

SAN MATEO COUNTY NARCOTICS TASK FORCE

**Financial Statements and
Independent Auditor's Report**

For the Fiscal Year Ended June 30, 2008

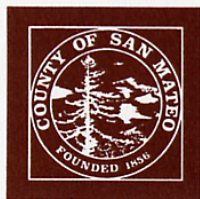
SAN MATEO COUNTY NARCOTICS TASK FORCE

June 30, 2008

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Office of Controller



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Independent Auditor's Report

To the Board of Directors
San Mateo County Narcotics Task Force

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the San Mateo County Narcotics Task Force (the NTF) as of and for the year ended June 30, 2008, which collectively comprise the NTF's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the NTF's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the NTF as of June 30, 2008, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued our report dated March 30, 2009, on our consideration of the NTF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 22 through 26, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the NTF's basic financial statements. The combining nonmajor fund financial statements and Schedule of Cities Support are presented for purposes of additional analysis and are not a required part of the

basic financial statements. The combining nonmajor fund financial statements on pages 27 through 29 and the Schedule of Cities Support on page 30 have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

County of San Mateo Controller

Redwood City, California
March 30, 2009

SAN MATEO COUNTY NARCOTICS TASK FORCE MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of San Mateo County Narcotics Task Force's (the NTF) financial performance provides an overview of the NTF's financial activities for the fiscal year ended June 30, 2008. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes.

Financial Highlights

- The NTF's total net assets as of June 30, 2008 amounted to \$1,174,373, which is an increase of \$116,543 from prior year. Most of the increase was due to the excess of revenues over expenditures in the Cities and Justice Forfeiture Funds.
- Most of the \$1,174,373 in net assets was comprised of cash deposited in the County Treasury.
- The NTF received \$290,629 from the Department of Justice Anti-Drug Abuse Enforcement Grant (formerly Byrne Grant) during the current fiscal year.
- During fiscal year ended June 30, 2008, the NTF also received \$348,662 from the California Office of Emergency Services California Multi-Jurisdictional Methamphetamine Enforcement Team Program (Cal-MMET Grant).
- Revenue for governmental funds during the year totaled \$4,200,131 and comprised of supports, forfeitures investment earnings and other revenues as follows – Sheriff's Fund: \$2,188,541; Cities Fund: \$980,966; Forfeitures Funds: \$356,946; Anti-Drug Abuse Enforcement (Byrne) Grant: \$290,629; Marijuana Fund: \$34,387; and Cal-MMET Grant: \$348,662. The DARE Fund, an agency fund for reporting purposes, had inflows of \$9,625.

Overview of the Financial Statements

The NTF's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide the reader with a broad overview of the NTF's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on the NTF's assets and liabilities, with the difference reported as *net assets*. Changes in net assets over time provide an indicator of whether the financial position of the NTF is improving or deteriorating. When both restricted and unrestricted net assets are available for the same purpose, the NTF uses restricted assets only after unrestricted assets are depleted.

The *statement of activities* reports how the NTF's net assets changed during the most recent fiscal year. Changes in net assets are reported as soon as underlying events occur, regardless of the timing of the related cash flows. Thus, some revenues and expenses reported in the Statement of Activities may result in cash flows only in future periods.

The government-wide financial statements can be found on pages 8 and 9 of this report.

SAN MATEO COUNTY NARCOTICS TASK FORCE MANAGEMENT'S DISCUSSION AND ANALYSIS

Fund Financial Statements

A fund is a grouping of related accounts that is used to control resources that have been segregated for specific activities or objectives. Fund financial statements report funds classified as major individually. Funds classified as non-major are grouped and reported in a single column. The NTF also uses fund accounting to ensure compliance with various legal requirements, such as the annually adopted budget. Accordingly, budgetary comparisons have been included in the supplementary information for each of the major funds to demonstrate compliance with budgets.

Fund financial statements report essentially the same information as in the government-wide financial statements. However, unlike the government-wide financial statements, fund financial statements focus on near-term inflows and outflows of expendable resources, as well as on balances of expendable resources available at the end of the fiscal year.

The NTF classifies all of its funds as governmental, except for the DARE Fund, which is classified as a fiduciary agency fund. Unlike the government-wide financial statements discussed above, the financial statements for governmental funds focus on the inflows, outflows and balances of expendable resources, rather than net assets. This information is useful for evaluating the NTF's current financing requirements.

The NTF reports the following major governmental funds in individual columns:

- The Sheriff's Fund (General Fund) is used to account for the financial participation of the County Sheriff's Office in the NTF. This participation is carried out through the normal County appropriation process.
- The Cities Fund is used to account for the support provided by the cities to the NTF. This support is provided in the form of loaned law enforcement officers and cash contributions.
- The State Forfeitures Fund is used to account for funds arising from state asset forfeitures occurring through the NTF's drug interdiction activities. Expenditures are limited by statute and are specifically approved by the Board. This fund also accounts for the Northern California High Intensity Drug Trafficking Area (HIDTA) grant received.
- The Justice Forfeitures Fund is used to account for forfeitures received from the federal government's Department of Justice. Expenditures are limited to prescribed law enforcement purposes. This fund also accounts for the Department of Justice Organized Crime Drug Enforcement Task Force (OCDETF) grant received.

The fund financial statements can be found on pages 10 through 12 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 13 through 21 of this report.

Other Information

This report also presents certain required supplementary information concerning compliance with the NTF's annual budget. This information, as well as associated notes, immediately follows the basic financial statements and the accompanying notes.

The combining statements present non-major governmental funds and appear immediately following the required supplementary information on budget comparisons.

**SAN MATEO COUNTY NARCOTICS TASK FORCE
MANAGEMENT'S DISCUSION AND ANALYSIS**

Government-Wide Financial Analysis

| Net Assets | | |
|--|----------------------------------|----------------------------------|
| | 2008 | 2007 |
| Cash and cash equivalents | \$1,167,924 | \$1,040,821 |
| Securities lending collateral | 116,149 | 191,259 |
| Accounts receivable, net | 6,699 | 95 |
| Interest receivable | 11,942 | 14,625 |
| Deposit and prepaid expenses | <u>4,000</u> | <u>4,000</u> |
| Total Assets | <u>1,306,714</u> | <u>1,250,800</u> |
| Accounts payable | 16,192 | 1,711 |
| Securities lending collateral due | <u>116,149</u> | <u>191,259</u> |
| Total Liabilities | <u>132,341</u> | <u>192,970</u> |
| Total Net Assets - Unrestricted | <u><u>\$1,174,373</u></u> | <u><u>\$1,057,830</u></u> |

- Total assets stand at \$1,306,714, an increase of \$55,914 or 4% compared to the previous fiscal year. This increase is mostly due to an increase in cash and cash equivalents partially offset by a decrease in securities lending collateral.
- Total liabilities decreased by \$60,629 or 31% between fiscal years to \$132,341. This was the result of a decrease in securities lending collateral due.

