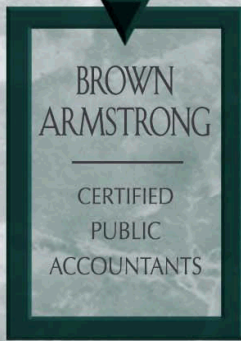


**STANISLAUS DRUG ENFORCEMENT AGENCY**  
**BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

**STANISLAUS DRUG ENFORCEMENT AGENCY  
 BASIC FINANCIAL STATEMENTS  
 JUNE 30, 2013**

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# BROWN ARMSTRONG

*Certified Public Accountants*

## INDEPENDENT AUDITOR'S REPORT

Members of the Governing Committee  
Stanislaus Drug Enforcement Agency  
Modesto, California

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and general fund of the Stanislaus Drug Enforcement Agency (the Agency) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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Accounting Oversight Board and  
MEMBER of the American Institute of  
Certified Public Accountants

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the general fund of the Agency, as of June 30, 2013, the respective changes in financial position and budgetary comparison for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

As discussed in Note 11 to the financial statements, during the year ended June 30, 2013, the Agency implemented Governmental Accounting Standards Board (GASB) Statement No. 63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which modified the current financial reporting of those elements. Our opinion is not modified with respect to the matter.

## Other Matters

### *Required Supplementary Information*

Management has omitted management's discussion and analysis (MD&A) that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2013, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

*Brown Armstrong*  
*Accountancy Corporation*

Bakersfield, California  
December 2, 2013

## STANISLAUS DRUG ENFORCEMENT AGENCY

### STATEMENT OF NET POSITION AND STATEMENT OF ACTIVITIES

The Statement of Net Position reports the difference between the Stanislaus Drug Enforcement Agency's (the Agency) total assets and the Agency's total liabilities, including all the Agency's capital assets and all its long-term debt. The Statement of Net Position focuses the reader on the composition of the Agency's net position, by subtracting total liabilities from total assets.

The Statement of Net Position summarizes the Agency's financial position in a single column.

The Statement of Activities reports increases and decreases in the Agency's net position. It is prepared on the full accrual basis of accounting, which means it includes all the Agency's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis of accounting used in the fund financial statements, which reflect only current assets, current liabilities, available revenues, and measurable expenditures.

The Statement of Activities presents the Agency's expenses that are listed by program first. Program revenues, that is, revenues which are generated directly by these programs – are then deducted from program expenses to arrive at the net expense of each program. The Agency's general revenues are then listed and the Change in Net Position is computed and reconciled with the Statement of Net Position.

These financial statements along with the fund financial statements and the notes to the financial statements are called *Basic Financial Statements*.

**STANISLAUS DRUG ENFORCEMENT AGENCY  
STATEMENT OF NET POSITION  
JUNE 30, 2013**

	Governmental Activities
<b>ASSETS</b>	
Cash and Investments (Note 3)	\$ 3,241,085
Due from Other Governments	298,021
Accounts Receivable	34,189
Interest Receivable	11,869
Prepaid Expenses	430
Capital Assets (Note 4):	
Nondepreciable	268,000
Depreciable, Net	630,680
Total Assets	4,484,274
<b>LIABILITIES</b>	
Accounts Payable	341,039
Seized Assets	695,008
Unearned Revenue (Note 5)	2,207,799
Total Liabilities	3,243,846
<b>NET POSITION (Note 9)</b>	
Net Investment in Capital Assets	898,680
Restricted	15,500
Unrestricted	326,248
Total Net Position	\$ 1,240,428

See accompanying notes to the financial statements.

**STANISLAUS DRUG ENFORCEMENT AGENCY  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2013**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position
		Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Public Protection	\$ 2,637,751	\$ 562,450	\$ 1,913,220	\$ 116,388	\$ (45,693)
			General Revenues:		
				Investment Earnings (Loss)	(14,708)
				Loss on Sale of Asset	(16,272)
				Transfers, net	1,311
				Total General Revenues	(29,669)
				Change in Net Position	(75,362)
				Net Position - Beginning	1,307,245
				Prior Period Adjustment	8,545
				Net Position - Beginning (as Restated)	1,315,790
				Net Position - Ending	\$ 1,240,428

See accompanying notes to the financial statements.

