

**INTEGRATED LAW AND JUSTICE AGENCY  
FOR ORANGE COUNTY**

**Financial and Compliance Report  
Fiscal Year Ended June 30, 2018**

**INTEGRATED LAW AND JUSTICE AGENCY  
FOR ORANGE COUNTY  
Financial and Compliance Report**

**Fiscal Year Ended June 30, 2018**

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**VAVRINEK, TRINE, DAY & CO., LLP**  
Certified Public Accountants

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Integrated Law and Justice Agency for Orange County

### **Report of Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of the Integrated Law and Justice Agency for Orange County (Agency), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Agency'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.

### ***Auditors' 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 auditors' 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.

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency, as of June 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the schedule of revenues, expenditures and changes in fund balance - budget and actual for the General fund and related notes on pages 18 and 19 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.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The schedule of revenues, expenditures and changes in fund balance - budget and actual for the Replacement Capital Projects fund is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The schedule of revenues, expenditures and changes in fund balance - budget and actual for the Replacement Capital Projects fund is the responsibility of management and was 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 revenues, expenditures, and changes in fund balance – budget and actual for the Replacement Capital Projects fund is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 8, 2019 on our consideration of the Agency'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's 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 Agency's internal control over financial reporting and compliance.

*Yavrinek, Trine, Day & Co., LLP*

Laguna Hills, California  
March 8, 2019

## **BASIC FINANCIAL STATEMENTS**

INTEGRATED LAW AND JUSTICE AGENCY FOR ORANGE COUNTY

STATEMENT OF NET POSITION  
JUNE 30, 2018

|                                     | <u>Governmental<br/>Activities</u> |
|-------------------------------------|------------------------------------|
| <b>Assets:</b>                      |                                    |
| Cash and investments                | \$ 3,669,998                       |
| Accounts receivable                 | 17,361                             |
| Due from other governments          | 19,065                             |
| Capital assets, net of depreciation | <u>275,322</u>                     |
| <b>Total Assets</b>                 | <u>3,981,746</u>                   |
| <b>Liabilities:</b>                 |                                    |
| Accounts payable                    | <u>231,632</u>                     |
| <b>Net Position:</b>                |                                    |
| Net investment in capital assets    | 275,322                            |
| Unrestricted                        | <u>3,474,792</u>                   |
| <b>Total Net Position</b>           | <u>\$ 3,750,114</u>                |

See Notes to Financial Statements.

**INTEGRATED LAW AND JUSTICE AGENCY FOR ORANGE COUNTY**

**STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2018**

| <b>Functions/Programs</b>            | <b>Expenses</b>  | <b>Program Revenues<br/>Operating<br/>Contributions<br/>and Grants</b> | <b>Net (Expenses,<br/>Revenues and<br/>Changes in<br/>Net Position)<br/><br/>Governmental<br/>Activities</b> |
|--------------------------------------|------------------|--|--|
| Primary Government:                  |                  |  |  |
| Government Activities:               |                  |  |  |
| Public safety                        | \$ 1,035,047     | \$ 1,155,685   | \$ 120,638   |
| <b>Total Governmental Activities</b> | <b>1,035,047</b> | <b>1,155,685</b>   | <b>120,638</b>   |
| General Revenues:                    |                  |  |  |
| Investment earnings                  |                  |  | 46,204   |
| Change in net position               |                  |  | 166,842  |
| Net Position, Beginning of Year      |                  |  | 3,583,272  |
| <b>Net Position, End of Year</b>     |                  |  | <b>\$ 3,750,114</b>  |

See Notes to Financial Statements.

