

Essex County Sheriff's Department

Financial Statements

June 30, 2010

Essex County Sheriff's Department

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Independent Auditors' Report

Steven Gadapee, 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, 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 Essex County Sheriff's Department of the County of Essex, 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 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.

A handwritten signature in cursive script that reads "McSOLEY McCOY & CO.".

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

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

Assets:

Current assets	
Cash	\$ 95,526
Accounts receivable, net of an allowance of \$52,520	12,302
Prepaid expenses	<u>1,235</u>
Total current assets	109,063
Vehicles and equipment, net of accumulated depreciation	<u>27,972</u>
Total assets	<u>137,035</u>

Liabilities:

Current liabilities	
Accrued payroll and payroll items	3,623
Current portion long-term debt	<u>8,763</u>
Total liabilities	<u>12,386</u>

Net assets:

Invested in capital assets, net of related debt of \$8,763	19,209
Unrestricted	<u>105,440</u>
Total net assets	<u>\$ 124,649</u>

The accompanying notes are an integral part of this statement.

Essex 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	\$ 174,571
Operating grants	<u>12,334</u>
Total operating revenues	<u>186,905</u>
 Operating expenses:	
Contracted services	154,701
Administration and general	9,421
Automotive services	11,969
Depreciation	<u>27,836</u>
Total operating expenses	<u>203,927</u>
Net operating loss	<u>(17,022)</u>
 Non-operating expenses:	
Interest expense	<u>430</u>
Total non-operating expenses	<u>430</u>
Net loss	<u>(17,452)</u>
Net assets, beginning of year	<u>142,101</u>
Net assets, end of year	<u><u>\$ 124,649</u></u>

The accompanying notes are an integral part of this statement.

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

Operating activities:

Cash received from customers	\$ 180,802
Cash received from operating grants	12,334
Cash payments to suppliers for goods and services	(52,928)
Cash payments to employees for services	<u>(121,037)</u>

Net cash provided by operating activities 19,171

Cash flows from capital and related financing activities:

Acquisition of capital assets	(11,960)
Proceeds from issuance of long-term debt	12,010
Interest paid on loans	(430)
Principal paid on long-term debt	<u>(3,247)</u>

Net cash used by capital and related financing activities (3,627)

Net increase in cash 15,544

Cash, beginning of year 79,982

Cash, end of year \$ 95,526

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

Net operating loss \$ (17,022)

Adjustments to reconcile operating loss to net cash provided by operating activities

Depreciation	27,836
Decrease in accounts receivable	6,231
Decrease in prepaid expenses	4,730
Decrease in accounts payable	(4,120)
Increase in accrued payroll and payroll items	<u>1,516</u>

Total adjustments 36,193

Net cash provided by operating activities \$ 19,171

The accompanying notes are an integral part of this statement.

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

(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, 2010

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 receivables are due within one year. The Department has recorded an allowance of \$52,520 for uncollectible accounts at June 30, 2010. Included in the allowance is \$51,520 relating to amounts owed from the County of Essex, Vermont.

(g) Subsequent events

Effective June 30, 2010, the Department adopted FASB Accounting Standards Codification No. 855, *Subsequent Events* (ASC 855). Under ASC 855, subsequent events are defined as events or transactions that occur after the statement of net assets date, 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 financial condition and unrecognized events are excluded from the statement of financial condition if their effect is material. In accordance with 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.

Essex 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	\$ 95,526	\$ 96,882
Uninsured deposits	-	-
Total cash deposits	\$ 95,526	\$ 96,882

(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	\$ 118,475	\$ 11,960	\$ -	\$ 130,435
Equipment	161,009	-	-	161,009
Total vehicles and equipment	279,484	11,960	-	291,444
Less accumulated depreciation	(235,636)	(27,836)	-	(263,472)
Vehicles and equipment, net	\$ 43,848	\$ (15,876)	\$ -	\$ 27,972

Essex 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 Passumpsic Savings Bank, a monthly payment of \$366.74 which includes 4.90% interest, due September 11, 2010 as follows:

<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Current Maturities</u>	<u>Ending Balance</u>
\$ -	\$ 12,010	\$ (3,247)	\$ (8,763)	\$ -

(5) 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, 2010 has not been determined.

(6) 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, 2010, management believes that no material liabilities will result from such audits.

(7) 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.



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

Steven Gadapee, 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, 2010, which comprise the Essex 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 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. Accordingly, we do not express an opinion on the effectiveness of the Department'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 significant deficiencies or material weaknesses and therefore, there can be no assurance that all such deficiencies have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. These significant deficiencies are described in the accompanying schedule of findings and questioned costs as items 2010-01 and 2010-02.

McSOLEY McCOY



Certified Public Accountants and Business Advisors

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*.

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

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

Internal Control – Significant Deficiencies

Findings

2010-01 Segregation of Duties

We noted a lack of segregation of duties within the cash receipts and disbursement area due to the small size of the department. The objective of internal control over cash receipts is to obtain control over amounts received at the time of receipt and to timely record the receipts in the accounting system. While, the objective of internal control over cash disbursements is to obtain control over amounts disbursed at the time of disbursement and to timely record the disbursements in the accounting system. Separating these closely related functions in the cash receipts and disbursement system will improve internal control in these particular areas. The following procedures could be enacted to improve segregation of duties over cash receipts and disbursements:

- The bookkeeper should not have signing authority and record keeping responsibilities. We recommend that the bookkeeper be removed as a signor, and require the Sheriff to sign all checks or consider adding a deputy as an additional signor.
- The Sheriff, who is not involved in the accounting function, should open the mail, maintain the list of all receipts, and restrictively endorse all items received as “for deposit only”. This would prevent any unauthorized endorsement should the checks be misplaced or lost before being deposited. This process would also allow the Sheriff to review the bank statement prior to the reconciliation process.
- Someone other than the check preparer and signor should mail all payments. This will ensure that all checks reach their approved designated party.

Management Response: Management agrees with the finding and will consider these recommendations and consider other procedures to improve segregation of duties.

2010-02 Employee Manual

The Department currently does not have established procedures for employee work week, vacation leave, sick leave, compensated holidays, and other fringe benefits. The Department should establish a policy and adhere to the approved policy.

Management Response: Management agrees with this finding and will consider drafting a written policy for the Department.