

**STANISLAUS DRUG ENFORCEMENT  
AGENCY**

**INDEPENDENT AUDITOR'S REPORTS AND  
BASIC FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2017**



Certified  
Public  
Accountants

**STANISLAUS DRUG ENFORCEMENT AGENCY  
FOR THE YEAR ENDED JUNE 30, 2017**

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## 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, 2017, 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the General Fund of the Agency, as of June 30, 2017, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2017, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Agency's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Agency's internal control over financial reporting and compliance.

*Macias Gini & O'Connell LLP*

Walnut Creek, California  
December 13, 2017

**STANISLAUS DRUG ENFORCEMENT AGENCY**  
**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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 basic financial statements are called *Basic Financial Statements*.

**STANISLAUS DRUG ENFORCEMENT AGENCY**  
**STATEMENT OF NET POSITION - GOVERNMENTAL ACTIVITIES**  
**JUNE 30, 2017**

<b>ASSETS</b>	
Cash and investments	\$ 2,337,613
Due from other governments	112,163
Interest receivable	4,956
Prepaid expenses	79
Capital assets:	
Nondepreciable	268,000
Depreciable, net	<u>482,177</u>
 Total Assets	 <u>3,204,988</u>
 <b>LIABILITIES</b>	
Accounts payable	174,552
Seized assets	527,839
Unearned revenue	<u>1,655,041</u>
 Total Liabilities	 <u>2,357,432</u>
 <b>NET POSITION</b>	
Investment in capital assets	750,177
Unrestricted	<u>97,379</u>
 Total Net Position	 <u>\$ 847,556</u>

See accompanying notes to the basic financial statements.

**STANISLAUS DRUG ENFORCEMENT AGENCY  
STATEMENT OF ACTIVITIES - GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017**

<b>EXPENSES</b>	
Public protection	<u>\$ 2,579,853</u>
<b>PROGRAM REVENUES</b>	
Charges for services	205,307
Operating grants and contributions	<u>2,117,090</u>
Total Program Revenues	<u>2,322,397</u>
Net Program Expense	<u>(257,456)</u>
<b>GENERAL REVENUES</b>	
Investment earnings	4,014
Other	<u>3,904</u>
Total General Revenues	<u>7,918</u>
Change in Net Position	(249,538)
Net Position, beginning of year	<u>1,097,094</u>
Net Position, end of year	<u><u>\$ 847,556</u></u>

See accompanying notes to the basic 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 2017:

**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, 2017**

<b>ASSETS</b>	
Cash and investments	\$ 2,337,613
Due from other governments	112,163
Interest receivable	4,956
Prepaid items	<u>79</u>
Total Assets	<u><u>\$ 2,454,811</u></u>
 <b>LIABILITIES</b>	
Accounts payable	\$ 174,552
Seized assets	527,839
Unearned revenue	<u>1,655,041</u>
Total Liabilities	2,357,432
 <b>FUND BALANCE</b>	
Nonspendable	79
Unassigned	<u>97,300</u>
Total Fund Balance	<u>97,379</u>
Total Liabilities and Fund Balance	<u><u>\$ 2,454,811</u></u>
 Reconciliation of fund balance of the General Fund to the net position for governmental activities:	
Total Fund Balance	\$ 97,379
 Amounts reported for governmental activities in the Statement of Net Position are different from those reported in the General Fund above because of the following:	
Capital assets used in governmental activities are not current assets or financial resources and, therefore, are not reported in the General Fund.	<u>750,177</u>
Net Position of Governmental Activities	<u><u>\$ 847,556</u></u>

See accompanying notes to the basic financial statements.

**STANISLAUS DRUG ENFORCEMENT AGENCY  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGE IN FUND BALANCE - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2017**

<b>REVENUES</b>	
Fines and forfeited assets	\$ 205,307
Intergovernmental:	
Federal and state grants	1,040,564
Contributions by joint venture participants:	
Cash contributions	75,122
In-kind employee services	1,001,404
Interest	4,014
Other	3,904
	<hr/>
Total Revenues	2,330,315
	<hr/>
<b>EXPENDITURES</b>	
Contract services	556,515
In-kind:	
County of Stanislaus employees	430,083
City of Modesto employees	571,324
Services and supplies	895,552
Interest cost	13,327
	<hr/>
Total Expenditures	2,466,801
	<hr/>
Change in Fund Balance	(136,486)
Fund Balance, beginning of year	233,865
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Fund Balance, end of year	<u><u>\$ 97,379</u></u>

See accompanying notes to the basic financial statements.

