *Irrevocable Split–Interest Agreements*. The objective of the Statement is to improve financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, the Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. The Statement requires that a government recognize revenue when the resources become applicable to the reporting period. The Statement is effective for the reporting periods beginning after December 15, 2016. The Commission has not determined the effect of the statement.

GASB Statement No. 83 – In November 2016, GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital asset should recognize a liability based on the guidance in this Statement. This Statement also requires disclosure of information about the nature of a government's ARO, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018, or the 2018-19 fiscal year. The Commission has not determined the effect of the Statement.

GASB Statement No. 84 – In January 2017, GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018, or the 2019-20 fiscal year. The Commission has not determined the effect of this Statement.

GASB Statement No. 85 – In March 2017, GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). The Statement is effective for the reporting periods beginning after June 15, 2017, or 2017-2018 fiscal year. The Commission has not determined the effect of the Statement.

GASB Statement No. 86 – In May 2017, GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The Statement is effective for the reporting periods beginning after June 15, 2017, or 2017-2018 fiscal year. The Commission has not determined the effect of the Statement.

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

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

GASB Statement No. 87 – In June 2017, GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Statement is effective for the reporting periods beginning after December 15, 2019, or 2020-2021 fiscal year. The Commission has not determined the effect of the Statement.

NOTE 2 – CASH AND INVESTMENTS

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

Cash and investments in County Treasury	$ 47,439,195
Imprest Cash	10,000
Total Cash and Investments	$ 47,449,195

Cash and investments consisted of the following at June 30, 2017:

Orange County Investment Pool:	
Equity in pooled Money Market fund	$ 47,439,195
Imprest Cash	10,000
Total Cash and Investments	$ 47,449,195

Investments Authorized by the California Government Code and the Commission Investment Policy Statement

The list below identifies the investment types that are authorized by the California Government Code or the Commission Investment Policy Statement, where more restrictive.

Authorized investment instruments include:

- Certificates of Deposit (insured or collateralized)
- Orange County Investment Pool
- "AAA" rated Money Market Mutual Funds
- U.S. Treasury securities

NOTE 2 – CASH AND INVESTMENTS (Continued)

- U.S. Government Agency securities: Debt securities issued by U.S. Government sponsored enterprises and federally related institutions. These government agencies include: Federal Home Loan Banks (FHLB), Federal Home Loan Mortgage Corporation (FHLMC or Freddie Mac), Federal National Mortgage Association (FNMA or Fannie Mae), Federal Farm Credit Banks (FFCB), Resolution Trust Corporation (RTC), and Tennessee Valley Authority (TVA).
- Municipal Debt
  - Obligations of the State of California:
  - Local Agency Obligations: These are bonds, notes, warrants or other evidences of indebtedness of any local agency or by a department, board or authority of any local agency within California.
  - All Municipal Debt must be rated "AA" or better from at least two NRSROs.

All Money Market Mutual Funds must be AAA rated by two NRSROs, invest only in direct obligations in US Treasury bills, notes, bonds, U.S. Government Agencies and repurchase agreements with a weighted average of 60 days or less, and have a minimum of $500 million in assets under management.

The Commission is a participant in the County Treasurer's Orange County Investment Pool (OCIP). The OCIP is an external investment pool, is not rated and is not registered with the Securities Exchange Commission (SEC). The County Treasury Oversight Committee conducts OCIP oversight. Cash on deposit in the OCIP at June 30, 2017, is stated at fair value. The OCIP values participant shares on an amortized cost basis during the year and adjusts to fair value at year-end. For further information regarding the OCIP, refer to the County of Orange Comprehensive Annual Financial Report.

Fair Value Measurements

The Commission categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. As of June 30, 2017, the Commission held no individual investments. All funds are invested in OCIP.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Commission's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Deposits and withdrawals in the OCIP are made on the basis of $1 and not fair value. Accordingly, the Commission's proportionate share of investments in the OCIP at June 30, 2017 of $47,439,195 is an uncategorized input not defined as a Level 1, Level 2, or Level 3 input.

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, 2017, were as follows:

Due from State Commission:	
Prop 10 revenue for:	
May 2017	$ 879,453
June 2017	1,546,063
Surplus Money Investment Fund Allocations	20,192
First 5 IMPACT Program	977,136
Due from other governmental agencies for:	
Misc. reimbursements	2,000
Total Due from Other Governments	$ 3,424,844

NOTE 4 – DUE TO OTHER GOVERNMENTS

The due to other governments account represents amounts due to the Regents of the University of California, Orange County school districts, and other local governmental agencies. The amounts due to the other governments at June 30, 2017, were as follows:

Due to government agencies:	
FY 2016-2017 Contract Payment Accruals	$ 4,120,481
Total Due to Other Governments	$ 4,120,481

NOTE 5 – COMPENSATED ABSENCES

The vested compensated absences liability balance at June 30, 2017 consists of the following activity:

Balance July 1, 2016	Increases	Decreases	Balance June 30, 2017	Due Within One Year
$63,649	$92,090	$109,619	$46,120	$37,620

NOTE 6 – FUND BALANCE

Fund balance is classified using a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Fund balance as of June 30, 2017 consists of the following:

		June 30, 2017
Nonspendable:		
Prepaids and Advances	$	5,567,711
Committed for:		
Catalytic Round 1 and 2 programs		21,769,602
Assigned for:		
Approved contracts		19,957,061
Total fund balance	$	47,294,374

Fund Balance Category Descriptions

Nonspendable – consists of prepaid retirement contributions for FY 2017-2018. Refer to Note 8 for further details. Also included in Nonspendable are prepaid rent and Catalytic funding amounts advanced to grantees for project scopes not completed by June 30, 2017.

Committed for contractual obligations – consists of contract amounts approved by Commission action as of June 30, 2017 for FY 2017-2018 and future years of Commission Round 1 and 2 Catalytic funding.

Assigned for approved contracts – consists of FY 2017-2018 programs that were approved by Commission action and included in the FY 2017-2018 Operating Budget.

NOTE 7 – 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 8 – DEFINED BENEFIT PENSION PLAN

General Information about the Pension Plan

Plan Description. All full-time employees of the Commission participate in the Orange County Employees Retirement System (OCERS). OCERS was established by the County of Orange in 1945. OCERS is administered by the Board of Retirement and governed by the County Employee's Retirement Law of 1937 California Government Code Section 31450 et. seq.). OCERS is a cost-sharing multiple employer public employee retirement system whose main function is to provide service retirement, disability, death and survivor benefits to the Safety and General members employed by the County of Orange. OCERS also provides retirement benefits to the employee members of the Orange County Courts, the Orange County Retirement System, one city and twelve special districts.

NOTE 8 – DEFINED BENEFIT PENSION PLAN (Continued)

General Information about the Pension Plan (Continued)

The management of OCERS is vested with the Orange County Board of Retirement. The Board consists of nine members and one alternate. The County Treasurer is a member of the Board of Retirement by law. Four members are appointed by the Board of Supervisors, one of whom may be a County Supervisor. Two members are elected by the General membership; one member and one alternate are elected by the Safety membership, one member is elected by the retired members of the System. All members of the Board of Retirement serve terms of three years except for the County Treasurer whose term runs concurrent with her term as County Treasurer. OCERS issues a stand-alone annual financial report, which can be obtained at www.ocers.org.

Plan Membership. At December 31, 2016, pension plan membership consisted of the following:

Retired members or beneficiaries currently receiving benefits	16,369
Vested terminated members entitled to, but not yet receiving benefits	5,370
Active members	21,746
Total	43,485

Benefits Provided. OCERS provides service retirement, disability, death and survivor benefits to eligible employees. All regular full-time employees of the County of Orange or contracting agencies who work a minimum of 20 hours per week become members of OCERS effective on the first day of employment in an eligible position. There are separate retirement plans for General and Safety member employees. Safety membership is extended to those involved in active law enforcement, fire suppression, and certain probation officers. Any new Safety Member who becomes a member on or after January 1, 2013 is designated PEPRA Safety and is subject to the provisions of California Public Employees' Pension Reform Act of 2013 (PEPRA), California Government Code 7522 et seq. and Assembly Bill (AB) 197. All other employees are classified as General members. New General Members employed after January 1, 2013 are designated as PEPRA General subject to the provisions of California Government Code 7522 et seq. and AB 197.

