

Bennington County Sheriff's Department

**Financial Statements
(With Independent Auditors' Report)**

June 30, 2007

Bennington County Sheriff's Department

June 30, 2007

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Independent Auditors' Report

Gary Forrest, Sheriff
Bennington County Sheriff's Department
Bennington, Vermont

We have audited the accompanying financial statements of the business-type activities of the Bennington County Sheriff's Department of the County of Bennington, Vermont, as of and for the year ended June 30, 2007, 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 Bennington County Sheriff's Department of the County of Bennington, Vermont, as of June 30, 2007 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 March 2, 2008 on our consideration of the Bennington 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.

Bennington 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

March 2, 2008
VT Reg. No. 92-349

Bennington County Sheriff's Department
Statement of Net Assets
June 30, 2007

	<u>2007</u>
Assets:	
Current assets	
Cash (note 2)	\$ 132,602
Accounts receivable	121,416
Employee advances	<u>1,800</u>
Total current assets	255,818
Vehicles and equipment, net of accumulated depreciation (note 3)	<u>153,138</u>
Total assets	<u>408,956</u>
Liabilities:	
Current Liabilities	
Accounts payable	14,999
Current portion of capital lease (note 4)	1,917
Current installments of long-term debt (note 5)	29,272
Accrued payroll and payroll taxes	<u>15,839</u>
Total current liabilities	62,027
Capital lease, less current portion (note 4)	3,846
Long-term debts, less current installments (note 5)	<u>56,354</u>
Total liabilities	<u>122,227</u>
Net assets:	
Invested in capital assets, net of related debt of \$91,389	61,749
Unrestricted	<u>224,980</u>
Total net assets	<u>\$ 286,729</u>

The accompanying notes are an integral part of these statements.

Bennington County Sheriff's Department
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2007

	2007
Operating Revenues:	
Charges for services	\$ 1,198,246
Operating grants	1,140
County reimbursements	31,321
Miscellaneous revenues	2,163
Total operating revenues	1,232,870
Operating Expenses:	
Contracted services	703,352
Process services	24,999
Transportation services	86,533
Grant expenditures	76,777
Administration and general	135,342
Communications services	8,428
Automotive services	114,635
Depreciation	59,331
Total operating expenses	1,209,397
Net operating gain	23,473
Non-operating Revenues (Expenses):	
Gain on sale of equipment	500
Interest income	584
Interest expense	(5,479)
Total non-operating revenues (expenses)	(4,395)
Net income	19,078
Net assets, beginning of year before restatement	238,459
Prior period restatement (note 9)	29,192
Net assets, end of year	\$ 286,729

The accompanying notes are an integral part of these statements.

Bennington County Sheriff's Department
Statement of Cash Flows
For the Year Ended June 30, 2007

	2007
Operating activities:	
Cash received from customers	\$ 1,238,958
Cash received from grants	1,140
Cash payments to suppliers for goods and services	(372,610)
Cash payments to employees for services	(764,254)
Net cash provided by operating activities	103,234
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(19,445)
Proceeds from sale of equipment	500
Proceeds from issuance of long term debt	16,072
Interest paid on loans	(5,479)
Principal payments on long term debt	(35,006)
Net cash used by capital and related financing activities	(43,358)
Net increase in cash	59,876
Cash, beginning of year	72,726
Cash, end of year	\$ 132,602
Reconciliation of operating gain to net cash provided by operating activities:	
Net operating gain	\$ 23,473
Adjustments to reconcile operating gain to net cash provided by operating activities:	
Depreciation	59,331
Decrease in accounts receivable	6,828
Decrease in due from DARE	400
Increase in accounts payable	13,202
Total adjustments	79,761
Net cash provided by operating activities	\$ 103,234

The accompanying notes are an integral part of these statements.

Bennington County Sheriff's Department
Notes to Financial Statements
June 30, 2007

(1) Summary of Significant Accounting Policies

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

Bennington County Sheriff's Department
Notes to Financial Statements
June 30, 2007

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 not recorded an allowance for uncollectible accounts at June 30, 2007.

(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.

Bennington County Sheriff's Department
Notes to Financial Statements
June 30, 2007

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, 2007.

