

Bennington County Sheriff's Department

Financial Statements
(With Independent Auditors' Report)

June 30, 2011

Bennington County Sheriff's Department

June 30, 2011

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Independent Auditors' Report

Chad Schmidt, 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 (the "Department"), as of and for the year then ended June 30, 2011, 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 Department as of June 30, 2011 and the respective changes in financial position and cash flows for the year ended June 30, 2011 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 December 16, 2011 on our consideration of the 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.

The 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". The signature is written in dark ink and is positioned above the date and registration information.

December 16, 2011
VT Reg. No. 92-349

Bennington County Sheriff's Department
Statement of Net Assets
June 30, 2011

Assets:

Current assets

Cash	\$ 105,049
Accounts receivable	107,246
Prepaid expenses	<u>780</u>

Total current assets 213,075

Vehicles and equipment, net of accumulated depreciation 155,591

Total assets 368,666

Liabilities:

Current liabilities

Accounts payable	37,518
Accrued payroll and payroll items	32,000
Current portion of notes payable	<u>24,950</u>

Total current liabilities 94,468

Notes payable, net of current portion 53,769

Total liabilities 148,237

Net assets:

Unrestricted	143,557
Invested in capital assets, net of related debt of \$78,719	<u>76,872</u>

Total net assets \$ 220,429

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, 2011

Operating Revenues:	
Charges for services	\$ 1,015,318
Operating grants	177,539
Miscellaneous revenues	<u>4,120</u>
Total operating revenues	<u>1,196,977</u>
 Operating Expenses:	
Contracted services	558,368
Automotive services	135,458
Communication services	14,988
Transportation services	99,668
Administration and general	339,497
Selling expenses	6,127
Grant expense	30,601
Depreciation	<u>45,447</u>
Total operating expenses	<u>1,230,154</u>
Net operating loss	<u>(33,177)</u>
 Non-operating income (expense):	
Interest income	282
Sale of equipment	3,285
Interest expense	<u>(4,033)</u>
Total non-operating income (expense)	<u>(466)</u>
Net loss	<u>(33,643)</u>
Net assets, beginning of year before prior period adjustment	243,322
Prior period adjustment	<u>10,750</u>
Net assets, beginning of year after prior period adjustment	<u>254,072</u>
Net assets, end of year	<u>\$ 220,429</u>

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, 2011

Operating activities:

Cash received from customers	\$ 1,001,123
Cash received from operating grants	177,539
Cash payments to suppliers for goods and services	(492,803)
Cash payments to employees for services	<u>(656,853)</u>
Net cash provided by operating activities	<u>29,006</u>

Cash flows from capital and related financing activities:

Acquisition of capital assets	(84,467)
Proceeds from issuance of notes payable	56,500
Proceeds from sale of equipment	10,300
Interest income	282
Interest expense	(4,033)
Principal payments on notes payable	<u>(35,817)</u>
Net cash used by capital and related financing activities	<u>(57,235)</u>
Net decrease in cash	(28,229)
Cash, beginning of year	<u>133,278</u>
Cash, end of year	<u><u>\$ 105,049</u></u>

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

Net operating loss	\$ <u>(33,177)</u>
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	45,447
Decrease in prepaid expenses	1,465
Increase in accounts receivable	(18,315)
Increase in accrued payroll and payroll items	10,840
Increase in accounts payable	<u>22,746</u>
Total adjustments	<u>62,183</u>
Net cash provided by operating activities	<u><u>\$ 29,006</u></u>

The accompanying notes are an integral part of these statements.

Bennington County Sheriff's Department
Notes to Financial Statements
June 30, 2011

(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 Sheriff's 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 pronouncements.

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, 2011

Summary of Significant Accounting Policies (continued)

Estimated useful lives by major classification are as follows:

Equipment	5 - 7 years
Furniture & Fixtures	7 years
Vehicles	5 - 7 years

(d) Unrestricted and restricted 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 not recorded an allowance for uncollectible accounts at June 30, 2011.

(g) Subsequent events

The Department evaluated subsequent events through December 16, 2011, the date the Department's financial statements were available to be used and no events or transactions occurred.

(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, 2011

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, 2011.

	<u>Book Balance</u>	<u>Bank Balance</u>
Insured deposits	\$ 105,049	\$ 107,699
Undeposited funds	-	-
Total cash funds	<u>\$ 105,049</u>	<u>\$ 107,699</u>

(3) Vehicles and Equipment

Vehicles and equipment are summarized as of June 30, 2011 by major classifications as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Vehicles	\$ 458,164	\$ 59,500	\$ (61,606)	\$ 456,058
Equipment	<u>285,478</u>	<u>24,967</u>	<u>-</u>	<u>310,445</u>
Total vehicles and equipment	743,642	84,467	(61,606)	766,503
Less accumulated depreciation	<u>(620,056)</u>	<u>(45,447)</u>	<u>54,591</u>	<u>(610,912)</u>
Net vehicles and equipment	<u>\$ 123,586</u>	<u>\$ 39,020</u>	<u>\$ (7,015)</u>	<u>\$ 155,591</u>