General members prior to January 1, 2013, including all members of Plan T hired on or after January 1, 2013, are eligible to retire once they attain the age of 50 and have acquired 10 or more years of retirement service credit. A member with 30 years of service is eligible to retire regardless of age. General members who are first hired on or after January 1, 2013, excluding member of Plan T, are eligible to retire once they have attained the age of 52, and have acquired five years of retirement service credit.

All General and Safety members can also retire at the age of 70 regardless of service.

The retirement benefit the member will receive is based upon age at retirement, final average compensation, years of retirement service credit and retirement plan and tier.

NOTE 8 – DEFINED BENEFIT PENSION PLAN (Continued)

General Information about the Pension Plan (Continued)

General member benefits are calculated pursuant to the provisions of Sections 31676.01, 31676.1, 31676.12, 31676.16, 31676.18 or 31676.19. For section 31676.01, the monthly allowance is equal to 1/90th of final compensation times years of accrued retirement service credit times age factor from that Section. For Section 31676.1, the monthly allowance is equal to 1/60th of final compensation times years of accrued retirement service credit times age factor from the Section. For Sections 31676.12, 31676.16, 31676.18 or 31676.19, the monthly allowance is equal to 1/50th of final compensation times years of accrued retirement service credit times age factor from the corresponding Section. General member benefits for those who are first hired on or after January 1, 2013, excluding members of Plan T, are calculated pursuant to the provision California Government Code Section 7522.20(a). The monthly allowance is equal to the final compensation multiplied by years of accrued retirement credit multiplied by the age factor from Section 7522.20(a).

For members with membership dates before January 1, 2013, including all members of Plan T, the maximum monthly retirement allowance is 100% of final compensation. There is no maximum with membership dates on or after January 1, 2013, excluding members of Plan T.

Final average compensation consists of the highest 12 consecutive months for a General Tier 1 or Safety Tier 1 member and the highest 36 consecutive months for a General Tier 2, General PEPRA, Safety Tier 2 or Safety PEPRA member.

The member may elect an unmodified retirement allowance, or choose an optional retirement allowance. The unmodified retirement allowance provides the highest monthly benefit and a 60% continuance to an eligible surviving spouse or domestic partner. An eligible surviving spouse or domestic partner is one married to or registered with the member one year prior to the effective retirement date. Certain surviving spouses or domestic partners may also be eligible if marriage or domestic partnership was at least two years prior to the date of death and the surviving spouse or domestic partner has attained age 55. There are four optional retirement allowances the member may choose. Each of the optional retirement allowances requires a reduction in the unmodified retirement allowance in order to allow the member the ability to provide certain benefits to a surviving spouse, domestic partner, or named beneficiary having an insurable interest in the life of the member.

OCERS provides an annual cost-of-living benefit to all retirees. The cost-of-living adjustments, based upon the Consumer Price Index for All Urban Consumers for the Los Angeles-Riverside-Orange County Area, is capped at 3.0%.

Contributions. The Commission contributes to the retirement plan based upon actuarially determined contribution rates adopted by the Board of Retirement. Employer contribution rates are adopted annually based upon recommendations received from OCERS' actuary after the completion of the annual actuarial valuation. The contribution rates for FY 2016-17 (based on December 31, 2015 valuation) were 33.15% of compensation for plan I and J members and 30.05% of compensation for plan U members. Contributions recognized by the plan in FY 2016-17 were $245,077.

NOTE 8 – DEFINED BENEFIT PENSION PLAN (Continued)

General Information about the Pension Plan (Continued)

All members are required to make contributions to OCERS regardless of the retirement plan or tier in which they are included. The member contribution rates for FY 2016-17 at the average age of entry of thirty-two (based on December 31, 2014 valuation) were 12.80% of compensation for plan I, 12.18% of compensation for plan J members, and 7.86% of compensation for plan U members. (It should be noted that the contribution rates provided above have not been adjusted to reflect any pick-up or reverse pick-up.)

Early payment of 2016-17 contributions. In July 2016, the OCERS Board of Retirement authorized the offer of a 4.50% discount to plan sponsors for the early payment of their employer contributions for FY 2016-17. Subsequently, the Commission authorized the early payment of $308,036 in January 2017. As of June 30, 2017, $336,898 remained in the account and will be applied towards the Commission's employer required OCERS contributions for FY 2017-18. At the fund level, the $336,898 is reported as prepaid and the portion of the prepaid which will reduce the net pension liability at the next measurement date had been reclassified to deferred outflows of resources on the government wide financial statements.

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the Commission reported a liability of $3,158,290 for its proportionate share of the net pension liability. The Net Pension Liability (NPL) for the plan was measured as of December 31, 2016. Plan Fiduciary Net Position (plan assets) was valued as of the measurement date while the Total Pension Liability (TPL) was determined based upon rolling forward the TPL from actuarial valuation as of December 31, 2015. At December 31, 2016, the Commission's proportion was 0.061% percent allocated based on the actual employer contributions within the Commission's rate group. This represents a decrease from 0.071%, the proportionate measured as of December 31, 2015. The plan provisions used in the measurement of the NPL are the same as those used in the OCERS actuarial valuations as of December 31, 2015.

For the year ended June 30, 2017, the Commission recognized pension expense of $57,963. As of June 30, 2017, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	$ 258,936	
Changes in proportion and differences between employer contributions and proportionate share of contributions		$ 914,592
Changes of assumptions		133,039
Difference between expected and actual experience		365,828
Commission contributions subsequent to the measurement date	308,036	
Total	$ 566,972	$ 1,413,459

NOTE 8 – DEFINED BENEFIT PENSION PLAN (Continued)

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

$308,036 of the amount reported as deferred outflows of resources related to pensions resulting from Commission contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2018. Additional contributions will be recognized as deferred outflows of resources. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2018	$	(241,342)
2019		(241,342)
2020		(274,820)
2021		(264,380)
2022		(132,639)
	$	(1,154,523)

Actuarial assumptions. The total pension liability as of December 31, 2016 was determined by rolling forward the total pension liability from the actuarial valuation as of December 31, 2015. The actuarial assumptions used were based on the results of an experience study for the period from January 1, 2011 through December 31, 2013. Following are the key methods and assumptions used for the total pension liability as of December 31, 2016.

Inflation	3.00%
Salary Increases General:	4.25% to 13.50%, varying by service, including inflation
Investment rate of return:	7.25%, net of pension plan investment expense, including inflation
Actuarial Experience Study:	Three Year Period Ending December 31, 2013
Post – Retirement Mortality Rates:	
Healthy:	For General Members: RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020.
Disabled:	For General Members: RP-2000 Combined Healthy Mortality Table projected with Scale BB to 2020 with ages set forward six years for males and set forward three years for females.
Beneficiaries:	Beneficiaries are assumed to have the same mortality as a General Member of the opposite sex who is receiving a service (non-disability) retirement.

NOTE 8 – DEFINED BENEFIT PENSION PLAN (Continued)

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The long-term expected rate of return of 7.25% on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of inflation) are developed for each major asset class. These returns are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage, adding expected inflation and subtracting expected investment expenses and a risk margin. The target allocation (approved by the Board) and projected arithmetic real rates of return for each major asset class, after deducting inflation but before deducting investment expenses, used in the derivation of the long-term expected investment rate of return assumption are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap U.S. Equity	14.90%	5.92%
Small/Mid Cap U.S. Equity	2.73%	6.49%
Developed International Equity	10.88%	6.90%
Emerging International Equity	6.49%	8.34%
Core Bonds	10.00%	0.73%
Global Bonds	2.00%	0.30%
Emerging Market Debt	3.00%	4.00%
Real Estate	10.00%	4.96%
Diversified Credit (US Credit)	8.00%	4.97%
Diversified Credit (Non-US Credit)	2.00%	6.76%
Hedge Funds	7.00%	4.13%
GTAA	7.00%	4.22%
Real Return	10.00%	5.86%
Private Equity	6.00%	9.60%
Total	100.00%	

Discount rate. The discount rate used to measure the Total Pension Liability was 7.25%. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially determined contribution rates. For this purpose, only employer contributions that are intended to fund benefits for current plan members and their beneficiaries are included.