## STANISLAUS DRUG ENFORCEMENT AGENCY

### FUND FINANCIAL STATEMENTS

Major funds are defined generally as having significant activities or balances in the current year. The Stanislaus Drug Enforcement Agency's (the Agency) only fund, the General Fund, is its Major Fund in fiscal year 2013 as follows:

**THE GENERAL FUND** is the operating fund of the Agency. It is used to account for all financial resources.



**STANISLAUS DRUG ENFORCEMENT AGENCY  
BALANCE SHEET  
GENERAL FUND  
JUNE 30, 2013**

<b>ASSETS</b>	
Cash and Investments (Note 3)	\$ 3,241,085
Due from Other Governments	298,021
Prepaid Expenses	430
Accounts Receivable	34,189
Interest Receivable	<u>11,869</u>
Total Assets	<u><u>\$ 3,585,594</u></u>
<b>LIABILITIES</b>	
Accounts Payable	\$ 341,039
Seized Assets	695,008
Deferred Revenue (Note 5)	<u>2,207,799</u>
Total Liabilities	<u>3,243,846</u>
<b>FUND BALANCE (Note 9)</b>	
Restricted	15,500
Committed	7,272
Unassigned	<u>318,976</u>
Total Fund Balance	<u>341,748</u>
Total Liabilities and Fund Balance	<u><u>\$ 3,585,594</u></u>

**Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position**

Amounts reported for Governmental Activities in the Statement of Net Position are different from those reported in the Governmental Fund above because of the following:

TOTAL FUND BALANCE	\$ 341,748
<b>CAPITAL ASSETS</b>	
Capital assets used in Governmental Activities are not current assets or financial resources and, therefore, are not reported in the Governmental Fund.	<u>898,680</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 1,240,428</u></u>

See accompanying notes to the financial statements.

**STANISLAUS DRUG ENFORCEMENT AGENCY  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2013**

REVENUES	
Fines and Forfeited Assets	\$ 562,450
Intergovernmental	391,008
Interest and Rent	16,343
Net Decrease in the Fair Value of Investments	<u>(31,051)</u>
Total Revenues	<u>938,750</u>
EXPENDITURES	
Salaries and Benefits:	
Agency Employees	542,628
Grant Participants	645,050
County of Stanislaus Employees	514,570
City of Modesto Employees	188,900
Operating Expenditures	614,845
Capital Outlay	<u>116,388</u>
Total Expenditures	2,622,381
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(1,683,631)</u>
OTHER FINANCING SOURCES	
Contributions by Joint Venture Participants:	
Member Contributions:	
Cash Contributions	823,889
In-Kind Employee Services	814,711
Proceeds from Sale of Capital Assets	10,055
Transfers in from City, net	<u>1,311</u>
Total Other Financing Sources	<u>1,649,966</u>
NET CHANGE IN FUND BALANCE	(33,665)
BEGINNING FUND BALANCE	<u>366,868</u>
PRIOR PERIOD ADJUSTMENT	8,545
BEGINNING FUND BALANCE, AS RESTATED	<u>375,413</u>
ENDING FUND BALANCE	<u><u>\$ 341,748</u></u>

See accompanying notes to the financial statements.

**STANISLAUS DRUG ENFORCEMENT AGENCY  
RECONCILIATION OF THE NET CHANGE IN FUND BALANCE –  
GOVERNMENTAL FUND WITH THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2013**

NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUND	\$	(33,665)
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Amounts reported for Governmental Activities in the Statement of Activities are different because of the following:

**CAPITAL ASSETS**

The Governmental Fund includes capital outlays in departmental expenditures. However, in the Statement of Activities, the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay expenditures are added back to fund balance.		116,388
Disposition of Capital Assets is deducted from the fund balance.		(26,327)
Depreciation expense is deducted from the fund balance.		(131,758)
		<u>                    </u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	\$	<u>          (75,362)</u>
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See accompanying notes to the financial statements.

