Washington County Sheriff's Department

Financial Statements
(With Independent Auditors' Report)

June 30, 2007

Washington County Sheriff's Department

June 30, 2007

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McSOLEY McCOY & CO.
Certified Public Accountants and Business Advisors

Independent Auditors' Report

W. Samuel Hill, Sheriff
Washington County Sheriff's Department
Montpelier, Vermont

We have audited the accompanying financial statements of the business-type activities of the Washington County Sheriff's Department of the County of Washington, 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 Washington County Sheriff's Department of the County of Washington, 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 January 31, 2008 on our consideration of the Washington 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.

Washington 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.

January 31, 2008
VT Reg. No. 92-349

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

	2007
Assets:	
Current assets	
Cash (note 2)	$ 209,108
Accounts receivable	103,587
Due from former Sheriff, net of allwance (note 3)	15,075
Loan receivable (note 9)	10,000
Total current assets	337,770
Vehicles and equipment, net of accumulated depreciation (note 4)	138,695
Total assets	476,465
Liabilities:	
Current liabilities	
Accounts payable	34,950
Accrued payroll and payroll taxes	36,281
Current installments of long-term debt (note 5)	8,020
Total current liabilities	79,251
Long-term debts, less current installments (note 5)	4,213
Total liabilities	83,464
Net assets:	
Invested in capital assets, net of related debt of $12,233	126,462
Unrestricted	266,539
Total net assets	$ 393,001

The accompanying notes are an integral part of these statements.

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

	2007
Operating Revenues:	
Services:	
Contract services	$ 532,892
Process services	115,366
Transport services	153,646
Grants	116,398
Total services	918,302
Other operating revenue	22,274
Total operating revenues	940,576
Operating Expenses:	
Contracted services	571,966
Process services	49,419
Vehicle expenses	67,236
Communication expenses	23,223
Admin & general expenses	116,677
Depreciation	56,358
Total operating expenses	884,879
Net operating income	55,697
Non-Operating Revenues (Expenses)	
Interest income	4,446
Gain on sale of equipment	810
Bad debt expense - advance to former Sheriff (note 3)	(15,075)
Interest expense	(1,225)
Total non-operating revenues (expenses)	(11,044)
Net income	44,653
Net assets, beginning of year	348,348
Net assets, end of year	$ 393,001

The accompanying notes are an integral part of these statements.

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

	2007
Operating Activities:	
Cash received from customers	$ 784,385
Cash received from government	116,398
Cash payments to suppliers for goods and services	(219,853)
Cash payments to employees for services	(569,917)
Net cash provided by operating activities	111,013
Cash Flows from Capital and Related Financing Activities:	
Acquisition of capital assets	(69,415)
Gain on sale of equipment	810
Interest income	4,446
Interest expense	(1,225)
Principal payments on long-term debt	(15,306)
Collection on advance to former Sheriff	609
Net cash used by capital and related financing activities	(80,081)
Net increase in cash	30,932
Cash, beginning of year	178,176
Cash, end of year	$ 209,108
Reconcilitation of Operating Income to Net Cash Provided by Operating Activities:	
Net operating income	$ 55,697
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	56,358
Increase in accounts receivable	(38,278)
Decrease in prepaid expenses	8,484
Increase in loan receivable	(10,000)
Increase in accounts payable	28,275
Increase in accrued payroll and payroll taxes	10,477
Total adjustments	55,316
Net cash provided by operating activities	$ 111,013

The accompanying notes are an integral part of these statements.

(1) Summary of Significant Accounting Policies

The Washington County Sheriff's Department (the Department) is a governmental entity operating under Title 24 Vermont Statutes Annotated Section 290 located in the County of Washington, Vermont. Funding is provided by the State of Vermont and the County of Washington. 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	5-7 years
Communication equipment	5-10 years
Vehicles	3-5 years

(d) Accrued compensated absences

Full-time employees of the Department may accumulate up to 360 hours for vacation time and 480 hours for sick leave, depending on their length of service. Upon separation from the Department, an employee is entitled to payment of all annual leave accumulated, provided the Department is given at least two weeks notice prior to separation. At June 30, 2007 accrued payroll and payroll taxes includes $25,655 related to accrued compensated absences.