Projected employer contributions that are intended to fund the service costs for future plan members and their beneficiaries, as well as projected contributions from future plan members, are not included. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments for current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Commission's proportionate share of the net pension liability to changes in the discount rate. The following presents the Commission's proportionate share of the Net Pension Liability (NPL) calculated using the discount rate of 7.25%, as well as what the Commission's NPL would be if it were calculated using a discount rate that is one-percentage-point lower (6.25%) or one-percentage-point higher (8.25%) than the current rate.

NOTE 8 – DEFINED BENEFIT PENSION PLAN (Continued)

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Proportionate Share of the Net Pension Liability	$4,546,726	$3,158,290	$2,015,589

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in the separately issued OCERS financial report.

NOTE 9 – COMMITMENTS

The Commission leases office space from a third party under a long-term operating lease. The latest lease expires on October 31, 2019 (FY 2019-20) and is non-cancellable. The future minimum rental payments due under the lease are as follows.

FY 2017-18	$71,148
FY 2018-19	71,148
FY 2019-20	23,716
	$166,012

Rent expense was $70,513 for the year ended June 30, 2017.

NOTE 10 – 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, 2017 was $27,564. The Commission incurred expenses totaling $541,429 for all other County services provided during the year ended June 30, 2017. The amount owed to the County of Orange for related party transactions at June 30, 2017 was $37,200.

The Commission paid $1,240,665 of service provider grants to organizations which are represented by two members of the Board of Commissioners, although both members abstain from all votes regarding funding to the organization represented. The Commission incurred a total of $1,604,384 in expenses paid to the County of Orange for program services delivered by the Health Care Agency and Social Services Agency

NOTE 11 – 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, 2017, the Commission expended $761,748 for program evaluation.

NOTE 12 – RETIREE MEDICAL PLAN – OTHER POSTEMPLOYMENT BENEFITS

Plan Description. In accordance with the Commission's participation agreement entered into in July 2007, the Commission is a participant in the County of Orange Retiree Medical Plan (the Plan). The County of Orange has established the Plan as a single-employer defined benefit retiree medical plan. The Plan provides a grant for medical benefits to eligible retirees and their dependents and lump-sum payments for employees separating from employment prior to being eligible for the grant. The County Board of Supervisors maintains the authority to establish and amend the Plan's benefit provisions. The financial statements and required supplementary information of the Plan are included in the County of Orange's fiscal year 2016-2017 Comprehensive Annual Financial Report (CAFR). The Commission is reported in the County's CAFR as a discretely presented component unit. That report may be obtained by contacting the County of Orange, Auditor Controller, 12 Civic Center Plaza, Room 200, Santa Ana, California 92702.

Funding Policy. The contribution requirements of plan members and the Commission are those established for the County of Orange and may be amended by the County Board of Supervisors. For the fiscal year ended June 30, 2017, the Commission was required to contribute 4% of covered payroll. The contractually required contribution was determined by the County of Orange, as the percentage actuarially determined in accordance with the parameters of GASB 45. The Annual Required Contribution (ARC) represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) of the plan over a period of thirty years. The Commission's contributions to the Plan for the fiscal year ended June 30, 2017 were $33,150 which equaled the required contributions. Plan members are currently not required to contribute to the plan, but retirees are required to pay for the cost of the retiree medical benefits in excess of their grant amount.

Fiscal Year Ending	Annual Required Contributions (ARC)	Percentage of ARC Contributed
6/30/2015	$ 36,416	100.00%
6/30/2016	35,616	100.00%
6/30/2017	33,150	100.00%

NOTE 13 – FIRST 5 CALIFORNIA IMPACT PROGRAM AND REGIONAL HUB

First 5 California funded a statewide program to implement the California Quality Rating and Improvement System (QRIS). The QRIS is a systemic approach to asses, improve, and communicate the level of quality in early education programs. The Commission received First 5 IMPACT funds that were contracted to the Orange County Department of Education (OCDE) as the local organization with expertise for implementing early education quality programs. First 5 California funding for IMPACT is $5,109,491 for a four-year period that began July 1, 2016. Funds claimed for the period ending June 30, 2017 totaled $496,864, and all IMPACT funds require a two to one program partner match of two dollar of First 5 funding to every dollar of local funding.

First 5 California provided additional funding for regional coordination, training and technical assistance for the quality improvement of early education programs and systems. The Commission was selected as one of ten statewide hub region fiscal agents for the IMPACT Hub program. OCDE was contracted to serve as the administrative lead for the regional hub with the purpose of developing and defining cost-effective, efficient, and impactful QRIS systems that address local needs and priorities. First 5 California funding for IMPACT HUB is $2,855,562 for a four-year period that began July 1, 2016. Funds claimed for the period ending June 30, 2017 totaled $480,313.

NOTE 14 – ADVANCES TO OTHERS

Advances to others as of June 30, 2017 were $5,230,813. Advances to others include Catalytic Round 1 and 2 funds advanced to service providers. The Commission invested in Catalytic programs expanding the service capacity of service providers in both Early Learning and Homeless Prevention. In August 2012, the Commission advanced $5,000,000 to Think Together. The purpose of the advance was to develop a strategic partnership to develop early literacy and math programs and guide the implementation in Orange County, maintain early literacy programs and expand early math as programs become available, and create an opportunity to leverage other funding sources to support the material costs and sustain the program. In December 2013, the Commission advanced $6,250,000 to HomeAid Orange County to construct emergency shelters to serve homeless families with young children, provide operational support for no less than five years, including staffing and direct services for additional emergency shelter beds, and leverages matching funds obtained by implementing agencies for continued operational support. The advanced funds are expensed as services are provided.

NOTE 15 – EVENTS AFTER THE BALANCE SHEET DATE

In March 2017, the Commission authorized staff to negotiate a contract with the California Department of Health Care Services (DHCS). The contract would allow the Commission to participate in an Intergovernmental Transfers (IGT) to leverage funding for the expansion of prenatal services and mental/behavioral health systems for children through age five. The conditional agreement acknowledges that DHCS would obtain the necessary approvals from the Centers for Medicare and Medicaid Services pertaining to the acceptance of non-federal share IGT related to the rate range capitation increases to Cal Optima.

Subsequent to the balance sheet date, on August 18, 2017, the Commission received funding transfer requests totaling $4,696,891. The IGT transaction covers the rate range periods of July 1, 2015 to June 30, 2016 and July 1, 2016 to June 30, 2017, which is used to project funding for FY 2017-18. Payment in the amount of $4,696,891 was issued to DHCS on August 24, 2017.

REQURIED SUPPLEMENTARY INFORMATION

CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
LAST 10 YEARS*

	6/30/2015	6/30/2016	6/30/2017
Proportion of the net pension liability	0.078%	0.071%	0.061%
Proportionate share of the net pension liability	$3,957,426	$4,066,522	$3,158,290
Covered payroll**	$1,043,030	$1,042,786	$925,031
Proportionate share of the net pension liability as a percentage of covered payroll	379.42%	389.97%	341.43%
Plan fiduciary net pension as a percentage of the total pension liability	67.15%	64.73%	68.69%
Measurement date	12/31/2014	12/31/2015	12/31/2016

* Fiscal year 2015 was the first year of implementation, therefore only three years are shown from the information available.

** Covered payroll represents compensation that is earnable and pensionable. Due to the implementation of GASB Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No.* 73, previous years' information has been revised accordingly.

CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY
SCHEDULE OF COMMISSION CONTRIBUTIONS
LAST 10 YEARS*

	6/30/2015	**6/30/2016**	**6/30/2017**
Contractually required contribution (actuarially determined)	$319,651	$333,800	$245,077
Contributions in relation to the actuarially determined contributions	(319,651)	(333,800)	(245,077)
Contribution deficiency (excess)	-	-	-
Covered payroll**	$1,005,475	$1,001,202	$821,497
Contributions as a percentage of covered payroll	31.79%	33.34%	29.83%

* Fiscal year 2015 was the first year of implementation, therefore only three years are shown from the information available.

** Covered payroll represents compensation that is earnable and pensionable. Due to the implementation of GASB Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73,* previous years' information has been revised accordingly.

CHILDREN AND FAMILIES COMMISSION OF ORANGE COUNTY
SUPPLEMENTARY INFORMATION
SCHEDULE OF FIRST 5 CALIFORNIA FUNDING
YEAR ENDED JUNE 30, 2017

First 5 California Funding

Program Title		Beginning Program Balance (As of July 1)	Revenue* F5CA Funds	Expenditures	Ending Program Balance (As of June 30)
IMPACT	F5CA Program Funds	$ 5,109,491	$ 496,864	$ 496,864	$ 4,612,627
	County, Local Funds			$ 248,432	
IMPACT Hub	F5CA Program Funds	$ 2,855,562	$ 480,313	$ 480,313	$ 2,375,249

* For the purpose of this schedule, the revenue and expenditures reported, in amount of $496,864 for IMPACT and $480,313 for IMPACT Hub represents the amount claimed by the Commission. For governmental fund or modified accrual financial reporting purposes, $977,136 of this amount was identified as unavailable revenue as it was not received within the Commission's period of availability to recognize revenue as described in Note 1.

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

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

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

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

NET POSITION BY COMPONENT

LAST TEN FISCAL YEARS

	Fiscal Year			
	2017	2016	2015*	2014
Net investment in capital assets	$ -	$ -	$ -	$ -
Unrestricted	44,034,865	51,621,511	54,471,707	64,690,535
Total net position	$ 44,034,865	$ 51,621,511	$ 54,471,707	$ 64,690,535

* First year of implementation for GASB No. 68

Fiscal Year					
2013	2012	2011	2010	2009	2008
$ -	$ -	$ 235	$ 798	$ 2,301	$ 5,121
72,411,134	78,984,810	30,063,595	102,842,804	122,720,258	142,142,025
$ 72,411,134	$ 78,984,810	$ 30,063,830	$ 102,843,602	$ 122,722,559	$ 142,147,146

CHANGES IN NET POSITION
LAST TEN FISCAL YEARS

	Fiscal Year			
	2017	2016	2015	2014
Expenses:				
Governmental activities:				
Salaries and benefits	1,215,649	1,727,197	1,689,772	1,747,564
Expenses related to "Zero to Five"	33,178,190	30,870,890	34,608,366	36,672,235
Services and supplies for State School				
Extraordinary Item: Accrual of AB99 liability				
Total expenses	34,393,839	32,598,087	36,298,138	38,419,799
Program revenues:				
Governmental activities:				
Program revenues				
Prop 10 Tobacco taxes	$ 24,790,836	$ 25,879,036	$ 25,943,624	$ 26,395,725
Operating grants and contributions				
Prop 10 State School Readiness				
First 5 CARES Plus		246,281	575,300	269,033
First 5 Child Signature Program		2,042,528	3,350,818	2,719,243
First 5 IMPACT	976,964			
Other State operating grants and Federal operating grants	445,121	696,686	260,297	902,242
General revenues				
Investment income earned on tobacco taxes at the State Level (SMIF)	20,192	12,315	8,082	7,071
Investment income	343,403	441,810	206,029	349,366
Other revenue	230,677	429,235	151,086	56,520
Extraordinary Item: Reversal of AB99 liability				
Total revenues	$ 26,807,193	$ 29,747,891	$ 30,495,236	$ 30,699,200
Net (expense) revenue	$ (7,586,646)	$ (2,850,196)	$ (5,802,902)	$ (7,720,599)

Fiscal Year

2013	2012	2011	2010	2009	2008
1,704,815	2,094,872	2,290,308	2,415,467	2,439,415	2,323,471
33,341,947	31,129,369	49,431,678	46,836,184	54,377,591	51,331,591
			6,844,534	5,660,307	5,959,517
		51,369,439			
35,046,762	33,224,241	103,091,425	56,096,185	62,477,313	59,614,579
$ 27,024,505	$ 28,988,350	$ 28,809,921	$ 29,706,126	$ 33,396,055	$ 35,494,096
			4,349,489	4,294,144	4,114,774
237,504	435,487				
90,171					
			145,834	104,166	352,597
668,105	592,725	641,124	752,152	1,020,269	1,020,556
9,588	11,612	15,331	82,000	82,479	190,332
122,358	481,976	818,294	1,141,118	3,944,954	8,854,562
320,180	265,632	26,983	40,509	210,659	148,113
	51,369,439				
$ 28,472,411	$ 82,145,221	$ 30,311,653	$ 36,217,228	$ 43,052,726	$ 50,175,030
$ (6,574,351)	$ 48,920,980	$ (72,779,772)	$ (19,878,957)	$ (19,424,587)	$ (9,439,549)

FUND BALANCES - GENERAL FUND
LAST TEN FISCAL YEARS

	Fiscal Year			
	2017*	2016*	2015*	2014*
FUND BALANCES				
Nonspendable fund balance	$ 5,567,711	$ 7,277,958	$ 9,340,291	$ 10,782,162
Restricted fund balance				
Committed fund balance	21,769,602	26,486,583	30,112,816	34,561,184
Assigned fund balance	19,957,061	20,866,371	15,589,112	16,374,998
Unassigned fund balance				
Total fund balances	$ 47,294,374	$ 54,630,912	$ 55,042,219	$ 61,718,344
Reserved				
Reserved for encumbrances				
Reserved for contractual obligations				
Reserved for capital projects				
Reserved for First 5 California initiatives				
Unreserved				
Designated for program operations				
Designated for future funding cycles and operating budget				
Unreserved				
Total fund balances				

* Fund Balance presentation changed in fiscal year 2010-11 due to the implementation of GASB 54.

Schedule 3

Fiscal Year

2013*	2012*	2011*	2010	2009	2008
$ 5,624,041	$ 65,657	$ 399,279			
44,990,092	45,090,000	35,123,581			
21,350,266	33,560,512				
		(5,547,385)			
$ 71,964,399	$ 78,716,169	$ 29,975,475			
			$ 43,044,502	$ 70,245,812	$ 2,207,285
			24,677,280	27,017,022	68,027,433
			2,500,050	4,000,000	5,000,000
					8,690,731
			2,495,502	3,128,463	
			30,006,543	18,115,319	58,252,130
			$ 102,723,877	$ 122,506,616	$ 142,177,579

CHANGES IN FUND BALANCES - GENERAL FUND
LAST TEN FISCAL YEARS

	Fiscal Year			
	2017	2016	2015	2014
Revenues:				
Prop 10 Tobacco taxes	$ 24,790,836	$ 25,879,036	$ 25,943,624	$ 26,395,725
Prop 10 State School Readiness				
Other State operating grants and contributions			113,719	
First 5 CARES Plus		320,200	272,815	306,465
First 5 Child Signature Program		4,451,854	2,666,529	117,853
First 5 IMPACT	1,419,176			
Investment income earned on tobacco taxes at the State Level (SMIF)	20,192	12,315	8,082	7,071
Federal operating grants	445,121	696,686	306,528	741,798
Investment income	343,403	441,810	206,029	349,365
Other revenue	230,677	429,236	151,086	282,705
Total revenues	27,249,405	32,231,137	29,668,412	28,200,982
Expenditures:				
Current:				
Salaries and benefits	1,407,753	1,771,554	1,736,171	1,774,802
Expenditures related to "Zero to Five" Program	26,146,461	24,621,958	28,193,233	31,347,721
Catalytic Round 1 and 2 Program Funding	7,031,729	6,248,932	6,415,133	5,324,514
Services and supplies for State School Readiness program				
Total expenditures	34,585,943	32,642,444	36,344,537	38,447,037
Excess (deficiency) or revenues over (under) expenditures	(7,336,538)	(411,307)	(6,676,125)	(10,246,055)
Other Financing Sources (uses):				
Extraordinary Item: Accrual of AB99 liability				
Extraordinary Item: Reversal of AB99 liability				
Total changes in fund balance	$ (7,336,538)	$ (411,307)	$ (6,676,125)	$ (10,246,055)

