

JAN 29 2014
VERMONT
STATE AUDITOR

Chittenden County Sheriff's Department

**Financial Statements
(with Independent Auditors' Report)**

June 30, 2013

Chittenden County Sheriff's Department

June 30, 2013

Table of Contents

	<u>Pages</u>
Independent Auditors' Report	
Statement of Net Position	3
Statement of Revenues, Expenses, and Changes in Net Position	4
Statement of Cash Flows	5
Notes to the Financial Statements	6-9
Government Auditing Standards Report:	
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>	

Independent Auditors' Report

Kevin McLaughlin, Sheriff
Chittenden County Sheriff's Department
South Burlington, Vermont

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the Chittenden County Sheriff's Department of the County of Chittenden, Vermont (the "Department"), as of and for the year ended June 30, 2013, 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 auditors' 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 Department'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 Department'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.

Unmodified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Department as of June 30, 2013, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Chittenden County Sheriff's Department has not presented a management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2013, on our consideration of the Department'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* and important for assessing the results of our audit.

McSOLEY McCOY & CO.

December 5, 2013
VT Reg. No. 92-349

Chittenden County Sheriff's Department
Statement of Net Position
June 30, 2013

Assets:	
Current assets	
Cash	\$ 1,257,251
Accounts receivable	384,514
Prepaid expense	<u>26,362</u>
Total current assets	1,668,127
 Vehicles and equipment, net of accumulated depreciation	 <u>540,707</u>
 Total assets	 <u>2,208,834</u>
 Liabilities:	
Current Liabilities	
Accounts payable	21,487
Accrued payroll and payroll items	<u>52,471</u>
Total current liabilities	<u>73,958</u>
 Net assets:	
Unrestricted	1,594,169
Invested in capital assets	<u>540,707</u>
Total net position	<u>\$ 2,134,876</u>

See accompanying notes and independent auditors' report.

Chittenden County Sheriff's Department
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2013

Operating Revenues:	
Charges for services	\$ 1,563,620
Operating grants	98,976
Property seizure revenues	162,618
Miscellaneous revenues	<u>21,919</u>
 Total operating revenues	 <u>1,847,133</u>
 Operating Expenses:	
Contracted services	602,650
Process services	136,404
Transportation services	87,256
Administration and general	306,895
Automotive services	134,420
Depreciation	<u>93,295</u>
 Total operating expenses	 <u>1,360,920</u>
 Net operating income	 <u>486,213</u>
 Non-operating income (expenses):	
Loss on sale of equipment	(1,085)
Interest income	<u>5,046</u>
 Total non-operating income (expenses)	 <u>3,961</u>
 Net income	 <u>490,174</u>
 Net position, beginning of year, before prior period restatement	 1,592,910
 Prior period restatement	 <u>51,792</u>
 Net position, beginning of year, after prior period restatement	 <u>1,644,702</u>
 Net position, end of year	 <u>\$ 2,134,876</u>

See accompanying notes and independent auditors' report.

Chittenden County Sheriff's Department
Statement of Cash Flows
For the Year Ended June 30, 2013

Operating activities:	
Cash received from customers	\$ 1,475,613
Cash received from operating grants	98,976
Cash payments to suppliers for goods and services	(260,474)
Cash payments to employees for services	<u>(1,021,361)</u>
Net cash provided by operating activities	<u>292,754</u>
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(335,594)
Loss on a sale of equipment	(1,085)
Interest income	<u>5,046</u>
Net cash used by capital and related financing activities	<u>(331,633)</u>
Net decrease in cash	(38,879)
Cash, beginning of year	<u>1,296,130</u>
Cash, end of year	<u>\$ 1,257,251</u>
Reconciliation of operating income to net cash provided by operating activities:	
Net operating income	\$ <u>490,174</u>
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	93,295
Changes in:	
Accounts receivable	(265,337)
Prepaid expenses	(5,808)
Accounts payable	(15,310)
Accrued payroll liabilities	2,947
Deferred revenue	<u>(7,207)</u>
Total adjustments	<u>(197,420)</u>
Net cash provided by operating activities	<u>\$ 292,754</u>

See accompanying notes and independent auditors' report.

Chittenden County Sheriff's Department
Notes to the Financial Statements
June 30, 2013

(1) Summary of Significant Accounting Policies

The Chittenden County Sheriff's Department (the "Department") is a governmental entity operating under Title 24 Vermont Statutes Annotated Section 290 located in the County of Chittenden, Vermont. Funding is provided by the State of Vermont and the County of Chittenden. Operating revenue is generated by service charges, some of which are set by state statute and others are set by the Department. Included among the duties performed by the Department are contracting to provide law enforcement services; security services; control dispatching and other centralized support services; service of lawful writs, warrants and processes; and transportation of prisoners and the mentally disabled.

(a) Basis of accounting

The accompanying financial statements have been prepared using the accrual basis of accounting. The Department's revenues are recognized when they are earned, and their expenses are recognized when they are incurred. The Sheriff's Department applied (a) all Governmental Accounting Standards Board (GASB) pronouncements and (b) Financial Accounting Standards Board (FASB) Statements and Interpretations, APB Opinions, and Accounting Research Bulletins issued on or before November 20, 1989, except insignificant items that conflict with GASB pronouncements.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, it is the Department's policy to use restricted resources first, then unrestricted resources, as needed.

(b) Basis of presentation

The Department accounts for ongoing operations and activities using proprietary fund accounting, a method developed with the economic resources measurement focus. This focus is similar to accounting methods used in the private sector.

