

Essex County Sheriff's Department

Financial Statements
(With Independent Auditors' Report)

For the Year Ended June 30, 2018

Essex County Sheriff's Department

June 30, 2018

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Independent Auditors' Report

Trevor Colby, Sheriff
Essex County Sheriff's Department
Guildhall, Vermont

We have audited the accompanying financial statements of the business-type activities of the Essex County Sheriff's Department (the "Department") of the County of Essex, Vermont, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Department'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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 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 our 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 financial position of the business-type activities of the Department, as of June 30, 2018 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

Management has omitted the management discussion and analysis and budgetary comparison schedules 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 statement in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.



South Burlington, Vermont

December 28, 2018

VT Reg. No. 92-349

Essex County Sheriff's Department
Statement of Net Position
June 30, 2018

Assets:

Current assets

Cash	\$ 178,839
Accounts receivable, net of an allowance of \$1,000	39,519
Prepaid expenses	<u>274</u>

Total current assets 218,632

Vehicles and equipment, net of accumulated depreciation 80,682

Total assets 299,314

Liabilities:

Current liabilities

Accrued expenses 2,969

Total liabilities 2,969

Net position:

Net investment in capital assets 80,682

Unrestricted 215,663

Total net position \$ 296,345

See accompanying notes to the financial statements.

Essex County Sheriff's Department
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2018

Operating revenues:	
Charges for services	\$ 237,607
Operating grants	11,753
Miscellaneous revenues	<u>8,911</u>
Total operating revenues	<u>258,271</u>
 Operating expenses:	
Contracted services	180,020
Administration and general	61,726
Automotive services	20,333
Depreciation	<u>32,793</u>
Total operating expenses	<u>294,872</u>
Net operating loss	(36,601)
 Non-operating income:	
Gain on sale of equipment	<u>600</u>
Net loss	(36,001)
Net position, beginning of year	<u>332,346</u>
Net position, end of year	<u><u>\$ 296,345</u></u>

See accompanying notes to the financial statements.

Essex County Sheriff's Department
Statement of Cash Flows
For the Year Ended June 30, 2018

Operating activities:

Cash received from customers	\$ 245,682
Cash received from operating grants	11,753
Cash payments to suppliers for goods and services	(109,362)
Cash payments to employees for services	<u>(156,401)</u>

Net cash provided by operating activities (8,328)

Cash flows from capital and financing activities:

Proceeds from sale of vehicles	600
Purchases of vehicles	<u>(19,000)</u>

Net cash used for capital and financing activities (18,400)

Net decrease in cash (26,728)

Cash, beginning of year 205,567

Cash, end of year \$ 178,839

Reconciliation of operating loss to net cash provided by operating activities:

Net operating loss \$ (36,601)

Adjustments to reconcile operating loss to net cash provided
by operating activities

Depreciation	32,793
Increase in accounts receivable	(836)
Decrease in accrued expenses	<u>(3,684)</u>

Total adjustments 28,273

Net cash provided by operating activities \$ (8,328)

See accompanying notes to the financial statements.

Essex County Sheriff's Department

Notes to Financial Statements

June 30, 2018

(1) Summary of Significant Accounting Policies

The Essex County Sheriff's Department (the "Department") is a governmental entity operating under Title 24 Vermont Statutes Annotated Section 290 located in the County of Essex, Vermont. Funding is provided by the State of Vermont and the County of Essex. 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.

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) 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.

(d) Cash and cash equivalents

For the purpose of reporting cash flows, all highly liquid investments with a maturity of three months or less are considered to be cash equivalents. In addition, the Department considers all certificates of deposit to be cash equivalents.

Essex County Sheriff's Department

Notes to Financial Statements

June 30, 2018

Summary of Significant Accounting Policies (continued)

(e) 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 \$5,000 are capitalized.

Estimated useful lives by major classification are as follows:

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

(f) Net position

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances on any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Department or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. Unrestricted net position for proprietary funds represents the net position available for future operations or distributions.