**STANISLAUS DRUG ENFORCEMENT AGENCY  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Fines and Forfeited Assets	\$ 600,348	\$ 600,348	\$ 562,450	\$ (37,898)
Intergovernmental	621,771	621,771	391,008	(230,763)
Interest and Rent	-	-	16,343	16,343
Net Decrease in the Fair Value of Investments	-	-	(31,051)	(31,051)
Other	133,000	133,000	-	(133,000)
Total Revenues	<u>1,355,119</u>	<u>1,355,119</u>	<u>938,750</u>	<u>(416,369)</u>
<b>EXPENDITURES</b>				
Salaries and Benefits:				
Agency Employees	822,626	803,890	542,628	261,262
Grant Participants	644,080	869,548	645,050	224,498
County of Stanislaus Employees	464,413	480,883	514,570	(33,687)
City of Modesto Employees	429,506	179,985	188,900	(8,915)
Operating Expenditures	535,160	483,521	614,845	(131,324)
Capital Outlay	60,000	98,156	116,388	(18,232)
Total Expenditures	<u>2,955,785</u>	<u>2,915,983</u>	<u>2,622,381</u>	<u>293,602</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(1,600,666)</u>	<u>(1,560,864)</u>	<u>(1,683,631)</u>	<u>(122,767)</u>
<b>OTHER FINANCING SOURCES</b>				
Contributions by Joint Venture Participants:				
Member Contributions:				
Cash Contributions	498,115	498,115	823,889	325,774
In-Kind Employee Services	1,074,332	1,074,332	814,711	(259,621)
Proceeds from Sale of Capital Assets	-	-	10,055	10,055
Transfers in from City, net	-	-	1,311	1,311
Total Other Financing Sources	<u>1,572,447</u>	<u>1,572,447</u>	<u>1,649,966</u>	<u>77,519</u>
NET CHANGE IN FUND BALANCE	<u>\$ (28,219)</u>	<u>\$ 11,583</u>	<u>(33,665)</u>	<u>\$ (45,248)</u>
BEGINNING FUND BALANCE			<u>366,868</u>	
PRIOR PERIOD ADJUSTMENT			8,545	
BEGINNING FUND BALANCE, AS RESTATED			<u>375,413</u>	
ENDING FUND BALANCE			<u>\$ 341,748</u>	

See accompanying notes to the financial statements.

**STANISLAUS DRUG ENFORCEMENT AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. General

The Stanislaus Drug Enforcement Agency (the Agency) was formed in 1986 by a joint powers agreement between the County of Stanislaus, California, (the County) and several municipalities within the County. During the fiscal year ended June 30, 2013, the participating municipalities, in addition to the County, were the Cities of Ceres, Hughson, Modesto, Newman, Oakdale, Patterson, Riverbank, Turlock, and Waterford. The governing committee of the Agency is comprised of the Sheriff of the County, the District Attorney of the County, the Chief Probation Officer of the County, and the Police Chiefs of the participating municipalities.

The Agency was created to assist in the enforcement of drug control laws of the State of California. The Agency maintains a fully operational, specially trained police unit to assist each of the participating jurisdictions in enforcing these laws and to study, plan, and set priorities for effective enforcement of such laws throughout the County. Agency personnel are provided by the participating jurisdictions.

Funding for Agency operations includes annual cash contributions by the participating jurisdictions. Certain jurisdictions also provide in-kind contributions in the form of employee services. Cash contributions are established based upon assessed property values and the population base of each jurisdiction as of January 1 of each year. The County and the City of Modesto provide cash contributions for Agency salary and benefits expenditures, while all participating jurisdictions provide cash contributions for non-salary and benefits operating expenditures. Other revenue sources include those assets forfeited through court resolution of criminal cases and federal grants supporting drug enforcement activities.

The Agency is considered to be a separate legal entity and is not a component unit of the participating jurisdictions. Pursuant to Section 6508.1 of the California Government Code and Section 7F of the joint powers agreement, the debts, liabilities, and obligations of the Agency are those of the Agency and not of the parties to the joint powers agreement.

Financial transactions of the Agency for the year ended June 30, 2013, were processed and accounted for by the City of Modesto.

B. Basis of Presentation

The Agency's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

These standards require that the financial statements described below be presented.

**Government-Wide Financial Statements:** The Statement of Net Position and the Statement of Activities include the financial activities of the overall Agency government. Eliminations have been made to minimize the double counting of internal activities.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

B. Basis of Presentation (Continued)

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Agency's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program, and (c) fees, grants, and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**Fund Financial Statements:** The fund financial statements provide information about the Agency. The emphasis of fund financial statements is on major individual governmental funds. The Agency has only one fund, the General Fund.

C. Basis of Accounting

The government-wide financial statements are reported using the *economic resources measurement focus* and the *full 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.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable and available*. The Agency considers all revenues reported in the governmental funds to be available if the revenues are collected within forty-five days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Non-exchange transactions, in which the Agency gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis of accounting, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Other revenues susceptible to accrual include intergovernmental revenues, member contributions, and interest.

D. Due from Other Governments

The Agency's receivables consist of amounts due from grants and other agencies. Management has determined the Agency's receivables to be fully collectible. Accordingly, no allowance for doubtful accounts has been made.