**INTEGRATED LAW AND JUSTICE AGENCY FOR ORANGE COUNTY**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2018**

|  | General Fund      | Capital<br>Projects Fund<br>Replacement<br>Capital<br>Projects Fund | Total<br>Governmental<br>Funds |
|--|-------------------|---|--------------------------------|
| <b>Assets:</b>                                 |                   |   |                                |
| Cash and investments                           | \$ 246,656        | \$ 3,423,342  | \$ 3,669,998                   |
| Interest receivable                            | 1,546             | 15,815  | 17,361                         |
| Due from other governments                     | 19,065            | -   | 19,065                         |
| <b>Total assets</b>                            | <b>\$ 267,267</b> | <b>\$ 3,439,157</b>   | <b>\$ 3,706,424</b>            |
| <b>Liabilities<br/>and fund balances:</b>      |                   |   |                                |
| Liabilities:                                   |                   |   |                                |
| Accounts payable                               | \$ 37,378         | \$ 194,254  | \$ 231,632                     |
| <b>Total liabilities</b>                       | 37,378            | 194,254   | 231,632                        |
| Fund balances:                                 |                   |   |                                |
| Assigned                                       | -                 | 3,244,903   | 3,244,903                      |
| Unassigned                                     | 229,889           | -   | 229,889                        |
| <b>Total fund balance</b>                      | 229,889           | 3,244,903   | 3,474,792                      |
| <b>Total liabilities<br/>and fund balances</b> | <b>\$ 267,267</b> | <b>\$ 3,439,157</b>   | <b>\$ 3,706,424</b>            |

See Notes to Financial Statements.

**INTEGRATED LAW AND JUSTICE AGENCY FOR ORANGE COUNTY**

**RECONCILIATION ON THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
JUNE 30, 2018**

Fund balances of governmental funds \$ 3,474,792

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets net of depreciation have not been included as financial resources in governmental fund activity:

|                                   |                    |         |
|-----------------------------------|--------------------|---------|
| Capital assets, being depreciated | \$ 5,973,525       |         |
| Less: accumulated depreciation    | <u>(5,698,203)</u> | 275,322 |

**Net position of governmental activities** \$ 3,750,114

See Notes to Financial Statements.

**INTEGRATED LAW AND JUSTICE AGENCY FOR ORANGE COUNTY**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2018**

|  | <u>General Fund</u>      | <u>Capital<br/>Projects Fund<br/>Replacement<br/>Capital<br/>Projects Fund</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|--|--------------------------|--|---|
| <b>Revenues:</b>   |                          |  |   |
| Investment earnings  | \$ 1,265                 | \$ 44,939  | \$ 46,204                               |
| Contributions from member agencies                           | 860,787                  | 294,898  | 1,155,685                               |
| <b>Total Revenues</b>  | <u>862,052</u>           | <u>339,837</u>   | <u>1,201,889</u>                        |
| <b>Expenditures:</b>   |                          |  |   |
| Current:   |                          |  |   |
| Public Safety:   |                          |  |   |
| Administration   | 155,300                  | -  | 155,300                                 |
| Insurance  | 11,999                   | -  | 11,999                                  |
| Professional services  | 139,228                  | -  | 139,228                                 |
| Operating expenditures                                       | 482,041                  | 41,000   | 523,041                                 |
| Supplies   | 4,258                    | -  | 4,258                                   |
| Travel and meetings  | 8,537                    | -  | 8,537                                   |
| <b>Total Expenditures</b>                                    | <u>801,363</u>           | <u>41,000</u>  | <u>842,363</u>                          |
| Excess (Deficiency) of Revenues<br>Over (Under) Expenditures | <u>60,689</u>            | <u>298,837</u>   | <u>359,526</u>                          |
| Other Financing Sources (Uses):                              |                          |  |   |
| Transfers in   | -                        | 330,967  | 330,967                                 |
| Transfers out  | (330,967)                | -  | (330,967)                               |
| <b>Total Other Financing Sources<br/>(Uses)</b>              | <u>(330,967)</u>         | <u>330,967</u>   | <u>-</u>                                |
| <b>Net Change in Fund Balances</b>                           | <u>(270,278)</u>         | <u>629,804</u>   | <u>359,526</u>                          |
| Fund Balances, Beginning of Year                             | <u>500,167</u>           | <u>2,615,099</u>   | <u>3,115,266</u>                        |
| <b>Fund Balances, End of Year</b>                            | <u><u>\$ 229,889</u></u> | <u><u>\$ 3,244,903</u></u>   | <u><u>\$ 3,474,792</u></u>              |

See Notes to Financial Statements.

**INTEGRATED LAW AND JUSTICE AGENCY FOR ORANGE COUNTY**

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018**

Net change in fund balances - governmental funds \$ 359,526

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Depreciation (192,684)

Change in net position of governmental activities \$ 166,842

See Notes to Financial Statements.

# INTEGRATED LAW AND JUSTICE AGENCY FOR ORANGE COUNTY

## NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2018

### Note 1: Reporting Entity and Significant Accounting Policies:

The accounting policies of Integrated Law and Justice Agency for Orange County (Agency) conform to accounting principles generally accepted in the United States of America for local governmental units. The following is a summary of the significant policies.