	<u>Book Balance</u>	<u>Bank Balance</u>
Insured deposits	\$ 100,000	\$ 100,000
Uninsured deposits	32,452	47,775
Cash on hand	<u>150</u>	<u>150</u>
Total cash deposits	<u>\$ 132,602</u>	<u>\$ 147,925</u>

(3) Vehicles and Equipment

Vehicles and equipment are summarized as of June 30, 2007 by major classifications as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Vehicles	\$ 422,094	\$ 16,000	\$ -	\$ 438,094
Equipment	<u>235,125</u>	<u>3,445</u>	<u>-</u>	<u>238,570</u>
Total vehicles and equipment	657,219	19,445	-	676,664
Less accumulated depreciation	<u>(464,195)</u>	<u>(59,331)</u>	<u>-</u>	<u>(523,526)</u>
Vehicles and equipment, net	<u>\$ 193,024</u>	<u>\$ (39,886)</u>	<u>\$ -</u>	<u>\$ 153,138</u>

(4) Capital Lease

The Sheriff's Department leases two copiers under a long-term lease. For financial reporting purposes, the present value of the minimum lease payments has been capitalized. The lease expires March 2010. As of June 30, 2007 the property under this capital lease had a total cost of \$ 7,944, accumulated depreciation of \$1,418. The future minimum lease payments under this capital lease at June 30, 2007 are as follows:

<u>June 30,</u>	<u>Amount</u>
2008	\$ 2,402
2009	2,402
2010	<u>1,802</u>
Total minimum lease payments	6,606
Lease amount representing interest	<u>843</u>
Present value of net minimum obligations	5,763
Less current obligation under capital lease	<u>1,917</u>
Long term obligation under capital lease	<u>\$ 3,846</u>

Bennington County Sheriff's Department
Notes to Financial Statements
June 30, 2007

(5) Long-term debt

Long-term debt as of June 30, 2007 consists of notes payable to Berkshire Bank,

5.99%, monthly payments of principal and interest of \$330, due April 2011 as follows:

<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Current Maturity</u>	<u>Ending Balance</u>
\$ 16,355	\$ -	\$ 2,817	\$ 3,238	\$ 10,300

4.99%, monthly payments of principal and interest of \$379, due December 2008 as follows:

<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Current Maturity</u>	<u>Ending Balance</u>
\$ 10,336	\$ -	\$ 3,772	\$ 4,278	\$ 2,286

5.25%, monthly payments of principal and interest of \$494, due December 2009 as follows:

<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Current Maturity</u>	<u>Ending Balance</u>
\$ 18,536	\$ -	\$ 4,606	\$ 5,335	\$ 8,595

Notes payable to Merchants Bank,

5.75%, monthly payments of principal and interest of \$983, due June 2007 as follows:

<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Current Maturity</u>	<u>Ending Balance</u>
\$ 10,494	\$ -	\$ 10,494	\$ -	\$ -

7.75%, monthly payments of principal and interest of \$324, due November 2011 as follows:

<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Current Maturity</u>	<u>Ending Balance</u>
\$ -	\$ 16,072	\$ 1,575	\$ 2,864	\$ 11,633

6.25%, monthly payments of principal and interest of \$1,012, due January 2010 as follows:

<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Current Maturity</u>	<u>Ending Balance</u>
\$ 38,076	\$ -	\$ 9,188	\$ 10,638	\$ 18,250

Bennington County Sheriff's Department
Notes to Financial Statements
June 30, 2007

Long-term debt (continued)

Notes payable to Ford Credit, 6.24% monthly payments of principal and interest of \$379, due February 2010 as follows:

	<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Current Maturity</u>	<u>Ending Balance</u>
	\$ 10,336	\$ -	\$ 2,127	\$ 2,919	\$ 5,290
Total notes payable				\$ 85,626	
Less current installments				<u>29,272</u>	
Long-term debt, less current installment					<u>\$ 56,354</u>

All notes are secured by vehicles.

Maturities on long-term debt for the years after June 30, 2007 are as follows:

<u>Year-end June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 29,272	\$ 3,768	\$ 33,040
2009	28,869	1,955	30,824
2010	19,076	641	19,717
2011	6,824	135	6,959
2012	<u>1,585</u>	<u>-</u>	<u>1,585</u>
Total	<u>\$ 85,626</u>	<u>\$ 6,499</u>	<u>\$ 92,125</u>

(6) Cost Sharing

Under Vermont law, Bennington County and the State of Vermont are required to cover certain costs of the Bennington 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, 2007 has not been determined.