**NOTE 2 – BUDGETS AND BUDGETARY ACCOUNTING**

The Agency's governing committee adopts an annual operating budget for the General Fund on or before June 30. The budget is adopted on a basis of accounting consistent with accounting principles generally accepted in the United States of America. The governing committee may amend the budget during the fiscal year, and Agency expenditures are limited to the amount of total appropriations allowed by this budget.

Budgeted amounts are as originally adopted, or as amended by the governing committee. Individual amendments were not material in relation to the original appropriations which were amended.

**NOTE 3 – CASH AND INVESTMENTS**

The Agency's cash and investments are included in the City of Modesto's cash and investment pool, which is described in the City of Modesto's Comprehensive Annual Financial Report. As of June 30, 2013, the fair value of the Agency's position in the pool is the same as the value of its pool shares.

Cash and investments are classified in the financial statements as shown below. Investments are carried at fair value as follows at June 30, 2013:

Cash in City of Modesto Treasury	\$ 3,225,585
Imprest Cash	<u>15,500</u>
Total Cash and Investments	<u>\$ 3,241,085</u>

**NOTE 4 – CAPITAL ASSETS**

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. The Agency capitalizes assets with an initial, individual cost of \$1,000 or more and an estimated useful life in excess of one year. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

All capital assets with limited useful lives are depreciated over their estimated useful lives. Depreciation is provided using the straight-line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated. The purpose of depreciation is to spread the cost of capital assets equitably over the lives of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

The Agency has assigned the useful lives below to capital assets:

	<u>Useful Lives In Years</u>
Buildings	30
Structures and Improvements	20
Vehicles, Furnishings, and Equipment	3 to 10

**NOTE 4 – CAPITAL ASSETS** (Continued)

Capital assets at June 30 comprise:

	Balance June 30, 2012	Additions	Deletions/ Adjustments	Balance June 30, 2013
Capital assets not being depreciated:				
Land	\$ 268,000	\$ -	\$ -	\$ 268,000
Total capital assets not being depreciated	268,000	-	-	268,000
Capital assets being depreciated:				
Buildings and improvements	478,937	26,642	-	505,579
Vehicles	379,698	58,486	(57,735)	380,449
Intangible assets	23,976	-	-	23,976
Furnishings and equipment	625,957	31,260	(4,525)	652,692
Total capital assets being depreciated	1,508,568	116,388	(62,260)	1,562,696
Less accumulated depreciation for:				
Buildings and improvements	(270,425)	(21,068)	-	(291,493)
Vehicles	(185,818)	(40,654)	31,408	(195,064)
Intangible assets	(23,976)	-	-	(23,976)
Furnishings and equipment	(355,972)	(70,036)	4,525	(421,483)
Total accumulated depreciation	(836,191)	(131,758)	35,933	(932,016)
Net capital assets being depreciated	672,377	(15,370)	(26,327)	630,680
Total capital assets, net	<u>\$ 940,377</u>	<u>\$ (15,370)</u>	<u>\$ (26,327)</u>	<u>\$ 898,680</u>

Depreciation expense for the year ended June 30, 2013, was \$131,758.

**NOTE 5 – DEFERRED OR UNEARNED REVENUE**

The Agency is the recipient of fines and forfeitures allocated through legal proceedings of criminal prosecutions. Forfeiture proceeds allocated to the Agency are recorded as deferred revenue. Revenue is recognized as the proceeds are expended on grantor-approved costs. As of the year-ending June 30, 2013, the Agency had recorded \$2,207,799 of forfeiture proceeds as deferred revenue.

**NOTE 6 – RISK MANAGEMENT**

As provided in the joint powers agreement, the City of Modesto has sole responsibility for personal injury and damage awards for which the Agency is liable in those cases in which the liability award does not exceed \$100,000. For awards in excess of \$100,000, the City of Modesto and the County share responsibility in proportion to their respective Agency contribution rates for the year.

The joint powers agreement also specifies that workers' compensation insurance will not be provided by the Agency and remains the responsibility of the jurisdiction sponsoring the Agency's respective employees.

The Agency uses two helicopters and two airplanes owned by the County in its operations. Therefore the Agency purchased a commercial insurance policy through the County which provides coverage up to \$10,000,000 with deductibles ranging from \$100 to \$18,750, depending on the aircraft and whether the rotors are in motion. The Agency paid a premium of \$17,587 for current year coverage.



