

Rutland County Sheriff's Department

Financial Statements

June 30, 2008

Rutland County Sheriff's Department

June 30, 2008

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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, 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 Rutland County Sheriff's Department of the County of Rutland, 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 December 5, 2008 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, 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.

December 5, 2008
VT Reg. No. 92-349

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

Assets:

Current assets

Cash (note 2)	\$	57,026
Accounts receivable, net of an allowance of \$1,300		123,065
Prepaid expenses		<u>24,478</u>

Total current assets 204,569

Non-current assets

Vehicles and equipment, net of accumulated depreciation (note 3)		186,672
Restricted assets - annuities (note 4)		<u>128,234</u>

Total assets 519,475

Liabilities:

Current liabilities

Accounts payable		42,732
Other current liabilities		20,634
Current installments of long-term debt (note 5)		42,773
Accrued payroll and payroll items		<u>68,235</u>

Total current liabilities 174,374

Long-term liabilities:

Long-term debt - less current installments (note 5)		101,825
Deferred compensation (note 4)		<u>128,234</u>

Total long-term liabilities 230,059

Total liabilities 404,433

Net assets:

Invested in capital assets, net of related debt of \$144,598		42,074
Unrestricted		<u>72,968</u>

Total net assets \$ 115,042

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, 2008

Operating revenues:	
Charges for services	\$ 1,205,728
Operating grants	82,298
County support	99,496
Miscellaneous revenues	<u>200</u>
Total operating revenues	<u>1,387,722</u>
 Operating expenses:	
Contracted services	652,281
Process services	47,782
Grant services	25,643
Transportation services	12,192
Administration and general	342,614
Communications services	123,888
Automotive services	121,774
Depreciation	<u>75,828</u>
Total operating expenses	<u>1,402,002</u>
Net operating loss	<u>(14,280)</u>
 Non-operating income (expenses):	
Loss on sale of equipment	(2,081)
Interest income	428
Interest expense	<u>(10,350)</u>
Total non-operating income (expenses)	<u>(12,003)</u>
Net loss	<u>(26,283)</u>
Net assets, beginning of year	<u>141,325</u>
Net assets, end of year	<u><u>\$ 115,042</u></u>

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, 2008

Operating activities:

Cash received from customers	\$ 1,252,896
Cash received from operating grants	82,298
Cash payments to suppliers for goods and services	(443,232)
Cash payments to employees for services	<u>(863,072)</u>
Net cash provided by operating activities	<u>28,890</u>

Cash flows from capital and related financing activities:

Acquisition of capital assets	(772)
Payment on capital lease	(85,289)
Cash received from issuance of debt	74,814
Sale of equipment	3,200
Interest income	428
Interest paid on loans	(10,350)
Principal on long-term debt	<u>(28,193)</u>
Net cash used by capital and related financing activities	<u>(46,162)</u>

Net decrease in cash (17,272)

Cash, beginning of year 74,298

Cash, end of year \$ 57,026

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

Net operating loss	<u>\$ (14,280)</u>
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities	
Depreciation	75,828
Increase in accounts receivable	(29,529)
Decrease in prepaid expense	22,212
Increase in accrued payroll	5,880
Decrease in other liabilities	(24,064)
Decrease in accounts payable	<u>(7,147)</u>

Total adjustments 43,180

Net cash provided by operating activities \$ 28,900

Cash consists of:

Cash and cash equivalents	\$ 37,774
Restricted cash	<u>19,252</u>
	<u><u>\$ 57,026</u></u>

Supplement disclosure of non-cash information:

Vehicles received in exchange for installment notes \$ 61,845

The accompanying notes are an integral part of these statements.

Rutland County Sheriff's Department
Notes to Financial Statements
June 30, 2008

(1) Summary of Significant Accounting Policies

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 expenses as incurred; renewals and betterments over \$1,000 are capitalized.

Rutland County Sheriff's Department
Notes to Financial Statements
June 30, 2008

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 in the amount of \$1,300 for uncollectible accounts at June 30, 2008.

(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.

Rutland County Sheriff's Department
Notes to Financial Statements
June 30, 2008

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.

