



Independent Auditor's Report

The Honorable William Snyder
 Sheriff
 Martin County, Florida

We have audited the accompanying financial statements of each major fund and the aggregate remaining fund information of the Sheriff of Martin County, Florida (the "Sheriff") as of and for the year ended September 30, 2012, as listed in the table of contents. These financial statements are the responsibility of the Sheriff's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the accompanying financial statements were prepared for the purpose of complying with Section 218.39, *Florida Statutes*, and Section 10.557(3), *Rules of the Auditor General for Local Government Entity Audits*. These financial statements are not intended to be a complete presentation of the financial position of the Sheriff as of September 30, 2012, and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund and the aggregate remaining fund information of the Sheriff, as of September 30, 2012, and the respective changes in financial position, where applicable, cash flows thereof and the respective budgetary comparison of the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2013, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 should be considered in assessing the results of our audit.

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

McGladrey LLP

West Palm Beach, Florida
 May 29, 2013

Martin County, Florida
Sheriff
Special-Purpose Balance Sheet
Governmental Funds
September 30, 2012

| | General | Canteen/ Inmate Welfare Fund | Other Governmental Funds | Total Governmental Funds |
|--|---------------------|---|---|---|
| | | | | |
| ASSETS | | | | |
| Cash and cash equivalents | \$ 1,884,399 | \$ 731,292 | \$ 603,299 | \$ 3,218,990 |
| Accounts receivable | 7,349 | 30,924 | - | 38,273 |
| Due from other funds | 63,591 | - | - | 63,591 |
| Due from other county agencies | 4,321 | - | 5,950 | 10,271 |
| Due from other governmental agencies | 2,400 | - | 36,625 | 39,025 |
| Total assets | \$ 1,962,060 | \$ 762,216 | \$ 645,874 | \$ 3,370,150 |
| LIABILITIES | | | | |
| Accounts payable | \$ 342,864 | \$ 4,570 | \$ 194 | \$ 347,628 |
| Due to other funds | - | 29,993 | 33,598 | 63,591 |
| Due to Board of County Commissioners | 437,254 | - | 3,027 | 440,281 |
| Due to other governmental agencies | 1,146,886 | - | - | 1,146,886 |
| Deferred revenue | 35,056 | - | - | 35,056 |
| Total liabilities | \$ 1,962,060 | \$ 34,563 | \$ 36,819 | \$ 2,033,442 |
| FUND BALANCE | | | | |
| Restricted: | | | | |
| Inmate Welfare Fund | - | 727,653 | - | 727,653 |
| Grant Funds | - | - | 537,576 | 537,576 |
| Trust Funds | - | - | 71,479 | 71,479 |
| Total fund balances | - | 727,653 | 609,055 | 1,336,708 |
| Total liabilities and fund balances | \$ 1,962,060 | \$ 762,216 | \$ 645,874 | \$ 3,370,150 |

The notes to the special-purpose financial statements are an integral part of this statement.

Martin County, Florida

Sheriff

Special-Purpose Statement of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

For the Year Ended September 30, 2012

| | General | Canteen/ Inmate Welfare Fund | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|---|---|---|
| REVENUES | | | | |
| Intergovernmental revenues | \$ 948,985 | \$ 238,346 | \$ 166,019 | \$ 1,187,331 |
| Charges for services | | | | |
| Fines and forfeitures | | | 45,277 | 45,277 |
| Interest income | 22,156 | 2,041 | 456 | 24,653 |
| Miscellaneous revenues | 84,457 | 296,755 | 1,304 | 382,516 |
| Total revenues | <u>1,055,598</u> | <u>537,142</u> | <u>213,056</u> | <u>1,805,796</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 2,560,848 | 698,003 | | 3,258,851 |
| Public safety | 52,968,166 | - | 393,470 | 53,361,636 |
| Capital outlay | 385,826 | - | 59,070 | 444,896 |
| Total expenditures | <u>55,914,840</u> | <u>698,003</u> | <u>452,540</u> | <u>57,065,383</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(54,859,242)</u> | <u>(160,861)</u> | <u>(239,484)</u> | <u>(55,259,587)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers from other funds | 55,313,616 | - | 346,475 | 55,660,091 |
| Transfers out | (454,374) | - | (39,665) | (494,039) |
| Total other financing sources | <u>54,859,242</u> | <u>-</u> | <u>306,810</u> | <u>55,166,052</u> |
| Net change in fund balances | | (160,861) | 67,326 | (93,535) |
| Fund balances-beginning | - | 888,514 | 541,729 | 1,430,243 |
| Fund balances-ending | <u>\$ -</u> | <u>\$ 727,653</u> | <u>\$ 609,055</u> | <u>\$ 1,336,708</u> |

The notes to the special-purpose financial statements are an integral part of this statement.