| Changes in Net Assets | | |
|--|-----------------------------------|-----------------------------------|
| | 2008 | 2007 |
| Revenues and Other Financing Sources: | | |
| Supports – Contributions | \$3,956,127 | \$3,549,767 |
| Forfeiture funds | 119,673 | 148,406 |
| Investment earnings | 60,449 | 53,496 |
| Securities lending income | 6,746 | 8,279 |
| Other income | <u>61,862</u> | <u>31,559</u> |
| Total Revenues | <u>4,204,857</u> | <u>3,791,507</u> |
| Expenditures: | | |
| Salaries & benefits | 3,475,242 | 2,915,954 |
| Supplies & general operating expenses | 436,063 | 473,026 |
| Rent expense | 81,217 | 78,892 |
| Securities lending expenses | 5,792 | 8,078 |
| Special investigation | <u>90,000</u> | <u>63,542</u> |
| Total Expenses | <u>4,088,314</u> | <u>3,539,492</u> |
| Change in Net Assets | 116,543 | 252,015 |
| Net assets - July 1 | <u>1,057,830</u> | <u>805,815</u> |
| Net assets - June 30 | <u><u>\$ 1,174,373</u></u> | <u><u>\$ 1,057,830</u></u> |

- Revenues earned during the current period were \$4,204,857, an increase of \$413,350 or 11% compared to the prior fiscal year. This was the result of increases in Sheriff's Support, State and Justice Forfeitures Funds contributions, Cal-MMET Grant funding received and Anti-drug Abuse Enforcement Program revenue.
- Total Expenses incurred during the year amounted to \$4,088,314, for an increase of \$548,822 or 16%. Most of the increase was due to increases in salaries & benefits packages of assigned agents from the Sheriff's Office and agents assigned to work in the Cal-MMET Grant and Anti-drug Abuse Enforcement Programs.

**SAN MATEO COUNTY NARCOTICS TASK FORCE
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Budgetary Analysis

| | <u>Final Budgeted Expenditures</u> | <u>Actual Expenditures</u> | <u>Variance</u> |
|------------------|--|--------------------------------|---------------------|
| Sheriff's Fund | \$ 2,108,290 | \$ 2,188,541 | \$ (80,251) |
| Cities Fund | 443,665 | 408,081 | 35,584 |
| Forfeitures Fund | <u>162,727</u> | <u>358,052</u> | <u>(195,325)</u> |
| | <u>\$ 2,714,682</u> | <u>\$ 2,956,908</u> | <u>\$ (239,992)</u> |

Total actual expenditures for the major funds were greater than the final budget by a net amount of \$239,992 as of June 30, 2008. The negative variance in the Sheriff's Fund was due to the negotiated increases in salaries and benefits that were not in the budget, but were offset by an increase in Sheriff's contributions. The negative variance in the Forfeitures Funds was primarily due to unbudgeted salary expenditures, most of which were reimbursed by grant funds that are recorded as revenue.

The budgetary comparison statements can be found on pages 22 to 24 of this report.

Beyond FY2007-08

The San Mateo County Narcotics Task Force (NTF) will receive the State of California's Anti-Drug Abuse/Byrne Grant in the amount of \$233,457. The operational period for this grant is from July 1, 2008 to June 30, 2009. This amount is significantly less than the \$290,629 awarded in FY 2007/2008. The funds received will be used to supplement existing revenue sources for FY 2008/2009 and will be used in the following areas:

- Overtime expenses for City, Sheriff's Office, and San Mateo County Probation Officer assigned to the NTF
- Mandatory Grant Related Audit Expenses

The NTF has been designated an Initiative of the Northern California High Intensity Drug Trafficking Area (NCHIDTA). In our proposed budget for Calendar Year 2009, the NTF requested 103,735. If approved for the full amount the funds will be used to supplement the NTF's existing revenue sources for FY 2008/2009 and possibly into FY 2009/2010 and will be used in the following areas:

- Overtime expenses for City, Sheriff's Office, BNE Supervisor, and the San Mateo County Probation Officer assigned to the NTF
- Training and travel expenses
- Rent – NTF Warehouse Space
- Vehicle Lease
- Equipment

**SAN MATEO COUNTY NARCOTICS TASK FORCE
MANAGEMENT'S DISCUSSION AND ANALYSIS**

Beyond FY2007-2008 (continued)

The NTF once again enrolled in the California Multi-Jurisdictional Methamphetamine Enforcement Teams (Cal-MMET) Grant Program. The grant award amount for FY 2008/2009 will be \$177,100. The operational period for this grant is from July 1, 2008 to June 30, 2009. This amount is unchanged from the funding received during FY 2007/2008. The funds received will again be used to fund one agent for a six month period and supplement related overtime. The supplemental funding will be used in the following areas:

- Overtime expenses for City, Sheriff's Office, and the San Mateo County Probation Officer assigned to the NTF
- Salary and benefit expenses for one Sheriff's Deputy for six month while assigned to the NTF Cal-MMET Grant Program

The NTF will participate in the Drug Enforcement Administration's (DEA) Domestic Cannabis Eradication/Suppression Program (DCESP). Annually, the NTF seeks participation in the program to defray the costs relating to the eradication and suppression of illicit marijuana. In our proposed budget for Calendar Year 2009, the NTF requested \$30,000. If approved for the requested amount, the funds will be used to supplement the NTF's existing revenue sources for FY 2008/2009 and possibly into FY 2009/2010. The supplemental funding will be used in the following areas:

- Overtime expenses for City, Sheriff's Office, and the San Mateo County Probation Officer assigned to the NTF
- Training and travel expenses
- Demand Reduction
- Equipment
- Uniform Shirts

Requests for Information

This financial report is designed to provide a general overview of the NTF's finances for all those interested. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to San Mateo County Narcotics Task Force, 3130 La Selva, Ste. 301, San Mateo, CA 94402-5329.

BASIC FINANCIAL STATEMENTS
Government-Wide Financial Statements

San Mateo County Narcotics Task Force

Statement of Net Assets

June 30, 2008

| | <u>Governmental Activities</u> |
|--|------------------------------------|
| Assets | |
| Cash and cash equivalents (Note 1(c) and 2) | \$ 1,167,924 |
| Securities lending collateral (Note 2 (g)) | 116,149 |
| Accounts receivable, net | 6,699 |
| Interest receivable | 11,942 |
| Deposit and prepaid expenses (Note 1(c)) | 4,000 |
| Total Assets | <u>1,306,714</u> |
| Liabilities | |
| Accounts payable | 16,192 |
| Securities lending collateral due (Note 2 (g)) | 116,149 |
| Total Liabilities | <u>132,341</u> |
| Net Assets | |
| Unrestricted | <u><u>\$ 1,174,373</u></u> |