Fiscal Year					
2013	2012	2011	2010	2009	2008
$ 27,024,505	$ 28,988,350	$ 28,809,921	$ 29,706,126	$ 33,396,055	$ 35,527,837
			4,349,489	4,294,144	4,114,774
			145,834	104,166	352,597
217,258	145,487				
9,588	11,612	15,331	82,000	82,479	190,332
603,957	903,770	686,722	840,427	757,061	1,130,638
122,358	481,976	818,294	1,141,118	3,944,954	8,854,562
320,180	90,786	26,983	40,509	210,659	148,113
28,297,846	30,621,981	30,357,251	36,305,503	42,789,518	50,318,853
1,708,344	2,094,972	2,320,099	2,409,027	2,425,403	2,312,004
28,712,645	31,155,080	49,431,115	46,834,681	54,374,771	51,328,771
4,629,302					
			6,844,534	5,660,307	5,959,517
35,050,291	33,250,052	51,751,214	56,088,242	62,460,481	59,600,292
(6,752,445)	(2,628,071)	(21,393,963)	(19,782,739)	(19,670,963)	(9,281,439)
		(51,369,439)			
	51,369,439				
$ (6,752,445)	$ 48,741,368	$ (72,763,402)	$ (19,782,739)	$ (19,670,963)	$ (9,281,439)

Schedule 5

FIRST 5 CALIFORNIA COUNTY TAX REVENUE CAPACITY

	Orange County	State Total
Actual Tobacco Tax Revenues Received (1)		
2005/2006	$39,332,323	$468,897,022
2006/2007	$37,356,302	$451,562,723
2007/2008	$35,527,837	$442,394,748
2008/2009	$33,396,055	$424,449,499
2009/2010	$29,706,126	$381,995,574
2010/2011	$28,809,921	$374,284,018
2011/2012	$28,988,350	$377,690,133
2012/2013	$27,024,505	$360,434,399
2013/2014	$26,395,725	$347,802,124
2014/2015	$25,943,624	$342,274,305
2015/2016	$25,879,036	$341,825,349
2016/2017	$24,790,836	$322,951,561
Projected Tobacco Tax Revenues (2)		
2017/2018	$21,183,162	$276,910,400
2018/2019	$24,496,050	$323,772,800
2019/2020	$23,725,098	$314,833,600
2020/2021	$22,977,650	$305,873,600
2021/2022	$22,665,907	$299,072,800

(1) Historical data and projected revenues are presented to communicate tax revenue capacity as a declining revenue source

(2) Source: First 5 California County Tax Revenue Projections for 2016/17 to 2021/22 (Updated 7/28/17 utilizing DOF May Revise 2017 Tobacco Tax Projections and DOF Birth Projections for California State and Counties 1970-2023)

Schedule 6

STATE OF CALIFORNIA - CIGARETTE TAXES AND OTHER TOBACCO PRODUCTS SURTAX REVENUE

FY 1959-60 TO 2013-14

	Cigarette tax				Other tobacco products surtax	
Fiscal year	Revenue a/	Distributors' discounts b/	Gross value of tax indicia c/	Refunds	Revenue	Rate (%)
2015-16	741,937,000	6,360,000	748,297,000	1,262,000	101,427,000	28.13%
2014-15	748,022,000	6,413,000	754,434,000	837,000	86,949,000	28.95%
2013-14	751,513,000	6,443,000	757,956,000	600,000	86,424,000	29.82%
2012-13	782,115,000	6,705,000	788,820,000	498,000	82,548,000	30.68%
2011-12	820,322,000	7,032,000	827,355,000	1,017,000	80,424,000	31.73%
2010-11	828,831,000	7,105,000	835,937,000	1,308,000	77,016,000	33.02%
2009-10	838,709,000	7,187,000	845,896,000	1,583,000	84,617,000	41.11%
2008-09	912,724,000	7,819,000	920,543,000	626,000	85,506,000	45.13%
2007-08	955,030,000	8,185,000	963,215,000	727,000	85,929,000	45.13%
2006-07	998,723,000	8,558,000	1,007,281,000	1,330,000	79,946,000	46.76%
2005-06	1,026,497,000	8,795,000	1,035,293,000	1,707,000	67,348,000	46.76%
2004-05	1,024,272,000	8,778,000	1,033,051,000	1,653,000	58,441,000	46.76%
2003-04	1,021,366,000	8,755,000	1,030,121,000	4,721,000	44,166,000	46.76%
2002-03	1,031,772,000	8,845,000	1,040,617,000	13,248,000	40,996,000	48.89%
2001-02	1,067,004,000	9,146,000	1,076,150,000	10,774,000	50,037,000	52.65% d/
2000-01	1,110,692,000	9,503,000	1,120,195,000	8,741,000	52,834,000	54.89%
1999-00	1,166,880,000	9,980,000	1,176,859,000	9,413,000	66,884,000	66.50%
1998-99	841,911,000 e/	7,206,000	849,117,000	6,808,000	42,137,000 f/	61.53% f/
1997-98	612,066,000	5,244,000	617,309,000	5,448,000	39,617,000	29.37%
1996-97	629,579,000	5,394,000	634,973,000	5,060,000	41,590,000	30.38%
1995-96	639,030,000	5,469,000	644,499,000	6,193,000	32,788,000	31.20%
1994-95	656,923,000	5,628,000	662,551,000	11,159,000	28,460,000	31.20%
1993-94	647,993,000 g/	5,553,000	653,546,000	8,353,000	19,773,000	23.03%
1992-93	667,479,000	5,715,000	673,195,000	9,138,000	21,480,000	26.82%
1991-92	711,275,000	6,086,000	717,362,000	7,791,000	22,016,000	29.35%
1990-91	729,612,000	6,242,000	735,854,000	7,904,000	24,064,000	34.17%
1989-90	770,042,000 h/	6,581,000	776,623,000	11,615,000	24,956,000 h/	37.47%
1988-89	499,712,000 h/	4,273,000	503,984,000	4,968,000	9,994,000 h/	41.67%
1987-88	254,869,000	2,180,000	257,049,000	2,970,000		
1986-87	257,337,000	2,202,000	259,539,000	2,661,000		
1985-86	260,960,000	2,231,000	263,190,000	2,834,000		
1984-85	265,070,000	2,267,000	267,337,000	2,390,000		
1983-84	265,265,000	2,267,000	267,532,000	2,756,000		
1982-83	273,748,000	2,336,000	276,084,000	2,060,000		
1981-82	278,667,000	2,383,000	281,050,000	1,843,000		
1980-81	280,087,000	2,395,000	282,482,000	1,567,000		
1979-80	272,119,000	2,327,000	274,446,000	1,645,000		
1978-79	270,658,000	2,315,000	272,973,000	1,408,000		
1977-78	275,042,000	2,352,000	277,394,000	1,239,000		
1976-77	270,502,000	2,315,000	272,817,000	832,000		
1975-76	269,852,000	2,309,000	272,161,000	927,000		
1974-75	264,182,000	2,262,000	266,444,000	745,000		
1973-74	259,738,000	2,222,000	261,960,000	632,000		
1972-73	253,089,000	2,167,000	255,256,000	626,000		
1971-72	248,398,000	2,127,000	250,525,000	677,000		
1970-71	240,372,000	2,058,000	242,430,000	552,000		
1969-70	237,220,000	2,032,000	239,253,000	455,000		
1968-69	238,836,000	2,046,000	240,882,000	492,000		
1967-68	208,125,000 i/	1,862,000	209,987,000	328,000		
1966-67	75,659,000	1,543,000	77,202,000	129,000		
1965-66	74,880,000	1,528,000	76,407,000	88,000		
1964-65	74,487,000	1,520,000	76,007,000	61,000		
1963-64	71,530,000	1,459,000	72,989,000	71,000		
1962-63	70,829,000	1,445,000	72,274,000	79,000		
1961-62	68,203,000	1,390,000	69,593,000	47,000		
1960-61	66,051,000 j/	1,675,000 k/	67,726,000	76,000		
1959-60	61,791,000 l/	767,000 l/	62,558,000	67,000		