Martin County, Florida

Sheriff

Special-Purpose Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

General Fund

For the Year Ended September 30, 2012

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget- Positive (Negative) |
|---|------------------|--------------|----------------|---|
| | Original | Final | | |
| REVENUES: | | | | |
| Charges for services | 818,409 | 818,409 | 948,985 | 130,576 |
| Interest income | 25,000 | 25,000 | 22,156 | (2,844) |
| Miscellaneous revenues | 73,000 | 73,000 | 84,457 | 11,457 |
| Total revenues | 916,409 | 916,409 | 1,055,598 | 139,189 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| General government | 2,739,558 | 2,739,558 | 2,560,848 | 178,710 |
| Public safety | 52,864,561 | 52,864,561 | 52,968,166 | (103,605) |
| Capital outlay | - | - | 385,826 | (385,826) |
| Total expenditures | 55,604,119 | 55,604,119 | 55,914,840 | (310,721) |
| Deficiency of revenues under expenditures | (54,687,710) | (54,687,710) | (54,859,242) | (171,532) |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers in | 55,436,285 | 55,436,285 | 55,313,616 | (122,669) |
| Transfers out | (748,575) | (748,575) | (454,374) | 294,201 |
| Total other financing sources | 54,687,710 | 54,687,710 | 54,859,242 | 171,532 |
| Net change in fund balances | - | - | - | - |
| Fund balances - beginning | - | - | - | - |
| Fund balances - ending | \$ - | \$ - | \$ - | \$ - |

The notes to the special-purpose financial statements are an integral part of this statement.

Martin County, Florida
Sheriff
Internal Service Fund
Special-Purpose Statement of Net Assets
September 30, 2012

| | <u>Self- Insurance</u> |
|-------------------------------------|----------------------------|
| ASSETS | |
| Current assets: | |
| Cash and cash equivalents | \$ 2,098,362 |
| Investments | 1,304,209 |
| Interest receivable | 1,267 |
| Accounts receivable, net | 512 |
| Other current assets | 4,000 |
| Total current assets | <u>3,408,350</u> |
| Total assets | <u>3,408,350</u> |
| LIABILITIES | |
| Current liabilities: | |
| Accounts payable and accrued claims | <u>1,584,149</u> |
| Total current liabilities | <u>1,584,149</u> |
| Total liabilities | <u>1,584,149</u> |
| NET ASSETS | |
| Unrestricted | <u>\$ 1,824,201</u> |

The notes to the special-purpose financial statements are an integral part of this statement.

Martin County, Florida
 Sheriff
Internal Service Fund
Special-Purpose Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended September 30, 2012

| | <u>Self- Insurance</u> |
|----------------------------------|----------------------------|
| OPERATING REVENUES | |
| Charges for services | <u>\$ 9,628,433</u> |
| Total operating revenues | <u>9,628,433</u> |
| OPERATING EXPENSES | |
| General and administrative | <u>9,507,683</u> |
| Total operating expenses | <u>9,507,683</u> |
| Operating income | <u>120,750</u> |
| NONOPERATING REVENUES | |
| Interest income | <u>18,701</u> |
| Total nonoperating revenue | <u>18,701</u> |
| Change in net assets | 139,451 |
| Total net assets - beginning | <u>1,684,750</u> |
| Total net assets - ending | <u>\$ 1,824,201</u> |

The notes to the special-purpose financial statements are an integral part of this statement.

Martin County, Florida
Sheriff
Internal Service Fund
Special-Purpose Statement of Cash Flows
For the Year Ended September 30, 2012

| | <u>Self- Insurance</u> |
|---|----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Receipts from customers | \$ 9,876,633 |
| Claims paid | (9,209,455) |
| Net cash used in operating activities | <u>667,178</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest earned | 2,626 |
| Investment purchases | (1,300,000) |
| Investments sales | <u>1,558,154</u> |
| Net cash used in investing activities | <u>260,780</u> |
| Net decrease in cash and cash equivalents | 927,958 |
| Cash and cash equivalents - beginning of the year | 1,170,404 |
| Cash and cash equivalents - end of year | <u>\$ 2,098,362</u> |
| Reconciliation of operating income to net cash provided by operating activities: | |
| Operating income | \$ 120,750 |
| Change in assets and liabilities: | |
| Receivables, net | 269,129 |
| Accounts payable | 277,299 |
| Net cash provided by operating activities | <u>\$ 667,178</u> |

The notes to the special-purpose financial statements are an integral part of this statement.

Martin County, Florida
Sheriff
Special-Purpose Statement of Fiduciary Net Assets
Fiduciary Funds
September 30, 2012

| | <u>Agency</u> |
|---------------------------|--------------------------|
| ASSETS | |
| Cash and cash equivalents | <u>\$ 207,055</u> |
| Total assets | <u><u>\$ 207,055</u></u> |
| LIABILITIES | |
| Deposits | <u>\$ 207,055</u> |
| Total liabilities | <u><u>\$ 207,055</u></u> |

The notes to the special-purpose financial statements are an integral part of this statement.