#### a. Description of the Reporting Entity

The Agency currently operates as a joint venture consisting of the following entities, collectively referred to as "Member Agencies":

|   |  |
|---|--|
| Anaheim   | La Palma   |
| Brea  | Laguna Beach   |
| Buena Park  | Los Alamitos   |
| California State University, Fullerton<br>Police Department | Newport Beach<br>Orange                                |
| Costa Mesa  | Placentia  |
| County of Orange  | Santa Ana  |
| Cypress   | Seal Beach   |
| Fountain Valley   | University of California, Irvine,<br>Police Department |
| Fullerton   |  |
| Garden Grove  | Superior Court of California                           |
| Huntington Beach  | Tustin   |
| Irvine  | Westminster  |
| La Habra  |  |

The purpose of the Agency is to facilitate the integration and sharing of criminal justice information and data among the member agencies. The Agency is intended to provide criminal and law enforcement officials who have the need and right to know, with comprehensive, timely, and accurate information about a criminal suspect or offender, including identity, criminal history, and current justice status.

The Agency has a twelve member Board of Directors from the participating agencies. The Agency prepares an annual budget, which is submitted for approval to the Board of Directors.

#### b. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

#### Government-wide Financial Statements

Government-wide financial statements display information about the Agency as a whole. All activities of the Agency are classified as governmental activities. Government-wide financial statements are presented using the *economic resources measurement* focus and the *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized when all applicable eligibility requirements are met and the resources are available.

# INTEGRATED LAW AND JUSTICE AGENCY FOR ORANGE COUNTY

## NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2018

### Note 1: Reporting Entity and Significant Accounting Policies (Continued)

Program revenues include contributions from member agencies to pay for operations and management of other public service agencies contracting with the Agency for law enforcement support services. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

Amounts paid to acquire capital assets are capitalized in the government-wide financial statements, rather than reported as expenses.

#### **Fund Financial Statements**

The underlying accounting system of the Agency is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the Agency's governmental funds are presented after the government-wide financial statements. These statements display information about governmental major funds individually.

#### **Governmental Funds**

In the fund financial statements, governmental funds are presented using the *modified-accrual* basis of accounting. Their revenues are recognized when they become *measurable* and *available*. *Measurable* means that the amounts can be estimated, or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The Agency generally considers revenues collected within sixty days after the fiscal year-end to be available.

Revenue recognition is subject to the measurable and availability criteria for the governmental funds in the fund financial statements. Exchange transactions are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). Imposed non-exchange transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. Government-mandated and voluntary non-exchange transactions are recognized as revenues when all applicable eligibility requirements have been met.

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance is considered to be a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net fund balance. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

# INTEGRATED LAW AND JUSTICE AGENCY FOR ORANGE COUNTY

## NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2018

### Note 1: Reporting Entity and Significant Accounting Policies (Continued)

Amounts expended to acquire capital assets are recorded as *expenditures* in the year that resources were expended, rather than as assets. The proceeds of long-term debt are recorded as *other financing sources* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

When both restricted and unrestricted resources are combined in a fund, expenditures are considered to be paid first from restricted resources, and then from unrestricted resources.

#### c. Fund Classification

The accounting records of the Agency are organized on the basis of funds. The following funds have been classified as major governmental funds:

General Fund - The General Fund is the general operating fund of the Agency. All general revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. Expenditures of this fund include the general operating expenditures and other costs which are not paid through other funds.

Replacement Capital Projects Fund - The Replacement Capital Projects Fund is used to account for financial resources received from member agencies which have been designated for future replacement of capital assets used by the Agency.

#### d. Cash and Investments

Investments are reported at fair value. Changes in fair value that occur during a fiscal year are recognized as *investment income* reported for that fiscal year. *Investment income* includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

#### e. Due from Other Governments

Amounts shown as due from other governments represent billings to other parties for services rendered during the year which had not been collected as of the balance sheet date.

