

AIRBORNE LAW ENFORCEMENT SERVICES

FINANCIAL STATEMENTS

**WITH REPORT ON AUDIT
BY INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS**

**FOR THE PERIOD FROM
JULY 1, 2012 THROUGH DECEMBER 31, 2012
(DATE OF DISSOLUTION)**

(This page intentionally left blank)

AIRBORNE LAW ENFORCEMENT SERVICES

TABLE OF CONTENTS

For the period from July 1, 2012 through December 31, 2012

	<u>Page Number</u>
Independent Auditors' Report	1 - 2
Basic Financial Statements:	
Government-wide Financial Statements:	3
Statement of Net Assets	4
Statement of Activities	5
Fund Financial Statements:	7
Balance Sheet - Governmental Funds	8
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	9
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	10
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities	11
Notes to the Basic Financial Statements	13 - 20

(This page intentionally left blank)

INDEPENDENT AUDITORS' REPORT

The Board of Directors
Airborne Law Enforcement Services
Costa Mesa, California

Report of the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Airborne Law Enforcement Services (ABLE), as of and for period from July 1, 2012 to December 31, 2012 (date of dissolution), which collectively comprise ABLE'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 the financial statements that are free of 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. 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 misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the ABLE'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 ABLE'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 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 each major fund of ABLE as of December 31, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

As discussed in Note 5 to the financial statements, ABLE was dissolved as of December 31, 2012. Our opinion is not modified with respect to this matter.

Management's Discussion and Analysis

Management has not presented the management's discussion and analysis that governmental 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.

White Nelson Dick Evans LLP

Irvine, California
February 12, 2013

GOVERNMENT-WIDE FINANCIAL STATEMENTS

AIRBORNE LAW ENFORCEMENT SERVICES

STATEMENT OF NET ASSETS

December 31, 2012

	<u>Governmental Activities</u>
ASSETS:	
Cash and investments (Note 2)	\$ 5,108,639
Accounts receivable	<u>1,013</u>
 TOTAL ASSETS	 <u>5,109,652</u>
LIABILITIES:	
Accounts payable	2,300
Sales tax payable	3,722
Payable to joint powers members (Note 5)	<u>5,103,630</u>
 TOTAL LIABILITIES	 <u>5,109,652</u>
NET ASSETS:	
Unrestricted	<u>-</u>
 TOTAL NET ASSETS	 <u><u>\$ -</u></u>

See independent auditors' report and notes to the basic financial statements.

AIRBORNE LAW ENFORCEMENT SERVICES

STATEMENT OF ACTIVITIES

For the period from July 1, 2012 through December 31, 2012

Functions/programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Law enforcement	\$ 142,862	\$ -	\$ -	\$ -	\$ (142,862)
 Total governmental activities	 <u>\$ 142,862</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>(142,862)</u>
		General revenues:			
					18,540
					6,531
					<u>200,344</u>
					<u>225,415</u>
					82,553
					<u>(5,103,630)</u>
					(5,021,077)
					<u>5,021,077</u>
					<u>\$ -</u>

See independent auditors' report and notes to the basic financial statements.

(This page intentionally left blank)

FUND FINANCIAL STATEMENTS

AIRBORNE LAW ENFORCEMENT SERVICES

BALANCE SHEET
GOVERNMENTAL FUNDS

December 31, 2012

	General Fund	Capital Projects Fund	Total Governmental Funds
ASSETS:			
Cash and investments	\$ 1,886,370	\$ 3,222,269	\$ 5,108,639
Accounts receivable	1,013	-	1,013
TOTAL ASSETS	\$ 1,887,383	\$ 3,222,269	\$ 5,109,652
LIABILITIES:			
Accounts payable	\$ 2,300	\$ -	\$ 2,300
Sales tax payable	3,722	-	3,722
Payable to joint powers members (Note 5)	1,881,361	3,222,269	5,103,630
TOTAL LIABILITIES	\$ 1,887,383	\$ 3,222,269	\$ 5,109,652

See independent auditors' report and notes to the basic financial statements.

