

Addison County Sheriff's Department

Financial Statements

June 30, 2010

Addison County Sheriff's Department

June 30, 2010

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Independent Auditors' Report

James Coons, Sheriff
Addison County Sheriff's Department
Middlebury, Vermont

We have audited the accompanying financial statements of the business-type activities of the Addison County Sheriff's Department of the County of Addison, Vermont, as of and for the year ended June 30, 2010, as listed in the table of contents. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States 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 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 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 Addison County Sheriff's Department of the County of Addison, Vermont, as of June 30, 2010 and the respective changes in financial position and cash flows 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 January 15, 2011 on our consideration of the Addison County Sheriff's Department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the 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. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

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

McSoley McCoy & Co.

January 15, 2011
VT Reg. No. 92-349

Addison County Sheriff's Department
Statement of Net Assets
June 30, 2010

Assets:

Current assets	
Cash	\$ 211,799
Accounts receivable	97,626
Notes receivable	11,600
Prepaid expenses	3,224
Inventory	<u>8,992</u>
Total current assets	333,241
Vehicles and equipment, net of accumulated depreciation	234,432
Cash - restricted	<u>34,859</u>
Total assets	<u>602,532</u>

Liabilities:

Current liabilities	
Accounts payable	4,974
Accrued payroll and payroll items	17,295
Compensated absences	8,474
Current portion long-term debt	<u>3,547</u>
Total current liabilities	<u>34,290</u>
Long-term debt, less current portion	<u>5,791</u>
Total liabilities	<u>40,081</u>

Net assets:

Invested in capital assets, net of related debt	225,094
Restricted cash	34,859
Unrestricted	<u>302,498</u>
Total net assets	<u>\$ 562,451</u>

The accompanying notes are an integral part of these statements.

Addison County Sheriff's Department
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2010

Operating Revenues:	
Charges for services	\$ 315,936
Jail revenues	270,471
Communications	10,198
Transport services	61,275
Process services	62,024
County reimbursements	39,338
Miscellaneous revenues	<u>23,451</u>
 Total operating revenues	 <u>782,693</u>
Operating Expenses:	
Contracted services	227,504
Process services	29,980
Administration and general	143,972
Communications services	8,449
Jail services	272,604
Automotive services	53,129
Depreciation	<u>66,186</u>
 Total operating expenses	 <u>801,824</u>
 Net operating loss	 <u>(19,131)</u>
Non-operating Revenues (Expenses):	
Interest expense	(351)
Interest income	167
Gain on sale of vehicles	<u>17,250</u>
 Total non-operating revenue (expense)	 <u>17,066</u>
 Net loss	 (2,065)
Net assets, beginning of year	<u>564,516</u>
Net assets, end of year	<u>\$ 562,451</u>

The accompanying notes are an integral part of these statements.

Addison County Sheriff's Department
Statement of Cash Flows
For the Year Ended June 30, 2010

Operating activities:

Cash received from customers	\$ 721,185
Cash payments to suppliers for goods and services	(284,290)
Cash payments to employees for services	<u>(436,341)</u>
Net cash provided by operating activities	<u>554</u>

Cash flows from capital and related financing activities:

Acquisition of capital assets	(131,711)
Proceeds from issuance of long-term debt	11,023
Cash proceeds from sale of equipment	17,250
Interest paid on loans	(351)
Principal paid on long-term debt	(1,685)
Interest earned	<u>167</u>
Net cash used by capital and related financing activities	<u>(105,307)</u>

Net decrease in cash (104,753)

Cash, beginning of year 351,411

Cash, end of year \$ 246,658

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

Net operating loss	\$ <u>(19,131)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	66,186
Increase in accounts receivable	(61,508)
Decrease in prepaid expenses	10,265
Decrease in accounts payable	(10,573)
Increase in accrued payroll and payroll taxes	<u>15,315</u>
Total adjustments	<u>19,685</u>

Net cash provided by operating activities \$ 554

Cash consists of:

Cash and cash equivalents	\$ 211,799
Restricted cash	<u>34,859</u>
	<u><u>\$ 246,658</u></u>

The accompanying notes are an integral part of these statements.

Addison County Sheriff's Department
Notes to Financial Statements
June 30, 2010

(1) Summary of Significant Accounting Policies

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

(a) Basis of accounting

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

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.

(d) Vehicles and equipment

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

Addison County Sheriff's Department
Notes to Financial Statements
June 30, 2010

Summary of Significant Accounting Policies (continued)

Estimated useful lives by major classification are as follows:

Jail equipment	3-10 years
Department equipment	5-10 years
Vehicles	5 years
Leasehold improvements	5-39 years

(e) Unrestricted net assets

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

(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, contractor contracts, and the US Marshall. These receivable are due within one year. The Department did not record an allowance for uncollectible accounts at June 30, 2010.

(h) Inventory

Inventory is stated at cost and consists of food and durable goods for the jail operations.

(i) Subsequent Events

Effective June 30, 2010, the Department adopted FASB ASC 855, *Subsequent Events*. Under FASB ASC 855, subsequent events are defined as events or transactions that occur after the statement of net assets, but before the financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the statement of net assets. Unrecognized subsequent events are events or transactions that provide evidence about conditions that did not exist at the date of the statement of net assets, but arose before the financial statements are issued. Recognized subsequent events are recorded in the statement of net assets and unrecognized subsequent events are excluded from the statement of net assets but are disclosed in the notes to the financial statements if their effect is material. In accordance with FASB ASC 855, the Department evaluated subsequent events through January 15, 2011, the date the Department's financial statements were available to be used and no events or transactions occurred.

Addison County Sheriff's Department
Notes to Financial Statements
June 30, 2010

(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.