## **NOTE 7 – DEFINED BENEFIT PENSION PLAN**

Agency employees participate in the Public Employees' Retirement System of the State of California or Stanislaus County Employees Retirement Association through their applicable sponsoring jurisdiction. Employer pension contributions for these employees are allocated to the Agency by the respective jurisdictions.

## **NOTE 8 – RELATED PARTY TRANSACTIONS**

The Agency pays member jurisdictions for various services provided, such as, but not limited to, personnel services and consultant services. The Agency also reimburses the City of Modesto and County of Stanislaus for administrative as well as other costs incurred on the Agency's behalf.

## **NOTE 9 – NET POSITION AND FUND BALANCE**

Net Position is measured on the full accrual basis of accounting, while Fund Balance is measured on the modified accrual basis of accounting.

### **A. Net Position**

Net Position is the excess of all the Agency's assets over all its liabilities, regardless of fund. Net Position is divided into two captions. These captions apply only to Net Position, which is determined only at the government-wide level, and are described below:

*Net Investment in Capital Assets*, describes the portion of Net Position which is represented by the current net book value of the Agency's capital assets.

*Restricted* describes the portion of Net Position which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the Agency cannot unilaterally alter.

*Unrestricted* describes the portion of Net Position which is not restricted as to use.

### **B. Fund Balance**

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the Agency is bound to honor constraints on how specific amounts can be spent.

- **Nonspendable** - Amounts that are not in spendable form (such as imprest cash) or are required either legally or contractually to be maintained intact.
- **Restricted** - Amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional or enabling legislation.
- **Committed** - Amounts constrained to specific purposes by the Agency itself, using the Agency's highest level of decision-making authority (the Governing Committee). To be reported as committed, amounts cannot be used for any other purpose unless the Agency takes the same highest level action to remove or change the constraint. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- **Assigned** - Amounts the Agency *intends* to use for a specific purpose. Intent can be expressed by the Agency at either the highest level of decision-making or by an official or body to which the Agency delegates the authority.
- **Unassigned** - The residual classification for the Agency's General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

**NOTE 9 – NET POSITION AND FUND BALANCE** (Continued)

B. Fund Balance (Continued)

The Agency establishes and modifies or rescinds fund balance commitments by passage of an ordinance or policy. This is typically done through adoption or amendment of the budget. A fund balance commitment is further indicated in the budget as a designation or commitment of the fund, such as approved construction contracts. Assigned fund balance is established by the Agency through adoption or amendment of the budget or future year budget plan as intended for a specific purpose.

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, followed by the committed, assigned, and unassigned resources as they are needed.

The Agency believes that sound financial management principles require that sufficient funds be retained by the Agency to provide a stable financial base at all times. To retain this stable financial base, the Agency needs to maintain unrestricted fund balance in its funds sufficient to fund cash flows of the Agency and to provide financial reserves for unanticipated expenditures and/or revenue shortfalls of an emergency nature. Committed, assigned, and unassigned fund balances are considered unrestricted.

**NOTE 10 – COMMITMENTS AND CONTINGENCIES**

The Agency is subject to litigation arising in the normal course of business. The current litigation pending will not have a material adverse effect on the financial position of the Agency.

**NOTE 11 – ACCOUNTING STANDARDS UPDATE**

During the fiscal year ending June 30, 2013, the Agency implemented the following Governmental Accounting Standards Board (GASB) standards:

**GASB Statement No. 60** – *Accounting and Financial Reporting for Service Concession Arrangements* addresses accounting and financial reporting issues related to public-private and public-public partnerships. The statement is effective for periods beginning after December 15, 2011. Upon implementation, there was no effect on the Agency's accounting or financial reporting.

**GASB Statement No. 61** – *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34* modifies a number of provisions with regard to reporting of component units within a financial reporting entity. The statement is effective for periods beginning after June 15, 2012. Upon implementation, there was no effect on the Agency's accounting or financial reporting.

**GASB Statement No. 62** – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements* incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. The statement is effective for periods beginning after December 15, 2011. Upon implementation, there was no effect on the Agency's accounting or financial reporting.

**NOTE 11 – ACCOUNTING STANDARDS UPDATE** (Continued)

**GASB Statement No. 63** – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* modifies financial reporting of those elements. The largest change was the replacement of the Statement of Net (Plan, if retirement entity) Assets with a Statement of Net (Plan) Position and a Statement of Changes in Net (Plan) Position instead of the Statement of Changes in Net (Plan) Assets upon implementation for periods beginning after December 15, 2011. The Agency has implemented this change for the fiscal year ended June 30, 2013.