#### f. Capital Assets

Capital assets are recorded at historical cost at the time of purchase. Assets acquired from gifts of contributions are recorded at acquisition value on the date received. Generally, capital asset purchases in excess of \$5,000 are capitalized if they have an expected useful life of three years or more. Computer software is a common type of intangible asset that is often internally generated. Internally generated computer software includes software developed in-house by the government's personnel or by a third-party contractor on behalf of the government, or commercially available software that is modified using more than minimal incremental effort before being put into operation. Outlays incurred related to an internally generated intangible asset that is identifiable are capitalized only upon the occurrence of all of the following:

**INTEGRATED LAW AND JUSTICE AGENCY FOR ORANGE COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**Note 1: Reporting Entity and Significant Accounting Policies (Continued)**

- Determination that an objective for the project is to create a specific internally generated intangible asset.
- Determination of the nature of the service capacity that is expected to be provided by the asset upon its completion.
- Demonstration of the technical or technological feasibility for completing the project so that the asset will provide its expected service capacity.
- Demonstration of the current intention, ability, and presence of effort to complete or, in the case of a multiyear project, continue development of the intangible asset.

Outlays related to the creation of an internally generated intangible asset incurred prior to meeting these criteria are expensed as incurred.

Capital assets used in operations are depreciated in the government-wide financial statements. Depreciation of such assets is computed using the straight-line method over the estimated useful lives noted below and charged to operations:

|                             |         |
|-----------------------------|---------|
| Computer hardware equipment | 4 years |
| Software                    | 7 years |

**g. Member Contributions**

Contribution revenues received from member agencies represent amounts billed to pay for operations and management of other public service agencies contracting with the Agency for law enforcement support services.

**h. Net Position**

In the governmental-wide financial statements, net position is classified as follows:

Net Investment in Capital Assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction, or improvement of the assets.

Unrestricted Net Position – This amount is all net position that does not meet the definition of “net investment in capital assets.”

Net position flow assumption:

Sometimes the Agency will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the government’s policy to consider restricted net position to have been depleted before unrestricted net position is applied.

# INTEGRATED LAW AND JUSTICE AGENCY FOR ORANGE COUNTY

## NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2018

### Note 1: Reporting Entity and Significant Accounting Policies (Continued)

#### i. Fund Balance

In the fund financial statements, governmental funds report the following fund balance classification:

Nonspendable includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted includes amounts that are constrained on the use of resources by either (a) external creditors, grantors, contributors, or laws of regulations of other governments or (b) by law through constitutional provisions or enabling legislation.

Committed includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Agency's highest authority. The formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution.

Assigned includes amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Agency's Board of Directors or another designated official is authorized to assign amounts to a specific purpose, which was established by the governing body in resolution. Fund balance within the capital projects fund are assigned for future capital replacement.

Unassigned includes the residual amounts that have not been restricted, committed, or assigned to specific purposes. \$229,889 is classified as unassigned as of June 30, 2018.

The Agency maintains a stabilization reserve which was formally established for the operating fund by the Board of Directors in March 2015. A stabilization reserve is maintained to buffer against steep member agency rate increases due to unexpected operational cost increases. The stabilization reserve was targeted at 20% of total annual member agency fees but may fluctuate to serve its purpose. If the stabilization reserve is utilized to balance operating fund expenditures in a given year, the Agency Board of Directors must be notified in writing along with a plan to replenish the reserve in a timely, but reasonable, time frame. Any excess fund balance greater than the 20% reserve within the General Fund, shall be transferred to the Replacement Capital Projects fund during the subsequent fiscal year upon Board approval. The stabilization reserve as of June 30, 2018 was \$206,461 for the General Fund.

Fund balance flow assumptions:

Sometimes the Agency will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. The Agency considers restricted fund balance to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the Agency considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts.

**INTEGRATED LAW AND JUSTICE AGENCY FOR ORANGE COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**Note 1: Reporting Entity and Significant Accounting Policies (Continued)**

**j. Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**Note 2: Cash and Investments**

Cash and investments at June 30, 2018, are classified in the accompanying financial statements as follows:

|  |                     |
|--|---------------------|
| Statement of Net Position/Balance Sheet:   |                     |
| Deposits with City of Brea investment pool | \$ 189,220          |
| Local Agency Investment Fund (LAIF)        | <u>3,480,778</u>    |
| Total Cash and investments                 | <u>\$ 3,669,998</u> |

**Investments Authorized by the California Government Code**

The Agency maintains cash and investments within the City of Brea, California (City)'s investment pool. The balance available for withdrawal is based on the accounting records maintained by the City, which are recorded on an original cost basis. The investment policies and the risks related to cash and investments applicable to the Agency's deposits are those of the City, and are disclosed in the City's basic financial statements. The deposits with the City pool are not rated as to credit risk. The City's basic financial statements may be obtained through the City's website.

