

Windham County Sheriff's Department

Financial Statements
(With Independent Auditors' Report)

June 30, 2011

Windham County Sheriff's Department

June 30, 2011

Table of Contents

	<u>Pages</u>
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	5-9
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 <i>Government Auditing Standards</i>	
Schedule of Findings and Questioned Costs	



Independent Auditors' Report

Keith Clark, Sheriff
Windham County Sheriff's Department
Newfane, Vermont

We have audited the accompanying financial statements of the business-type activities of the Windham County Sheriff's Department of the County of Windham, Vermont, as of and for the year 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 Windham County Sheriff's Department of the County of Windham, Vermont, as of June 30, 2011 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 November 30, 2011 on our consideration of the Windham 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.

Windham 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.

November 30, 2011
VT Reg. No. 92-349

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

Assets:

Current assets	
Cash	\$ 97,919
Accounts receivable	123,633
Due from other governments	43,853
Prepaid expenses	<u>2,049</u>
Total current assets	267,454
Vehicles and equipment, net of accumulated depreciation	<u>241,171</u>
Total assets	<u>508,625</u>

Liabilities:

Current Liabilities	
Accounts payable	20,032
Accrued payroll and payroll taxes	41,324
Current portion of capital lease obligation	<u>33,769</u>
Total current liabilities	95,125
Capital lease obligation, less current installments	<u>53,991</u>
Total liabilities	<u>149,116</u>

Net assets:

Unrestricted	206,098
Invested in capital assets, net of debt obligations	<u>153,411</u>
Total net assets	<u>\$ 359,509</u>

The accompanying notes are an integral part of these statements.

Windham 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	\$ 830,637
Operating grants	236,853
Civil process	114,170
Transportation	82,744
Miscellaneous revenues	<u>42,725</u>
Total operating revenues	<u>1,307,129</u>
Operating Expenses:	
Contracted services	506,765
Process services	42,427
Administration and general	262,787
Communications services	79,422
Automotive services	103,904
Grant expenses	178,645
Miscellaneous expenses	4,404
Depreciation	<u>77,159</u>
Total operating expenses	<u>1,255,513</u>
Net operating income	<u>51,616</u>
Non-operating Revenues (Expenses):	
Interest income	1,863
Interest expense	<u>(3,611)</u>
Total non-operating revenues (expenses)	<u>(1,748)</u>
Net income	<u>49,868</u>
Net assets, beginning of year before prior period adjustment	244,933
Prior period adjustment	<u>64,708</u>
Net assets, beginning of year after prior period adjustment	<u>309,641</u>
Net assets, end of year	<u>\$ 359,509</u>

The accompanying notes are an integral part of these statements.

Windham County Sheriff's Department
Statement of Cash Flows
For the Year Ended June 30, 2011

Operating activities:

Cash received from customers	\$ 1,057,483
Cash received from operating grants	236,853
Cash payments to suppliers for goods and services	(414,531)
Cash payments to employees for services	<u>(763,718)</u>
Net cash provided by operating activities	<u>116,087</u>

Cash flows from capital and related financing activities:

Purchase of equipment	(70,149)
Principal payments on capital lease	(81,911)
Interest income	1,863
Interest paid on loans	<u>(3,611)</u>
Net cash used by capital and related financing activities	<u>(153,808)</u>
Net decrease in cash	(37,721)
Cash, beginning of year	<u>135,640</u>
Cash, end of year	<u>\$ 97,919</u>

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

Net operating income	\$ <u>51,616</u>
Adjustments to reconcile operating income to net cash provided by operating activities	
Depreciation	77,159
Decrease in accounts receivable	17,323
Increase in grant receivable	(30,116)
Increase in prepaid expense	(2,049)
Decrease in accrued payroll	(6,716)
Increase in accounts payable	<u>8,870</u>
Total adjustments	<u>64,471</u>
Net cash provided by operating activities	<u>\$ 116,087</u>

The accompanying notes are an integral part of these statements.