**Martin County, Florida
Sheriff
Notes to Special-Purpose Financial Statements
Year Ended September 30, 2012**

Note 1 - Summary of Significant Accounting Policies

The significant accounting policies followed by the Sheriff of Martin County, Florida (the "Sheriff") are summarized below:

A. General Information

Martin County (the "County") is a political subdivision of the State of Florida. The County operates as a non-charter government pursuant to Article VIII, Section (1)(f) of the Constitution of the State of Florida. The fiscal year of the County is from October 1 to September 30, as established in Section 218.33, *Florida Statutes*.

B. Reporting Entity

The Sheriff is a separately elected county official established pursuant to the Constitution of the State of Florida. The Sheriff's special-purpose financial statements do not purport to reflect the financial position or the results of operations of the County taken as a whole.

Entity status for financial reporting purposes is governed by Statement Nos. 14 of the Governmental Accounting Standards Board ("GASB"). Although the Sheriff's Office is operationally autonomous from the County, it does not hold sufficient corporate powers of its own to be considered a legally separate entity for financial reporting purposes. Therefore, the Sheriff is reported as a part of the primary government of Martin County, Florida.

C. Fund Accounting

The accounting records of the Sheriff are organized on the basis of funds as prescribed by accounting principles generally accepted in the United States of America ("GAAP") applicable to governments as established by the GASB. The operations of each fund are accounted for within a separate set of self-balancing accounts that comprise its assets, liabilities, equity, revenues and expenditures. Separate funds are maintained to account for specific government activities or to comply with special regulations or legal restrictions.

Each major fund is reported in a separate column. The various types and funds used by the Sheriff are described as follows:

Governmental Funds

The Sheriff has the following major governmental funds:

General Fund – This fund is used to account for all financial activity of the Sheriff not accounted for in other funds. The funding is primarily from transfers in from the Martin County Board of County Commissioners.

Canteen/Inmate Welfare Fund – The Canteen fund is used for the subsistence and benefit of the inmates at the Martin County Jail. It is primarily funded by user fees (charges for services) and is reported as a Special Revenue Fund. This fund does not require a budget.

The Sheriff also has fifteen non-major special revenue funds that account for the activities of various law enforcement grants and services.

Martin County, Florida
Sheriff
Notes to Special-Purpose Financial Statements
Year Ended September 30, 2012

Proprietary Fund – The Internal Service Fund is used to account for the Sheriff's self-insurance activities.

Fiduciary Funds

Agency Funds – These funds are used to account for assets and transactions of the Sheriff in the capacity of a trustee or agent for individuals, private organizations, other funds or other governmental units.

D. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Sheriff's special-purpose financial statements are prepared for the purpose of complying with Section 218.39(2), *Florida Statutes*, and Chapter 10.550, *Rules of the Auditor General-Local Governmental Entity Audits*, which require the Sheriff to only present fund financial statements. In conformity with the Rules, the Sheriff has not presented the government-wide financial statements, related disclosures or management's discussion and analysis, which are required to present a complete presentation of its financial position and changes in financial position.

The governmental fund type measurement focus is based upon determination of financial position and changes in financial position (sources, uses and balances of financial resources) rather than upon net income determination. These funds are maintained on the modified accrual basis of accounting. Revenues are recognized when they become susceptible to accrual; that is, when they become both measurable and available to finance expenditures of the current period. For this purpose the Sheriff considers revenue to be available if they are collected within 60 days after the end of the current fiscal period with the exception of certain grants, which have a period of 1 year after the end of the current year. Expenditures are recorded in the accounting period in which the related fund liability is incurred, if measurable. Exceptions to this general rule include accumulated sick and vacation and Other Postemployment Benefits (OPEB). Since they do not affect net current assets, such long-term amounts are not recognized as governmental type expenditures or fund liabilities.

In applying the "susceptible to accrual" concept to intergovernmental revenues (grants, entitlements and shared revenue), the legal and contractual requirements of the numerous individual programs are used as guidance. Intergovernmental revenues are susceptible to accrual when the eligibility requirements have been met.

Charges for services are invoiced monthly and recorded and accrued as revenues. Investment earnings and most fines and forfeitures are recorded as earned when they are measurable and available.

The fiduciary funds do not measure results of operations, but assets and liabilities are measured on the accrual basis of accounting. These funds are used to account for assets held by the Sheriff as trustee or agent for individuals and/or other governmental units. The Sheriff also measures operations, assets and liabilities of its Internal Service Fund on the accrual basis of accounting, which used the economic resources measurement focus. Revenues are recognized when earned and expenses are recognized when incurred. The Internal Service Fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenditures generally result from providing services and producing and delivering goods in connection with the fund's principal ongoing operations. The principal operating revenues for the Internal Service Fund are charges to the various departments and funds for insurance services.

E. Budgets

The budgets for the Sheriff are prepared, adopted and amended in accordance with Chapter 129, *Florida Statutes*. The budget is balanced, meaning that total appropriations are equal to total revenues. The budget for the General Fund is prepared on a basis consistent with GAAP; budgets are not provided for other funds.