The notes to the financial statements are an integral part of this statement

San Mateo County Narcotics Task Force

Statement of Activities For the Year Ended June 30, 2008

| | Governmental Activities |
|---------------------------------------|------------------------------------|
| Expenses | |
| Salaries & benefits | \$ 3,475,242 |
| Supplies & general operating expenses | 70,204 |
| Membership dues | 355 |
| Repair and maintenance | 43,348 |
| Rent (Note 5) | 81,217 |
| Employee training | 19,429 |
| Contract and professional services | 15,078 |
| Special investigation | 90,000 |
| Telephone and pager | 26,241 |
| Capital outlay (Note 4) | 87,831 |
| Other services | 173,577 |
| Total Program Expenses | 4,082,522 |
| | |
| Operating grants and contributions | 3,956,127 |
| Forfeiture funds (Note 3 (b)) | 119,673 |
| Other | 57,136 |
| Total Program Revenues | 4,132,936 |
| | |
| Net Program Revenue | 50,414 |
| General Revenues | |
| Securities lending activities: | |
| Securities lending income | 6,746 |
| Securities lending expense | (5,792) |
| Investment earnings (Note 3 (c)) | 60,449 |
| Miscellaneous | 4,726 |
| Change in Net Assets | 116,543 |
| | |
| Net Assets - Beginning | 1,057,830 |
| Net Assets - Ending | \$ 1,174,373 |

The notes to the financial statements are an integral part of this statement

BASIC FINANCIAL STATEMENTS
Fund Financial Statements

San Mateo County Narcotics Task Force

Balance Sheet Governmental Funds June 30, 2008

| | Cities | State Forfeitures | Justice Forfeitures | Other Governmental Fund | Total Governmental Funds |
|--|------------|----------------------|------------------------|-------------------------------|--------------------------------|
| Assets | | | | | |
| Cash and cash equivalents (Note 1(c) and 2) | \$ 478,436 | \$ 182,285 | \$ 505,317 | \$ 1,886 | \$ 1,167,924 |
| Securities lending collateral (Note 2 (g)) | 47,580 | 18,128 | 50,253 | 188 | 116,149 |
| Receivables: | | | | | |
| Accounts | - | - | 6,699 | - | 6,699 |
| Interest | 5,124 | 2,361 | 4,442 | 15 | 11,942 |
| Deposit and prepaid expenses (Note 1(c)) | 4,000 | - | - | - | 4,000 |
| Total Assets | \$ 535,140 | \$ 202,774 | \$ 566,711 | \$ 2,089 | \$ 1,306,714 |
| Liabilities | | | | | |
| Accounts payable | \$ 172 | \$ 14,319 | \$ 1,701 | \$ - | \$ 16,192 |
| Securities lending collateral due (Note 2 (g)) | 47,580 | 18,128 | 50,253 | 188 | 116,149 |
| Total Liabilities | 47,752 | 32,447 | 51,954 | 188 | 132,341 |
| Fund Balances (Note 1(c)) | | | | | |
| Reserved for deposit | 4,000 | - | - | - | 4,000 |
| Unreserved | 483,388 | 170,327 | 514,757 | 1,901 | 1,170,373 |
| Total Fund Balances | 487,388 | 170,327 | 514,757 | 1,901 | 1,174,373 |
| Total Liabilities and Fund Balances | \$ 535,140 | \$ 202,774 | \$ 566,711 | \$ 2,089 | \$ 1,306,714 |

The notes to the financial statements are an integral part of this statement

San Mateo County Narcotics Task Force

Statement of Revenues, Expenditures, and Changes in Fund Balances Governmental Funds For the Year Ended June 30, 2008

| | <u>Sheriff's</u> | <u>Cities</u> | <u>State Forfeitures</u> | <u>Justice Forfeitures</u> | <u>Other Governmental Funds</u> | <u>Total Governmental Funds</u> |
|--|------------------|-------------------|------------------------------|--------------------------------|---|---|
| Revenues (Note 3) | | | | | | |
| Supports | \$ 2,155,317 | \$ 938,074 | \$ 102,917 | \$ 86,141 | \$ 673,678 | \$ 3,956,127 |
| Forfeitures | - | - | 53,300 | 66,373 | - | 119,673 |
| Investment earnings | - | 28,287 | 11,693 | 20,393 | 76 | 60,449 |
| Securities lending income | - | 2,763 | 1,053 | 2,919 | 11 | 6,746 |
| Other | 33,224 | 11,842 | 12,070 | - | - | 57,136 |
| Total Revenues | <u>2,188,541</u> | <u>980,966</u> | <u>181,033</u> | <u>175,826</u> | <u>673,765</u> | <u>4,200,131</u> |
| Expenditures | | | | | | |
| Salaries & benefits | 1,947,868 | 695,772 | 165,725 | 86,141 | 579,736 | 3,475,242 |
| Supplies & general operating expenses | 19,577 | 9,286 | 38,904 | - | 2,437 | 70,204 |
| Membership dues | 355 | - | - | - | - | 355 |
| Repair and maintenance | 10,828 | 9,394 | 23,126 | - | - | 43,348 |
| Rent (Note 5) | 34,608 | 34,608 | 12,001 | - | - | 81,217 |
| Employee training | 2,555 | 3,411 | 11,289 | - | 2,174 | 19,429 |
| Contract and professional services | 3,980 | 3,980 | 5,618 | - | 1,500 | 15,078 |
| Special investigation | 50,000 | 40,000 | - | - | - | 90,000 |
| Telephone and pager | 15,316 | 9,672 | 1,253 | - | - | 26,241 |
| Other services | 103,454 | 56,128 | 13,995 | - | - | 173,577 |
| Securities lending expenditures | - | 2,373 | 904 | 2,506 | 9 | 5,792 |
| Capital outlay (Note 4) | - | - | - | - | 87,831 | 87,831 |
| Total Expenditures | <u>2,188,541</u> | <u>864,624</u> | <u>272,815</u> | <u>88,647</u> | <u>673,687</u> | <u>4,088,314</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | - | 116,342 | (91,782) | 87,179 | 78 | 111,817 |
| Other Financing Source | | | | | | |
| Sale of property | - | - | 4,726 | - | - | 4,726 |
| Net Change in Fund Balances | - | 116,342 | (87,056) | 87,179 | 78 | 116,543 |
| Fund Balances - Beginning | - | 371,046 | 257,383 | 427,578 | 1,823 | 1,057,830 |
| Fund Balances - Ending | <u>\$ -</u> | <u>\$ 487,388</u> | <u>\$ 170,327</u> | <u>\$ 514,757</u> | <u>\$ 1,901</u> | <u>\$ 1,174,373</u> |

The notes to the financial statements are an integral part of this statement

San Mateo County Narcotics Task Force

Statement of Fiduciary Assets and Liabilities

Agency Fund

June 30, 2008

| | <u>DARE</u> <u>Fund</u> |
|---|----------------------------|
| Assets | |
| Cash and cash equivalents (Note 1(c) and 2) | \$ 9,556 |
| Securities lending collateral (Note 2 (g)) | 950 |
| Interest receivable | 69 |
| Total Assets | <u>\$ 10,575</u> |
| Liabilities | |
| Accounts payable | \$ 9,625 |
| Securities lending collateral held (Note 2 (g)) | 950 |
| Total Liabilities | <u>\$ 10,575</u> |

The notes to the financial statements are an integral part of this statement

BASIC FINANCIAL STATEMENTS
Notes to the Basic Financial Statements

SAN MATEO COUNTY NARCOTICS TASK FORCE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Description of the Reporting Entity

A Joint Powers Agreement (the Agreement) between San Mateo County (County) and cities within the county established the San Mateo County Narcotics Task Force (the NTF) in 1985. The Agreement was amended in 2005 to allow participation of police protection districts. Agreements also exist with the California Highway Patrol and other agencies.

