

Rutland County Sheriff's Department

Financial Statements

For the Year Ended June 30, 2018
(With Independent Auditors' Report)

Rutland County Sheriff's Department

For the Year Ended June 30, 2018

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Independent Auditors' Report

Stephen Benard, Sheriff
Rutland County Sheriff's Department
Rutland, Vermont

We have audited the accompanying financial statements of the business-type activities of the Rutland County Sheriff's Department of the County of Rutland, Vermont (the "Department"), 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 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 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 business-type activities of the Rutland County Sheriff's Department of the County of Rutland, Vermont as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof 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 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 operation, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

McSoley McCoy & Co.

South Burlington, Vermont
November 9, 2018
VT Reg. No. 92-349

Rutland County Sheriff's Department

Statement of Net Position

June 30, 2018

Assets:

Current assets:

Cash	\$ 133,573
Prepaid expenses	29,459
Accounts receivable, net	<u>221,018</u>

Total current assets 384,050

Non-current assets:

Property and equipment, net of accumulated depreciation	690,109
Restricted assets - annuities	<u>154,105</u>

Total non-current assets 844,214

Total assets 1,228,264

Liabilities:

Current liabilities:

Accounts payable	54,567
Other current liabilities	975
Accrued payroll and related items	102,483
Current installments of long-term debt	<u>48,380</u>

Total current liabilities 206,405

Long-term liabilities:

Long-term debt - less current installments	292,310
Annuities due to employees	<u>154,105</u>

Total long-term liabilities 446,415

Total liabilities 652,820

Net position:

Net investment in capital assets	349,420
Unrestricted	<u>226,024</u>

Total net position \$ 575,444

See accompanying notes to the basic financial statements.

Rutland 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	\$ 1,406,248
Operating grants	310,915
County support	172,532
Miscellaneous revenues	<u>30,125</u>
 Total operating revenues	 <u>1,919,820</u>

Operating expenses:

Contracted services	997,820
Process services	17,785
Grant services	255,398
Administration and general	237,863
Communications services	218,026
Automotive services	96,400
Depreciation	<u>158,006</u>
 Total operating expenses	 <u>1,981,298</u>

Net operating loss	<u>(61,478)</u>
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Non-operating income (expenses):

Loss on sale of equipment	(3,850)
Interest income	95
Interest expense	<u>(20,650)</u>

Total non-operating income (expenses)	<u>(24,405)</u>
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Net loss	<u>(85,883)</u>
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Net position, beginning of year	<u>661,327</u>
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Net position, end of year	<u><u>\$ 575,444</u></u>
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See accompanying notes to the basic financial statements.

Rutland County Sheriff's Department

Statement of Cash Flows

For the Year Ended June 30, 2018

Cash flows from operating activities:

Cash received from customers	\$ 1,559,565
Cash received from operating grants	310,915
Cash payments to suppliers for goods and services	(592,165)
Cash payments to employees for services	<u>(1,243,487)</u>

Net cash provided by operating activities 34,828

Cash flows from capital and related financing activities:

Acquisition of capital assets	(1,000)
Interest income	95
Interest paid on loans	(20,650)
Principal paid on long-term debt	<u>(66,751)</u>

Net cash used for capital and related financing activities (88,306)

Net decrease in cash (53,478)

Cash, beginning of year 187,051

Cash, end of year \$ 133,573

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

Net operating loss	\$ <u>(61,478)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	158,006
Change in allowance over bad debt	(10,130)

Changes in operating assets and liabilities:

Increase in prepaid expenses	(29,459)
Increase in accounts receivable	(39,210)
Increase in accounts payable	(425)
Increase in accrued payroll and payroll items	<u>17,524</u>

Total adjustments 96,306

Net cash provided by operating activities \$ 34,828

Noncash capital and financing activities:

Assets acquired through issuance of long-term debt \$ 61,823

See accompanying notes to the basic financial statements.