Martin County, Florida
Sheriff
Notes to Special-Purpose Financial Statements
Year Ended September 30, 2012

The budget process begins with the development of estimates by the Sheriff. The estimates are reviewed, analyzed and submitted to the Martin County Board of County Commissioners (the "Board") for consideration on or about July 15. The Board conducts several workshops to thoroughly review the budget and make adjustments as appropriate. Prior to September 30, two public hearings are conducted to hear comments and questions from the public regarding the budget. The budget is adopted at the second public hearing through formal resolution of the Board.

The budget is adopted at the fund total level. Therefore, formal budgetary control is exercised at that level. Expenditures in excess of appropriations in one or more departments of a fund do not constitute a violation of budgetary controls as long as the total expenditures do not exceed total appropriations for the fund. Management employs lower level (departmental) controls, however, to prevent or reduce the potential for budget overruns at the fund total level.

The original budget is the first complete appropriated budget. The final budget is the original budget adjusted for all reserves, transfers, allocations, supplemental appropriations and other legally authorized changes applicable to the fiscal year, whenever, signed into law or otherwise legally authorized.

F. Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded as a reservation of budget, is employed as an extension of the statutorily required budgetary process. Under *Florida Statutes*, appropriations, even if encumbered, lapse at fiscal year end.

G. Cash and Cash Equivalents

For purposes of these statements, demand deposits and petty cash are considered to be cash and cash equivalents.

H. Capital Assets

Upon acquisition, capital assets are recorded as capital outlay expenditures of the appropriate governmental fund in these special-purpose financial statements. The Sheriff maintains custodial responsibility for the capital assets used by his office, however, they are recorded in the financial statements of the County.

In the governmental activities section of the County's government-wide financial statements all capital assets with a cost of \$5,000 or greater and an estimated life of more than one year are capitalized and recorded at historical cost or estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at their estimated fair market value on the date donated. No depreciation has been provided on capital assets in these special-purpose financial statements, however, depreciation expense is recorded in the government-wide financial statements of the County.

I. Compensated Absences

It is the policy of the Sheriff to permit employees to accumulate a limited amount of earned hours, unused vacation and sick leave, which will be paid upon separation from service. The liability for compensated absences is not reported in the special-purpose financial statements, but rather is reported in the government-wide financial statements of the County.

**Martin County, Florida
Sheriff
Notes to Special-Purpose Financial Statements
Year Ended September 30, 2012**

J. Use of Estimates

The preparation of special-purpose financial statements in conformity with GAAP 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 special-purpose financial statements and the reported amount of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

K. Transfers out

In accordance with *Florida Statutes*, all revenues in excess of expenditures as of year-end are owed to the Board and are reported as a transfer out in the Special-Purpose Statement of Revenues, Expenditures and Changes in Fund Balances. There was interest earnings of the current year of \$22,156 and remaining funds of \$398,143 for a total of \$420,299 that was returned to the Board of County Commissioners as of September 30, 2012.

L. Fund Balance

In accordance with GASB Statement No. 54, fund balances of the governmental funds are classified as restricted. This classification includes amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors or the laws or regulations of other governments.

M. Investments Policy

The Sheriff follows the provisions of Section 218.415 (17), Florida Statutes, which allows for surplus funds to be invested in the Local Government Surplus Funds Trust fund (the "State Pool") or any intergovernmental investment pool; Securities and Exchange commission registered money market funds; certificates of deposits and savings accounts in state-certified qualified public depositories, or direct obligations of the U. S. Treasury.

Note 2 - Cash and Cash Equivalents and Investments

Cash and cash equivalents (including fiduciary funds) consist of the following at September 30, 2012:

Cash and cash equivalents -

| | |
|-----------------|--------------|
| Demand deposits | \$ 5,520,557 |
| Petty cash | 3,850 |
| Total | \$ 5,524,407 |

Demand deposits and certificates of deposit whose values exceed the limits of federal depository insurance are entirely insured or collateralized pursuant to *Florida Statutes*, Chapter 280, *Florida Security for Public Deposits Act*, (the Act). Under this Act, financial institutions which are qualified as public depositories place with the State Board of Administration securities which have a market value, equal to 50% of the average daily balance for each month of all public deposits in excess of applicable deposit insurance. The Public Deposit Security Trust Funds have a procedure to allocate and recover losses in the event of default or insolvency. When public deposits are made in accordance with Chapter 280, no public depositor shall be liable for any loss thereof. All the Sheriff's depositories at year-end were designated as qualified public depositories.

**Martin County, Florida
Sheriff
Notes to Special-Purpose Financial Statements
Year Ended September 30, 2012**

Investments

U.S. Agency Bonds consists of Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), and Federal Farm Credit Bank (FFCB). At September 30, 2012, the weighted average maturity was 1,163 days and they were rated AA+/Negative by Standard & Poor's, Aaa/Negative by Moody's, and AAA/Negative by Fitch. These type investments made up 100% of the Sheriff's total investments.