The participating cities and district support the NTF by providing cash or by lending law enforcement officers and other staff. The proportionate funding commitments of the agencies are based on an agreed upon formula generally related to population and assessed property values within the respective jurisdictions.

The NTF is under the direction of a Board of Directors (the Board) comprised of the Sheriff, the District Attorney, and three Chiefs of Police elected by the San Mateo County Chiefs of Police Association. The Board appoints a commander responsible for the operation of the NTF. The financial activities of the NTF are recorded in nine separate units/funds based on specified activities or objectives. Those units/funds are as follows: Sheriff's Office Appropriation, Cities, State Forfeitures, Drug Awareness Resistance Education (DARE), Justice Forfeitures, Treasury Forfeitures, Marijuana, Anti-Drug Abuse Enforcement Program (formerly referred to as the Byrne Grant), and the California Multi-Jurisdictional Methamphetamine Enforcement Team Program (Cal-MMET).

(b) Basis of Presentation

Government-wide Financial Statements

The statement of net assets and statement of activities report the financial activities of the NTF as a whole. These statements exclude financial information relating to the DARE agency fund, which is presented separately under the fund financial statements. The statement of activities presents a comparison between direct expenses and program revenues of the NTF. Direct expenses are those that are specifically associated with the NTF program. Program revenues refer to grants, contributions and other revenues that meet the operational or capital requirements of the program. Any revenues not classified as program revenues represent general revenues.

Fund Financial Statements

The fund financial statements provide information about the NTF's funds.

Except for the Dare Fund the financial transactions of the NTF are accounted for in Special Revenue Funds, as monies received are legally restricted to specific uses. Monies allocated and disbursed to the Special Revenue Funds can be expended only for purposes authorized under the Agreement, grant agreements and agreements with other agencies. The Dare Fund is an agency fund used to account for assets held by the NTF as an agent for various local governments.

The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

SAN MATEO COUNTY NARCOTICS TASK FORCE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The NTF reports the following major governmental funds:

Sheriff's Office Appropriation: The financial participation of the Sheriff's Office in the NTF is carried out through the normal County appropriation process. Officers and other employees provided by the Sheriff's Office are carried on the regular County payroll, and other operating expenses borne by the Sheriff's Office are paid through the normal County disbursement process. In addition, the Sheriff's Office provides cash for use in special investigations.

Cities Fund: Cash support provided by the cities is deposited with the County Treasurer and is accounted for in a trust fund within the County's accounting system - Integrated Financial and Administrative solution (IFAS).

Cities support provided in the form of loaned law enforcement officers is also recorded in the trust fund.

State Forfeitures Fund: Funds arising from state asset forfeitures occurring through the NTF's drug interdiction activities are also deposited with the County Treasurer and separately accounted for in a trust fund in IFAS. These funds initially are collected by state law enforcement agencies and processed by them in accordance with applicable criminal statutes. Once the legal and administrative requirements are met, the funds allocated to the NTF are deposited with the County Treasurer. Expenditures are limited by statutes and are specifically approved by the Board.

Justice Forfeitures Fund: The Justice Forfeitures Fund separately tracks forfeitures received from the federal government's Department of Justice. The Attorney General's authority to share federally forfeited property with participating state and local law enforcement agencies is established by federal law. Any state or local law enforcement agency that directly participates in an investigation or prosecution that results in a federal forfeiture may request an equitable share of the net proceeds of the forfeiture. Amounts received from participating federal entities in the Justice Program are posted to this fund and deposited with the County Treasurer. Expenditures are limited to law enforcement purposes as stated in *A Guide to Equitable Sharing of Federally Forfeited Property for State and Local Law Enforcement Agencies* (March 1994).

(c) Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred regardless of when the related cash flows take place. Nonexchange transactions, in which the NTF gives (or receives) value without directly receiving (or giving) equal value in exchange, include grants and other entitlements. On an accrual basis, revenues from the grants and entitlements are recognized when all the eligibility requirements are satisfied.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Revenues from reimbursement type programs are considered to be *available* when they are collectible within six months of the end of the current fiscal period in order to properly match revenues with related expenditures. Expenditures are recognized in the accounting period in which the liability is incurred.

SAN MATEO COUNTY NARCOTICS TASK FORCE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Since the County of San Mateo holds title to capital assets purchased by the NTF (see Note 4), any capital asset acquisitions financed by the NTF are expensed.

When both restricted and unrestricted net assets are available for the same purpose, restricted resources are used only after the unrestricted resources are depleted.

Cash Equivalents: Cash is pooled with other funds of the County to earn a higher rate of return than could be earned by investing the funds individually. NTF considers its equity in the County's investment pool to be cash equivalents.

Receivables: All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Interfund Transactions: Receivables and payables that arise from transactions with other funds/agencies are recorded in the period in which the transactions are executed. Where necessary, eliminations are made in the government-wide financial statements to minimize double counting internal activities.

Deposit/Prepaid Expense: An asset is established at the date of payment and subsequently amortized over the accounting periods that are expected to benefit from the initial payment. As deposits are not current financial resources, the fund balance is reserved by the amount presented on the fund financial statements' balance sheet.

Fund Balance: In the fund financial statements, the governmental funds' unreserved fund balance represents the amount available for future operations. These funds report reservations of fund balance for amounts not available for appropriation.

(d) Accounting Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results based on subsequent events could differ from those estimates.

2. CASH AND CASH EQUIVALENTS

(a) Cash and Cash Equivalents

A portion of the cash reported in the *statement of net assets* is pooled with other funds in the County Pool, which is a governmental investment pool managed and directed by the elected San Mateo County Treasurer. The County Pool is not registered with the Securities and Exchange Commission. An oversight committee, comprised of local government officials and various participants, provide oversight to the management of the fund. The NTF is a voluntary participant in the County Pool.

Cash and cash equivalents in the County Pool are reported at fair value, as required by GASB 31. The change in fair value for the year is recorded as unrealized gain or loss and reported as part of investment earnings. Fair value is based on information provided by the County Treasurer. At fiscal year end, the fair value of cash and cash equivalents approximated book value.