Source: State Board of Equalization 2015-2016 Annual Report: Cigarette Taxes and Other Tobacco Products Surtax Revenue, 1959-60 to 2015-16

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

a. Net of refunds for tax indicia on cigarettes that become unfit for use (See Refunds).

b. A discount of .85 percent of gross value of tax indicia is granted to distributors for affixing the stamps. From July 1, 1960, until August 1, 1967, the discount rate was 2 percent.

c. Includes sales of indicia purchased on credit. Effective July 16, 1961, distributors have been able to purchase tax indicia on credit.

d. From July 1, 2001, through September 9, 2001, the surtax rate on smokeless tobacco ranged from 131 percent for moist snuff to 490 percent for chewing tobacco. Effective September 10, 2001, the surtax rate on smokeless tobacco was lowered to 52.65 percent.

e. Effective January 1, 1999, the overall tax rate on cigarettes was increased from 37 cents to 87 cents per pack under voter-approved Proposition 10. The additional 50-cent-per-pack tax was imposed to raise funds for early childhood development programs. Excludes $87,978,766 in 1998-99 from the floor stocks taxes for both cigarettes and other tobacco products levied on January 1, 1999.

f. From July 1, 1998, through December 31, 1998, the surtax rate was 26.17 percent for other tobacco products. Effective January 1, 1999, the new surtax imposed under Proposition 10 raised the combined surtax rate to 61.53 percent for other tobacco products. The new surtax is equivalent (in terms of the wholesale costs of other tobacco products) to a 50-cent-per-pack tax on cigarettes.

g. Effective January 1, 1994, the overall tax rate on cigarettes was increased from 35 cents to 37 cents per pack. The additional 2-cent-per-pack tax was imposed to raise funds for breast cancer research and education.

h. Effective January 1, 1989, an additional 25-cent-per-pack surtax was imposed on cigarettes and a new 41.67 percent surtax was imposed on other tobacco products. Excludes $57,927,856 in 1988-89 and $595,000 in 1989-90 from the floor stocks tax levied on January 1, 1989.

i. Effective August 1, 1967, the tax rate was increased from 3 cents to 7 cents per pack. On October 1, 1967, the rate was further increased to 10 cents per pack, with the stipulation that 30 percent of the tax be allocated to cities and counties. Includes $6,515,209 from the 4-cent-per-pack floor stocks tax levied on August 1, 1967; and $4,889,485 from the 3-cent-per-pack floor stocks tax imposed October 1, 1967.

j. Refunds made for distributors' discounts in the 1960-61 fiscal year on purchases made in the 1959-60 fiscal year have been deducted. Refunds amounted to $324,000.

k. Effective July 1, 1960, a discount was allowed at the time tax indicia were purchased.

l. Includes $2,673,048 from the 3-cent-per-pack floor stocks tax imposed July 1, 1959; and also includes the amount of distributors' discounts which were refunded after purchase of indicia. During July and August of 1959, the tax was collected by invoice and no discount was allowed on these collections of $8,123,700, nor on the $2,673,048 tax on floor stocks.

Schedule 7

STATE OF CALIFORNIA - CIGARETTE DISTRIBUTIONS AND PER CAPITA CONSUMPTION, 1959-60 TO 2015-16

	Reported distributions (Millions of packages)			Apparent per capita consumption (a.) (In packages)
Fiscal year	Total	Tax paid	Tax exempt	
1	2	3	4	5
2015-16	875	860	15	22.3
2014-15	881	867	14	22.8
2013-14	889	871	18	23.2
2012-13	930	907	23	24.5
2011-12	972	951	21	25.8
2010-11	989	961	28	26.4
2009-10	1,002	972	30	26.9
2008-09	1,090	1,058	32	28.5
2007-08	1,131	1,107	24	29.9
2006-07	1,177	1,158	20	31.3
2005-06	1,209	1,190	19	32.5
2004-05	1,224	1,187	37	33.3
2003-04	1,234	1,184	50	34.0
2002-03	1,227	1,196	31	34.5
2001-02	1,271	1,237	34	36.3
2000-01	1,324	1,288	37	38.5
1999-00	1,390	1,353	38	41.2
1998-99	1,568	1,523	45	47.3
1997-98	1,717	1,668	48	52.6
1996-97	1,777	1,716	61	55.2
1995-96	1,811	1,742	69	56.9
1994-95	1,871	1,791	80	59.2
1993-94	1,903	1,824	79	60.6
1992-93	2,010	1,923	86	64.5
1991-92	2,144	2,050	94	69.8
1990-91	2,196	2,102	93	72.8
1989-90	2,311	2,219	92	78.2
1988-89	2,431	2,353	78	84.7
1987-88	2,657	2,570	87	94.9
1986-87	2,690	2,595	95	98.4
1985-86	2,730	2,632	98	102.3
1984-85	2,781	2,673	108	106.7
1983-84	2,792	2,675	117	109.9
1982-83	2,889	2,761	128	115.8
1981-82	2,947	2,811	136	120.4
1980-81	2,966	2,825	141	123.6
1979-80	2,892	2,744	148	122.9
1978-79	2,887	2,730	157	125.1
1977-78	2,940	2,774	166	130.0
1976-77	2,900	2,728	172	130.9
1975-76	2,909	2,722	187	133.7
1974-75	2,857	2,664	193	133.7
1973-74	2,827	2,620	207	134.4
1972-73	2,762	2,553	209	133.2
1971-72	2,720	2,505	215	132.9
1970-71	2,635	2,424	211	130.5
1969-70	2,594	2,393	201	130.2
1968-69	2,616	2,409	207	133.0
1967-68	2,596	2,383	213	134.0
1966-67	2,737	2,573	164	143.8
1965-66	2,706	2,547	159	144.9
1964-65	2,679	2,534	145	146.7
1963-64	2,564	2,433	131	144.3
1962-63	2,545	2,409	136	147.9
1961-62	2,450	2,320	130	147.3
1960-61	2,382	2,258	124	147.8
1959-60	2,190	2,085	105	139.7

Source: State Board of Equalization 2015-2016: Annual Report Table 30B - Cigarette Distributions and Per Capita Consumption,1959-60 to 2015-16

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

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

Schedule 8

ORANGE COUNTY DEMOGRAPHIC DATA

	2016	2015	2014	2013	2012	2011	2010	2009*	2008*	2007*
Total Population**	3,181,371	3,161,218	3,137,744	3,112,839	3,084,036	3,048,993	3,014,962	2,998,820	2,982,790	2,965,829
White***		1,341,468					1,333,321			
Hispanic***		1,108,363					1,016,264			
Asian & Pacific Islander***		575,486					545,704			
Black***		47,268					44,734			
Other/Multi-Race***		88,633					74,939			
Female****	1,603,540	1,592,609	1,579,799	1,565,455	1,552,344	1,538,561	1,523,726	1,512,752	1,505,167	1,496,612
Male****	1,569,038	1,558,325	1,546,034	1,532,511	1,519,533	1,505,864	1,491,270	1,486,068	1,477,623	1,469,217
Under 5 years**	191,004	192,339	191,175	192,673	191,830	192,673	192,162	194,723	200,988	202,945
5-9 years**	200,276	200,568	202,151	202,786	201,548	199,292	199,228	200,944	206,588	209,284
10-14 years**	206,817	207,602	208,554	208,995	209,061	210,488	210,908	209,260	218,622	222,735
15-19 years**	229,967	231,533	231,924	232,835	234,940	232,510	225,190	222,780	219,706	215,560
20-24 years**	240,943	236,349	232,001	226,150	218,517	213,017	212,657	209,857	210,065	209,122
25-34 years**	395,986	401,185	406,947	409,691	412,031	412,923	413,761	411,027	407,538	406,889
35-44 years**	410,528	414,545	420,962	427,284	432,826	436,739	439,083	447,102	463,117	468,042
45-54 years**	463,977	462,471	459,252	455,003	452,303	448,145	444,974	443,950	431,378	422,705
55-59 years**	214,450	210,160	204,002	198,245	191,591	184,211	176,337	172,474	165,260	163,804
60-64 years**	176,865	169,850	163,616	158,880	155,022	152,855	147,638	142,894	132,056	125,167
65-74 years**	255,411	245,975	234,967	223,028	211,403	198,205	189,368	183,812	171,707	166,405
75-84 years**	132,921	129,257	125,643	122,407	119,053	115,842	113,487	111,930	111,338	110,392
85+**	62,226	59,384	56,550	54,862	53,911	52,093	50,169	48,067	44,427	42,779