AIRBORNE LAW ENFORCEMENT SERVICES

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

December 31, 2012

There are no reconciling items between net assets of governmental activities on the Statement of Net Assets and fund balances on the governmental funds balance sheet.

See independent auditors' report and notes to the basic financial statements.

AIRBORNE LAW ENFORCEMENT SERVICES

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the period from July 1, 2012 through December 31, 2012

	General Fund	Capital Projects Fund	Total Governmental Funds
REVENUES:			
Investment income	\$ 7,036	\$ 11,504	\$ 18,540
Other	200,344	-	200,344
	207,380	11,504	218,884
TOTAL REVENUES			
EXPENDITURES:			
Financial and administrative	5,571	-	5,571
Labor and maintenance	70,311	-	70,311
Insurance	1,500	-	1,500
Fuel	19,840	-	19,840
Supplies, tools and materials	538	-	538
Rent	27,203	-	27,203
	124,963	-	124,963
TOTAL EXPENDITURES			
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	82,417	11,504	93,921
OTHER FINANCING SOURCES:			
Sale of capital assets	60,230	-	60,230
	60,230	-	60,230
NET CHANGE IN FUND BALANCES, BEFORE EXTRAORDINARY ITEM	142,647	11,504	154,151
EXTRAORDINARY ITEM:			
Final payment to joint powers members	(1,881,361)	(3,222,269)	(5,103,630)
	(1,881,361)	(3,222,269)	(5,103,630)
NET CHANGE IN FUND BALANCES	(1,738,714)	(3,210,765)	(4,949,479)
FUND BALANCES AT JULY 1, 2012, AS RESTATED (NOTE 4)	1,738,714	3,210,765	4,949,479
	1,738,714	3,210,765	4,949,479
FUND BALANCES AT DECEMBER 31, 2012	\$ -	\$ -	\$ -
	\$ -	\$ -	\$ -

See independent auditors' report and notes to the basic financial statements.

AIRBORNE LAW ENFORCEMENT SERVICES

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES

For the period from July 1, 2012 through December 31, 2012

Net change in fund balances - total governmental funds \$ (4,949,479)

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

When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas net assets decreased by the amount of depreciation expense charged for the year. In the Statement of Activities, only the gain on the sale of capital assets is reported. However, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in the net assets differs from the change in fund balance by the cost of capital assets sold.

Depreciation expense	(17,899)
Transfer of of capital assets to the City of Costa Mesa	<u>(53,699)</u>

Change in net assets of governmental activities	<u><u>\$ (5,021,077)</u></u>
---	------------------------------

See independent auditors' report and notes to the basic financial statements.

(This page intentionally left blank)

AIRBORNE LAW ENFORCEMENT SERVICES
NOTES TO THE BASIC FINANCIAL STATEMENTS

For the period from July 1, 2012 through December 31, 2012

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of Airborne Law Enforcement Services (hereinafter referred to as "ABLE") 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:

ABLE was created as a joint venture involving the City of Costa Mesa ("Costa Mesa") and the City of Newport Beach ("Newport Beach"), collectively referred to as "Member Agencies". The purpose of ABLE is to use the equipment and personnel of the member agencies in order to provide regional law enforcement helicopter services to their respective jurisdictions. In February 2011, ABLE's Board of Directors made a decision to dissolve the joint venture and as of December 31, 2012, the entity has disposed of its assets and satisfied its obligations.

B. Fund Accounting:

The basic accounting and reporting entity is a "fund". A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts, recording resources, related liabilities, obligations, reserves and equities segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The accounting records of ABLE 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 ABLE. 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.

Capital Projects Fund

The Helicopter Replacement Fund is used to account for financial resources segregated for major capital acquisitions.

See independent auditors' report.