**STANISLAUS DRUG ENFORCEMENT AGENCY  
RECONCILIATION OF THE CHANGE IN FUND BALANCE  
OF GENERAL FUND WITH THE CHANGE IN NET  
POSITION OF GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017**

Change in Fund Balance of General Fund	\$ (136,486)
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Amounts reported for Governmental Activities in the Statement of Activities are different because of the following:

The General Fund reports capital outlays as 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.

Disposition of capital assets	(5,246)
Depreciation expense	<u>(107,806)</u>
Adjustments to capital assets are added back to fund balance	<u>(113,052)</u>
 Change in Net Position of Governmental Activities	 <u><u>\$ (249,538)</u></u>

**STANISLAUS DRUG ENFORCEMENT AGENCY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCE - GENERAL FUND - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2017**

	<u>Budgeted Amounts</u>		Actual Amounts	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Fines and forfeited assets	\$ 402,453	\$ 402,453	\$ 205,307	\$ (197,146)
Intergovernmental:				
Federal and state grants	1,257,678	1,257,678	1,040,564	(217,114)
Contributions by joint venture participants:				
Cash contributions	201,297	201,297	75,122	(126,175)
In-kind employee services	1,315,665	1,315,665	1,001,404	(314,261)
Interest and rent	-	-	4,014	4,014
Other	-	-	3,904	3,904
Total Revenues	<u>3,177,093</u>	<u>3,177,093</u>	<u>2,330,315</u>	<u>(846,778)</u>
<b>EXPENDITURES</b>				
Contract services	1,522,175	1,522,175	556,515	965,660
In-kind:				
County of Stanislaus employees	474,966	474,966	430,083	44,883
City of Modesto employees	582,780	582,780	571,324	11,456
Services and supplies	729,172	729,172	895,552	(166,380)
Interest costs	-	-	13,327	(13,327)
Total Expenditures	<u>3,309,093</u>	<u>3,309,093</u>	<u>2,466,801</u>	<u>842,292</u>
Changes in Fund Balance	<u>\$ (132,000)</u>	<u>\$ (132,000)</u>	(136,486)	<u>\$ (4,486)</u>
Fund Balance, beginning of year			<u>233,865</u>	
Fund Balance, end of year			<u>\$ 97,379</u>	

See accompanying notes to the basic financial statements.

**STANISLAUS DRUG ENFORCEMENT AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**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 year ended June 30, 2017, 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 any 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, 2017, 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.

**STANISLAUS DRUG ENFORCEMENT AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (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 180 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.

**STANISLAUS DRUG ENFORCEMENT AGENCY  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2017**

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

E. 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 \$5,000 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

F. Seized Assets

Seized assets can include monetary instruments, real property, and tangible personal property seized as a consequence of a violation of public law that are held as evidence in state and/or mixed jurisdiction cases until adjudicated. Once adjudicated, the seized assets could be either returned to the accused or distributed to any number of government agencies. The seized assets liability at June 30, 2017 was \$527,839.

G. 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:

*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.

**STANISLAUS DRUG ENFORCEMENT AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

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

H. 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* describes amounts that are not in spendable form (such as imprest cash) or are required either legally or contractually to be maintained intact.

*Restricted* describes 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* describes 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* describes 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* describes 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.

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.

**STANISLAUS DRUG ENFORCEMENT AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

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

I. Accounting Standards Update

During the year ended June 30, 2017, the Agency implemented the following GASB standards:

GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14*. The statement establishes an additional blending requirement for the financial statement presentation of component units. This statement did not have a significant impact to the Agency's financial statements.

The Agency is currently evaluating its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The statement provides recognition and measurement guidance for situations in which a government is a beneficiary of these agreements. This Statement is effective for the Agency's fiscal year ending June 30, 2018.