Sources:

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

** State of California, Department of Finance, Report P-2: Total Estimated and Projected Population for California Counties: July 1, 2010 to July 1, 2060 in 1-year Increments

*** Race and Ethnicity Data available in 5-year increments

**** State of California, Department of Finance, Report P-3: State and County Male and Female Population Projections by Race/Ethnicity and Detailed Age, 2010-2060, December 2014

Schedule 9

LIVE BIRTHS, CALIFORNIA COUNTIES, 2003-2013 (By Place of Residence)*

COUNTY	YEAR									
	2016*	2015	2014	2013	2012	2011	2010	2009	2008	2007
CALIFORNIA	**488,490**	**491,789**	**502,973**	**494,392**	**503,788**	**502,023**	**509,979**	**526,774**	**551,567**	**566,089**
ALAMEDA	19,616	19,442	19,657	19,248	19,550	19,002	19,302	20,320	20,972	21,519
ALPINE	5	3	6	5	8	6	4	4	13	13
AMADOR	306	305	291	261	285	269	272	295	288	294
BUTTE	2,445	2,442	2,482	2,415	2,397	2,392	2,454	2,439	2,518	2,519
CALAVERAS	372	380	348	337	347	326	346	338	373	397
COLUSA	313	298	285	313	314	302	338	361	367	386
CONTRA COSTA	12,717	12,599	12,560	12,149	12,061	12,057	12,352	12,680	13,136	13,485
DEL NORTE	313	300	324	315	302	337	372	333	312	356
EL DORADO	1,558	1,596	1,618	1,533	1,513	1,629	1,618	1,719	1,814	1,881
FRESNO	15,167	15,363	15,796	15,735	15,953	16,157	16,281	16,273	16,760	17,287
GLENN	377	376	416	399	368	391	434	424	472	434
HUMBOLDT	1,513	1,445	1,474	1,531	1,511	1,448	1,551	1,542	1,601	1,599
IMPERIAL	3,094	3,217	3,270	3,068	3,041	3,075	3,072	3,145	3,221	3,142
INYO	199	203	226	230	219	213	192	239	226	212
KERN	13,802	13,769	14,199	14,145	14,558	14,287	14,416	14,827	15,315	15,327
KINGS	2,239	2,275	2,342	2,394	2,357	2,565	2,507	2,644	2,710	2,781
LAKE	724	724	748	758	739	715	721	726	705	742
LASSEN	296	294	326	294	298	300	322	325	323	264
LOS ANGELES	122,667	124,438	130,150	128,523	131,697	130,312	133,160	139,679	147,684	151,797
MADERA	2,284	2,225	2,313	2,314	2,258	2,401	2,434	2,390	2,535	2,611
MARIN	2,307	2,288	2,403	2,320	2,306	2,385	2,368	2,495	2,716	2,818
MARIPOSA	158	166	138	134	161	132	145	155	147	141
MENDOCINO	996	1,052	1,020	1,014	1,153	1,061	1,059	1,100	1,168	1,145
MERCED	4,094	4,105	4,158	4,161	4,311	4,281	4,248	4,407	4,423	4,650
MODOC	88	80	90	63	76	87	119	85	92	80
MONO	139	152	149	150	131	156	151	139	175	161
MONTEREY	6,322	6,426	6,458	6,547	6,652	6,814	6,764	7,068	7,434	7,551
NAPA	1,430	1,456	1,478	1,449	1,431	1,572	1,525	1,653	1,671	1,665
NEVADA	811	876	817	816	810	761	793	758	871	844
ORANGE	37,109	37,622	38,610	37,256	38,186	38,100	38,237	40,431	42,456	44,022
PLACER	3,763	3,748	3,644	3,684	3,648	3,832	3,824	3,804	4,035	4,051
PLUMAS	168	163	147	152	151	165	170	154	175	186
RIVERSIDE	30,456	30,510	30,271	29,930	30,316	30,610	30,659	31,601	32,866	34,554
SACRAMENTO	19,597	19,430	19,886	19,367	19,618	19,998	20,055	20,426	21,389	22,109
SAN BENITO	759	720	697	752	701	772	735	752	816	881
SAN BERNARDINO	30,553	30,619	31,306	30,201	30,691	30,573	31,367	31,984	33,788	35,192
SAN DIEGO	43,164	43,961	44,596	43,627	44,391	43,621	44,838	44,960	46,742	47,545
SAN FRANCISCO	9,025	8,972	9,102	8,807	9,070	8,813	8,800	8,807	9,104	9,124
SAN JOAQUIN	10,249	9,986	10,095	9,799	10,129	10,328	10,593	10,872	11,030	11,590
SAN LUIS OBISPO	2,710	2,668	2,595	2,650	2,580	2,632	2,736	2,614	2,737	2,884
SAN MATEO	9,011	9,040	9,098	8,821	9,182	9,047	9,193	9,452	9,765	9,908
SANTA BARBARA	5,453	5,673	5,829	5,753	5,584	5,803	5,819	6,039	6,319	6,288
SANTA CLARA	23,181	23,393	23,759	23,296	24,308	23,652	23,936	25,200	26,730	27,479
SANTA CRUZ	2,808	2,841	3,047	2,867	3,084	3,232	3,190	3,301	3,538	3,571
SHASTA	2,018	2,074	2,083	2,140	2,110	2,021	2,136	2,069	2,186	2,230
SIERRA	31	31	21	14	19	23	23	21	22	24
SISKIYOU	447	466	451	443	501	472	434	477	498	512
SOLANO	5,143	5,132	5,251	5,255	5,061	5,158	5,047	5,392	5,607	5,847
SONOMA	5,129	5,016	5,075	4,982	5,144	5,150	5,391	5,683	5,761	5,742
STANISLAUS	7,727	7,700	7,521	7,579	7,592	7,737	7,804	7,941	8,549	8,826
SUTTER	1,400	1,302	1,317	1,285	1,258	1,326	1,360	1,433	1,468	1,497
TEHAMA	836	828	787	753	767	728	767	814	790	765
TRINITY	103	102	112	100	125	123	107	116	126	117
TULARE	7,370	7,412	7,618	7,651	8,000	7,966	8,155	8,362	8,533	8,505
TUOLUMNE	440	466	454	475	459	430	487	425	486	474
VENTURA	9,957	10,062	10,471	10,441	10,641	10,656	11,147	11,353	12,076	12,194
YOLO	2,359	2,402	2,395	2,491	2,452	2,340	2,426	2,483	2,669	2,522
YUBA	1,172	1,155	1,193	1,200	1,213	1,282	1,223	1,245	1,264	1,349

Source: California Department of Finance. Demographic Research Unit. 2017. Historical and Projected Fertility Rates and Births, 1990-2040. Sacramento: California Department of Finance. February 2017.