The Sheriff's investments at September 30, 2012 consist of the following:

Government Unit – U.S. Agency Bonds \$ 1,304,209

Note 3 – Interfund Receivables and Payables and Transfers

Interfund receivable and payable balances at September 30, 2012 consist of the following:

| <u>Fund</u> | <u>Interfund Receivables</u> | <u>Interfund Payables</u> |
|--------------------------|----------------------------------|-------------------------------|
| General Fund | \$ 63,591 | \$ |
| Canteen Fund | - | 29,993 |
| Other Governmental Funds | - | 33,598 |
| | <u>\$ 63,591</u> | <u>\$ 63,591</u> |

The interfund receivable and payable is for short-term loan from the general fund to fund operations of the various special revenue programs, which will be reimbursed upon receipt of billings.

Transfers for the year ended September 30, 2012 were as follows:

| <u>Fund</u> | <u>Transfers In From:</u> | | | <u>Transfers Out To:</u> | | |
|--------------------------------|---|-------------------|----------------------|---|------------------|-------------------|
| | <u>Other Governmental Funds</u> | | | <u>Other Governmental Funds</u> | | |
| | <u>Board</u> | <u>Total</u> | | <u>Board</u> | <u>Total</u> | |
| General Fund | \$ 55,313,616 | \$ - | \$ 55,313,616 | \$ 454,375 | \$ - | \$ 454,375 |
| Other Governmental Funds | - | 346,475 | 346,475 | - | 39,665 | 39,665 |
| Total Transfers | <u>\$ 55,313,616</u> | <u>\$ 346,475</u> | <u>\$ 55,660,091</u> | <u>\$ 454,375</u> | <u>\$ 39,665</u> | <u>\$ 494,040</u> |

The Sheriff's transfers in to the General fund from the Board are an allocation to fund the Sheriff's operations based on the approved budget. Transfers out from the General fund to the Board consist of excess revenue and other financing sources over expenditures and other financing uses, which must be returned to the Board in accordance with *Florida Statutes*.

**Martin County, Florida
Sheriff
Notes to Special-Purpose Financial Statements
Year Ended September 30, 2012**

Note 4 – Capital Assets

Capital assets consisted of vehicles, furniture, fixtures and equipment. Changes in capital assets for the year ended September 30, 2012, which are reported in the basic Government Wide Financial Statements of the County, were as follows:

| | <u>Beginning 10/01/11</u> | | <u>Additions</u> | | <u>Deletions</u> | | <u>Ending 09/30/12</u> |
|---|-------------------------------|------------------|------------------|--------------------|------------------|--|----------------------------|
| Capital assets, being depreciated: | | | | | | | |
| Machinery and equipment | \$ 11,365,299 | \$ 505,844 | \$ (376,158) | \$ 11,494,985 | | | |
| Accumulated depreciation | <u>(8,158,605)</u> | <u>(966,376)</u> | <u>357,716</u> | <u>(8,767,265)</u> | | | |
| Total capital assets being depreciated | \$ 3,206,694 | \$ (460,532) | \$ (18,442) | \$ 2,727,720 | | | |

Note 5 – Long Term Liabilities

Long-term liabilities are not reported in the special purpose financial statements of the Sheriff since they are not payable from available, spendable resources. They are reported in the Government Wide Financial Statements of the County.

Changes in long-term liabilities for the year ended September 30, 2012 were as follows:

| | <u>Beginning 10/01/2011</u> | | <u>Additions</u> | | <u>Reductions</u> | | <u>Ending 09/30/2012</u> |
|----------------------|---------------------------------|--|------------------|--|-------------------|--|------------------------------|
| Compensated absences | \$ 5,405,640 | | \$ 471,624 | | \$ (258,992) | | \$ 5,618,272 |

Note 6 - Budget Versus Actual Expenditures

The General Fund reported an excess of \$75,105 in actual operating expenditures over budgeted expenditures in the current fiscal year and an unfavorable variance of \$385,826 in capital outlay, resulting in an overage of \$310,721 which was compensated for by reimbursements and transfers from the Board and charges for services.

Note 7 - Retirement Plan

Plan Description

Substantially all full-time Sheriff employees participate in the Florida Retirement System ("FRS"), a multiple-employer, cost-sharing public retirement system administered by the Division of Retirement of the Department of Management Services. As a general rule, membership in FRS is compulsory for all employees working in a regularly established position for a state agency, county government, district school board, state university, community college, or a participating city or special district within the State of Florida. FRS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries.

Martin County, Florida
Sheriff
Notes to Special-Purpose Financial Statements
Year Ended September 30, 2012

Benefits are established by Chapter 121, *Florida Statutes*, and Chapter 60S, Florida Administrative Code. Amendments to the law can be made only by an act of the Florida Legislature. Benefits are computed based on age, average final compensation, and service credit. A post-employment health insurance subsidy is also for eligible retired employees through the FRS in accordance with *Florida Statutes*.

