

Essex County Sheriff's Department

Financial Statements

June 30, 2006

Essex County Sheriff's Department

June 30, 2006

Table of Contents

	<u>Pages</u>
Independent Auditors' Report	
Statement of Net Assets	2
Statement of Revenues, Expenses, and Changes in Net Assets	3
Statement of Cash Flows	4
Notes to Financial Statements	5-8
Government Auditing Standards Report:	
Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	
Schedule of Findings and Questioned Costs	

Independent Auditors' Report

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

We have audited the accompanying financial statements of the business-type activities of the Essex County Sheriff's Department of the County of Essex, Vermont, as of and for the year ended June 30, 2006, 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 Essex County Sheriff's Department of the County of Essex, Vermont, as of June 30, 2006 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 November 2, 2006 on our consideration of the Essex 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.

Essex 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.

As discussed in note 7 to the financial statements, a certain error resulting in the overstatement of fixed assets as of June 30, 2005, was discovered by management of Essex County Sheriff's Department during the current year. Accordingly, an adjustment has been made to the net assets as of June 30, 2005 to correct the error.

McSoley McCoy & Co.

November 2, 2006
VT Reg. No. 92-349

Essex County Sheriff's Department
Statement of Net Assets
June 30, 2006

	<u>2006</u>
Assets:	
Current assets	
Cash (note 2)	\$ 105,561
Accounts receivable, net of an allowance of \$1,000	46,628
Prepaid insurance	<u>10,977</u>
Total current assets	163,166
Vehicles and equipment, net of accumulated depreciation (note 3)	<u>131,095</u>
Total assets	<u>294,261</u>
Liabilities:	
Current liabilities	
Accounts payable	2,665
Accrued payroll and payroll items	<u>11,372</u>
Total liabilities	<u>14,037</u>
Net assets:	
Invested in capital assets	131,095
Unrestricted	<u>149,129</u>
Total net assets	<u><u>\$ 280,224</u></u>

The accompanying notes are an integral part of these statements.

Essex County Sheriff's Department
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2006

	2006
Operating Revenues:	
Charges for services	\$ 254,725
Operating grants	61,078
Miscellaneous revenues	695
Total operating revenues	316,498
Operating Expenses:	
Contracted services	279,593
Administration and general	8,732
Automotive services	23,257
Depreciation	42,911
Total operating expenses	354,493
Net operating loss	(37,995)
Non-operating income (expense):	
Loss on sale of equipment	(31)
Total non-operating income (expenses)	(31)
Net loss	(38,026)
Net assets, beginning of year before restatement	325,650
Prior year restatement (note 7)	(7,400)
Net assets, beginning of year after restatement	318,250
Net assets, end of year	\$ 280,224

The accompanying notes are an integral part of these statements.

Essex County Sheriff's Department
Statement of Cash Flows
For the Year Ended June 30, 2006

	2006
Operating activities:	
Cash received from customers	\$ 261,973
Cash received from operating grants	61,078
Cash payments to suppliers for goods and services	(122,011)
Cash payments to employees for services	(202,808)
Net cash used by operating activities	(1,768)
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(10,240)
Proceeds from sale of equipment	2,212
Net cash used by capital and related financing activities	(8,028)
Net decrease in cash	(9,796)
Cash, beginning of year	115,357
Cash, end of year	\$ 105,561
Reconciliation of operating loss to net cash used by operating activities:	
Net operating loss	\$ (37,995)
Adjustments to reconcile operating income to net cash used by operating activities	
Depreciation	42,911
Decrease in accounts receivable	6,554
Increase in prepaid insurance	(4,643)
Decrease in accounts payable	(562)
Decrease in accrued payroll and payroll items	(8,033)
Total adjustments	36,227
Net cash used by operating activities	\$ (1,768)

The accompanying notes are an integral part of these statements.

Essex County Sheriff's Department
Notes to Financial Statements
June 30, 2006

(1) Summary of Significant Accounting Policies

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

(a) Basis of accounting

The accompanying financial statements have been prepared using the accrual basis of accounting. The Department's revenues are recognized when they are earned, and their expenses are recognized when they are incurred. 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) 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.

Essex County Sheriff's Department
Notes to Financial Statements
June 30, 2006

Summary of Significant Accounting Policies (continued)

Estimated useful lives by major classification are as follows:

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

(d) Unrestricted net assets

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

(e) Use of estimates

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

(f) Accounts receivable

Significant receivables include amounts due from state, town, and contractor contracts. These receivable are due within one year. The Department has recorded an allowance of \$1,000 for uncollectible accounts at June 30, 2006.

(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.

Essex County Sheriff's Department
Notes to Financial Statements
June 30, 2006

Cash and Categories of Risk (continued)

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, 2006.

	<u>Book Balance</u>	<u>Bank Balance</u>
Insured deposits	\$ 100,000	\$ 100,000
Uninsured deposits	5,561	14,835
Cash on hand	_____ -	_____ -
Total cash deposits	<u>\$ 105,561</u>	<u>\$ 114,835</u>

(3) Vehicles and Equipment

Vehicles and equipment are summarized as of June 30, 2006 by major classifications as follows:

Vehicles	\$ 132,764
Equipment	<u>167,754</u>
Total	300,518
Less: accumulated depreciation	<u>169,423</u>
Net vehicles and equipment	<u>\$ 131,095</u>

Depreciation expense for the year ended June 30, 2006 amounted to \$42,911.

(4) Cost Sharing

Under Vermont law, Essex County and the State of Vermont are required to cover certain costs of the Essex County Sheriff's Department. Such costs include the Sheriff's salary and benefits, administrative salary and benefits, office space, certain automotive expenses and others. The amount expended by the County and State during the year ended June 30, 2006 has not been determined.

(5) Operating Grants

The Essex County Sheriff's Department received grants from the U.S. Government and other grantors. Entitlements to the resources are generally based on compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditures of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowance as a result of these audits becomes a liability of the Department. As of June 30, 2006, management believes that no material liabilities will result from such audits.

Essex County Sheriff's Department
Notes to Financial Statements
June 30, 2006

(6) Risk Management

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

(7) Prior Period Restatement

During 2005, the Department made an error in recording an equipment acquisition. The Department has restated the previously issued 2005 financial statements to reflect the effects with a decrease in beginning net assets in the amount of \$7,400.

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

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

We have audited the financial statements of the business-type activities of the Essex County Sheriff's Department of the County of Essex, Vermont (the Department) as of and for the year ended June 30, 2006, which comprise the Essex County Sheriff's Department's basic financial statements, and have issued our report thereon dated November 2, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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*.

We also noted a certain matter that we have reported to the management of the Department. The other matter is described in the accompanying schedule of findings and questioned costs as item 2006-01.

McSoley McCoy & Co.

November 2, 2006
VT Reg. No. 92-349

Essex County Sheriff's Department
Schedule of Findings and Questioned Costs
June 30, 2006

Internal Control – Other Matters

Findings

2006-01 Financial Statement Review

Meaningful financial reports are the end product of any sound accounting system. They are a crucial tool in assisting management make sound budgeting, financial, and operational decisions. The Department's current accounting system has the capabilities to produce a full set of financial statements that can assist the Sheriff in managing the Department. We recommend that the Department institute a written month end closing routine that culminates with the Office Manager reviewing the financial statements with the Sheriff and other Department management personnel.

During our audit we noted that an equipment acquisition was recorded twice in the accounting records. Instituting month-end closing procedures as described above could discover such errors and similar matters in a timely fashion.

Management Response: Management agrees with this finding. Effective immediately the Sheriff and the Office Manager will review current financial statements regularly.