**GASB Statement No. 64** – *Derivative Instruments: Application of Hedge Accounting Termination Provisions* amends current accounting and financial reporting related to terminations of swap agreements due to default or other termination events. In certain instances where swap counterparties or credit support providers are replaced, hedge accounting may continue, rather than cease. The provisions of GASB Statement No. 64 are effective for financial statements beginning after June 15, 2011. Upon implementation, there was no effect on the Agency's accounting or financial reporting.

Recently released standards by GASB affecting future fiscal years are as follows:

**GASB Statement No. 65** – *Items Previously Reported as Assets and Liabilities*. The provisions of GASB Statement No. 65 are effective for financial statements beginning after December 15, 2012. The Agency will implement this statement for the fiscal year ending June 30, 2014.

**GASB Statement No. 66** – *Items Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62*. The provisions of GASB Statement No. 66 are effective for financial statements beginning after December 15, 2012. As of the date of the basic financial statements, the Agency has not made an assessment of any changes that will occur upon this statement's implementation.

**GASB Statement No. 67** – *Financial Reporting for Pension Districts - an amendment of GASB Statement No. 25*. The provisions of GASB Statement No. 67 are effective for financial statements beginning after June 15, 2013. The Agency has not fully judged the effect of the implementation of GASB Statement No. 67 as of the date of the basic financial statements.

**GASB Statement No. 68** – *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*. The provisions of GASB Statement No. 68 are effective for financial statements beginning after June 15, 2014. The Agency has not fully judged the effect of the implementation of GASB Statement No. 68 as of the date of the basic financial statements.

**GASB Statement No. 69** – *Government Combinations and Disposals of Government Operations*. The provisions of GASB Statement No. 69 are effective for financial statements beginning after December 15, 2013. The Agency has not fully judged the effect of the implementation of GASB Statement No. 69 as of the date of the basic financial statements.

**GASB Statement No. 70** – *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The provisions of GASB Statement No. 70 are effective for financial statements beginning after June 15, 2013. The Agency has not fully judged the effect of the implementation of GASB Statement No. 70 as of the date of the basic financial statements.

**NOTE 12 – DEFICIENCY OF EXPENDITURES OVER APPROPRIATIONS**

For the year ended June 30, 2013, expenditures exceeded appropriations as follows:

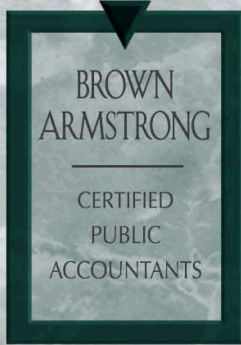
<u>Operating Expenditures</u>	<u>Amount</u>
Salaries and Benefits - County of Stanislaus Employees	\$ 33,687
Salaries and Benefits - City of Modesto Employees	8,915
Operating Expenditures	131,324
Capital Outlay	18,232

**NOTE 13 – SUBSEQUENT EVENTS**

In compliance with accounting standards generally accepted in the United States of America, management has evaluated events that have occurred after year-end to determine if these events are required to be disclosed in the these basic financial statements. Management has determined that no events require disclosure in accordance with accounting standards generally accepted in the United States of America. These subsequent events have been evaluated through December 2, 2013, which is the date the basic financial statements were issued.

**NOTE 14 – PRIOR PERIOD ADJUSTMENT**

A prior period adjustment was recorded to the Agency's general fund and net position, consisting of an accrual of revenue that was received during the current fiscal year, but was related to expenses and activity in the prior fiscal year, in the amount of \$8,665. An offsetting expense adjustment of \$120 was recorded to properly record an expense that was for the prior period, resulting in a net increase to the beginning fund balance and net position of \$8,545.



# BROWN ARMSTRONG

Certified Public Accountants

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

Members of the Governing Committee  
Stanislaus Drug Enforcement Agency  
Modesto, California

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We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities and general fund of the Stanislaus Drug Enforcement Agency (the Agency) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated December 2, 2013.

### Internal Control Over Financial Reporting

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

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

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



REGISTERED with the Public Company Accounting Oversight Board and MEMBER of the American Institute of Certified Public Accountants

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Agency's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

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

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION

A handwritten signature in blue ink that reads "Brown Armstrong Accountancy Corporation". The signature is written in a cursive, flowing style.

Bakersfield, California  
December 2, 2013