Regular class employees, hired prior to 07/01/2011, who retire at or after age 62 with 6 years of credited service or 30 years of service regardless of age are entitled to a retirement benefit payable monthly for life equal to 1.6% of their final average compensation for each year of credited service. Vested employees with less than 30 years of service may retire before age 62 and receive reduced retirement benefits. Special risk class employees (sworn law enforcement officers, firefighters, and correctional officers, hired prior to 07/01/2011) who retire at or after age 55 with 6 years of credited service, or with 25 years of service regardless of age, are entitled to a retirement benefit payable monthly for life, equal to 3.0% of their final average compensation for each year of credited service.

Regular class employees, hired on or after 07/01/2011, who retire at or after age 65 with 8 years of credited service or 33 years of service regardless of age are entitled to a retirement benefit payable monthly for life equal to 1.6% of their final average compensation for each year of credited service. Vested employees with less than 33 years of service may retire before age 65 and receive reduced retirement benefits. Special risk class employees (sworn law enforcement officers, firefighters, and correctional officers, hired on or after 07/01/2011) who retire at or after age 60 with 8 years of credited service, or with 30 years of service regardless of age, or 57 years of age with 30 years of combined Special Risk Class service and military service are entitled to a retirement benefit payable monthly for life, equal to 3.0% of their final average compensation for each year of credited service.

In addition to the above benefits, the FRS administers a Deferred Retirement Option Program ("DROP"). This program allows eligible employees to defer receipt of monthly retirement benefit payments while continuing employment with a Florida Retirement System employer for a period not to exceed 60 months after electing to participate. Deferred monthly benefits are held in the Florida Retirement System Trust Fund and accrue interest.

The Sheriff has no responsibility to FRS other than to make the periodic payments required by state statutes. The Florida Division of Retirement issues a publicly available financial report that includes financial statements and required supplementary information for FRS. The report may be obtained by writing to Florida Division of Management Services, Division of Retirement, P.O. Box 9000, Tallahassee, FL 32315-9000.

Funding policy

Effective July 1, 2011, all employees, except those participating in the DROP program, are required to make a 3% contribution of their gross salary. Governmental employers are required to make contributions to the FRS based on statewide contribution rates. Contribution rates, expressed as a percentage of covered annual payrolls, in effect during the fiscal year for the following classes of memberships were:

| | <u>10/01/11- 06/30/12</u> | <u>07/01/12- 09/30/12</u> |
|--------------------------|-------------------------------|-------------------------------|
| Regular | 4.91% | 5.18% |
| Special risk | 14.10% | 14.90% |
| Senior management | 6.27% | 6.30% |
| County elected officials | 11.14% | 10.23% |
| DROP | 4.42% | 5.44% |

Martin County, Florida
Sheriff
Notes to Special-Purpose Financial Statements
Year Ended September 30, 2012

The Sheriff's contributions made during the years ended September 30, 2012, 2011 and 2010 were \$3,916,601, \$6,112,928, and \$6,573,589, respectively, which were equal to actuarially determined contribution requirements for each year.

Note 8 - Other Postemployment Benefits (OPEB)

Plan Description

In addition to the retirement system benefits described in Note 7, the Sheriff provides post retirement health care benefits, in accordance with state statutes, to all employees who retire from the Sheriff's Office after vesting with the state of Florida Retirement System (FRS). Currently, 164 retirees meet those eligibility requirements. The Sheriff subsidizes 75% or greater of the amount of health care costs for retirees hired before January 1, 2001. Employees hired January 1, 2001 and after are subsidized 60% to 75% or greater depending on years of service. The health care rates for retirees are the same as for active employees. All retirees who have life insurance at the time of their retirement are eligible for a \$5,000 life insurance policy on themselves only, which is subsidized 50% by the Sheriff. The Sheriff does not issue a stand-alone financial report for OPEB.

Membership

As of September 30, 2012, membership consisted of:

| | |
|----------------------|-----|
| Active Employees | 506 |
| Retired Participants | 180 |

Funding Policy

Funding for the plan is on a pay-as-you-go basis from the Sheriff's annual approved budget. There is no separate trust through which benefits for retirees are funded.

Annual OPEB Costs and Net OPEB Obligation

The Sheriff had an actuarial valuation performed for the Plan as of October 1, 2011 to determine the annual required contribution (ARC) for fiscal year ended September 30, 2012. The Sheriff's annual OPEB cost for the fiscal year, which equaled the ARC, was \$6,958,797. Based on this report, the following table gives the components of the Sheriff's annual OPEB cost for the year, the Sheriff's contributions to the plan, and changes in the Sheriff's net OPEB obligation:

| | |
|------------------------------|------------------|
| ARC | \$ 6,927,467 |
| Interest on OPEB Obligations | 814,587 |
| Adjustment to ARC | <u>(783,257)</u> |
| Annual OPEB Cost | 6,958,797 |
| Contributions Made | (1,948,939) |
| Increase in OPEB | 5,009,858 |
| Net OPEB Obligations | 20,364,680 |
| Beginning of Year | \$ 25,374,538 |
| End of Year | |