(4) Long-term Debt

Long-term debt as of June 30, 2011 consists of the following:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Current Maturities</u>	<u>Remaining Balance</u>
Merchants Bank					
4.67% note due April, 2014 as follows:					
	\$ 28,858	\$ -	\$ 7,047	\$ 7,370	\$ 14,441
Merchants Bank					
4.71% note due May, 2015 as follows:					
	\$ -	\$ 16,000	\$ 618	\$ 3,420	\$ 11,962

Bennington County Sheriff's Department
Notes to Financial Statements
June 30, 2011

Long-term Debt (continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Current Maturities</u>	<u>Remaining Balance</u>
Merchants Bank					
4.05% note due December, 2014 as follows:					
	\$ <u> -</u>	\$ <u> 40,500</u>	\$ <u> 4,721</u>	\$ <u> 9,724</u>	\$ <u> 26,055</u>
Merchants Bank					
6.74% note due September, 2012 as follows:					
	\$ <u> 6,143</u>	\$ <u> -</u>	\$ <u> 2,731</u>	\$ <u> 2,903</u>	\$ <u> 509</u>
Merchants Bank					
5.31% note due December, 2012 as follows:					
	\$ <u> 3,799</u>	\$ <u> -</u>	\$ <u> 1,464</u>	\$ <u> 1,533</u>	\$ <u> 802</u>
Merchants Bank					
5.99% note due May, 2011 as follows:					
	\$ <u> 2,897</u>	\$ <u> -</u>	\$ <u> 2,897</u>	\$ <u> -</u>	\$ <u> -</u>
Merchants Bank					
7.75% note due November, 2011 as follows:					
	\$ <u> 5,198</u>	\$ <u> -</u>	\$ <u> 5,198</u>	\$ <u> -</u>	\$ <u> -</u>
Merchants Bank					
6.00% note due June, 2013 as follows:					
	\$ <u> 11,320</u>	\$ <u> -</u>	\$ <u> 11,320</u>	\$ <u> -</u>	\$ <u> -</u>
Totals	\$ <u> 58,215</u>	\$ <u> 56,500</u>	\$ <u> 35,996</u>	\$ <u> 24,950</u>	\$ <u> 53,769</u>

Bennington County Sheriff's Department
Notes to Financial Statements
June 30, 2011

Long-term Debt (continued)

Future maturities of long-term debt are presented in the following table.

Year ending <u>June 30:</u>	
2012	\$ 24,950
2013	23,069
2014	21,352
2015	<u>9,348</u>
	<u>\$ 78,719</u>

(5) Operating Lease

The Department leases video equipment under an operating lease, expiring June 2012. Current monthly lease payments are \$988.

(6) Cost Sharing

Under Vermont law, Bennington County and the State of Vermont are required to cover certain costs of the 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, 2011 has not been determined.

(7) Operating Grants

The 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, 2011, management believes that no material liabilities will result from such audits.

(8) Risk Management

The 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.

Bennington County Sheriff's Department
Notes to Financial Statements
June 30, 2011

(9) Prior Period Restatement

During 2010, the Department inadvertently recorded expenses twice, resulting in a restatement of the previously issued June 30, 2010 financial statements with an increase in net assets in the amount of \$10,750.

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*

Chad Schmidt, 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, 2011, which comprise the Bennington County Sheriff's Department's basic financial statements, and have issued our report thereon dated December 16, 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 General 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 above section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Questioned Costs as items 2011-01 and 2011-02 that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or 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.

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.

December 16, 2011
VT Reg. No. 92-349

Bennington County Sheriff's Department
Schedule of Findings and Questioned Costs
June 30, 2011

Internal Control – Significant Deficiencies

Findings

2011-01 Capitalization of Assets

The Department has a policy of capitalizing assets greater than \$1,000. We noted that several expenditures had been recorded as expenses rather than capital assets. In addition, capital assets that are purchased with grant funds or received through other sources should also be considered as a capital asset with the corresponding revenue recorded, as applicable.

We recommend that the Department adhere to their capitalization policy.

Management's Response

Management agrees with this finding and will implement procedures to review all capital purchases and repairs in excess of \$1,000 to proper recognition.

2011-02 Revenue and Expense Recognition

The accrual basis of accounting requires 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 were recorded to the incorrect fiscal year.

We recommend that management implement procedures to ensure all revenue and expenses be recognized to the proper period. This should include reviewing invoices to determine that charges are billed for the same period the service was rendered, reviewing invoices to determine if there are prepaid amounts for coverage after year end, and reviewing invoices that are received after year end to ensure they are recorded to the proper period.

Management's Response

Management agrees with this finding and will begin reviewing revenue and expense transactions to ensure proper cutoff.