The Agency is also a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California and the Pooled Money Investment Board. The State Treasurer's Office pools these funds with those of other governmental agencies in the state and invests the cash. The balance available for withdrawal is based on the accounting records maintained by LAIF which are recorded on an amortized cost basis. Funds are accessible and transferable within 24 hour notice. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset backed securities, and floating rate securities issued by Federal Agencies, government-sponsored enterprises and corporations.

# INTEGRATED LAW AND JUSTICE AGENCY FOR ORANGE COUNTY

## NOTES TO BASIC FINANCIAL STATEMENTS JUNE 30, 2018

### Note 2: Cash and Investments (Continued)

The Pooled Money Investment Board has established policies, goals, and objectives to make certain that their goal of safety, liquidity, and yield are not jeopardized. The value of the LAIF deposits as of June 30, 2018 was \$3,480,778, and had a weighted average maturity of 194 days. LAIF is not rated as to credit risk by a nationally recognized statistical rating organization. LAIF is administered by the State Treasurer and audited annual by the Pooled Money Investment Board and the State Controller's Office. Copies of this audit may be obtained from the State Treasurer's Office: 915 Capitol Mall, Sacramento, California 95814.

The Agency's deposits with the City and investment in LAIF are governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City. The Agency has not adopted an investment policy separate from that of the City.

### Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the Agency's exposure to interest rate risk as a result of its equity in the cash and investment pool of the City is provided by disclosures in the notes to the basic financial statements of the City's Comprehensive Annual Financial Report that shows the distribution of the City's investments by maturity. The Agency's investment of \$189,220 in the City's investment pool has a maturity date of 12 months or less.

### Fair Value Measurements

The Agency categorizes its fair value of 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. Deposits and withdrawals in the City's investment pool and LAIF are made on the basis of \$1 and not fair value. Accordingly, the Agency's cash and investments in both the City's investment pool and LAIF are based on uncategorized inputs not defined as Level 1, Level 2, or Level 3.

**INTEGRATED LAW AND JUSTICE AGENCY FOR ORANGE COUNTY**

**NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2018**

**Note 3: Capital Assets:**

A summary of changes in the Governmental Activities capital assets at June 30, 2018, is as follows:

|   | <u>Beginning<br/>Balance</u> | <u>Additions</u>    | <u>Deletions</u> | <u>Ending<br/>Balance</u> |
|---|------------------------------|---------------------|------------------|---------------------------|
| Governmental Activities:                        |                              |                     |                  |                           |
| Capital assets, being depreciated:              |                              |                     |                  |                           |
| Equipment and software                          | <u>\$ 5,973,525</u>          | <u>\$ -</u>         | <u>\$ -</u>      | <u>\$ 5,973,525</u>       |
| Less accumulated depreciation:                  |                              |                     |                  |                           |
| Equipment and software                          | <u>5,505,519</u>             | <u>192,684</u>      | <u>-</u>         | <u>5,698,203</u>          |
| Total capital assets,<br>Being depreciated, net | <u>\$ 468,006</u>            | <u>\$ (192,684)</u> | <u>\$ -</u>      | <u>\$ 275,322</u>         |

Depreciation expense of \$192,684 was charged to public safety for the year ended June 30, 2018.

**Note 4: Insurance**

The Agency purchases personal injury, property damage, public officials errors and omissions and automobile insurance through Alliant Insurance Services. The maximum coverage is \$25,000,000 with a \$5,000 self-insured retention. There have been no significant changes in insurance coverage as compared to last year. Settlements have not exceeded coverage in each of the past three fiscal years.

**Note 5: Transfers**

Transfers are used to move revenues between funds. For the year ended June 30, 2018, the Agency made a transfer of \$330,967 of excess stabilization reserves for FY 2016-17 and 2017-18 from the General Fund to the Replacement Capital Projects Fund, in accordance with the Agency's stabilization policy described in Note 1 section i.

