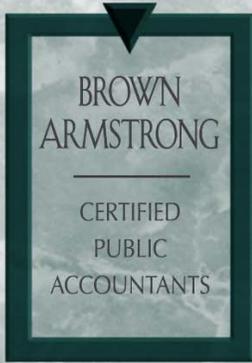


STANISLAUS DRUG ENFORCEMENT AGENCY
BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

**STANISLAUS DRUG ENFORCEMENT AGENCY
 BASIC FINANCIAL STATEMENTS
 JUNE 30, 2014**

TABLE OF CONTENTS

	<u>Page</u>
FINANCIAL SECTION	
Independent Auditor's Report	1
Basic Financial Statements:	
Statement of Net Position.....	4
Statement of Activities	5
Fund Financial Statements:	
Major Governmental Fund:	
Balance Sheet – General Fund	7
Statement of Revenues, Expenditures, and Changes in Fund Balance – General Fund	8
Reconciliation of the Net Change in Fund Balance – Governmental Fund with the Statement of Activities	9
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund.....	10
Notes to the Basic Financial Statements.....	11
Other Report:	
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 <i>Government Auditing Standards</i>	18



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, 2014, 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 Agency'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.

MAIN OFFICE

4200 TRUXTON AVENUE

SUITE 200
BAKERSFIELD, CA 93309
TEL 661.324.4971
FAX 661.324.4997
EMAIL info@bacpas.com

7673 N. INGRAM AVENUE

SUITE 101
FRESNO, CALIFORNIA 93711
TEL 559.476.3592
FAX 559.476.3593

221 E. WALNUT STREET

SUITE 260
PASADENA, CALIFORNIA 91101
TEL 626.204.6542
FAX 626.204.6547

5250 CLAREMONT AVENUE

SUITE 237
STOCKTON, CA 95207
TEL 209.451.4833

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, 2014, 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 1 to the financial statements, during the year ended June 30, 2014, the Agency implemented Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, 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 the 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 November 24, 2014, 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
November 24, 2014

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, 2014**

	<u>Governmental Activities</u>
ASSETS	
Cash and Investments (Note 3)	\$ 2,684,930
Due from Other Governments	479,082
Interest Receivable	5,193
Prepaid Expenses	4,036
Capital Assets (Note 4):	
Nondepreciable	268,000
Depreciable, Net	<u>535,971</u>
 Total Assets	 <u>3,977,212</u>
LIABILITIES	
Accounts Payable	250,774
Seized Assets	451,300
Unearned Revenue (Note 5)	<u>1,986,058</u>
 Total Liabilities	 <u>2,688,132</u>
NET POSITION (Note 9)	
Net Investment in Capital Assets	803,971
Restricted	15,500
Unrestricted	<u>469,609</u>
 Total Net Position	 <u>\$ 1,289,080</u>

See accompanying notes to the financial statements.

**STANISLAUS DRUG ENFORCEMENT AGENCY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014**

<u>Functions/Programs</u>	<u>Expenses</u>	Program Revenues			<u>Net (Expense) Revenue and Changes in Net Position</u>
		<u>Fees, Fines, and Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	
Governmental Activities: Public Protection	<u>\$ 2,349,945</u>	<u>\$ 298,157</u>	<u>\$ 2,097,183</u>	<u>\$ 23,216</u>	<u>\$ 68,611</u>
			General Revenues:		
			Investment Earnings (Loss)		(9,092)
			Loss on Sale of Asset		(12,720)
			Miscellaneous		<u>1,723</u>
			Total General Revenues (Expense)		(20,089)
			Change in Net Position		48,522
			Net Position - Beginning		<u>1,240,428</u>
			Prior Period Adjustment		<u>130</u>
			Net Position - Beginning (as Restated)		<u>1,240,558</u>
			Net Position - Ending		<u>\$ 1,289,080</u>

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 2014:

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, 2014**

ASSETS	
Cash and Investments (Note 3)	\$ 2,684,930
Due from Other Governments	479,082
Prepaid Expenses	4,036
Interest Receivable	<u>5,193</u>
Total Assets	<u><u>\$ 3,173,241</u></u>
LIABILITIES	
Accounts Payable	\$ 250,774
Seized Assets	451,300
Unearned Revenue (Note 5)	<u>1,986,058</u>
Total Liabilities	<u>2,688,132</u>
FUND BALANCE (Note 9)	
Restricted	15,500
Committed	4,246
Unassigned	<u>465,363</u>
Total Fund Balance	<u>485,109</u>
Total Liabilities and Fund Balance	<u><u>\$ 3,173,241</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	\$ 485,109
CAPITAL ASSETS	
Capital assets used in Governmental Activities are not current assets or financial resources and, therefore, are not reported in the Governmental Fund.	<u>803,971</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 1,289,080</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, 2014**