SAN MATEO COUNTY NARCOTICS TASK FORCE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

2. CASH AND CASH EQUIVALENTS (Continued)

(b) Authorized Investments of the County Investment Pool

The County Pool's Investment Policy and the California Government Code allow the County Pool to invest in the following, provided the credit ratings of the issuers are acceptable to the County Pool. The following also identifies certain requirements of the County Pool and California Government Code that address interest rate risk, credit risk, and concentrations of credit risk.

| Authorized Investment Type | Maximum Maturity | Minimum Credit Quality | Maximum % Allowed in Portfolio | Maximum % Investment in One Issuer |
|--|------------------|------------------------|--------------------------------|------------------------------------|
| U.S. Treasury Obligations | 15 years | - | 100 | 100 |
| Obligations of U.S. Agencies or government sponsored enterprises | 15 years | - | 100 | 100 |
| Bankers acceptances | 180 days | A-1/P-1 | 15 | 10 |
| Collateralized time deposits within the state of California | 1 year | - | 30 | 10 |
| Negotiable certificates of deposit | 5 years | - | 30 | 10 |
| Commercial paper/Floating rate notes | 270 days or less | A-1/P-1 | 40 | 10 |
| Repurchase agreements | 1 year | - | 100 | 50 |
| Reverse repurchase agreements | 92 days | - | 20 | 20 |
| Corporate bonds and medium term notes | 5 years | A | 30 | 10 |
| Local Agency Investment Fund (LAIF) | - | - | Up to the current state limit | - |
| Shares of beneficial interest | - | - | 10 | 5 |
| Mortgage backed securities | 5 years | A | 20 | 5 |

**SAN MATEO COUNTY NARCOTICS TASK FORCE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

2. CASH AND CASH EQUIVALENTS (Continued)

At June 30, 2008, the County Pool was invested in the following securities:

| Investment Type | Interest Rate | Maturities | Weighted Average Maturity (Years) | Rating |
|---------------------------------------|---------------|-----------------|--|--------------------------------|
| U.S. government securities: | | | | |
| Not on securities loan | 3.125%-3.50% | 9/15/08-5/31/13 | 4.72 | Exempt |
| Loaned securities for cash collateral | 2.50%-3.50% | 9/15/08-5/31/13 | 3.83 | Exempt |
| U.S. government agency securities: | | | | |
| Not on securities loan | 2.27%-3.875% | 9/15/08-4/21/11 | 1.52 | AAA |
| Loaned securities for cash collateral | 2.375%-3.75% | 9/15/08-5/29/13 | 2.36 | AAA |
| Floating rate | 2.310%-2.747% | 12/1/08-7/28/09 | .75 | AAA |
| Negotiable certificates of deposit | 2.44%-3.22% | 7/7/08-6/12/09 | .15 | AA+, AA-, A+ |
| Asset-backed Securities | 5.20% | 2/16/10 | 1.63 | AAA |
| Repurchase agreements | 1.60% | 7/01/08 | - | AAA |
| Commercial paper - discount | 2.15%-3.08% | 7/01/08-8/04/08 | .02 | A-1+, A-1 |
| Corporate bonds | 2.875%-5.625% | 8/01/08-5/20/13 | 1.88 | AAA, AA, AA-, A+, A |
| Floating rate securities | 2.478%-4.778% | 7/08/08-5/21/12 | 1.26 | AAA, AA+, AA, AA-, A, A-, BBB+ |
| Money Market Funds | 2.31% | 7/31/08 | .08 | Not Rated |
| Local Agency Investment Fund (LAIF) | 4.00% | On Demand | .08 | Not Rated |

(c) County Pool: Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. State law and the San Mateo County's Investment Policy limits County Pool investments in commercial paper to the rating of A1 or better by Standards & Poor's or P-1 or better by Moody's Investors Service. State law and the San Mateo County's Investment Policy also limit County Pool investments in corporate bonds to the rating of A or higher by both Standards & Poor's and Moody's Investors Service. No limits are placed on the U.S. government agency securities and U.S Treasuries.

(d) County Pool: Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the County Pool's investment in a single issuer of securities. State law restricts the County Pool's investments in commercial paper to 40% of its investment pool and to 10% per issuer. State law also limits the County's investments in

SAN MATEO COUNTY NARCOTICS TASK FORCE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

2. CASH AND CASH EQUIVALENTS (Continued)

corporate bonds and medium term notes to 30% of its investment pool and 10% per issuer, and the bankers' acceptances to 15% of its investment pool and to 10% per issuer.

At June 30, 2008, the County Pool had 12.97% of its investment pool in Federal Home Loan Mortgage Corporation, 3.93% in Federal Home Loan Bank, 4.77% in Federal National Mortgage Association, .67% in Federal Farm Credit Bank, 30.35% in corporate bonds, 14.19% in commercial paper, 15.23% in U. S. Treasuries, .27% in Asset-backed securities, 1.81% in repurchase agreements, 12.83% in certificates of deposit, 1.71% in money market funds, and 1.27% in LAIF. The investment pool has more than five percent of its total investment with the following issuers: 13% in Federal Home Loan Mortgage Corporation, 11% in Lehman Brothers Holdings (commercial paper and corporate bonds), 11% in Wells Fargo & Company (negotiable certificate of deposit, commercial paper and corporate bonds), 9% in Deutsche Bank (negotiable certificate of deposit and commercial paper) and 5% in Morgan Stanley (corporate bonds and commercial paper).

(e) County Pool: Foreign Currency Risk

Foreign currency risk is the risk that changes in the exchange rates will adversely affect the fair value of an investment or deposit. The County investment policy does not include specific provisions to address foreign currency risk.

(f) County Pool: Interest Rate Risk

Interest rate risk is the risk that changes in market interest rate will adversely affect the fair value of an investment. Duration is a measure of the price sensitivity of a fixed income portfolio to changes in interest rate. Duration is calculated as the weighted average time to receive interest and principle payments. The longer the duration of the portfolio, the greater its price sensitivity to changes in interest rates. The County Pool manages its exposure to declines in fair value by limiting the weighted average maturity of its investment portfolio to five years or less in accordance with its investment policy. As of June 30, 2008, the County Pool had a weighted average maturity to 1.33 years and its floating rate securities were \$730 million. These securities are tied to the three-month London Interbank Offered Rate (LIBOR) index.

(g) Securities Lending Transactions

State Statutes and San Mateo County's Investment Policy permits the use of a securities lending program with its principal custodian bank. The investment policy allows the custodial bank (Custodian) to lend up to 20% of the portfolio within the guidelines of the investment policy. The custodial agreement authorizes the Custodian to loan securities in the County Pool. The loaned securities represent securities on loan to brokers or dealers by the County Pool. The County receives a fee from the borrower for the use of the loaned securities. If loaned securities are not returned by the borrower, the County's Custodian is responsible for replacement of the loaned securities with similar securities. All securities loan agreements can be terminated on demand within a period specified in each agreement by either the County or borrowers.

The loaned securities as of June 30, 2008 consisted of U.S. Treasury notes and bonds, U.S. government agency securities. In return, the County receives collateral in the form of cash or securities equal to at least 102% of the transferred securities plus accrued interest for reinvestment. As of June 30, 2008, all of the cash collateral was invested in repurchase agreements, certificates of deposit and commercial paper

SAN MATEO COUNTY NARCOTICS TASK FORCE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

2. CASH AND CASH EQUIVALENTS (continued)

with a weighted average maturity of 22 days. Commercial paper and certificate of deposits were rated at least A1 by Standards and Poor's and P-1 by Moody's. The repurchase agreements are held by Bank of New York Mellon Corporation in the County's name and were unrated by Standards and Poor's at June 30, 2008. The County does not match the maturities of investments made with cash collateral with the securities on loan.

The relationship between the maturities of the investment pool and the County's loans is affected by the maturities of the securities loans made by the other entities that use the agent's pool, which San Mateo County cannot determine. Securities lending collateral represents investments in an investment pool purchased with cash collateral that may not be pledged or sold without default by the borrower.