(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 preparation of 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.

(g) Accounts receivable

Significant receivables include amounts due from state, town, and contractor contracts. These receivables 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.

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.

	Book Balance	Bank Balance
Insured deposits	$ 206,864	$ 234,859
Uninsured deposits	2,194	7,608
Cash on hand	50	50
Total cash deposits	$ 209,108	$ 242,517

(3) Due from Former Sheriff

Due from former Sheriff consists of advances to the former Sheriff determined under a court order. The Department considers it is very unlikely to collect the full amount and therefore reserves an allowance of $15,075 as of June 30, 2007.

(4) Vehicles and Equipment

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

	Beginning Balance	Additions	Deletions	Ending Balance
Vehicles	$ 213,153	$ 62,814	$ (47,116)	$ 228,851
Equipment	172,399	6,601	(3,051)	175,949
Total vehicles and equipment	385,552	69,415	(50,167)	404,800
Less accumulated depreciation	(259,914)	(56,358)	50,167	(266,105)
Vehicles and equipment, net	$ 125,638	$ 13,057	$ -	$ 138,695

(5) Long-Term Debt

Long-term debt as of June 30, 2007 consists of notes payable to the Ford Motor Credit Company, 5.2% note due November 2008 as follows:

Beginning Balance	Increases	Decreases	Current Maturities	Ending Balance
$ 9,036	$ -	$ (6,309)	$ 2,727	$ -

6.8% note due March 2009 as follows:

Beginning Balance	Increases	Decreases	Current Maturities	Ending Balance
$ 14,452	$ -	$ (4,946)	$ 5,293	$ 4,213

4.55% note paid off in March 2007 as follows:

Beginning Balance	Increases	Decreases	Current Maturities	Ending Balance
$ 4,050	$ -	$ (4,050)	$ -	$ -

(6) Cost Sharing

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

(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) Loan Receivable

The Sheriff's Department has a loan receivable of $10,000 from Our House of Central Vermont Inc., a unrelated party as of June 30, 2007. The loan bears no interest rate if repayment is made by December 1, 2007. Otherwise the interest will accrue at 12% annually.

McSOLEY McCOY & CO.
Certified Public Accountants and Business Advisors

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

W. Samuel Hill, Sheriff
Washington County Sheriff's Department
Montpelier, Vermont

We have audited the financial statements of the business-type activities of the Washington County Sheriff's Department of the County of Washington, Vermont (the Department) as of and for the year ended June 30, 2007, which comprise the Washington County Sheriff's Department's basic financial statements, and have issued our report thereon dated January 31, 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 deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency in the internal control over financial reporting. The significant deficiency is described in the accompanying schedule of findings and questioned costs as 2007-01.

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.

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. We consider item 2007-01 to be a material weakness.

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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 note be used by anyone other than these specified parties.

McSoley McCoy & Co

January 31, 2008
VT Reg. No. 92-349

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

Internal Control – Material Weakness

Findings

2007-01 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 is not in compliance with the State of Vermont Uniform Accounting Manual for County Sheriff Departments, which requires segregation of certain duties within a system of internal control, i.e.: the bookkeeper has check signing privileges. The Department is a small, but busy, office. Currently, check signing privileges are assigned to the Sheriff, secretary and the bookkeeper. The Sheriff signs the vast majority of the checks, with the bookkeeper signing a few and the secretary signing an occasional check. To ensure that the business of the Department flows smoothly the bookkeeper has check signing privileges to allow the day-to-day business to continue, in the absence of the Sheriff and/or secretary. The Sheriff does review the monthly bank statements, including copies of all checks written/cleared, copied and returned to this office. Management is confident that this arrangement is best suited for the Department.