The Sheriff's Department's bank balances are categorized below to give an indication of the level of risk assumed by the Department at June 30, 2010.

	Book Balance	Bank Balance
Insured deposits	\$ 246,558	\$ 274,607
Uninsured deposits	-	-
Cash on hand	100	-
Total cash deposits	\$ 246,658	\$ 274,606

The Department's restricted cash consists of cash received from the DEA for the purpose of drug related enforcement by the Department.

(3) Vehicles and Equipment

Vehicles and equipment are summarized as of June 30, 2010 by major classifications as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Vehicles	\$ 430,053	\$ 108,261	\$ (118,335)	\$ 419,979
Equipment	343,748	3,206	-	346,954
Leasehold improvements	36,584	20,244	-	56,828
Total vehicles and equipment	810,385	131,711	(118,335)	823,761
Less accumulated depreciation	(641,478)	(66,186)	118,335	(589,329)
Net vehicles and equipment	\$ 168,907	\$ 65,525	\$ -	\$ 234,432

Addison County Sheriff's Department
Notes to Financial Statements
June 30, 2010

(4) Long-Term Debt

Long-term debt as of June 30, 2010 consists of a note payable to Ford Credit, with monthly payments of \$339 including interest at 6.79%, due January 3, 2013 as follows:

<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Current Maturities</u>	<u>Ending Balance</u>
\$ -	\$ 11,023	\$ (1,685)	\$ (3,547)	\$ 5,791

(4) Cost Sharing

Under Vermont law, Addison County and the State of Vermont are required to cover certain costs of the Addison 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, 2010 has not been determined.

(5) Operating Grants

The Addison 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, 2010, management believes that no material liabilities will result from such audits.

(6) Risk Management

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

(7) Related Party Transactions

Certain family members of the Sheriff perform services for the Department. All are considered to be within normal course of business.

In addition, there are two notes receivables due from employees of the department for the purchase of vehicles. Amounts due at June 30, 2010 are \$11,600.



Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

James Coons, Sheriff
Addison County Sheriff's Department
Middlebury, Vermont

We have audited the financial statements of the business-type activities of the Addison County Sheriff's Department of the County of Addison, Vermont (the Department) as of and for the year ended June 30, 2010, which comprise the Addison County Sheriff's Department's basic financial statements, and have issued our report thereon dated January 15, 2011. 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 of the United States of America.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We consider items 2010-01 and 2010-02 described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses. In addition, we identified certain deficiencies in internal control that we consider to be control deficiencies, which is of a lesser magnitude than a significant deficiency. These control deficiencies are described in the accompanying Schedule of Findings and Questioned Costs as item 2010-03, 2010-04 and 2010-05.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

McSOLEY McCOY



Certified Public Accountants and Business Advisors

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

McSoley McCoy & Co.

January 15, 2011
VT Reg. No. 92-349

Addison County Sheriff's Department
Schedule of Findings and Questioned Costs
June 30, 2010

Internal Control – Material Weaknesses

Findings

2010-01 Accounting for Jail Activity

The Department accounts for activity in its jail account differently than it does for all other activity within the Department. While the receipts and disbursements process incorporate a limited segregation of duties, the Sheriff performs virtually all functions with respect to the jail account, including purchasing, processing invoices, maintaining control of all check stocks, processing checks, signing checks, classification and posting all cash disbursements and receipts and reconciling bank statements. This appears to violate the Uniform Accounting Manual for Sheriff's Departments which requires separation of the following duties: authorization, record keeping, and custody.

In addition, the activity for the jail account is accounted for using a separate accounting system. It is only integrated with the other activities of the Department annually, at fiscal year-end. Therefore, no internal report is generated reflecting the statement of position and results of operations of the Department, taken as a whole during the fiscal year. It was also noted that supporting documentation was not available for all transactions.

While any small Department is exposed to the risk of management override, we believe that the inherent risk of management override coupled with the complete lack of segregation of duties over the jail account exposes the Department to unacceptable risks.

We recommend that jail accounting activity follow the same internal control procedures in place for other Department activities.

2010-02 Financial Statement Presentation

Comprehensive financial information is fundamental to any organization for making sound economic decisions and demonstrating accountability and stewardship. In addition, reliable financial information is necessary to provide useful information with which to manage an organization.

At the start of our audit, we noted several accounts including cash accounts, accounts receivable, net assets, notes payable and other various liability accounts whose actual year-end balances were not reflected in the trial balance. These accounts required several adjusting journal entries to bring the year-end financial statements current.

To provide accurate financial information, financial statements should be reviewed and reconciled quarterly. This will provide the Department with useful financial information throughout the year, reduce work at year-end, and could provide an early indication of potential errors or problems within the Department.

Addison County Sheriff's Department
Schedule of Findings and Questioned Costs
June 30, 2010

Internal Control – Control Deficiencies

Findings

2010-03 Revenue and Expense Recognition

The accrual basis of accounting principles require that revenue and expenses be recognized when revenue is earned or becomes realizable and when expenses are incurred. During our audit we noted that revenue and expenses for several services performed and received were recorded in the wrong fiscal year.

We recommend that management implement procedures to ensure all revenue and expenses be recognized in the proper period.

2010-04 Employee Note Receivables

The Department has entered into a note receivable with an employee of the Department which called for specific repayment terms. The terms of the note have not been adhered to and the note is past due.

We recommend that management adhere to the terms of the note receivables to ensure such transactions are within the normal course of business.

2010-05 Contract Documentation

Maintaining of contract documentation is fundamental to the billing procedures. It was noted during our test work over revenues that one contract and the amended contract for another could not be located.

We recommend that Management implement procedures to ensure all contracts are maintained and reviewed on a quarterly basis to ensure proper billing.