

**STANISLAUS DRUG ENFORCEMENT AGENCY**

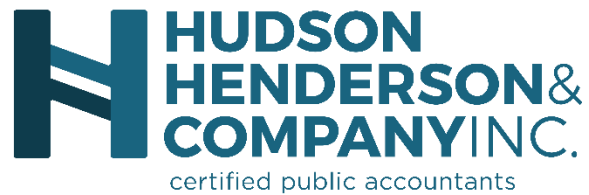
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**ANNUAL FINANCIAL REPORT  
WITH  
INDEPENDENT AUDITORS' REPORT**

**FOR THE YEAR ENDED  
JUNE 30, 2018**

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## **INDEPENDENT AUDITORS' REPORT**

To the Members of the Governing Committee  
Stanislaus Drug Enforcement Agency

### **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, 2018, the related notes to the financial statements, and the budgetary comparison for the general fund, 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.

### **Auditors' Responsibility**

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and general fund of the Agency, as of June 30, 2018, and the respective changes in financial position and the budgetary comparison 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 November 9, 2018, 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.

HUDSON HENDERSON & COMPANY, INC.

*Hudson Henderson & Company, Inc.*

Fresno, California  
November 9, 2018

**STANISLAUS DRUG ENFORCEMENT AGENCY  
STATEMENT OF NET POSITION – GOVERNMENTAL ACTIVITIES  
JUNE 30, 2018**

**ASSETS**

Cash and investments	\$ 1,937,475
Due from other governments	211,823
Interest receivable	4,919
Prepaid expenses	214
Capital assets:	
Nondepreciable	268,000
Depreciable, net	<u>383,689</u>
Total Assets	<u>\$ 2,806,120</u>

**LIABILITIES**

Accounts payable	\$ 41,749
Seized assets	172,752
Unearned revenue	<u>1,953,001</u>
Total Liabilities	<u>2,167,502</u>

**NET POSITION**

Net investment in capital assets	651,689
Unrestricted	<u>(13,071)</u>
Total Net Position	<u>638,618</u>
Total Liabilities and Net Position	<u>\$ 2,806,120</u>

The accompanying notes are an integral part of the financial statements.

**STANISLAUS DRUG ENFORCEMENT AGENCY  
STATEMENT OF ACTIVITIES – GOVERNMENTAL ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018**

Functions/Programs	Expenses	Program Revenues		Net (Expense) and Revenues and Change in Net Position
		Charges for Services	Operating Grants and Contributions	Governmental Activities
Governmental Activities:				
Public protection	\$ 2,315,373	\$ 235,668	\$ 1,895,212	\$ (184,493)
 Total Primary Government	 \$ 2,315,373	 \$ 235,668	 \$ 1,895,212	 (184,493)
General Revenues				
Interest				594
Other				34,853
Transfers, net				781
				36,228
Total General Revenues				36,228
Change in Net Position				(148,265)
Net Position, Beginning of Year				847,556
Prior Period Adjustment				(60,673)
Net Position, End of Year				\$ 638,618

The accompanying notes are an integral part of the financial statements.

**STANISLAUS DRUG ENFORCEMENT AGENCY  
BALANCE SHEET - GENERAL FUND  
JUNE 30, 2018**

**ASSETS**

Cash and investments	\$ 1,937,475
Due from other governments	211,823
Interest receivable	4,919
Prepaid items	<u>214</u>
Total Assets	<u><u>\$ 2,154,431</u></u>

**LIABILITIES AND FUND BALANCE**

Liabilities	
Accounts payable	\$ 41,749
Seized assets	172,752
Unearned revenue	<u>1,953,001</u>
Total Liabilities	<u>2,167,502</u>
Fund Balance	
Unassigned	<u>(13,071)</u>
Total Fund Balance	<u>(13,071)</u>
Total Liabilities and Fund Balance	<u><u>\$ 2,154,431</u></u>

The accompanying notes are an integral part of the financial statements.

**STANISLAUS DRUG ENFORCEMENT AGENCY  
RECONCILIATION OF GENERAL FUND BALANCE  
SHEET TO THE STATEMENT OF NET POSITION  
JUNE 30, 2018**

Reconciliation of the Balance Sheet of the General  
Fund to the Statement of Net Position:

Total Fund Balance - General Fund \$ (13,071)

Capital assets used in governmental activities are not  
current assets or financial resources and, therefore, are  
not reported in the governmental funds. 651,689

Total Net Position - Governmental Activities \$ 638,618

The accompanying notes are an integral part of the financial statements.



