Rutland County Sheriff's Department

Financial Statements

June 30, 2006

Rutland County Sheriff's Department

June 30, 2006

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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 *Government Auditing Standards*

Schedule of Findings and Questioned Costs

Independent Auditors' Report

Stephen Bernard, Sheriff
Rutland County Sheriff's Department
Rutland, Vermont

We have audited the accompanying financial statements of the business-type activities of the Rutland County Sheriff's Department of the County of Rutland, 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 Rutland County Sheriff's Department of the County of Rutland, 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.

'n accordance with *Government Auditing Standards*, we have also issued our report dated September 1, 2006 on our consideration of the Rutland 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.

Rutland 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.

September 1, 2006
VT Reg. No. 92-349

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

	2006
Assets:	
Current assets	
Cash (note 2)	$ 41,896
Accounts receivable, net of an allowance of $1,606	135,613
Prepaid expenses	53,139
Total current assets	230,648
Non-current Assets	
Vehicles and equipment, net of accumulated depreciation (note 3)	192,983
Restricted assets - annuities (note 4)	73,625
Total assets	497,256
Liabilities:	
Current Liabilities	
Accounts payable	66,767
Other current liabilities	60,412
Current installments of long-term debt (note 5)	21,229
Accrued payroll and payroll items	52,885
Total current liabilities	201,293
Long-term liabilities:	
Long-term debt - less current installments (note 5)	63,048
Deferred compensation (note 4)	73,625
Total long-term liabilities	136,673
Total liabilities	337,966
Net assets:	
Invested in capital assets, net of related debt of $84,277	108,706
Restricted (note 4)	73,625
Unrestricted	(23,041)
Total net assets	$ 159,290

The accompanying notes are an integral part of these statements.

Rutland 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	$ 1,221,048
Operating grants	297,301
Miscellaneous revenues	2,383
Total operating revenues	1,520,732
Operating Expenses:	
Contracted services	464,192
Process services	27,866
Grant services	292,744
Transportation services	8,446
Administration and general	425,523
Communications services	72,441
Automotive services	99,838
Depreciation	74,137
Total operating expenses	1,465,187
Net operating income	55,545
Non-operating income (expenses):	
Gain on sale of equipment	1,479
Interest expense	(2,764)
Total non-operating income (expenses)	(1,285)
Net income	54,260
Net assets, beginning of year	105,030
Net assets, end of year	$ 159,290

The accompanying notes are an integral part of these statements.

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

	2006
Operating activities:	
Cash received from customers	$ 1,189,360
Cash received from operating grants	310,699
Cash payments to suppliers for goods and services	(587,661)
Cash payments to employees for services	(856,324)
Net cash provided by operating activities	56,074
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(75,409)
Proceeds from issuance of long-term debt	60,929
Sale of equipment	7,094
Interest paid on loans	(2,764)
Principal on long-term debt	(54,809)
Net cash used by capital and related financing activities	(64,959)
Net decrease in cash	(8,885)
Cash, beginning of year	50,781
Cash, end of year	$ 41,896
Reconciliation of operating income to net cash provided by operating activities:	
Net operating income	$ 55,545
Adjustments to reconcile operating income to net cash provided by (used in) operating activities	
Depreciation	74,137
Increase in accounts receivable	(34,071)
Decrease in grant receivable	13,398
Increase in prepaid expense	(3,762)
Decrease in accrued payroll	(11,374)
Decrease in other liabilities	(2,735)
Decrease in accounts payable	(15,870)
Decrease in deferred revenue	(19,194)
Total adjustments	529
Net cash provided by operating activities	$ 56,074
Cash consists of:	
Cash and cash equivalents	$ 5,401
Restricted cash	36,495
	$ 41,896

The accompanying notes are an integral part of these statements.

(1) Summary of Significant Accounting Policies

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

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 in the amount of $1,606 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.

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.

	Book Balance	Bank Balance
Insured deposits	$ 41,296	$ 65,274
Uninsured deposits	-	-
Cash on hand	600	-
Total cash deposits	$ 41,896	$ 65,274

(3) Vehicles and Equipment

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

Vehicles	$ 365,249
Equipment	78,319
Total	443,568
Less: accumulated depreciation	250,585
Net vehicles and equipment	$ 192,983

Depreciation expense for the year ended June 30, 2006 amounted to $74,137.