(c) Vehicles and equipment

Vehicles and equipment are recorded at cost with depreciation computed using the straight-line method over their estimated useful lives. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected as nonoperating activity for the period. The cost of maintenance and repairs is charged to expense as incurred; renewals and betterments over \$1,000 are capitalized.

Estimated useful lives by major classification are as follows:

Office furniture	5-7 years
Communication equipment	5-10 years
Vehicles	5 years

Chittenden County Sheriff's Department
Notes to the Financial Statements
June 30, 2013

(d) Unrestricted net assets

Unrestricted net assets for proprietary funds represent the net assets available for future operations or distributions.

(e) Use of estimates

The process of preparing financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

(f) Accounts receivable

Significant receivables include amounts due from state, town, and contractor contracts. These receivables are due within one year. The Department has not recorded an allowance for uncollectible accounts at June 30, 2013.

(g) Subsequent Events

In accordance with ASC 855, the Department evaluated subsequent events through December 5, 2013, the date the Department's financial statements were available to be used and no events or transactions occurred.

(2) Cash and Categories of Risk

There are three categories of credit risk that apply to the Department's balance:

1. Insured by the FDIC or collateralized with securities held by the Department or by the Department's agent in the Department's name.
2. Collateralized with securities held by the pledging financial institution's trust department or agent in the Department's name.
3. Uncollateralized.

Chittenden County Sheriff's Department
Notes to the Financial Statements
June 30, 2013

Cash and Categories of Risk (continued)

The Department's bank balances are categorized below to give an indication of the level of risk assumed by the Department at June 30, 2013.

	<u>Book Balance</u>	<u>Bank Balance</u>
Insured deposits	\$1,245,713	\$ 1,245,517
Uninsured deposits	11,538	109,180
Cash on hand	-	-
Total cash deposits	<u>\$1,257,251</u>	<u>\$ 1,354,697</u>

(3) Vehicles and Equipment

Vehicles and equipment are summarized as of June 30, 2013 by major classifications as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Vehicles	\$ 541,749	\$ 109,610	\$ (109,485)	\$ 541,874
Equipment	<u>387,770</u>	<u>225,984</u>	<u>(40,730)</u>	<u>573,024</u>
Total vehicles and equipment	929,519	335,594	(150,215)	1,114,898
Less accumulated depreciation	<u>(630,026)</u>	<u>(93,295)</u>	<u>149,130</u>	<u>(574,191)</u>
Vehicles and equipment, net	<u>\$ 299,493</u>	<u>\$ 242,299</u>	<u>\$ (1,085)</u>	<u>\$ 540,707</u>

(4) Cost Sharing

Under Vermont law, Chittenden County and the State of Vermont are required to cover certain costs of the Chittenden County Sheriff's Department. Such costs include the Sheriff's salary and benefits, administrative salary and benefits, office space, certain automotive expenses and others. The amount expended by the County and State during the year ended June 30, 2013 has not been determined.

(5) Operating Grants

The Chittenden County Sheriff's Department received grants from the U.S. Government and other grantors. Entitlements to the resources are generally based on compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditures of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowance as a result of these audits becomes a liability of the Department. As of June 30, 2013, management believes that no material liabilities will result from such audits.

Chittenden County Sheriff's Department
Notes to the Financial Statements
June 30, 2013

(6) Risk Management

The Sheriff's Department is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The Sheriff's Department maintains commercial insurance coverage covering each of these risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Department. Settled claims have not materially exceeded this commercial coverage in any of the past three fiscal years.

(7) Prior Period Adjustment

During 2013, the Department discovered that electronic equipment and vehicles were not properly recorded, resulting in a restatement of the previously issued June 30, 2012 financial statements with an increase in net position of \$51,792.

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

Kevin McLaughlin, Sheriff
Chittenden County Sheriff's Department
South Burlington, Vermont

We have audited the financial statements of the business-type activities of the Chittenden County Sheriff's Department of the County of Chittenden, Vermont (the Department) as of and for the year ended June 30, 2013, which comprise the Chittenden County Sheriff's Department's basic financial statements, and have issued our report thereon dated December 5, 2013. 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 of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 2013-01 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatements, 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*.

This communication is intended solely for the information and use of the Department and is not intended to be and should not be used by anyone other than these specified parties.

McSoley McCoy & Co.

December 5, 2013
VT Reg. No. 92-349

Chittenden County Sheriff's Department
Schedule of Findings and Questioned Costs
June 30, 2013

Internal Control – Significant Deficiencies

Findings

2013-01 Revenue Recognition

The accrual basis of accounting requires that revenue be recognized when revenue is earned or becomes realizable. During our audit we noted that revenue for a number of services performed at the end of June 2012 and June 2013 were recorded to the next fiscal year.

We recommend that management implement procedures to ensure all revenue be recognized in the proper period. This should include reviewing invoices to determine that charges are billed for the same period in which the services were rendered.

Management's Response

Management agrees with this finding and will begin reviewing revenue and expense transactions to ensure proper cutoff.

2013-02 Capitalization of Assets

The Department has a policy of capitalizing assets greater than \$1,000. We noted that several disbursements had been recorded as expenses rather than capital assets. In addition, capital assets that are purchased with grant funds or received through other sources should also be considered as a capital asset with the corresponding revenue recorded, as applicable.

We recommend that the Department adhere to their capitalization policy.

Management's Response

Management Response: Management agrees with this finding and will develop and implement procedures that will enhance what is already being done to recognize capital purchases. Furthermore management of Chittenden County Sheriff Department will review and update its "Accounting Policies and Practices" policy to account for currently accepted practices.