**STANISLAUS DRUG ENFORCEMENT AGENCY  
STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE – GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2018**

**REVENUES**

Fines and forfeited assets	\$ 235,668
Intergovernmental:	
Federal and state grants	698,617
Contributions by joint venture participants:	
Cash contributions	355,375
In-kind employee services	841,220
Interest	594
Other	<u>34,853</u>
 Total Revenues	 <u>2,166,327</u>

**EXPENDITURES**

Contract services	940,948
In-kind:	
County of Stanislaus employees	399,450
City of Modesto employees	336,668
Services and supplies	526,087
Interest cost	<u>13,732</u>
 Total Expenditures	 <u>2,216,885</u>
 Excess (Deficiency) of Revenues Over (Under) Expenditures	  <u>(50,558)</u>

**OTHER FINANCING SOURCES**

Transfers in	<u>781</u>
 Total Other Financing Sources	 <u>781</u>
 Net Change in Fund Balance	 (49,777)
Fund Balance, Beginning of Year	97,379
Prior Period Adjustment	<u>(60,673)</u>
Fund Balance, End of Year	<u><u>\$ (13,071)</u></u>

The accompanying notes are an integral part of the financial statements.

**STANISLAUS DRUG ENFORCEMENT AGENCY  
RECONCILIATION OF THE CHANGES IN FUND BALANCE  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2018**

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of the General Fund to the Statement of Activities:

Net Change in Fund Balance - General Fund \$ (49,777)

Governmental funds report capital outlay as expenditures. However, in the Statement of Activities, the cost of those assets are capitalized and allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay expenditures	\$ -	
Depreciation expense	<u>(92,053)</u>	
Capital assets, net		<u>(92,053)</u>

Governmental funds report proceeds or losses from the sale of capital assets as revenues when received. However, in the Statement of Activities, proceeds of the sale must be offset by the book value of the asset sold (or otherwise disposed of) to determine a gain or loss on disposition. This is the book value of the capital assets sold in the current period.

	<u>(6,435)</u>
Change in Net Position - Governmental Activities	<u><u>\$ (148,265)</u></u>

The accompanying notes are an integral part of the financial statements.

**STANISLAUS DRUG ENFORCEMENT AGENCY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE-**  
**BUDGET TO ACTUAL- GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual Amounts	Variance With Final Budget
	Original	Final		
<b>REVENUES</b>				
Fines and forfeited assets	\$ 419,971	\$ 419,971	\$ 235,668	\$ (184,303)
Intergovernmental:				
Federal and state grants	935,125	935,125	698,617	(236,508)
Contributions by joint venture				
Cash contributions	429,413	429,413	355,375	(74,038)
In-kind employee services	1,416,157	1,416,157	841,220	(574,937)
Interest	-	-	594	594
Other	-	-	34,853	34,853
Total Revenues	<u>3,200,666</u>	<u>3,200,666</u>	<u>2,166,327</u>	<u>(1,034,339)</u>
<b>EXPENDITURES</b>				
Contract services	1,250,604	1,250,604	940,948	309,656
In-Kind:				
County of Stanislaus employees	464,354	464,354	399,450	64,904
City of Modesto employees	664,040	664,040	336,668	327,372
Services and supplies	559,425	559,425	526,087	33,338
Interest cost	-	-	13,732	(13,732)
Total Expenditures	<u>2,938,423</u>	<u>2,938,423</u>	<u>2,216,885</u>	<u>721,538</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>262,243</u>	<u>262,243</u>	<u>(50,558)</u>	<u>(312,801)</u>
<b>OTHER FINANCING SOURCES</b>				
Transfers in	-	-	781	781
Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>781</u>	<u>781</u>
Change in Fund Balance	<u>\$ 262,243</u>	<u>\$ 262,243</u>	(49,777)	<u>\$ (312,020)</u>
Fund Balance, Beginning of Year			97,379	
Prior Period Adjustment			<u>(60,673)</u>	
Fund Balance, End of Year			<u>\$ (13,071)</u>	

The accompanying notes are an integral part of the financial statements.

**STANISLAUS DRUG ENFORCEMENT AGENCY  
NOTES TO FINANCIAL STATEMENTS**

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

Organization: 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, 2018, 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.

Reporting Entity: Funding for the 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, 2018, were processed and accounted for by the City of Modesto.

Measurement Focus, Basis of Accounting and Financial Statement Presentation: The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the Agency's activities. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported as general revenues.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements are met.

**STANISLAUS DRUG ENFORCEMENT AGENCY**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

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

Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued):

The Statement of Activities demonstrates the degree to which the direct expenses are offset by 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 1) charges paid by the recipients of goods or services offered by the programs, 2) grants and contributions that are restricted to meeting the operational needs of a particular program, and 3) 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 investment earnings and other revenues, are reported as general revenues. Separate financial statements are provided for governmental funds.