The NTF's prorated share of cash collateral as of June 30, 2008 amounted to \$117,099, of which \$950 is reported in the fiduciary agency fund and \$116,149 in the governmental funds.

The NTF's prorated share of underlying securities loaned by the County's investment pool as of June 30, 2008 amounted to \$114,903. The NTF does not have any exposure to credit risk related to the securities lending transactions as of June 30, 2008, because the market value of the cash collateral exceeds that of the borrowed securities.

3. REVENUES

(a) Sheriff and City Support

Based on the requirements of the Agreement, the County is obligated to provide eight peace officers and one clerical staff to the NTF. The cost of these personnel, and certain other services and supplies for which the county appropriated funds, is accounted for in a budget unit of the Sheriff's Office. The total amount spent for the NTF by the Sheriff's Office is presented as supports revenue under the Sheriff's Fund.

The cities' financial obligation is determined each year based on the budget of the NTF as established by the Board. This amount is apportioned among the participating cities in accordance with a formula that uses the population and assessed values of properties as a basis. The cities have the option to contribute cash or law enforcement personnel to satisfy their financial obligation. The support revenues from the cities represent cash contributions and payroll costs incurred by the cities for personnel assigned to the NTF.

(b) Forfeitures

Forfeiture revenues represent funds arising from asset forfeitures occurring through the NTF's drug interdiction activities. These funds are initially collected by the state or federal law enforcement agencies and processed by them in accordance with the applicable criminal statutes. Forfeiture revenues are recorded when received. Fifteen percent of the state forfeiture revenues received by the NTF are mandated by the State to fund DARE programs.

**SAN MATEO COUNTY NARCOTICS TASK FORCE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008**

3. REVENUES (continued)

(c) Investment Earnings

Interest is received quarterly from the County Treasurer on investments made by the NTF in the County Pool. Interest is recorded in the year it is earned and is available to pay current liabilities.

4. CAPITAL OUTLAYS

In accordance with the terms of the Agreement, the County of San Mateo holds title to capital assets purchased by the NTF.

5. OBLIGATION UNDER OPERATING LEASE

The NTF is obligated under a rental agreement to account for an operating lease. The term of the lease expires on December 31, 2009. Currently, the NTF shares its rental facility with the Special Investigation Unit (SIU) of the San Mateo County Sheriff's Office and the San Mateo County Vehicle Theft Task Force (VTTF). In return, the NTF receives rent reimbursement of two-thirds of monthly rent paid, of which one-third is made by the SIU and one-third by the VTTF. The following is a schedule of future minimum rent payments:

| Year Ending June 30, | Rental Payment | Sublease Rental Income | Net Rental Payment |
|----------------------------|-------------------|---------------------------|-----------------------|
| 2009 | 103,824 | 69,216 | 34,608 |
| 2010 | 51,912 | 34,608 | 17,304 |

Rent expenditure under the operating lease for fiscal year ended June 30, 2008 was \$69,216.

6. RISK MANAGEMENT

NTF is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. Per the Agreement, the County of San Mateo added the NTF to its excess liability insurance coverage. The existing insurance coverage is valid through May 22, 2009. The County Counsel provides legal representation for any claims or litigation of the NTF at no charge per the Agreement.

Claims have not exceeded coverage in any of the past four fiscal years and there has not been a significant reduction in coverage in fiscal year 2007-08.

SAN MATEO COUNTY NARCOTICS TASK FORCE
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2008

7. CONTINGENT LIABILITIES

Amounts received or receivable from grant agencies are subject to audit and adjustments by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the NTF expects such amounts, if any, to be immaterial.

8. SUBSEQUENT EVENT

Subsequent to the June 30 fiscal year end, the financial markets experienced a significant decline in value that has been attributed to the credit crisis initiated by the sub-prime mortgage meltdown. The markets are so dynamic and fluid any judgment of the financial statements must be based on current information rather than fiscal year end. As of October 1, 2008, the San Mateo County Investment Pool incurred a charge of \$155 million associated with investments relating to Lehman Brothers Holdings Inc. (Lehman), which in September 2008 had filed a petition under Chapter 11 of the U.S. Bankruptcy Code. The \$155 million charge for the Lehman investments write-off was shared among the pool participants based on their respective average daily cash balance relative to that of the County Pool. The NTF's prorated share of this one-time charge was \$87,929, which was recorded as an investment loss on October 1, 2008.

REQUIRED SUPPLEMENTARY INFORMATION

San Mateo County Narcotics Task Force

Sheriff's Fund Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual For the Year Ended June 30, 2008

| | Budgeted Amounts | | Actual Amounts Budgetary Basis | Variance with Final Budget |
|--|------------------|------------------|-----------------------------------|-------------------------------|
| | Original | Final | | |
| Revenues | | | | |
| Supports | \$ 2,108,290 | \$ 2,108,290 | \$ 2,155,317 | \$ 47,027 |
| Other | - | - | 33,224 | 33,224 |
| Total Revenues | <u>2,108,290</u> | <u>2,108,290</u> | <u>2,188,541</u> | <u>80,251</u> |
| Expenditures | | | | |
| Salaries & benefits | 1,828,033 | 1,828,033 | 1,947,868 | (119,835) |
| Supplies & general operating expenses | 28,325 | 28,325 | 19,577 | 8,748 |
| Membership dues | 250 | 250 | 355 | (105) |
| Repair and maintenance | 9,675 | 9,675 | 10,828 | (1,153) |
| Rent | 34,608 | 34,608 | 34,608 | - |
| Employee training | 8,250 | 8,250 | 2,555 | 5,695 |
| Contract and professional services | 5,627 | 5,627 | 3,980 | 1,647 |
| Special investigation | 50,000 | 50,000 | 50,000 | - |
| Telephone and pager | 16,519 | 16,519 | 15,316 | 1,203 |
| Other services | 127,003 | 127,003 | 103,454 | 23,549 |
| Total Expenditures | <u>2,108,290</u> | <u>2,108,290</u> | <u>2,188,541</u> | <u>(80,251)</u> |
| Excess of Revenues Over Expenditures/ Net Change in Fund Balances | <u>\$ -</u> | <u>\$ -</u> | <u>-</u> | <u>\$ -</u> |
| Fund Balances - Beginning | | | <u>-</u> | |
| Fund Balances - Ending | | | <u>\$ -</u> | |