*2016 Projected

Schedule 10

CHILDREN'S SCORECARD ORANGE COUNTY TRENDS, 2006-2015

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
GOOD HEALTH										
Total percentage of women who received early prenatal care*	***	86.10%	88.30%	88.6%	88.7%	89.0%	88.2%	87.8%	88.0%	91.0%
Newborns with low birth weight (less than 2,500 grams)*	***	2433	2,330	2,401	2,550	2,462	2,670	2,705	2,879	2,816
Percent of Newborns with low birth weight*	***	6.3%	6.3%	6.3%	6.7%	6.4%	6.6%	6.4%	6.5%	6.4%
Infants taken into protective custody due to positive testing for alcohol/drug exposure at birth* (FY)	121	110	98	82	128	89	81	107	158	164
Children adequately immunized at age 2*	75.5%	78.9%	73.6%	75.7%	78.1%	74.8%	76.6%	81.1%	76.9%	78.9%
Infant Deaths*	***	114	123	130	160	147	165	202	187	224
Infant Mortality Rate (per 1,000 live births)*	***	3.0	3.3	3.4	4.2	4.0	4.1	4.8	4.2	5.1
Birth rates per 1,000 females ages 15-19 in Orange County*	***	14.8	16.7	19.2	20.2	22.5	25.3	27.7	29.6	31.3
Breastfeeding Percentages (any)*	96.10%	94.8%	94.0%	93.2%	93.2%	92.7%	88.0% **			
Breastfeeding Percentages (exclusive)*	67.10%	64.6%	62.7%	62.1%	59.8%	55.6%	39.2% **			
ECONOMIC WELL-BEING										
Children receiving financial assistance though CalWORKS* (FY)	42,345	42,877	43,916	45,950	46,809	42,793	35,962	31,932	32,040	33,618
Percent of children receiving CalWORKS of total population under 18* (FY)	6.0%	6.0%	6.1%	6.2%	5.9%	5.4%	4.5%	4.0%	4.0%	4.0%
Number of students eligible for free and reduced lunch* (FY)	250,408	243,432	238,891	226,854	228,121	227,820	211,179	197,671	184,956	193,802
Percentage of students eligible for free and reduced lunch* (FY)	50.0%	49.0%	47.9%	46.4%	45.4%	44.4%	43.1%	40.0%	39.0%	39.0%
Number of participants served by the WIC program* (FY)	78,856	87,408	92,303	98,219	103,563	100,434	104,622	117,188	107,595	95,635
Total number of child support cases* (FY)	67,732	68,635	70,608	77,582	89,852	100,056	103,598	94,860	94,769	97,425
Total child support collections $ (in millions)* (FY)	180.5	177.9	178.6	180.1	177.4	177.2	180.3	179.6	179	176.8
EDUCATIONAL ACHIEVEMENT										
Total public school enrollment* (FY)	497,116	500,487	501,801	502,195	502,895	502,239	504,136	503,255	503,955	510,114
Number of English leaner students* (FY)	129,390	130,570	123,390	130,076	126,226	141,605	140,887	142,833	141,762	144,118
Average $ expenditure per pupil for grades K-12* (FY)	9,128	8,274	7,950	7,952	7,827	7,955	8,267	8,224	7,866	7,228
Total number of students K-12 receiving special education* (FY)	53,512	53,005	52,216	51,905	51,613	51,208	51,394	51,486	51,047	51,131
SAFE HOMES AND COMMUNITIES										
Average monthly number of children in out-of-home care* (FY)	2,192	2,279	2,257	2,215	2,018	2,195	2,466	2,668	2,562	2,394
Average monthly number of dependents of the court* (FY)	2,799	2,683	2,862	2,791	2,795	3,050	2,453	3,687	3,468	3,210
Percent with Finalized Adoptions within 12 Months legally free* (FY)	34.6%	38.7%	34.4%	36.7%	35.1%	33.3%	36.3%	32.8%	39.3%	42.5%
Total juvenile arrests for youth 10 to 17 years of age*	***	6,580	6,892	8,566	10,797	13,485	14,341	14,914	14,988	14,021
Total number of juveniles referred to probation, 10 to 18 years*	***	7,156	7,821	8,882	10,454	11,533	11,531	12,456	11,900	10,852

* The 22nd Annual Report on the Condition of Children in Orange County 2016 presents dates through calendar year 2015. Data through FY 2015-16 not yet available.

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

Schedule 11

CAPITAL ASSETS STATISTICS

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

Schedule 12

PRINCIPAL EMPLOYERS

LAST YEAR AND NINE YEARS AGO

2017*

Employer	Number of Employees	Rank	Percentage of Total County Employment
Walt Disney Co.	29,000	1	1.87%
University of California, Irvine	23,605	2	1.52%
St. Joseph Health System	11,925	3	0.77%
Allied Universal	8,229	4	0.53%
Kaiser Permanente	7,694	5	0.50%
Boeing Co.	6,103	6	0.39%
Wal-Mart Stores Inc.	6,000	7	0.39%
California State University, Fullerton	5,781	8	0.37%
Bank of America Corp.	5,500	9	0.35%
Target Corp.	5,400	10	0.35%

2007**

Employer	Number of Employees	Rank	Percentage of Total County Employment
Walt Disney Co.	20,000	1	1.22%
County of Orange	18,748	2	1.14%
University of California, Irvine	17,579	3	1.07%
St. Joseph Health System	10,047	4	0.61%
Boeing Co.	9,961	5	0.61%
Yum Brands Inc.	7,200	6	0.44%
AT&T Inc.	6,000	6	0.37%
California State University, Fullerton	5,634	8	0.34%
Home Depot, Incorporated	5,450	9	0.33%
Bank of America Corp.	4,956	10	0.30%

* Source: Orange County Business Journal, Book of Lists (does not include County of Orange)

** Source: Orange County Business Journal, Book of Lists as reproduced in the 2009 County of Orange CAFR

Schedule 13

EMPLOYEES BY FUNCTION
LAST TEN FISCAL YEARS

	Fiscal Year									
	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Number of Employees by Function										
General Administration	3	3	3	3	4	6	7	7	7	8
Finance	2	2	2	2	1	2	2	2	2	1
Contracts Administration	3	3	4	4	4	4	5	5	5	5
Program Management & Evaluation	4	4	4	4	4	3	3	4	4	4
Total Employees	12	12	13	13	13	15	17	18	18	18

* Table presents Regular and Limited-Term Employees

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

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

We have audited, in accordance with the 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, 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, 2017, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated September 18, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free from 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*.

25231 Paseo De Alicia, Suite 100 Laguna Hills, CA 92653 Tel: 949.768.0833 www.vtdcpa.com Fax: 949.768.8408

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, California
September 18, 2017

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

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

Compliance

We have audited the Children and Families Commission of Orange County's (Commission), a component unit of the County of Orange, California, compliance with the requirements specified in the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, issued by the State Controller's Office, applicable to the Commission's statutory requirements identified below for the year ended June 30, 2017.

Management's Responsibility

Management is responsible for compliance with the requirements of the laws and regulations applicable to the California Children and Families Act.

Auditors' Responsibility

Our responsibility is to express an opinion on the Commission's compliance with the requirements referred to above based on our audit. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, issued by the State Controller's Office. Those standards and the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the requirements referred to above that could have a direct and material effect on the statutory requirements listed below. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance. However, our audit does not provide a legal determination of the Commission's compliance with those requirements. In connection with the audit referred to above, we selected and tested transactions and records to determine the Commission's compliance with the state laws and regulations applicable to the following items:

Description	Audit Guide Procedures	Procedures Performed
Contracting and Procurement	6	Yes
Administrative Costs	3	Yes
Conflict-of-Interest	3	Yes
County Ordinance	4	Yes
Long-range Financial Plans	2	Yes
Financial Condition of the Commission	1	Yes
Program Evaluation	3	Yes
Salaries and Benefits Policies	2	Yes

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Opinion

In our opinion, the Commission complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the California Children and Families Program for the year ended June 30, 2017.

Purpose of Report

The purpose of this report on compliance is solely to describe the scope of our testing over compliance and the results of that testing based on the State of California's *Standards and Procedures for Audits of Local Entities Administering the California Children and Families Act*, issued by the Controller's Office. Accordingly, this report is not suitable for any other purpose.

Vavrinek, Trine, Day & Co., LLP

Laguna Hills, California
September 18, 2017