(g) Accounts receivable

Significant receivables include amounts due from state, town, and contractor contracts. These receivables are due within one year. The Department has recorded an allowance of \$1,000 for uncollectible accounts at June 30, 2018.

(h) Subsequent events

The Department evaluated subsequent events through December 28, 2018, 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.

Essex County Sheriff's Department

Notes to Financial Statements

June 30, 2018

Cash and Categories of Risk (continued)

3. Uncollateralized.

The Department's bank balances are categorized below to give an indication of the level of risk assumed by the Department at June 30, 2018.

	<u>Book Balance</u>	<u>Bank Balance</u>
Insured deposits	\$ 193,915	\$ 188,989
Uninsured deposits	<u>-</u>	<u>3,010</u>
 Total cash deposits	 <u>\$ 193,915</u>	 <u>\$ 191,999</u>

(3) Vehicles and Equipment

Vehicles and equipment are summarized as of June 30, 2018 by major classifications as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Vehicles	\$ 230,169	\$ 19,000	\$ (24,281)	\$ 224,888
Equipment	<u>190,521</u>	<u>-</u>	<u>-</u>	<u>190,521</u>
Total vehicles and equipment	420,690	19,000	(24,281)	415,409
Less accumulated depreciation	<u>(326,215)</u>	<u>(32,793)</u>	<u>24,281</u>	<u>(334,727)</u>
Vehicles and equipment, net	<u>\$ 94,475</u>	<u>\$ (13,793)</u>	<u>\$ -</u>	<u>\$ 80,682</u>

(4) Cost Sharing

Under Vermont law, Essex County and the State of Vermont are required to cover certain costs of the Essex 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, 2018 has not been determined.

(5) Operating Grants

The Essex 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.

Essex County Sheriff's Department
Notes to Financial Statements
June 30, 2018

Operating Grants (continued)

Any disallowance as a result of these audits becomes a liability of the Department. As of June 30, 2018, management believes that no material liabilities will result from such audits.

(6) Risk Management

The 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 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) Related Party Transactions

The Department utilizes the services of a company that is owned by the Sheriff's cousin. During the year ended June 30, 2018, the Department incurred in expenses totaling \$8,340 for repairs and maintenance. As of June 30, 2018, there were no amounts outstanding. Management believes these transactions are at arm's length.

Sheriff Trevor Colby
Essex County Sheriff's Department
Guildhall, Vermont

In planning and performing our audit of the financial statements of the business-type activities of Essex County Sheriff's Department (the "Department") as of and for the year ended June 30, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered the Department's internal control over financial reporting (internal control) as a basis for designing 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 Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. We consider the following deficiencies in internal control to be significant deficiencies:

Segregation of Duties

Due to the small size of the Department, there is a lack of segregation of duties within the cash receipts, disbursements and recordkeeping areas. Separating these closely related functions will improve internal control in these particular areas. The following procedures could be enacted to improve segregation of duties over cash receipts, disbursements and recordkeeping:

- The Sheriff, who is not involved in the accounting function, should open the mail, maintain the list of all receipts, and restrictively endorse all items received as "for deposit only". This would prevent any unauthorized endorsement should the checks be misplaced or lost before being deposited. This process would also allow the Sheriff to review the bank statement prior to the reconciliation process.
- Someone other than the check preparer and signor should mail all payments. This will ensure that all checks reach their approved designated party.

Financial Reporting

During our audit procedures, we noted several accounts including cash, receivables, fixed assets and expense accounts that were not properly reconciled or recorded. To provide accurate financial information, not only at the end of the year, but throughout, the Department should implement month-end closing procedures that would include a reconciliation of all balance sheet accounts. This will provide the Department with useful financial information, reduce work at year-end, and could provide an early indication of potential errors or problems within the Department.

Expense Approvals

During our audit, we noted several instances where invoices lacked approving signature. Given that the Department has an expense approval process, which involves authorization of the Sheriff, we recommend the Department adhere to this policy.

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



South Burlington, Vermont
December 28, 2018
VT Reg. No. 92-349