The accompanying notes are an integral part of this schedule

San Mateo County Narcotics Task Force

Cities Fund Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual For the Year Ended June 30, 2008

| | <u>Budgeted Amounts</u> | | <u>Actual Amounts</u> | <u>Variance with Final Budget</u> |
|--|-------------------------|------------------|-------------------------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | <u>Budgetary Basis (Note 1)</u> | |
| Revenues | | | | |
| Supports | \$ 483,904 | \$ 483,904 | \$ 483,904 | \$ - |
| Investment earnings | 24,000 | 24,000 | 28,677 | 4,677 |
| Other | - | - | 11,842 | 11,842 |
| Total Revenues | <u>507,904</u> | <u>507,904</u> | <u>524,423</u> | <u>16,519</u> |
| Expenditures | | | | |
| Salaries & benefits | 60,688 | 60,688 | 60,688 | - |
| Agency rebates (Note 2) | 180,914 | 180,914 | 180,914 | - |
| Supplies & general operating expenses | 20,900 | 20,900 | 9,286 | 11,614 |
| Repair and maintenance | 9,675 | 9,675 | 9,394 | 281 |
| Membership dues | 250 | 250 | - | 250 |
| Rent | 34,608 | 34,608 | 34,608 | - |
| Employee training | 8,250 | 8,250 | 3,411 | 4,839 |
| Contract and professional services | 5,627 | 5,627 | 3,980 | 1,647 |
| Special investigation | 50,000 | 50,000 | 40,000 | 10,000 |
| Telephone and pager | 11,760 | 11,760 | 9,672 | 2,088 |
| Other services | 60,993 | 60,993 | 56,128 | 4,865 |
| Total Expenditures | <u>443,665</u> | <u>443,665</u> | <u>408,081</u> | <u>35,584</u> |
| Excess of Revenues Over Expenditures/ Net Change in Fund Balances | <u>\$ 64,239</u> | <u>\$ 64,239</u> | 116,342 | <u>\$ 52,103</u> |
| Fund Balances - Beginning | | | <u>351,512</u> | |
| Fund Balances - Ending | | | <u>\$ 467,854</u> | |

The accompanying notes are an integral part of this schedule

San Mateo County Narcotics Task Force

Forfeitures Funds (1) Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual For the Year Ended June 30, 2008

| | Budgeted Amounts | | Actual Amounts Budgetary Basis | Variance with Final Budget (Note 3) |
|--|------------------|------------------|-----------------------------------|---|
| | Original | Final | | |
| Revenues | | | | |
| Supports | \$ 90,000 | \$ 90,000 | \$ 189,058 | \$ 99,058 |
| Forfeitures | 100,000 | 100,000 | 119,673 | 19,673 |
| Investment earnings | 25,000 | 25,000 | 32,726 | 7,726 |
| Other | 21,000 | 21,000 | 12,070 | (8,930) |
| Total Revenues | <u>236,000</u> | <u>236,000</u> | <u>353,527</u> | <u>117,527</u> |
| Expenditures | | | | |
| Salaries & benefits | 90,000 | 90,000 | 251,866 | (161,866) |
| Supplies & general operating expenses | 14,500 | 14,500 | 38,904 | (24,404) |
| Repair and maintenance | 18,500 | 18,500 | 23,126 | (4,626) |
| Rent | 11,941 | 11,941 | 12,001 | (60) |
| Employee training | 11,650 | 11,650 | 11,289 | 361 |
| Contract and professional services | 4,172 | 4,172 | 5,618 | (1,446) |
| Telephone and pager | 6,000 | 6,000 | 1,253 | 4,747 |
| Other services | 5,964 | 5,964 | 13,995 | (8,031) |
| Total Expenditures | <u>162,727</u> | <u>162,727</u> | <u>358,052</u> | <u>(195,325)</u> |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 73,273 | 73,273 | (4,525) | (77,798) |
| Other Financing Source | | | | |
| Sale of property | 2,000 | 2,000 | 4,726 | 2,726 |
| Net Change in Fund Balances | <u>\$ 75,273</u> | <u>\$ 75,273</u> | 201 | <u>\$ (75,072)</u> |
| Fund Balances - Beginning | | | 686,784 | |
| Fund Balances - Ending | | | <u>\$ 686,985</u> | |
| Reconciliation of budgetary basis to the Statement of Revenues, Expenditures and Changes in Fund Balances on page 11: | | | | |
| Net Change in Fund Balance - budgetary basis (from above) | | | \$ 201 | |
| Net change in fund balance for the non-major Treasury Forfeitures Fund (see note below) | | | <u>(78)</u> | |
| Net Change in Fund Balance - GAAP basis for major funds | | | <u>\$ 123</u> | |
| Net change in fund balance - State Forfeitures Fund | | | \$ (87,056) | |
| Net change in fund balance - Justice Forfeitures Fund | | | <u>87,179</u> | |
| | | | <u>\$ 123</u> | |

(1) For budgeting purposes it is expeditious for the San Mateo County Narcotics Task Force to combine all the forfeiture funds as one budgetary unit. This schedule includes the budgeted to actual comparisons of the two major forfeitures funds (Justice Forfeitures and State Forfeitures) as well as the non-major Treasury Forfeitures Fund.

The accompanying notes are an integral part of this schedule

**SAN MATEO COUNTY NARCOTICS TASK FORCE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2008**

1. BUDGETS, BUDGETARY PROCESS, AND ENCUMBRANCES

The Board adopts an annual operating budget, which can be amended by the Board throughout the year. The basis used to prepare the budget is the same as the basis used to reflect actual revenues and expenditures, except that budgeted revenues and expenditures for all Forfeitures Funds are combined as one budget and only cash contributions and non-contributed personnel costs are recognized in the Cities Fund budget. Adjustments were made to certain budgeted accounts to reflect changes made in financial statement presentation.

Through the County’s budgetary process, the Sheriff obtains the approval for the amount to be contributed to the NTF. This includes the salaries and benefits of the staff loaned to the NTF as required by the Joint Powers Agreement between San Mateo County and cities within the County, and any additional amount the Sheriff deems necessary.

The NTF uses an encumbrance system in IFAS to assist in controlling expenditures. Purchase orders, contracts, and other commitments for the expenditures of monies are recorded under this system in order to reserve applicable appropriations. Encumbrances outstanding at year-end are recorded as reservations of fund balance as they do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

As required under Generally Accepted Accounting Principles (GAAP), the NTF records the actual non-cash personnel contributions and rebates using modified accrual basis of accounting in the fund financial statements.

The following are reconciliations of budgetary basis for the Cities Fund as presented on page 23 to the *Statements of Revenues, Expenditures and Changes in Fund Balances* on page 11 for revenues, expenditures and fund balance:

Explanation of difference between budgetary revenues and GAAP revenues:

| | |
|---|-------------------|
| Actual amount “Total Revenues” (budgetary basis) | \$ 524,423 |
| Securities lending income not included in budgetary basis | 2,763 |
| Portion of interest income earned on securities lending transactions | (390) |
| Personnel services contributed by cities recognized as revenue net of rebates per GAAP | <u>454,170</u> |
| Total Revenues as reported on the Statements of Revenues, Expenditures and Changes in Fund Balances | <u>\$ 980,966</u> |

Explanation of difference between budgetary expenditures and GAAP expenditures:

| | |
|--|-------------------|
| Actual amount “Total Expenditures” (budgetary basis) | \$ 408,081 |
| Securities lending expense not included in budgetary basis | 2,373 |
| Cost of contributed personnel services net of rebates recognized as salaries and benefits expense per GAAP | <u>454,170</u> |
| Total Expenditures as reported on the Statements of Revenues, Expenditures and Changes in Fund Balances | <u>\$ 864,624</u> |

SAN MATEO COUNTY NARCOTICS TASK FORCE
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2008

1. BUDGETS, BUDGETARY PROCESS, AND ENCUMBRANCES (Continued)

The amount reported in the Cities Fund as fund balance on the budgetary basis of accounting on page 23 differs from the fund balance reported in the *Statements of Revenues, Expenditures, and Changes in Fund Balance* on page 11 because of the cumulative effect of transactions such as those described in the previous reconciliations.