Governmental fund financial statements (i.e., Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance) are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Revenues susceptible to accrual are interest on investments, member contributions, and intergovernmental revenues. For this purpose, the Agency considers revenues to be available if they are collected within 180 days of the end of the current fiscal period. Interest on invested funds is recognized when earned. Intergovernmental revenues that are reimbursements for specific expenditures are recognized when all eligibility requirements are met. Expenditures generally are recorded when a liability is incurred, as under accrual accounting; however, debt service expenditures are recorded only when payment is due.

Major individual governmental funds are reported as separate columns in the fund financial statements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Change in Fund Balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Agency reports one major governmental fund: The **General Fund** is the primary operating fund and accounts for all financial resources of the Agency.

Budgets and Budgetary Accounting: The Agency's Governing Committee adopts an annual operating budget for the General Fund on or before June 30. A budgetary comparison statement has been provided for this fund to demonstrate compliance with the budgets. 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.

**STANISLAUS DRUG ENFORCEMENT AGENCY**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

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

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.

Capital Assets: Capital assets acquired are recorded at cost or estimated cost where cost is not available. Donated or contributed capital assets are recorded at estimated fair value on the date received. Capital assets are defined by the Agency as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation of capital assets is computed using the straight-line method applied over the estimated useful lives of the assets as follows:

Buildings:	30 Years
Structure and Improvements:	20 Years
Vehicles, Furnishings and Equipment:	3 – 10 Years

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, 2018 was \$172,752.

Net Position: Net position represents the residual interest in the Agency's assets after liabilities are deducted. In accordance with GASB Statement No. 63, the fund equity section on the Statement of Net Position was combined to report total net position and present it in three broad components:

- *Net investment in capital assets* – Amount consists of capital assets, including infrastructure, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.
- *Restricted* – Amount consists of net position restricted by external creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabled legislature.
- *Unrestricted* – Amount consists of all net position that does not meet the definition "net investment in capital assets" or "restricted" net position.

When both restricted and unrestricted net position are available, restricted resources are depleted first before unrestricted resources are used.

**STANISLAUS DRUG ENFORCEMENT AGENCY**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

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

Fund Balance: In the fund financial statements, in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, 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 inventory) or are required to be maintained intact. The Agency did not have any nonspendable resources as of June 30, 2018.
- *Restricted* – Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation. The Agency did not have any restricted resources as of June 30, 2018.
- *Committed* – Amounts constrained to specific purposes by the Agency itself, using its highest level of decision-making authority. To be reported as committed, amounts cannot be used for any other purpose unless the Governing Committee takes the same highest level action to remove or change the constraint. The Agency did not have any committed resources as of June 30, 2018.
- *Assigned* – Amounts the Agency intends to use for a specific purpose. Intent can be expressed by the Agency or by an official or body to which the Governing Committee delegates the authority. The Agency did not have any assigned resources as of June 30, 2018.
- *Unassigned* – Amounts that are available for any purpose. All resources of the Agency are considered unassigned resources as of June 30, 2018.

In circumstances when an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Agency considers amounts to have been spent first out of committed funds then assigned funds, and finally unassigned funds, as needed, unless the Board has provided otherwise in its commitment or assignment actions.

Governmental Accounting Standards Update: During the year ending June 30, 2018, the Agency implemented the following standards:

GASB Statement No. 85 – *Omnibus 2017*. The provisions of this statement are effective for reporting periods beginning after June 15, 2017.

GASB Statement No. 86 – *Certain Debt Extinguishment Issues*. The requirements of this statement are effective for reporting periods beginning after June 15, 2017.

Released GASB Statements to be implemented in future financial statements are as follows:

GASB Statement No. 83 – *Certain Asset Retirement Obligations*. The requirements of this statement are effective for reporting periods beginning after June 15, 2018.

GASB Statement No. 84 – *Fiduciary Activities*. The requirements of this statement are effective for reporting periods beginning after December 15, 2018.

GASB Statement No. 87 – *Leases*. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

**STANISLAUS DRUG ENFORCEMENT AGENCY  
NOTES TO FINANCIAL STATEMENTS (continued)**

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

Governmental Accounting Standards Update (continued):

GASB Statement No. 88 – *Certain Disclosure Related to Debt, including Direct Borrowings and Direct Placements*. The requirements of this statement are effective for reporting periods beginning after June 15, 2018.

GASB Statement No. 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period*. The requirements of this statement are effective for reporting periods beginning after December 15, 2019.

GASB Statement No. 90 – *Majority Equity Interests- an amendment of GASB Statements No. 14 and No 61*. The requirements of this statement are effective for reporting periods beginning after December 15, 2018.

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.