REVENUES	
Fines and Forfeited Assets	\$ 298,157
Intergovernmental	377,280
Interest and Rent	9,897
Miscellaneous	1,723
Net Decrease in the Fair Value of Investments	<u>(18,989)</u>
Total Revenues	<u>668,068</u>
EXPENDITURES	
Salaries and Benefits:	
Agency Employees	570,398
Grant Participants	517,498
County of Stanislaus Employees	508,321
City of Modesto Employees	168,045
Operating Expenditures	480,478
Capital Outlay	<u>23,216</u>
Total Expenditures	2,267,956
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(1,599,888)</u>
OTHER FINANCING SOURCES	
Contributions by Joint Venture Participants:	
Member Contributions:	
Cash Contributions	900,803
In-Kind Employee Services	<u>842,316</u>
Total Other Financing Sources	<u>1,743,119</u>
NET CHANGE IN FUND BALANCE	<u>143,231</u>
BEGINNING FUND BALANCE	341,748
PRIOR PERIOD ADJUSTMENT	<u>130</u>
BEGINNING FUND BALANCE, AS RESTATED	<u>341,878</u>
ENDING FUND BALANCE	<u><u>\$ 485,109</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, 2014**

NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUND \$ 143,231

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.	23,216
Disposition of Capital Assets is deducted from the fund balance.	(12,720)
Depreciation expense is deducted from the fund balance.	<u>(105,205)</u>

CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 48,522

**STANISLAUS DRUG ENFORCEMENT AGENCY
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES				
Fines and Forfeited Assets	\$ 506,813	\$ 506,813	\$ 298,157	\$ (208,656)
Intergovernmental	550,024	479,071	377,280	(101,791)
Interest and Rent	-	-	9,897	9,897
Miscellaneous	185,100	-	1,723	1,723
Net Decrease in the Fair Value of Investments	-	-	(18,989)	(18,989)
Other	-	-	-	-
Total Revenues	<u>1,241,937</u>	<u>985,884</u>	<u>668,068</u>	<u>(317,816)</u>
EXPENDITURES				
Salaries and Benefits:				
Agency Employees	876,350	765,496	570,398	195,098
Grant Participants	644,080	644,080	517,498	126,582
County of Stanislaus Employees	464,413	464,413	508,321	(43,908)
City of Modesto Employees	336,226	251,634	168,045	83,589
Operating Expenditures	595,291	595,291	480,478	114,813
Capital Outlay	60,000	60,000	23,216	36,784
Total Expenditures	<u>2,976,360</u>	<u>2,780,914</u>	<u>2,267,956</u>	<u>512,958</u>
DEFICIENCY OF REVENUES UNDER EXPENDITURES	<u>(1,734,423)</u>	<u>(1,795,030)</u>	<u>(1,599,888)</u>	<u>195,142</u>
OTHER FINANCING SOURCES				
Contributions by Joint Venture Participants:				
Member Contributions:				
Cash Contributions	534,811	889,693	900,803	11,110
In-Kind Employee Services	908,216	908,216	842,316	(65,900)
Total Other Financing Sources	<u>1,443,027</u>	<u>1,797,909</u>	<u>1,743,119</u>	<u>(54,790)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (291,396)</u>	<u>\$ 2,879</u>	<u>143,231</u>	<u>\$ 140,352</u>
BEGINNING FUND BALANCE			341,748	
PRIOR PERIOD ADJUSTMENT			<u>130</u>	
BEGINNING FUND BALANCE, AS RESTATED			<u>341,878</u>	
ENDING FUND BALANCE			<u>\$ 485,109</u>	

See accompanying notes to the financial statements.

**STANISLAUS DRUG ENFORCEMENT AGENCY
NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2014**

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, 2014, 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, 2014, 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 (GASB) 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.

E. Accounting Standards Update

During the fiscal year ending June 30, 2014, the Agency implemented the following GASB standards:

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. There was no effect on the Agency's accounting or financial reporting as a result of implementing this standard.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Accounting Standards Update (Continued)

GASB Statement No. 66 – *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. There was no effect on the Agency's accounting or financial reporting as a result of implementing this standard.