2. AGENCY REBATES

Certain cities choose to satisfy their financial obligation to the NTF by contributing law enforcement personnel. If personnel salaries exceed the obligation, rebates are paid to the cities.

3. EXPENDITURES IN EXCESS OF BUDGET

The Sheriff's Fund expenditures for salaries and benefits exceeded the budgeted amount by \$119,835. This variance is due to negotiated salaries and benefits increases for agents provided by the Sheriff's Office during the year. There were also minor unfavorable variances in the repair and maintenance and membership dues expenditures.

The Forfeiture Funds expenditures for salaries and benefits exceeded the budgeted amount by \$161,866. This variance relates to overtime on special investigations that were reimbursed by HIDTA and OCDEF. Supplies and general operating expenses exceeded the budgeted amount by \$26,404, which relates to purchasing of professional equipment paid directly by HIDTA. Expenditures for other services exceeded the budgeted amount by \$6,031. This variance is due to expenditures for a motor vehicle lease that was not budgeted for but was reimbursed with HIDTA funds. The expenditures for repair and maintenance exceeded the budgeted amount by \$4,626, which relates to increased fuel costs and aircraft maintenance charges that were reimbursed by HIDTA funds. There were also minor unfavorable variances in the contract and professional services and rent expenditures. All reimbursements are included in revenues.

SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

Treasury Forfeitures Fund: The Treasury Forfeitures Fund separately tracks forfeitures received from the federal government's Department of the Treasury. The authority and guidelines for use are similar to Justice forfeitures as detailed in the *Guide to Equitable Sharing for Foreign Countries and Federal, State and Local Law Enforcement Agencies* (April 2004).

Marijuana Fund: This fund separately tracks applicable expenditures and grant revenues received by the Sheriff's Office for programs to support the implementation of marijuana suppression activities and to expand, improve, or augment existing prosecution processes for illegal marijuana cultivators and traffickers. Expenditures are limited to law enforcement and education activities related to the grant.

Anti-Drug Abuse Enforcement Program Fund: This fund separately tracks funds received from the Office of Homeland Security, formerly the Office of Criminal Justice Planning, for the purpose of supporting the NTF's efforts to interdict the flow of drugs throughout the County. Funds are spent in accordance with a preauthorized budget approved by the Federal Agency.

Cal-MMET Program Fund: This fund separately tracks funds received from the Governor's Office of Emergency Services (OES) California Multi-Jurisdictional Methamphetamine Enforcement Team Program for the purpose of supporting the NTF's effort to interdict the flow of methamphetamine throughout the County. Funds are spent in accordance with a preauthorized budget approved by OES and the guidelines in the *OES Recipient Handbook* (2008 version).

San Mateo County Narcotics Task Force

Balance Sheet Nonmajor Governmental Fund June 30, 2008

| | <u>Treasury Forfeitures</u> |
|-----------------------------------|---------------------------------|
| Assets | |
| Cash and cash equivalents | \$ 1,886 |
| Securities lending collateral | 188 |
| Interest receivable | 15 |
| Total Assets | <u>\$ 2,089</u> |
| Liability | |
| Securities lending collateral due | <u>\$ 188</u> |
| Total Liabilities | <u>188</u> |
| Fund Balance | |
| Unreserved | <u>1,901</u> |
| Total Fund Balance | <u>1,901</u> |
| Total Liability and Fund Balance | <u>\$ 2,089</u> |

Note: There were no assets or liabilities to report for the nonmajor Marijuana, Anti-Drug Abuse Enforcement Program (Byrne Grant) or Cal-MMET Program Funds.

San Mateo County Narcotics Task Force

Combining Statement of Revenues, Expenditures, and Changes in Fund Balances Nonmajor Governmental Funds For the Year Ended June 30, 2008

| | Treasury Forfeitures | Marijuana | Anti-Drug Abuse Enforcement Program | Cal-MMET Program | Total Nonmajor Governmental Funds |
|--|-------------------------|---------------|--|---------------------|--|
| Revenues | | | | | |
| Supports | \$ - | \$ 34,387 | \$ 290,629 | \$ 348,662 | \$ 673,678 |
| Investment earnings | 76 | - | - | - | 76 |
| Securities lending income | 11 | - | - | - | 11 |
| Total Revenues | <u>87</u> | <u>34,387</u> | <u>290,629</u> | <u>348,662</u> | <u>673,765</u> |
| Expenditures | | | | | |
| Salaries & benefits | - | 30,668 | 201,298 | 347,770 | 579,736 |
| Employee training | - | 2,174 | - | - | 2,174 |
| Supplies & general operating expenses | - | 1,545 | - | 892 | 2,437 |
| Contract and professional services | - | - | 1,500 | - | 1,500 |
| Securities lending expenditures | 9 | - | - | - | 9 |
| Capital outlay | - | - | 87,831 | - | 87,831 |
| Total Expenditures | <u>9</u> | <u>34,387</u> | <u>290,629</u> | <u>348,662</u> | <u>673,687</u> |
| Excess of Revenues Over Expenditures/ Net Change in Fund Balances | 78 | - | - | - | 78 |
| Fund Balances - Beginning | 1,823 | - | - | - | 1,823 |
| Fund Balances - Ending | <u>\$ 1,901</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,901</u> |

San Mateo County Narcotics Task Force

Schedule of Cities Support For the Year Ended June 30, 2008

| <u>City/ Agency</u> | <u>Cash Support</u> | <u>Loaned Officer</u> | <u>Rebates</u> | <u>Total</u> |
|---------------------|-------------------------|---------------------------|---------------------|----------------|
| Atherton | \$ - | \$ 111,345 | \$ (55,706) | \$ 55,639 |
| Belmont | 32,366 | - | - | 32,366 |
| Brisbane | 8,337 | - | - | 8,337 |
| Broadmoor | 4,606 | - | - | 4,606 |
| Burlingame | 42,303 | - | - | 42,303 |
| Colma | 3,546 | - | - | 3,546 |
| Daly City | - | 146,079 | (30,193) | 115,886 |
| East Palo Alto | 28,298 | - | - | 28,298 |
| Foster City | 42,533 | - | - | 42,533 |
| Half Moon Bay | 16,331 | - | - | 16,331 |
| Hillsborough | 28,859 | - | - | 28,859 |
| Menlo Park | 52,576 | - | - | 52,576 |
| Millbrae | 24,783 | - | - | 24,783 |
| Pacifica | 40,308 | - | - | 40,308 |
| Redwood City | - | 169,629 | (44,665) | 124,964 |
| San Bruno | - | 46,657 | (1,041) | 45,616 |
| San Carlos | 41,215 | - | - | 41,215 |
| San Mateo | 117,843 | - | - | 117,843 |
| So. San Francisco | - | 161,374 | (49,309) | 112,065 |
| Total | <u>\$ 483,904</u> | <u>\$ 635,084</u> | <u>\$ (180,914)</u> | <u>938,074</u> |