**Martin County, Florida
Sheriff
Notes to Special-Purpose Financial Statements
Year Ended September 30, 2012**

The Sheriff's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2012 is as follows:

| Fiscal Year Ended | Annual OPEB Cost | Employer Contributions | % of Annual OPEB Cost Contributed | Net OPEB Obligation |
|----------------------|---------------------|---------------------------|--------------------------------------|------------------------|
| September 30, 2010 | \$ 6,596,542 | \$ 1,779,302 | 26.97% | \$ 15,112,999 |
| September 30, 2011 | \$ 7,023,960 | \$ 1,772,279 | 25.23% | \$ 20,364,680 |
| September 30, 2012 | \$ 6,958,797 | \$ 1,948,939 | 28.00% | \$ 25,374,538 |

The funded status of the Plan as of the two most recent actuarial valuations was as follows:

| | |
|---|----------------------|
| Actuarial Accrued Liability (AAL) | \$ 85,444,571 |
| Actuarial Value of Plan Assets | - |
| Unfunded Actuarial Accrued Liability (UAAL) | \$ <u>85,444,571</u> |
| | |
| Funded Ratio | 0.00% |
| Covered Payroll | \$ 29,208,685 |
| Ratio of UAAL to Covered Payroll | 292.53% |

Valuation Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Calculations for financial reporting purposes are based on the benefits provided under the terms of the substantive plan (the plan as understood by the employer and the plan members) in effect at the time of each valuation and on the pattern of sharing of costs between the employer and plan members to that point. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing between the employer and plan members in the future. Actuarial calculations reflect a long-term perspective. Consistent with that perspective, actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

**Martin County, Florida
Sheriff
Notes to Special-Purpose Financial Statements
Year Ended September 30, 2012**

The Actuarial Methods are:

Pay-As-You-Go Funding

| | |
|------------------------------|-----------------------------|
| Actuarial Cost Method | Individual Entry Age Normal |
| Amortization Method | Level % of Payroll |
| Amortization Period (closed) | 30 Years |
| Asset Valuation Method | Unfunded |

Actuarial Assumptions:

| | |
|-------------------------------|-----|
| Investment Rate of Return* | 4% |
| Projected Salary Increases* | 4% |
| Payroll Growth Assumptions | 4% |
| Healthcare Cost Trend Rates** | 10% |

* Includes general price inflation of 3%

** For 2011 with a gradual annual decline to 5% in 2019 and thereafter

Note 9 – Risk Management

The Sheriff is exposed to various risks of loss related to tort; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The coverage for general liability, workers' compensation and comprehensive crime loss is covered through a comprehensive property and liability risk management program, the Florida Sheriff's Self Insurance Fund. The program is a self-insurance program whereby the Sheriff makes annual contributions along with other members of the program. The Sheriff is subject to a special assessment in the event of a deficiency, except to the extent that the deficiency results from a specific claim against a member in excess of the reinsurance available, such deficiency is solely the responsibility of that member. The Sheriff is covered by *Florida Statutes* under the Doctrine of Sovereign Immunity, which generally limits the amount of the liability of the Sheriff to individual claims of \$200,000 or \$300,000 for all claims relating to the same incident. Health and dental insurance is fully insured with third party providers. Settled claims have not exceeded these commercial insurance coverage's in any of the last three years.

The Sheriff's Group Health Insurance is self-insured and administered by a third party administrator. All assets, liabilities and operations related to health insurance as of September 30, 2012 are accounted for in the Sheriff's Internal Service Fund. The Sheriff has excess coverage in place for instances where losses exceed individual claims of \$130,000 and aggregate claims of \$2,000,000. There have been no settlements that have exceeded applicable insurance coverage during the past three fiscal years. The claims liabilities are based on actuarial calculations and methods. Changes to the claims liability for the Sheriff's internal service funds in fiscal years 2012 and 2011 were as follows:

Martin County, Florida
Sheriff
Notes to Special-Purpose Financial Statements
Year Ended September 30, 2012

| <u>Fiscal Year</u> | | <u>Liability Beginning Balance</u> | | <u>Additions</u> | | <u>Claim Payments</u> | | <u>Liability Ending Balance</u> |
|--------------------|--|------------------------------------|--|------------------|--|-----------------------|--|---------------------------------|
| 2012 | | \$ 1,306,850 | | \$ 9,486,754 | | \$ (9,209,455) | | \$ 1,584,149 |
| 2011 | | \$ 1,001,786 | | \$ 9,056,406 | | \$ (8,751,342) | | \$ 1,306,850 |

Note 10 - Contingencies

The Sheriff is contingently liable with respect to lawsuits and other claims incidental to the ordinary course of its operations. Claims covered by the self-insurance program (Note 9) are reviewed and losses are accrued as required in the judgment of management. In the opinion of management, based on the advice of legal counsel, the ultimate disposition of these lawsuits and claims will not have a material adverse effect on the financial position of the Sheriff.

Grant funds received by the Sheriff are subject to audit by grantor agencies. Audits of these grants may result in disallowed costs, which may constitute a liability of the Sheriff. In the opinion of management, disallowed costs, if any, would be immaterial to the financial position of the Sheriff.



