Addison County Sheriff's Department

Financial Statements

June 30, 2008

Addison County Sheriff's Department

June 30, 2008

Table of Contents

	Pages
Independent Auditors' Report	
Statement of Net Assets	2
Statement of Revenues, Expenses, and Changes in Net Assets	3
Statement of Cash Flows	4
Notes to Financial Statements	5-8

Government Auditing Standards Report:

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*

Schedule of Findings and Questioned Costs

McSOLEY McCOY & CO.
Certified Public Accountants and Business Advisors

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, 2008, 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, 2008 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 February 1, 2009 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.

February 1, 2009
VT Reg. No. 92-349

118 TILLEY DRIVE, SUITE 202, SOUTH BURLINGTON, VERMONT 05403
PHONE 802.658.1808 FAX 802.658.1779 WEB WWW.CPAVT.COM

Addison County Sheriff's Department
Statement of Net Assets
June 30, 2008

Assets:		
Current assets		
Cash (note 2)	$	234,835
Accounts receivable		95,688
Prepaid expenses		3,278
Inventory		8,992
Total current assets		342,793
Vehicles and equipment, net of accumulated depreciation (note 3)		169,511
Cash - restricted (note 2)		18,073
Total assets		530,377
Liabilities:		
Current liabilities		
Accounts payable		7,324
Accrued payroll and payroll items		1,890
Compensated absences		6,795
Total current liabilities		16,009
Net assets:		
Invested in capital assets		169,511
Restricted cash		18,073
Unrestricted		326,784
Total net assets	$	514,368

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, 2008

Operating Revenues:	
Charges for services	$ 342,410
Jail revenues	267,685
Communications	11,039
Transport services	53,883
Process services	43,582
County reimbursements	10,688
Miscellaneous revenues	38,935
Total operating revenues	768,222
Operating Expenses:	
Contracted services	215,381
Process services	23,650
Administration and general	101,460
Communications services	11,052
Jail services	248,178
Automotive services	59,707
Depreciation	87,176
Total operating expenses	746,604
Net operating income	21,618
Non-operating Revenues (Expenses):	
Loss on sale of vehicles	(7,450)
Interest income	879
Total non-operating revenue (expense)	(6,571)
Net income	15,047
Net assets, beginning of period before restatement	515,393
Prior year restatement (note 8)	(16,072)
Net assets, beginning of period after restatement	499,321
Net assets, end of period	$ 514,368

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, 2008

Operating activities:		
Cash received from customers	$	768,528
Cash payments to suppliers for goods and services		(268,324)
Cash payments to employees for services		(405,041)
Net cash provided by operating activities		95,163
Cash flows from capital and related financing activities:		
Acquisition of capital assets		(46,597)
Cash proceeds from sale of equipment		7,350
Interest earned		879
Net cash used by capital and related financing activities		(38,368)
Net increase in cash		56,795
Cash, beginning of year		196,113
Cash, end of year	$	252,908
Reconciliation of operating gain to net cash provided by operating activities:		
Net operating income	$	21,618
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation		87,176
Decrease in accounts receivable		306
Decrease in prepaid expenses		7,541
Decrease in accounts payable		(3,821)
Decrease in accrued payroll and payroll taxes		(17,657)
Total adjustments		73,545
Net cash provided by operating activities	$	95,163
Cash consists of:		
Cash and cash equivalents	$	234,835
Restricted cash		18,073
	$	252,908

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 for the Department 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 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:

Jail equipment	3-10 years
Department equipment	5-10 years
Vehicles	5 years
Leasehold improvements	5-39 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, contractor contracts, and the US Marshall. These receivable are due within one year. The Department did not record an allowance for uncollectible accounts at June 30, 2008.

(g) Inventory

Inventory is stated at cost and consists of food and durable goods for the jail operations.

(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, 2008.

	Book Balance	Bank Balance
Insured deposits	$ 142,078	$ 145,511
Uninsured deposits	111,738	116,974
Cash on hand	100	-
Total cash deposits	$ 253,916	$ 262,485

The Department's restricted cash consists of cash received from the DEA for the purpose of drug related enforcement by the Department.

(3) Vehicles and Equipment

Vehicles and equipment are summarized as of June 30, 2008 by major classifications as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Vehicles	$ 466,730	$ 46,197	$ (87,317)	$ 425,610
Equipment	335,801	400	-	336,201
Leasehold improvements	36,584	-	-	36,584
Total vehicles and equipment	839,115	46,597	(87,317)	798,395
Less accumulated depreciation	(614,225)	(87,176)	72,517	(628,884)
Net vehicles and equipment	$ 224,890	$ (40,579)	$ (14,800)	$ 169,511

(4) Cost Sharing

Under Vermont law, Addison County and the State of Vermont are required to cover certain costs of the Addison 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, 2008 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, 2008, management believes that 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) Related Party Transactions

Certain family members of the Sheriff perform services for the Department. All are considered to be within normal course of business.

(8) Prior Period Restatement

At June 30, 2007, the Department inadvertently recorded revenue and expenses to the incorrect year resulting in a restatement of the previously issued June 30, 2007 financial statements to reflect the effects with a decrease in beginning net assets in the amount of $16,072.

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

James Coons, Sheriff
Addison County Sheriff's Department
Middlebury, 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, 2008, which comprise the Addison County Sheriff's Department's basic financial statements, and have issued our report thereon dated February 1, 2009. 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.

A control deficiency exists when the design or operation of a control does not allow management or employees to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Department's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote 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.

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 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 internal control that might be significant deficiencies or material weaknesses. We consider items 2008-01 and 2008-02 described in the accompanying Schedule of Findings and Questioned Costs to be material weaknesses. In addition, we identified certain deficiencies in internal control that we consider to be control deficiencies, which is of a lesser magnitude than a significant deficiency. These control deficiencies are described in the accompanying Schedule of Findings and Questioned Costs as item 2008-03, 2008-04 and 2008-05.

118 TILLEY DRIVE, SUITE 202, SOUTH BURLINGTON, VERMONT 05403
PHONE 802.658.1808 FAX 802.658.1779 WEB WWW.CPAVT.COM

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.

February 1, 2009
VT Reg. No. 92-349

Addison County Sheriff's Department
Schedule of Findings and Questioned Costs
June 30, 2008

Internal Control – Material Weaknesses

Findings

2008-01 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.

2008-02 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, 2008

Internal Control – Control Deficiencies

Findings

2008-03 Revenue and Expense Recognition

The accrual basis accounting principles require that revenue and expenses be recognized when revenue is earned or becomes realizable and when expenses are incurred. During our audit we noted that revenue and expenses for several services performed and received before year-end was recorded in the wrong fiscal year.

We recommend that management implement procedures to ensure all revenue and expenses be recognized in the proper period.

2008-04 Sheriff's Compensation for Contract Administration

The Uniform Accounting Manual for the County Sheriff Departments requires supporting documentation for any amounts payable under the Contract Administration fee. It was noted during the test work over expenses, that the Sheriff received funds under the Contract Administration fee, for which there was no supporting documentation. The Department should maintain a schedule of the fees allowed for each calendar year.

2008-05 Vehicles and Equipment

The Department's property records at June 30, 2008 include fully depreciated assets that are no longer in service, thus overstating the value of vehicles and equipment and accumulated depreciation. An investigation of the detailed property records should be performed annually to identify retired assets, and such assets and related accumulated depreciation should be removed from the records.