Rutland County Sheriff's Department

Notes to Financial Statements

For the Year Ended June 30, 2018

(1) Summary of Significant Accounting Policies

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

(d) Property and equipment

Property 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 expenses as incurred; renewals and betterments over \$1,000 are capitalized.

Estimated useful lives by major classification are as follows:

Buildings and improvements	40 years
Office furniture	5 years
Communication equipment	5-7 years
Vehicles	5 years

Rutland County Sheriff's Department
Notes to Financial Statements
For the Year Ended June 30, 2018

Summary of Significant Accounting Policies (continued)

(e) Net position

Net position represents the difference between assets and liabilities. Net investment in capital assets, net of related debt 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 and regulations of other governments.

(f) 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.

(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 for uncollectible accounts at June 30, 2018, in the amount of \$202.

(h) Subsequent Events

The Department evaluated subsequent events through November 9, 2018, the date the Department's financial statements were available to be used.

(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.

Rutland County Sheriff's Department
Notes to Financial Statements
For the Year Ended June 30, 2018

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, 2018:

	<u>Book Balance</u>	<u>Bank Balance</u>
Insured deposits	\$ 133,473	\$ 167,696
Cash on hand	<u>100</u>	<u>-</u>
Total cash deposits	<u>\$ 133,573</u>	<u>\$ 167,696</u>

(3) Capital Assets

The following is a summary of changes, by major classifications, in capital assets for the year ended June 30, 2018:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Vehicles and equipment	\$ 991,761	\$ 62,823	\$ (53,462)	\$ 1,001,122
Building and improvements	<u>500,664</u>	<u>-</u>	<u>-</u>	<u>500,664</u>
Total capital assets at historical cost	<u>1,492,425</u>	<u>62,823</u>	<u>(53,462)</u>	<u>1,501,786</u>
Less accumulated depreciation for:				
Vehicles and equipment	(563,181)	(124,758)	53,462	(634,477)
Building and improvements	<u>(143,952)</u>	<u>(33,248)</u>	<u>-</u>	<u>(177,200)</u>
Total accumulated depreciation	<u>(707,133)</u>	<u>(158,006)</u>	<u>53,462</u>	<u>(811,677)</u>
Total capital assets, net	<u>\$ 785,292</u>	<u>\$ (95,183)</u>	<u>\$ -</u>	<u>\$ 690,109</u>

(4) Deferred Compensation Plan

In 1979, the Department established a non-qualified, eligible deferred compensation plan pursuant to Section 457 of the Internal Revenue Code. The plan is a defined contribution plan. Under the plan, an employee may elect to defer the lesser of \$7,500 or 33 1/3% of his/her salary plus an additional amount as defined by the Internal Revenue Code Section 457(b)(3). All amounts deferred under the plan, all property and rights purchased with such amounts and all income attributable to such amounts, property or rights, remain solely the property and rights of the Department until made available to the participant or his or her beneficiary upon request. Amounts in the plan at June 30, 2018 totaled \$154,105 and have been reflected as a non-current asset and liability on the accompanying statement of net position.

Rutland County Sheriff's Department
Notes to Financial Statements
For the Year Ended June 30, 2018

(5) Long-Term Debt

Long-term debt as of June 30, 2018 consisted of the following:

Ford Motor – 4.95%, quarterly payments of principal and interest of \$1,498, due March 2019 as follows:

<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>	<u>Current Maturity</u>
<u>\$ 9,986</u>	<u>\$ -</u>	<u>\$ 9,986</u>	<u>\$ -</u>	<u>\$ -</u>

Ford Motor – 4.95%, quarterly payments of principal and interest of \$1,547, due March 2019 as follows:

<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>	<u>Current Maturity</u>
<u>\$ 10,309</u>	<u>\$ -</u>	<u>\$ 10,309</u>	<u>\$ -</u>	<u>\$ -</u>

Ford Motor – 5.95%, quarterly payments of principal and interest of \$1,623, due September 2019 as follows:

<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>	<u>Current Maturity</u>
<u>\$ 13,579</u>	<u>\$ -</u>	<u>\$ 5,813</u>	<u>\$ 7,766</u>	<u>\$ 6,166</u>

Ford Motor – 4.95%, quarterly payments of principal and interest of \$3,536, due July 2021 as follows:

<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>	<u>Current Maturity</u>
<u>\$ 51,036</u>	<u>\$ -</u>	<u>\$ 11,834</u>	<u>\$ 39,202</u>	<u>\$ 9,266</u>

Ford Motor – 4.95%, quarterly payments of principal and interest of \$3,466, due August 2022 as follows:

<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>	<u>Current Maturity</u>
<u>\$ -</u>	<u>\$ 61,824</u>	<u>\$ 8,987</u>	<u>\$ 52,837</u>	<u>\$ 11,457</u>

Mark Foley – 5.25%, monthly payments of principal and interest of \$2,814, due May 2027 as follows:

<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Ending Balance</u>	<u>Current Maturity</u>
<u>\$260,709</u>	<u>\$ -</u>	<u>\$ 19,824</u>	<u>\$240,885</u>	<u>\$ 21,491</u>

Rutland County Sheriff's Department
Notes to Financial Statements
For the Year Ended June 30, 2018

Long-Term Debt (continued)

Total notes payable	\$ 340,690
Less current installments	<u>48,380</u>
 Long-term debt, less current installments	 <u><u>\$ 292,310</u></u>

Maturities on long-term debt for the years after June 30, 2018 are as follows:

Year-Ended June 30,	Principal	Interest	Total
2019	\$ 48,380	\$ 16,343	\$ 64,723
2020	49,179	14,212	63,391
2021	50,055	11,713	61,768
2022	41,921	9,240	51,161
2023	29,923	7,304	37,227
2024-2028	<u>121,232</u>	<u>14,018</u>	<u>135,250</u>
 Total	 <u><u>\$ 340,690</u></u>	 <u><u>\$ 72,830</u></u>	 <u><u>\$413,520</u></u>

(6) Cost Sharing

Under Vermont law, Rutland County and the State of Vermont are required to cover certain costs of the Rutland County Sheriff's Department. Such costs include the Sheriff's salary and benefits, administrative salary and benefits, mortgage payments, certain automotive expenses and others. The amount expended by the County and State during the year ended June 30, 2018 has not been determined.

(7) Operating Grants

The Rutland 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, 2018, management believes that no material liabilities will result from such audits.

(8) 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.

Rutland County Sheriff's Department

Notes to Financial Statements

For the Year Ended June 30, 2018

(9) Commitment

The Department contributes to the Vermont State Employees' Retirement System, under group F, a public pension plan provided by the State of Vermont for State employees. Vermont state statutes (VSA Title 24, Chapter 125) provide the authority under which benefit provisions are established. The Department contributes 10.48% and the employees contribute 6.65%. Total contributions made by the Department for the years ended June 30, 2018, 2017, and 2016 were \$65,355, \$63,337 and \$77,468, respectively.

The State of Vermont issues an audited financial report that includes financial statements and required disclosures that include information regarding this plan. This report may be obtained by writing the State Auditor of Accounts, 132 State Street, Montpelier, VT 05602.

To Sheriff Stephen Benard
Rutland County Sheriff's Department
Rutland, Vermont

In planning and performing our audit of the financial statements of the business-type activities of Rutland 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 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 deficiency in internal control to be a significant deficiency:

Related Party Transactions

The Department sold assets to a related party without sufficient supporting documentation to ensure the transaction was conducted as an arms-length transaction. The current process allows for opportunities of management override to occur. We recommend the Department develop a process to ensure all related party transactions are properly supported to ensure fair value is exchanged.

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

McSoley McCoy & Co.

South Burlington, Vermont
November 9, 2018
VT Reg. No 92-349