**Independent Auditor's Report
on Internal Control Over Financial Reporting
and on Compliance and Other Matters Based
on an Audit of the Financial Statements Performed
in Accordance with *Government Auditing Standards***

The Honorable William Snyder
Sheriff
Martin County, Florida

We have audited the financial statements of each major fund and the aggregate remaining fund information of the Sheriff of Martin County, Florida (the "Sheriff"), as of and for the year ended September 30, 2012, and have issued our report thereon dated May 29, 2013. Our report was modified to reflect that these financial statements were prepared to comply with Section 218.39(2), Florida Statutes and Section 10.557(3), Rules of the Auditor General for Local Government Entity Audits. 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.

Internal Control over Financial Reporting

Management of the Sheriff is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Sheriff's internal control over financial reporting as a basis for designing our auditing procedures 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 Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

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 described in the accompanying schedule of findings and responses we identified a deficiency in internal control that we consider to be a material weakness.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Sheriff's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2012-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Sheriff's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and 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*.

The Sheriff's response to the finding identified in our audit is described in the accompanying schedule of finding and responses. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

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

McGladrey LLP

West Palm Beach, Florida
May 29, 2013

**Sheriff
Martin County, Florida**

Schedule of Findings and Questioned Costs

2012-1

Insurance Trust Administration

Criteria: Organizations are responsible for safeguarding their assets and for establishing and maintaining effective internal controls over financial reporting.

Condition: The Sheriff's Office (the "Sheriff") has outsourced the administration of its self insurance trust to a third party administrator ("TPA"). The Sheriff deposits funds into an operating account on which the TPA is an authorized signor. The TPA pays claims and operating expenses from this account and manages surplus funds by purchasing short to mid term investments. The Sheriff does not have an effective mechanism in place to monitor the activities which take place in these accounts.

Context: This control deficiency is limited to the activities in self insurance trust.

Cause: The Sheriff relies on the financial reports provided by the TPA. Information provided by the TPA is not formally reviewed or examined against corroborating evidence.

Effect: If there was an error on the financial statements provided by the TPA, it is unlikely that the error would be detected by management or employees, in the normal course of performing their assigned functions.

Recommendation: We recommend that the Sheriff implement procedures to review the financial information provided by the TPA. This review could include procedures such as examining reported expenditures against actual claims paid as reported by the insurance providers, obtaining and reviewing cash reconciliations prepared by the TPA, and examining reported investment balances against custodial investment statements.

Response/Planned Corrective Action: The Florida Sheriffs Multiple Employers Trust ("FSMET") was formed in 1984, and the Board of Trustees contracted with Hunt Insurance Group to act as the Third Party Administrator continuously since that date. The Sheriff joined the Trust in 1985 and moved to a self-funded basis for the medical plan in 1995. Over the last 28 years since inception, 8 different Sheriffs Offices plus the Sheriffs Youth Ranches have maintained self-funded medical plans in the Trust besides the Sheriff. The Sheriff contracted with Blue Cross Blue Shield of Florida ("BCBS") to pay claims since becoming self-funded. Hunt, now Hunt/Willis, handles all other administrative aspects, such as eligibility, premium collection and payment, and maintenance of funds. Assurance has been placed on these organizations for establishing and maintaining effective internal controls over their financial reporting.

The Florida Sheriffs Multiple Employer Trust's financial statements were audited by independent auditors as of September 30, 2012. The FSMET is governed by a Board of Trustees, who has appointed the Hunt/Willis Group to act in the capacity of administrator.

The Hunt/Willis Insurance Group, who is certified by the State as a Third Party Administrator, is required to file annual reports to the State to maintain this certification. Part of the Hunt/Willis annual reporting does entail independently audited financial statements. In addition, they maintain a fidelity bond, errors and omissions coverage and other similar coverage's.

Businessolver, who is the enrollment software company for the Hunt/Willis Group and Florida Blue Cross and Blue Shield, had a report of controls performed as of March 31, 2012.

**Sheriff
Martin County, Florida**

Schedule of Findings and Questioned Costs

Florida Blue Cross and Blue Shield's SSAE 16 Report (Third Party Review Report) was performed as of September 30, 2012.

The Gehring Group, health insurance consultants to the Sheriff's Insurance Committee, provides BCBS health insurance claim information that reconciles to the health insurance expenditures as reported in the Hunt/Willis financial statements over the last several years of Gehring's employment and which is reviewed by the Insurance Committee on a regular basis.

All costs related to the Sheriff's Wellness Center, which have been paid from the self-insurance fund, have been approved by management and reviewed in the Hunt/Willis financial statements.

The Sheriff's management receives separate monthly claim reports and monthly detailed premium invoices that are reflected in the Hunt/Willis financial statements as well as renewal rates, administrative fees and other components.

In addition to the above, as of October 1, 2012, the Sheriff's management has reviewed and will continue to review all payments from the self-insurance fund and all investment activity on a monthly basis.