	<u>Book Balance</u>	<u>Bank Balance</u>
Insured deposits	\$ 56,926	\$ 89,881
Uninsured deposits	-	-
Cash on hand	<u>100</u>	<u>-</u>
Total cash deposits	<u>\$ 57,026</u>	<u>\$ 89,881</u>

(3) Vehicles and Equipment

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Vehicles	\$ 398,378	\$ 61,845	\$ (30,065)	\$ 430,158
Equipment	<u>89,095</u>	<u>772</u>	<u>-</u>	<u>89,867</u>
Total vehicles and equipment	487,473	62,617	(30,065)	520,025
Less accumulated depreciation	<u>(281,711)</u>	<u>(75,828)</u>	<u>24,186</u>	<u>(333,353)</u>
Vehicles and equipment, net	<u>\$ 205,762</u>	<u>\$ (14,549)</u>	<u>\$ (4,541)</u>	<u>\$ 186,672</u>

(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, 2008 totaled \$128,234 and have been reflected as a non-current asset and liability on the accompany statement of net assets.

Rutland County Sheriff's Department
Notes to Financial Statements
June 30, 2008

(5) Long-Term Debt

Long-term debt as of June 30, 2008 consisted of the following:

TD Banknorth – 3.95%, monthly payments of principal and interest of \$3,086, due May 2012 as follows:

<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Current Maturity</u>	<u>Ending Balance</u>
\$ -	\$ 136,655	\$ 4,262	\$ 32,319	\$ 100,074

Chittenden Bank - 6.25%, monthly payments of principal and interest of \$227 due December 2010 as follows:

<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Current Maturity</u>	<u>Ending Balance</u>
\$ 14,784	\$ -	\$ 14,784	\$ -	\$ -

Chittenden Bank - 4.00%, monthly payments of principal and interest of \$594, due June 2009 as follows:

<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Current Maturity</u>	<u>Ending Balance</u>
\$ 13,707	\$ -	\$ 6,130	\$ 7,577	\$ -

Chittenden Bank 4.0%, monthly payments of principal and interest of \$262, due May 2010 as follows:

<u>Beginning Balance</u>	<u>Increase</u>	<u>Decrease</u>	<u>Current Maturity</u>	<u>Ending Balance</u>
\$ 7,645	\$ -	\$ 3,017	\$ 2,877	\$ 1,751

Total notes payable	\$ 144,598
Less current installments	<u>42,773</u>

Long-term debt, less current installment	<u>\$ 101,825</u>
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All notes are secured by vehicles.

Maturities on long-term debt for the years after June 30, 2008 are as follows:

<u>Year-ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 42,773	\$ 5,125	\$ 47,898
2010	35,799	3,473	39,272
2011	34,972	2,061	37,033
2012	<u>31,054</u>	<u>654</u>	<u>31,708</u>
Total	<u>\$ 144,598</u>	<u>\$ 11,313</u>	<u>\$ 155,911</u>

Rutland County Sheriff's Department
Notes to Financial Statements
June 30, 2008

(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, 2008 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, 2008, 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 Matters 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, 2008, which comprise the Department's basic financial statements, and have issued our report thereon dated December 5, 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 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 did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control that we consider to be a control deficiency, which is of a lesser magnitude than a significant deficiency. This control deficiency is described in the accompanying schedule of findings and questioned costs as item 2008-01.



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 5, 2008
VT Reg. No. 92-349

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

Internal Control – Control Deficiency

Findings

2008-01 Segregation of Duties

We noted that there was a lack of segregation of duties within the cash receipts area. The objective of internal control over cash receipts is to obtain control over amounts received at the time of receipt. We feel that separating these closely related functions in the cash receipts system will result in much greater internal control in this particular area. To achieve this control, certain duties involving receipts should be handled by more than one member involved in the accounting function. The following procedures could be enacted to improve segregation of duties over cash receipts:

- One employee, not involved in the accounting function, should open the mail, make a control 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.
- The same individual should then go to another employee for further processing and deposit to the bank on a timely basis.
- Then, someone who does not otherwise handle receipts should compare the deposit slips to the list of receipts to ensure that all funds reflected on the receipts were deposited.

Management Response: Subsequent to this finding, the Department’s office manager opens the mail, removes any receipts that come in and stamps them “for deposit only”. She also makes a list of the receipts prior to giving them to the bookkeeper for entry into the accounting system. The bookkeeper then enters the receipts into the system and makes a list of the individual receipts on a deposit slip for the bank. The bank deposit is then compared to the list of receipts made by the office manager prior to deposit of the funds. The deposit is then taken to the bank by the Sheriff, another member of the command staff or on an occasion by the office manager or bookkeeper if no one else is available. The receipt list prepared by the office manager upon opening is filed. The deposit slip listing the receipts and completed deposit slip from the bank are then stapled together. Monthly the Sheriff compares the filed list with deposits and initials each one.