Subsequent Events: In compliance with accounting standards, management has evaluated events that have occurred after year-end to determine if these events are required to be disclosed in the financial statements. Management has determined that no events require disclosure in accordance with accounting standards. These subsequent events have been evaluated through November 9, 2018, which is the date the financial statements were available to be issued.

**NOTE 2 – CASH AND INVESTMENTS**

Cash and investments of the Agency are pooled with other City of Modesto funds. Interest earned on pooled cash and investments is credited to each participant in the pool based on each participant's average monthly cash balance. Credit quality ratings are not available for the Agency's investments as all cash is invested as part of the common cash an investment pool of the City of Modesto. Cash in the City Pool is considered unclassified as to credit risk because it is not evidenced by securities that exist in physical or book entry form. The Agency does not have any deposits with financial institutions as of June 30, 2018.

Cash and investments as of June 30, 2018 are classified in the accompanying financial statements as follows:

Statement of Net Position:

Cash and investments	<u>\$ 1,937,475</u>
Total cash and investments	<u><u>\$ 1,937,475</u></u>



**STANISLAUS DRUG ENFORCEMENT AGENCY  
NOTES TO FINANCIAL STATEMENTS (continued)**

**NOTE 2 – CASH AND INVESTMENTS (continued)**

Summary of Deposits:

Cash and investments as of June 30, 2018 consist of the following:

Deposits with City of Modesto cash and investment pool		\$ 1,921,975
Imprest Cash		<u>15,500</u>
 Total cash and investments		 <u><u>\$ 1,937,475</u></u>

Detailed information concerning the City of Modesto’s pooled cash and investments, including information regarding the fair value of investments, may be found in the City of Modesto’s Comprehensive Annual Financial Report. As of June 30, 2018, the fair value of the Agency’s position in the pool is the same as the value of its pool shares.

**NOTE 3 – CAPITAL ASSETS**

Capital assets activity of the governmental activities for the year ended June 30, 2018 is as follows:

	Beginning Balance	Additions	Deltions / Adjustments	Ending Balance
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	-	(18,189)	550,298
Intangible assets	23,976	-	(291)	23,685
Furnishings and equipment	486,303	-	(44,846)	441,457
Total capital assets, being depreciated	<u>1,584,345</u>	<u>-</u>	<u>(63,326)</u>	<u>1,521,019</u>
Less accumulated depreciation for:				
Buildings and improvements	(355,477)	(13,805)	-	(369,282)
Vehicles	(309,981)	(49,048)	12,059	(346,970)
Intangible assets	(23,976)	-	291	(23,685)
Furnishings and equipment	(412,734)	(29,200)	44,541	(397,393)
Total accumulated depreciation	<u>(1,102,168)</u>	<u>(92,053)</u>	<u>56,891</u>	<u>(1,137,330)</u>
Total capital assets, being depreciated, net	<u>482,177</u>	<u>(92,053)</u>	<u>(6,435)</u>	<u>383,689</u>
Capital assets, net	<u><u>\$ 750,177</u></u>	<u><u>\$ (92,053)</u></u>	<u><u>\$ (6,435)</u></u>	<u><u>\$ 651,689</u></u>

Depreciation expense for the year ended June 30, 2018 was \$92,053.

**STANISLAUS DRUG ENFORCEMENT AGENCY**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**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 as expended on approved costs. As of June 30, 2018, the Agency had recorded \$1,953,001 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**

Commitments and contingencies, undeterminable in amount, include normal recurring pending claims and litigation. In the opinion of management, based upon discussion with legal counsel, there is no pending litigation which is likely to 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 \$26,562 for current year coverage.

**NOTE 8 – EXPENDITURES OVER APPROPRIATIONS**

For the year ended June 30, 2018, expenditures exceeded appropriations as follows:

<u>Expenditures</u>	<u>Amount</u>
Interest cost	13,732

**STANISLAUS DRUG ENFORCEMENT AGENCY**  
**NOTES TO FINANCIAL STATEMENTS (continued)**

**NOTE 9 – PRIOR PERIOD ADJUSTMENT**

A prior period adjustment to the governmental activities beginning net position and General Fund beginning fund balance of (\$60,673) was recorded to properly reinstate previously recorded interest earned on seized assets as a liability versus earnings of the Agency.



**INDEPENDENT AUDITORS' 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**

To the Members of the Governing Committee  
Stanislaus Drug Enforcement Agency

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, 2018, the related notes to the financial statements, and the budgetary comparison for the general fund, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated November 9, 2018.

**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.

## **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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

HUDSON HENDERSON & COMPANY, INC.

A handwritten signature in blue ink that reads "Hudson Henderson & Company, Inc." in a cursive script.

Fresno, California  
November 9, 2018