AIRBORNE LAW ENFORCEMENT SERVICES

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

For the period from July 1, 2012 through December 31, 2012

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

C. Basis of Accounting and Measurement Focus:

The *basic financial statements* of ABLE 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 ABLE as a whole. All activities of ABLE 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 government-wide financial statements. *Basis of accounting* refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

Program revenues include charges for services, special assessments, and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. 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 assets in the government-wide financial statements, rather than reported as an expenditure.

Fund Financial Statements

The underlying accounting system of ABLE 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 or expenses, 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.

See independent auditors' report.

AIRBORNE LAW ENFORCEMENT SERVICES

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

For the period from July 1, 2012 through December 31, 2012

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

C. Basis of Accounting and Measurement Focus (Continued):

Fund Financial Statements (Continued)

Fund financial statements for ABLE'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* as net current assets. *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. ABLE 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 (net current assets) 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 current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

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

See independent auditors' report.

AIRBORNE LAW ENFORCEMENT SERVICES

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

For the period from July 1, 2012 through December 31, 2012

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):

D. Cash and Investments:

Investments are reported in the accompanying financial statements 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. Capital Assets:

Capital assets are recorded at historical cost at the time of purchase. Assets acquired from gifts of contributions are recorded at fair market value on the date received. Generally, capital asset purchases in excess of \$5,000 are capitalized if they have an expected useful life of 2 years or more. 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:

Helicopters	10 years
FLIR System	7 years
Other helicopter equipment	5 years

As described in Note 5, ABLE's Board of Directors made a decision to dissolve the joint venture. As a result, the remaining capital assets which consisted of helicopter parts were sold and ABLE received a total of \$60,230 for the sale of capital assets which consisted of \$24,539 received from the City of Costa Mesa, and \$35,691 from other vendors. The net value in the amount of \$53,699 for the FLIR System was transferred to the City of Costa Mesa to be sold to a third party or donated to the Orange County Sheriff. If the FLIR System is sold, the proceeds will be distributed equally between the City of Costa Mesa and the City of Newport Beach.

F. Fund Equity:

Due to the implementation of GASB No. 54, the components of the fund balances of governmental funds reflect the component classifications described below.

The fund balances are reported in the fund statements in the following classifications:

Nonspendable Fund Balance - this includes amounts that cannot be spent because they are either not spendable in form (such as inventory) or legally or contractually required to be maintained intact (such as endowments).

See independent auditors' report.

AIRBORNE LAW ENFORCEMENT SERVICES

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

For the period from July 1, 2012 through December 31, 2012

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED):

F. Fund Equity (Continued):

Assigned Fund Balance - this includes amounts that are designated or expressed by the Board, but does not require a formal action like a resolution or ordinance. The Board may delegate the ability of an employee or committee to assign uses of specific funds, for specific purposes. Such delegation of authority has not yet been granted to persons or bodies other than the Board of Directors.

Unassigned Fund Balance - this includes the remaining spendable amounts which are not included in one of the other classifications.

It is ABLE's policy that restricted resources will be applied first, followed by (in order of application) committed, assigned, and unassigned resources, in the absence of a formal policy adopted by the Board.

G. Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. CASH AND INVESTMENTS:

Cash and Investments

Cash and investments at December 31, 2012 are classified in the accompanying Statement of Net Assets as follows:

Cash and investments	<u>\$ 5,108,639</u>
----------------------	---------------------

Cash and investments held at December 31, 2012 consisted of the following:

Equity in City of Costa Mesa investment pool	<u>\$ 5,108,639</u>
--	---------------------

See independent auditors' report.

AIRBORNE LAW ENFORCEMENT SERVICES

NOTES TO THE BASIC FINANCIAL STATEMENTS (CONTINUED)

For the period from July 1, 2012 through December 31, 2012

2. CASH AND INVESTMENTS (CONTINUED):

Equity in Cash and Investment Pool of the City of Costa Mesa

ABLE does not have a separate bank account; however, ABLE's cash and investments are maintained in an investment pool managed by the City of Costa Mesa. ABLE is a voluntary participant in that pool. This pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City of Costa Mesa. ABLE has not adopted an investment policy separate from that of the City of Costa Mesa. The fair value of ABLE's investment in this pool is reported in the accompanying financial statements at amounts based upon ABLE's pro-rata share of the fair value calculated by the City for the entire City portfolio. The balance available for withdrawal is based on the accounting records maintained by the City, which are recorded on an original cost basis.