**REQUIRED SUPPLEMENTARY INFORMATION**

**INTEGRATED LAW AND JUSTICE AGENCY FOR ORANGE COUNTY**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE – BUDGET AND ACTUAL  
GENERAL FUND  
YEAR ENDED JUNE 30, 2018**

|  | Budgeted Amounts |            | Actual<br>Amounts | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|------------------|------------|-------------------|---|
|  | Original         | Final      |                   |   |
| <b>REVENUES</b>  |                  |            |                   |   |
| Investment earnings  | \$ 6,641         | \$ 1,138   | \$ 1,265          | \$ 127  |
| Contributions from member agencies                           | 860,784          | 860,784    | 860,787           | 3   |
| Total Revenues   | 867,425          | 861,922    | 862,052           | 130   |
| <b>EXPENDITURES</b>  |                  |            |                   |   |
| Current:   |                  |            |                   |   |
| Public Safety:   |                  |            |                   |   |
| Administration   | 159,812          | 159,812    | 155,300           | 4,512   |
| Insurance  | 13,044           | 13,044     | 11,999            | 1,045   |
| Professional services  | 173,095          | 173,095    | 139,228           | 33,867  |
| Operating expenditures                                       | 508,335          | 508,335    | 482,041           | 26,294  |
| Supplies   | 800              | 800        | 4,258             | (3,458)   |
| Travel and meetings  | 5,699            | 5,699      | 8,537             | (2,838)   |
| Total Expenditures   | 860,785          | 860,785    | 801,363           | 59,422  |
| Excess (Deficiency) of Revenues<br>Over (Under) Expenditures | 6,640            | 1,137      | 60,689            | (59,292)  |
| <b>Other Financing Sources (Uses):</b>                       |                  |            |                   |   |
| Transfers out  | -                | (330,967)  | (330,967)         | -   |
| Net Change in Fund Balance                                   | 6,640            | (329,830)  | (270,278)         | (59,292)  |
| Fund Balance, Beginning of Year                              | 500,167          | 500,167    | 500,167           | -   |
| Fund Balance, End of Year                                    | \$ 506,807       | \$ 170,337 | \$ 229,889        | \$ 59,552   |

See note to required supplementary information.

# **INTEGRATED LAW AND JUSTICE AGENCY FOR ORANGE COUNTY**

## **NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2018**

### **Budgetary Reporting**

The Agency adopted an annual budget prepared on the modified accrual basis. The legal level of control is established at the fund level. Appropriations may be transferred between accounts during the course of the year at the direction of the Agency Treasurer. Increasing total fund appropriations requires a 2/3 majority approval of the Agency's Board. Transfers between funds requires approval by the Agency Board unless explicitly authorized in the budget policy.

**SUPPLEMENTARY INFORMATION**

**INTEGRATED LAW AND JUSTICE AGENCY FOR ORANGE COUNTY**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET TO ACTUAL  
REPLACEMENT CAPITAL PROJECTS FUND  
YEAR ENDED JUNE 30, 2018**

|  | Budgeted Amounts |              | Actual<br>Amounts | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|--|------------------|--------------|-------------------|---|
|  | Original         | Final        |                   |   |
| <b>REVENUES</b>  |                  |              |                   |   |
| Investment earnings  | \$ 6,641         | \$ -         | \$ 44,939         | \$ 44,939   |
| Contributions from member agencies                           | 294,894          | 294,894      | 294,898           | 4   |
| Total Revenues   | 301,535          | 294,894      | 339,837           | 44,943  |
| <b>EXPENDITURES</b>  |                  |              |                   |   |
| Current:   |                  |              |                   |   |
| Public Safety:   |                  |              |                   |   |
| Operating expenditures                                       | -                | 41,000       | 41,000            | -   |
| Total Expenditures   | -                | 41,000       | 41,000            | -   |
| Excess (Deficiency) of Revenues<br>Over (Under) Expenditures | 301,535          | 253,894      | 298,837           | 44,943  |
| <b>Other Financing Sources (Uses):</b>                       |                  |              |                   |   |
| Transfers in   | -                | 330,967      | 330,967           | -   |
| Net Change in Fund Balance                                   | 301,535          | 584,861      | 629,804           | 44,943  |
| Fund Balance, Beginning of Year                              | 2,615,099        | 2,615,099    | 2,615,099         | -   |
| Fund Balance, End of Year                                    | \$ 2,916,634     | \$ 3,199,960 | \$ 3,244,903      | \$ 44,943   |



**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 Directors  
Integrated Law and Justice Agency for 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 each major fund of the Integrated Law and Justice Agency for Orange County (Agency), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated March 8, 2019.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Agency'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 Agency's internal control. Accordingly, we do not express an opinion on the effectiveness of the Agency'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 Agency'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*.

## 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.

*Yaurinek, Trine, Day & Co., LLP*

Laguna Hills, California  
March 8, 2019