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

(1) Summary of Significant Accounting Policies

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

Assets held under capital leases are recorded at the lower of the net present value of the minimum lease payments or the fair value of the leased asset at the inception of the lease. Amortization expense is computed using the straight-line method over the shorter of the estimated useful lives of the assets or the period of the related lease.

Windham 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:

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 \$0 for uncollectible accounts at June 30, 2011.

(g) Subsequent events

In accordance with ASC 855, the Department evaluated subsequent events through November 30, 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.

Windham 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 deposit	\$ 97,761	\$ 100,085
Uninsured deposits	-	-
Cash on hand	<u>158</u>	<u>-</u>
Total cash deposits	<u>\$ 97,919</u>	<u>\$ 100,085</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	\$ 446,976	\$ 137,446	\$ -	\$ 584,422
Office equipment	111,313	13,286	-	124,599
Communication equipment	291,771	26,378	-	318,149
Patrol equipment	<u>81,240</u>	<u>-</u>	<u>-</u>	<u>81,240</u>
Total vehicles and equipment	931,300	177,110	-	1,108,410
Less accumulated depreciation	<u>(790,080)</u>	<u>(77,159)</u>	<u>-</u>	<u>(867,239)</u>
Vehicles and equipment, net	<u>\$ 141,220</u>	<u>\$ 99,951</u>	<u>\$ -</u>	<u>\$ 241,171</u>

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

(4) Commitments

The Sheriff's Department leases vehicles under agreements that are classified as capital leases. The cost of equipment under capital leases is included in the statement of financial position as property and equipment and was \$106,585 at June 30, 2011. Accumulated amortization of the leased equipment at June 30, 2011 was \$8,913. Amortization of assets under capital leases is included in depreciation expense.

The following schedule represents the remaining capital lease obligations by years of future minimum lease payments, together with the present value of the net minimum lease payments as of June 30, 2011:

Years ending		
<u>June 30,</u>		
2012	\$	38,115
2013		38,115
2014		<u>19,058</u>
		95,288
Amount representing interest		<u>(7,528)</u>
		<u>\$ 87,760</u>

(5) Cost Sharing

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

(6) Operating Grants

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

(7) 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.

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

(8) Prior Period Restatement

At June 30, 2010, the Department inadvertently recorded revenue and expenses to the incorrect year resulting in a restatement of the previously issued June 30, 2010 financial statements with an increase in net assets in the amount of \$64,708.

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*

Keith Clark, Sheriff
Windham County Sheriff's Department
Newfane, Vermont

We have audited the financial statements of the business-type activities of the Windham County Sheriff's Department of the County of Windham, Vermont (the Department) as of and for the year ended June 30, 2011, which comprise the Windham County Sheriff's Department's basic financial statements, and have issued our report thereon dated November 30, 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 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 of 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.

A deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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, 2011-02, 2011-03 and 2011-04, 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 McCLOY & CO.

November 30, 2011
VT Reg. No. 92-349

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

Internal Control – Significant Deficiencies

Findings

2011-01 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 wrong 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.

2011-02 Capitalization of Assets

The Department has a policy of capitalizing assets greater than \$1,000. We noted that several disbursements 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 for proper recognition.

2011-03 Approval of Timesheets

The Department has a policy that all timesheets should be reviewed and documented as such. During our testing over payroll transactions, we noted that this documentation was missing in several instances.

We recommend that Management adhere to their established procedures to ensure all timesheets are properly documented as reviewed and approved.

Management's Response

Management agrees with this finding and will ensure all timesheets are properly documented as reviewed and approved.

2011-04 Invoices

The Department's invoices do not indicate that "all checks should be made payable to the Windham County Sheriff Department." This would avoid the potential of a payment being made out directly to the Sheriff or other Department employee.

We recommend that this statement be added to all Department invoices.

Management's Response

Management agrees with this finding and will add this to all invoices.