Disclosures Relating to 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 is, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City of Costa Mesa manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about ABLE's exposure to interest rate risk as a result of its equity in the cash and investment pool of the City of Costa Mesa is not available as of December 31, 2012.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Minimum ratings required by (where applicable) the California Government Code and the City of Costa Mesa's Investment Policy and the actual ratings as of December 31, 2012 are not available.

Concentration of Credit Risk

Investments in any one issuer (other than U.S. Treasury securities, mutual funds and investment pools) that represent 5% or more of total investments for the entire entity (or for each separate major fund or for other governmental funds in the aggregate) are not available as of December 31, 2012.

See independent auditors' report.

AIRBORNE LAW ENFORCEMENT SERVICES

NOTES TO THE BASIC FINANCIAL STATEMENTS
(CONTINUED)

For the period from July 1, 2012 through December 31, 2012

2. CASH AND INVESTMENTS (CONTINUED):

Custodial Credit Risk

ABLE does not have any significant certificates of deposit or demand accounts that are subject to custodial credit risk disclosure (as defined by GASB Statement No. 40). ABLE does not have direct investments in securities subject to custodial credit risk disclosure (as defined by GASB Statement No. 40).

3. CAPITAL ASSETS:

A summary of changes in capital assets for the period ended December 31, 2012 is as follows:

	Balance at July 1, 2012	Additions	Deletions	Balance at December 31, 2012
Capital assets, being depreciated:				
Helicopter equipment	\$ 277,832	-	(277,832)	-
Less accumulated depreciation for:				
Helicopter equipment	(206,234)	(17,900)	224,134	-
Capital assets, net	\$ 71,598	\$ (17,900)	\$ (53,698)	\$ -

Depreciation expense of \$17,900 was charged to law enforcement.

4. PRIOR PERIOD ADJUSTMENT OF BEGINNING NET ASSETS AND FUND BALANCES:

Net Assets

The net assets balances at July 1, 2012 were restated as follows:

Net assets as previously reported - July 1, 2012	\$ 4,928,077
To adjust for sales tax payable accrued at June 30, 2012 for sale of capital assets. Net assets were restated to remove the payable as it was determined by ABLE's attorney that the sale was exempt from sales tax.	93,000
Net assets, as restated - July 1, 2012	\$ 5,021,077

See independent auditors' report.

AIRBORNE LAW ENFORCEMENT SERVICES
 NOTES TO THE BASIC FINANCIAL STATEMENTS
 (CONTINUED)

For the period from July 1, 2012 through December 31, 2012

4. PRIOR PERIOD ADJUSTMENT OF BEGINNING NET ASSETS AND FUND BALANCES
 (CONTINUED):

Fund Balances

The fund balances at July 1, 2012 were restated as follows:

	General Fund
Fund balances as previously reported - July 1, 2012	\$ 1,645,714
Removal of sales tax payable accrued at June 30, 2012	<u>93,000</u>
Fund balances as restated - July 1, 2012	<u>\$ 1,738,714</u>

5. DISSOLUTION OF ENTITY:

In February 2011, ABLE's Board of Directors made a decision to dissolve the joint venture. At December 31, 2012, ABLE was able to dispose all of its inventories and capital assets except for one item, which was written off as a loss on disposal of assets. The joint venture is dissolved as of December 31, 2012.

A payable to the joint powers members of \$5,103,630 has been recorded at December 31, 2012 to reflect the remaining funds available for distribution which will be allocated equally to the City of Costa Mesa and the City of Newport Beach. A payment in the amount of \$2,551,815 was made to each of the Cities of Costa Mesa and Newport Beach on January 25, 2013.

See independent auditors' report.