(4) Deferred Compensation Plan

In 1979, the Department established a non-qualified, eligible deferred compensation plan pursuant to Section 457 of the Internal Revenue Code. The plan is a defined contribution plan. Under the plan, an employee may elect to defer the lesser of $7,500 or 33 1/3% of his/her salary plus an additional amount as defined by the Internal Revenue Code Section 457(b)(3). All amounts deferred under the plan, all property and rights purchased with such amounts and all income attributable to such amounts, property or rights, remain solely the property and rights of the Department until made available to the participant or his or her beneficiary upon request. Amounts in the plan at June 30, 2006 totaled $73,625 and has been reflected as a non-current asset and liability on the accompany statement of net assets.

(5) Long-Term Debt

Long-term debt as of June 30, 2006 consists of the following:

Note payable, Chittenden Bank, 6.9%, monthly payments of principal and interest of $262, through March 17, 2010	$ 10,404
Note payable, Chittenden Bank, 4.0%, monthly payments of principal and interest of $594, through June 30, 2009	20,661
Note Payable, Chittenden Bank, 6.25%, monthly payments of principal and interest of $227, through December 1, 2007	3,887
Note Payable, Chittenden Bank, due July 22, 2006	706
Note Payable, Ford Motor Credit Co., 6.90%, due July 2, 2006	315
Note Payable, Ford Motor Credit Co., 6.95%, monthly payments of principal and interest of $982, through April 10, 2011	48,304
Total notes payable	84,277
Less current installments	21,229
Long-term debt, less current installments	$ 63,048

All notes are secured by vehicles.

Maturities on long-term debt for the years after June 30, 2006 are as follows:

Year-ended June 30,	Principal	Interest	Total
2007	$ 21,229	$ 4,399	$ 25,628
2008	20,064	3,544	23,608
2009	20,410	2,207	22,617
2010	13,050	1,137	14,187
2011	9,524	306	9,830
Total	$ 84,277	$ 11,593	$ 95,870

(6) Cost Sharing

Under Vermont law, Rutland County and the State of Vermont are required to cover certain costs of the Rutland 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.

(7) Operating Grants

The Rutland 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.

(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.

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

Stephen Bernard, Sheriff
Rutland County Sheriff's Department
Rutland, Vermont

We have audited the financial statements of the business-type activities of the Rutland County Sheriff's Department of the County of Rutland, Vermont (the Department) as of and for the year ended June 30, 2006, which comprise the Rutland County Sheriff's Department's basic financial statements, and have issued our report thereon dated September 1, 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 a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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 condition is described in the accompanying schedule of findings and questioned costs as 2006-01.

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 item 2006-01 to be a material weakness.

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 2006-02 and 2006-03.

McSoley McCoy & Co.

September 1, 2006

VT Reg. No. 92-349

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

Internal Control – Material Weaknesses

Findings

2006-01 Segregation of Duties – Cash Disbursements

The State of Vermont Uniform Accounting Manual for County Sheriff Departments requires the segregation of certain duties within each Department's system of internal control. Specifically, the Manual requires segregation of check signing from record keeping responsibilities. During our audit, we noted that the Office Manager at the Rutland County Sheriff's Department had authority to sign checks (although she rarely exercised that authority). We also noted that she had custody of unused checks, performed all postings to the general ledger, opened the mail and reconciled the bank statements. While we understand that complete segregation of duties is difficult to achieve at a small organization, we believe that the system of internal controls could be enhanced if the Office Manager's check signing authority were removed and a separate individual be assigned to open the monthly bank statements. Alternatively a second copy of the imaged checks could be sent directly to the Sheriff.

Management Response: Management agrees with this finding. The Department's authorized check signers will be updated to remove the Office Manager as a signer and replaced with two lieutenants that will serve as back-up signers.

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

Internal Control – Other Matters

Findings

2006-02 Approval of Payroll Summary and Timesheets

The State of Vermont Uniform Accounting Manual for County Sheriff Departments states that the Sheriff should approve the deputies' timesheets or payroll summary. Our review of payroll summary for the period under audit indicated that the Sheriff was not always documenting his approval of timesheets. We recommend that the Sheriff document his approval of all timesheets.

Management Response: Management agrees with this finding. The Sheriff does currently approve all timesheets but mistakenly did not indicate his approval in writing on all timesheets. The Sheriff will ensure that all timesheets has indicated his review and approval.

2006-03 Financial Reporting

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. Currently, the Department does not produce monthly balance sheets and income statements. 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.

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