Addison County Sheriff's Department

Financial Statements

June 30, 2006

Addison County Sheriff's Department

June 30, 2006

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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, 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 Addison County Sheriff's Department of the County of Addison, 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 October 18, 2006 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

October 18, 2006
VT Reg. No. 92-349

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

	2006
Assets:	
Current assets	
Cash (note 2)	$ 185,303
Accounts receivable	48,494
Prepaid expenses	12,971
Inventory	8,992
Total current assets	255,760
Vehicles and equipment, net of accumulated depreciation (note 3)	205,483
Cash - restricted (note 7)	13,904
Total assets	475,147
Liabilities:	
Current liabilities	
Accounts payable	18,072
Customer deposits payable	2,003
Accrued payroll and payroll items	17,772
Compensated absences	9,882
Total current liabilities	47,729
Net assets:	
Invested in capital assets, net of related debt of $0	205,483
Restricted cash	13,904
Unrestricted	208,031
Total net assets	$ 427,418

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, 2006

	2006
Operating Revenues:	
Charges for services	$ 317,528
Jail revenues	251,861
Communications	11,693
Transport services	52,284
Process services	39,771
Operating grants	7,255
County reimbursements	2,600
Miscellaneous revenues	14,337
Total operating revenues	697,329
Operating Expenses:	
Contracted services	249,876
Process services	19,548
Administration and general	86,949
Communications services	9,317
Jail services	237,941
Automotive services	47,107
Depreciation	90,288
Total operating expenses	741,026
Net operating loss	(43,697)
Non-operating Revenues:	
Gain on sale of vehicles	11,061
Interest income	315
Total non-operating revenue	11,376
Net loss	(32,321)
Net assets, beginning of year	459,739
Net assets, end of year	$ 427,418

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, 2006

		2006
Operating activities:		
Cash received from customers	$	706,058
Cash received from operating grants		7,255
Cash payments to suppliers for goods and services		(254,797)
Cash payments to employees for services		(382,153)
Net cash provided by operating activities		76,363
Cash flows from capital and related financing activities:		
Acquisition of capital assets		(52,961)
Cash proceeds from sale of vehicles		15,401
Net cash used by capital and related financing activities		(37,560)
Cash flows from investing activities:		
Interest earned		315
Net cash provided by investing activities		315
Net increase in cash		39,118
Cash, beginning of year		160,089
Cash, end of year	$	199,207
Reconcilitation of operating loss to net cash provided by operating activities:		
Net operating loss	$	(43,697)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		90,288
Decrease in accounts receivable		15,984
Increase in prepaid expenses		(10,161)
Increase in accounts payable		9,679
Increase in customer deposits		516
Increase in accrued payroll and payroll taxes		13,754
Total adjustments		120,060
Net cash provided by operating activities	$	76,363
Cash consists of:		
Cash and cash equivalents	$	185,303
Restricted cash		13,904
	$	199,207

The accompanying notes are an integral part of these statements.

(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 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 Addison County Sheriff's 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 those 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, and 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 a non-operating activity for the period. The cost of maintenance and repairs is charged to expense as incurred; renewals and betterments over $1,000 are capitalized.

Summary of Significant Accounting Policies (continued)

Estimated useful lives by major classification are as follows:

Office Equipment	5-10 years
Department equipment	5-10 years
Vehicles	5 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 period. Actual results could differ from those estimates.

(g) Accounts Receivable

Significant receivables include amounts due from state, town, and contractor contracts. These receivables are due within one year. The Department did not record an allowance for uncollectible accounts at June 30, 2006.

(h) Inventory

Inventory, which consists of various departmental items, is stated at the lower of cost or market. Cost is determined by the first-in, first-out method.

(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.

Cash and Categories of Risk (continued)

The Sheriff Department's bank balances are categorized below to give an indication of the level of risk assumed by the Department at June 30, 2006.

	Book Balance	Bank Balance
Insured deposits	$ 139,818	$ 147,234
Uninsured deposits	59,289	89,978
Cash on hand	100	100
Total cash deposits	$ 199,207	$ 237,312

(3) Vehicles and Equipment

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

Vehicles	$ 461,857
Equipment	350,976
Total	812,833
Less: accumulated depreciation	(607,350)
Vehicles and equipment, net	$ 205,483

Depreciation expense for the year ended June 30, 2006 amounted to $90,288.

(4) Cost Sharing

Under Vermont law, Addison County and the State of Vermont are required to cover certain costs of the 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 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, 2006, management believes 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, 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) Restricted Cash

Restricted cash consists of cash received from the DEA for the purpose of drug related enforcement by the Department.

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
Addison, 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, 2006, which comprise the Addison County Sheriff's Department's basic financial statements, and have issued our report thereon dated October 18, 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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs as 2006-01 and 2006-02.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider items 2006-01 and 2006-02 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 certain additional matters that we have reported to the management of the Department. The other matters are described in the accompanying schedule of findings and questioned costs as items 2006-03 and 2006-04.

McSoley McCoy & Co.
October 18, 2006
VT Reg. No. 92-349

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

Internal Control – Material Weakness

Findings

2006-01 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 the "Quicken" 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.

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.

Subsequent to our recommendations the Department has begun to investigate alternative policies to address the concern communicated above.

2006-02 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, and 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, 2006

Internal Control – Other Matters

Findings

2006-03 Capitalization Policy

In accordance with the Department's capitalization policy, expenditures for assets of $1,000 or greater are capitalized and depreciated over the useful life. During the 2006 audit we noted several instances in which expenditures totaling less than $1,000 were capitalized. The Department should reevaluate the appropriateness of the threshold for capitalization and adequately communicate the policy and perform a review of capitalized assets to ensure compliance.

2006-04 Bank Reconciliations

The Department reconciles the bank accounts promptly each month. During the 2006 audit we noted that the bank reconciliations had no indication of a review. While we understand that complete segregation of duties is difficult to achieve at a small organization, we recommend that a responsible official outside of the accounting function review the completed bank reconciliations and indicate approval by initialing the form.