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The Statement is effective for the Agency's fiscal year ending June 30, 2019.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*, improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The Statement is effective for the Agency's fiscal year ending June 30, 2020.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*, addresses practical issues that have been identified during implementation and application of certain GASB Statements. The statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, pensions and other postemployment benefits. This Statement is effective for the Agency's fiscal year ending June 30, 2018.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*, improves consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources – resources other than the proceeds of refunding debt – are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. This Statement is effective for the Agency's fiscal year ending June 30, 2018.

**STANISLAUS DRUG ENFORCEMENT AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

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

In June 2017, the GASB issued Statement No. 87, *Leases*, which increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The Statement is effective for the Agency's fiscal year ending June 30, 2021.

**J. 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.

**K. 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 2 – CASH AND INVESTMENTS**

Cash and investments are classified in the financial statements as shown below. Investments are carried at fair value as follows at June 30, 2017:

Cash in City of Modesto Treasury	\$ 2,322,113
Imprest Cash	<u>15,500</u>
 Total Cash and Investments	 <u>\$ 2,337,613</u>

The Agency's Cash in City of Modesto Treasury is cash and investments included in the City of Modesto's cash and investment pool. At June 30, 2017, the City's investment pool is unrated and the weighted average maturity is 483 days. Interest earned on pooled cash and investments is credited to each participant in the pool based on each participant's average monthly cash balance. Detailed information concerning the City of Modesto's pooled cash and investments, including information regarding the fair value of investment, may be found in the City of Modesto's Comprehensive Annual Financial Report. As of June 30, 2017, the fair value of the Agency's position in the pool is the same as the value of its pool shares. The Agency's investments in the City of Modesto's Treasury are exempt from fair value hierarchy disclosure.

**STANISLAUS DRUG ENFORCEMENT AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE 3 – CAPITAL ASSETS**

Capital assets activity for the year is as follows:

	Balance June 30, 2016	Additions	Retirements/ Disposal	Balance June 30, 2017
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	568,487	-	-	568,487
Intangible assets	23,976	-	-	23,976
Furnishings and equipment	605,103	-	(118,800)	486,303
Total capital assets being depreciated	<u>1,703,145</u>	<u>-</u>	<u>(118,800)</u>	<u>1,584,345</u>
Less accumulated depreciation for:				
Buildings and improvements	(341,495)	(13,982)	-	(355,477)
Vehicles	(255,866)	(54,115)	-	(309,981)
Intangible assets	(23,976)	-	-	(23,976)
Furnishings and equipment	(486,579)	(39,709)	113,554	(412,734)
Total accumulated depreciation	<u>(1,107,916)</u>	<u>(107,806)</u>	<u>113,554</u>	<u>(1,102,168)</u>
Net capital assets being depreciated	<u>595,229</u>	<u>(107,806)</u>	<u>(5,246)</u>	<u>482,177</u>
Total capital assets, net	<u>\$ 863,229</u>	<u>\$ (107,806)</u>	<u>\$ (5,246)</u>	<u>\$ 750,177</u>

Depreciation expense for the year ended June 30, 2017, was \$107,806.

**STANISLAUS DRUG ENFORCEMENT AGENCY  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**NOTE 4 – UNEARNED REVENUE**

The Agency is the recipient of fines and forfeitures allocated through legal proceedings of criminal prosecutions issued by government agencies (U.S. Department of Justice, U.S. Department of Treasury, State of California, etc.). Forfeiture proceeds allocated to the Agency are recorded as unearned revenue. The Agency is also a recipient of grants. Revenue is recognized as the fines and forfeitures and grants are expended on approved costs. As of June 30, 2017, the Agency had recorded \$1,655,041 of forfeiture proceeds as unearned revenue.

**NOTE 5 – 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 6 – 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 7 – 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 \$5,000 to \$8,530, depending on the aircraft and whether the rotors are in motion. The Agency paid a premium of \$25,396 for current year coverage.

**NOTE 8 – EXPENDITURES OVER APPROPRIATIONS**

For the year ended June 30, 2017, expenditures exceeded appropriations as follows:

General Fund:	
Services and supplies	\$ 166,380
Interest costs	13,327