GASB Statement No. 67 – *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*. The provisions of GASB Statement No. 67 are effective for financial statements beginning after June 15, 2013. There was no effect on the Agency's accounting or financial reporting as a result of implementing this standard.

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. There was no effect on the Agency's accounting or financial reporting as a result of implementing this standard.

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

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. 71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. The provisions of this statement will be applied simultaneously with the provisions of GASB Statement No. 68.

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, 2014, 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, 2014:

Cash in City of Modesto Treasury	\$ 2,669,430
Imprest Cash	<u>15,500</u>
Total Cash and Investments	<u>\$ 2,684,930</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, 2013	Additions	Deletions/ Adjustments	Balance June 30, 2014
Capital assets not being depreciated:				
Land	\$ 268,000	\$ -	\$ -	\$ 268,000
Total capital assets not being depreciated	<u>268,000</u>	<u>-</u>	<u>-</u>	<u>268,000</u>
Capital assets being depreciated:				
Buildings and improvements	505,579	-	-	505,579
Vehicles	380,449	16,800	(38,333)	358,916
Intangible assets	23,976	-	-	23,976
Furnishings and equipment	652,692	6,416	(50,269)	608,839
Total capital assets being depreciated	<u>1,562,696</u>	<u>23,216</u>	<u>(88,602)</u>	<u>1,497,310</u>
Less accumulated depreciation for:				
Buildings and improvements	(291,493)	(20,999)	-	(312,492)
Vehicles	(195,064)	(37,193)	28,813	(203,444)
Intangible assets	(23,976)	-	-	(23,976)
Furnishings and equipment	(421,483)	(47,013)	47,069	(421,427)
Total accumulated depreciation	<u>(932,016)</u>	<u>(105,205)</u>	<u>75,882</u>	<u>(961,339)</u>
Net capital assets being depreciated	<u>630,680</u>	<u>(81,989)</u>	<u>(12,720)</u>	<u>535,971</u>
Total capital assets, net	<u>\$ 898,680</u>	<u>\$ (81,989)</u>	<u>\$ (12,720)</u>	<u>\$ 803,971</u>

Depreciation expense for the year ended June 30, 2014, was \$105,205.

NOTE 5 – 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 unearned revenue. Revenue is recognized as the proceeds are expended on grantor-approved costs. As of the year-ending June 30, 2014, the Agency had recorded \$1,986,058 of forfeiture proceeds as unearned 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 \$20,011 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 – DEFICIENCY OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2014, expenditures exceeded appropriations as follows:

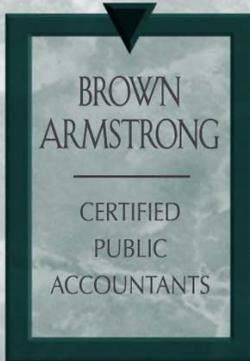
<u>Operating Expenditures</u>	<u>Amount</u>
Salaries and Benefits - County of Stanislaus Employees	\$ 43,908

NOTE 12 – 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 November 24, 2014, which is the date the basic financial statements were issued.

NOTE 13 – 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 \$130. The result was an increase to the beginning general fund balance of \$341,878 and net position of \$1,240,558.



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

MAIN OFFICE

4200 TRUXTON AVENUE

SUITE 300
BAKERSFIELD, CA 93309
TEL 661.324.4971
FAX 661.324.4997
EMAIL info@bacpas.com

7673 N. INGRAM AVENUE

SUITE 101
FRESNO, CALIFORNIA 93711
TEL 559.476.3592
FAX 559.476.3593

221 E. WALNUT STREET

SUITE 260
PASADENA, CALIFORNIA 91101
TEL 626.204.6542
FAX 626.204.6547

5250 CLAREMONT AVENUE

SUITE 237
STOCKTON, CA 95207
TEL 209.451.4833

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, 2014, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated November 24, 2014.

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 Agency's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

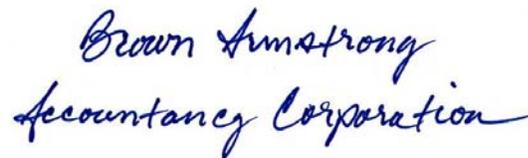
Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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 communication 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
November 24, 2014