(7) Operating Grants

The Bennington 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, 2007, management believes that no material liabilities will result from such audits.

Bennington County Sheriff's Department
Notes to Financial Statements
June 30, 2007

(8) 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.

(9) Prior Period Restatement

During the year ended June 30, 2007, management discovered several errors involving improper cutoff procedures involving revenue, expenses, and fixed assets. The 2006 net assets have been restated to correct these errors with an increase in the amount of \$29,192

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

Gary Forrest, Sheriff
Bennington County Sheriff's Department
Bennington, Vermont

We have audited the financial statements of the business-type activities of the Bennington County Sheriff's Department of the County of Bennington, Vermont (the Department) as of and for the year ended June 30, 2007, which comprise the Bennington County Sheriff's Department's basic financial statements, and have issued our report thereon dated March 2, 2008. 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 on 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses.

A control deficiency 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 misstatements in a timely manner. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Department's ability to record, process, summarize, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a likelihood that a misstatement of the Department's financial statements that is more than inconsequential will not be prevented or detected by the Department's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in the internal control over financial reporting. The significant deficiencies are described in the accompanying schedule of findings and questioned costs as 2007-01, 2007-02 and 2007-03.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Department's internal control. We consider items 2007-01 and 2007-02 to be material weaknesses.

McSOLEY McCOY

Certified Public Accountants and Business Advisors



Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered 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.

This report 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.

March 2, 2008
VT Reg. No. 92-349

Bennington County Sheriff's Department
Schedule of Findings and Questioned Costs
June 30, 2007

Internal Control – Material Weaknesses

Finding

2007-01 Lack of Financial Statement Knowledge

Reliable financial information is fundamental to any organization for making sound economic decisions and demonstrating accountability and stewardship. In addition, reliable financial information is required to provide useful information and evaluate managerial and organization performance.

During our audit, we discovered several material errors that resulted in the financial statements being misleading including the following:

- Revenue for several services performed in fiscal year 2007 was not recognized until the following fiscal year.
- Revenue relating to fiscal year 2006 was recorded in fiscal year 2007 resulting in a material restatement to the June 30, 2006 ending net assets.
- Due to the change of the county prosecutor, a fund was transferred to the custody of the Department. The fund is available to all law enforcement in the county and is not the asset of the Department. The Department incorrectly included the fund in its own accounting records and the corresponding expenditures as well.

The financial statements were misleading prior to the June 30, 2007 adjusting journal entries proposed by the auditors.

The Department personnel do not appear to have the necessary knowledge and skill to prepare financial statements in accordance with generally accepted accounting principles.

We recommend that Department personnel obtain the knowledge and skill of generally accepted accounting principles to prepare the financial statements. In addition, we recommend that a current disclosure checklist from the AICPA be used to ensure propriety and completeness of the footnotes.

Management response:

The Department utilizes an outside accounting firm to prepare all of the necessary financial statements. A member of the firm comes to the Department's office on at least a monthly basis to do all reconciliations and statements. They are also available as needed.

In addition, the Department personnel are familiar with the reports available in the Quickbooks program, to which we recently switched over.

Bennington County Sheriff's Department
Schedule of Findings and Questioned Costs
June 30, 2007

2007-02 Segregation of Duties – Cash Disbursements

The State of Vermont Uniform Accounting Manual for County Sheriff Departments requires the segregation of certain duties within a system of internal control. Duties requiring segregation include check signing and record keeping responsibilities. The Department was not in compliance with this requirement during the year ended June 30, 2007 as the duties of the Department's bookkeeper included both check signing and record keeping responsibilities. Check signing authority at the Department should be assigned to individuals who have no record keeping responsibilities.

Management response:

The Department's bookkeeper will be taken off of the accounts as a signer. We would like to note that although she is listed as a signer, she does not exercise this responsibility.

Bennington County Sheriff's Department
Schedule of Findings and Questioned Costs
June 30, 2007

Internal Control – Significant Deficiency

Finding

2007-03 Approval of Activity Logs and Timesheets

The State of Vermont Uniform Accounting Manual for County Sheriff Departments states that the Sheriff or a responsible individual should approve the deputies' timesheets or activity logs. Our review of timesheets for the period under audit indicated that approval was not always documented.

Management response:

In the event that the Sheriff is not available, the Captain signs the timesheets or activity logs. This is in accordance with the Department's rules and regulations.