

Franklin County Sheriff's Department

Financial Statements
(With Independent Auditors' Report)

June 30, 2012

Franklin County Sheriff's Department
June 30, 2012

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Independent Auditors' Report

Robert Norris, Sheriff
Franklin County Sheriff's Department
St. Albans, Vermont

We have audited the accompanying financial statements of the business-type activities of the Franklin County Sheriff's Department of the County of Franklin, Vermont (the Department), as of and for the year ended June 30, 2012, 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, 2012 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 20, 2012 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.

McSOLEY McCOY & CO.

December 20, 2012
VT Reg. No. 92-349

Franklin County Sheriff's Department
Statement of Net Assets
June 30, 2012

Assets:

Current assets

| | |
|---|---------------|
| Cash | \$ 53,010 |
| Accounts receivable, net of an allowance of \$2,000 | 26,822 |
| Prepaid expenses | <u>17,015</u> |

Total current assets 96,847

Vehicles and equipment, net of accumulated depreciation 334,872

Total assets 431,719

Liabilities:

| | |
|-----------------------------------|--------------|
| Accounts payable | 30,348 |
| Accrued payroll and payroll items | 52,674 |
| Deferred revenue | 30,512 |
| Line of credit | 29,000 |
| Current portion of long-term debt | <u>2,580</u> |

Total liabilities 145,114

Net assets:

| | |
|--|-----------------|
| Invested in capital assets, net of related debt of \$2,580 | 332,292 |
| Unrestricted | <u>(45,687)</u> |

Total net assets \$ 286,605

The accompanying notes are an integral part of this statement.

Franklin County Sheriff's Department
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2012

| | |
|--|-------------------|
| Operating revenues: | |
| Charges for services | \$ 1,044,533 |
| Operating grants | 245,879 |
| County reimbursements | 143,943 |
| Miscellaneous revenues | <u>18,247</u> |
| Total operating revenues | <u>1,452,602</u> |
| Operating expenses: | |
| Contracted services | 993,233 |
| Process services | 70,231 |
| Administration and general | 294,565 |
| Automotive services | 134,260 |
| Depreciation | <u>109,316</u> |
| Total operating expenses | <u>1,601,605</u> |
| Net operating loss | <u>(149,003)</u> |
| Non-operating income (expense): | |
| Gain on sale of equipment | 497 |
| Interest expense | <u>(1,885)</u> |
| Total non-operating income (expense) | <u>(1,388)</u> |
| Net loss | (150,391) |
| Net assets, beginning of year | <u>436,996</u> |
| Net assets, end of year | <u>\$ 286,605</u> |

The accompanying notes are an integral part of this statement.

Franklin County Sheriff's Department
Statement of Cash Flows
For the Year Ended June 30, 2012

Operating activities:

| | |
|---|------------------|
| Cash received from customers | \$ 1,287,697 |
| Cash received from operating grants | 245,879 |
| Cash payments to suppliers for goods and services | (585,685) |
| Cash payments to employees for services | <u>(925,940)</u> |

| | |
|---|---------------|
| Net cash provided by operating activities | <u>21,951</u> |
|---|---------------|

Cash flows from capital and related financing activities:

| | |
|------------------------------------|-----------------|
| Purchase of vehicles and equipment | (30,876) |
| Proceeds from sale of equipment | 2,448 |
| Borrowings on line of credit | 29,000 |
| Interest paid on long-term debt | (1,885) |
| Principal paid on long-term debt | <u>(42,478)</u> |

| | |
|---|-----------------|
| Net cash used by capital and related financing activities | <u>(43,791)</u> |
|---|-----------------|

| | |
|----------------------|----------|
| Net decrease in cash | (21,840) |
|----------------------|----------|

| | |
|-------------------------|---------------|
| Cash, beginning of year | <u>74,850</u> |
|-------------------------|---------------|

| | |
|-------------------|------------------|
| Cash, end of year | <u>\$ 53,010</u> |
|-------------------|------------------|

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

| | |
|--------------------|---------------------|
| Net operating loss | \$ <u>(149,003)</u> |
|--------------------|---------------------|

Adjustments to reconcile net operating loss to net cash provided by operating activities:

| | |
|---|----------------|
| Depreciation | 109,316 |
| Decrease in accounts receivable | 90,825 |
| Increase in prepaid expenses | (8,340) |
| Increase in accounts payable | 2,540 |
| Decrease in accrued payroll and payroll items | (13,536) |
| Decrease in deferred revenue | <u>(9,851)</u> |

| | |
|-------------------|----------------|
| Total adjustments | <u>170,954</u> |
|-------------------|----------------|

| | |
|---|------------------|
| Net cash provided by operating activities | <u>\$ 21,951</u> |
|---|------------------|

The accompanying notes are an integral part of this statement.

Franklin County Sheriff's Department
Notes to Financial Statements
June 30, 2012

(1) Summary of Significant Accounting Policies

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

Significant receivables include amounts due from state, town, and contractor contracts. These receivables are due within one year. The Department recorded \$2,000 in allowance for uncollectible accounts at June 30, 2012.

Franklin County Sheriff's Department
Notes to Financial Statements
June 30, 2012

Summary of Significant Accounting Policies (continued)

(d) 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 non-operating activity for the period. The cost of maintenance and repairs is charged to expense as incurred; renewals and betterments over \$2,000 are capitalized.

Estimated useful lives by major classification are as follows:

| | |
|-----------|------------|
| Vehicles | 5 years |
| Equipment | 5- 7 years |

(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 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.

(g) Subsequent Events

In accordance with FASB ASC 855, the Department evaluated subsequent events through December 20, 2012, 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.

Franklin County Sheriff's Department
Notes to Financial Statements
June 30, 2012

Cash and Categories of Risk (continued)

The Department's bank balances are categorized below to give an indication of the level of risk assumed by the Department at June 30, 2012:

| | Book Balance | Bank Balance |
|---------------------|-----------------|-----------------|
| Insured deposits | \$ 52,910 | \$ 60,911 |
| Uninsured deposits | - | - |
| Cash on hand | 100 | 100 |
| Total cash deposits | \$ 53,010 | \$ 61,011 |

(3) Vehicles and Equipment

Vehicles and equipment are summarized as of June 30, 2012 by major classifications as follows:

| | Beginning Balance | Additions | Deletions | Ending Balance |
|-------------------------------|----------------------|-------------|-------------|-------------------|
| Vehicles | \$ 647,870 | \$ 5,500 | \$ (30,361) | \$ 623,009 |
| Equipment | 376,406 | 25,376 | - | 401,782 |
| Total vehicles and equipment | 1,024,276 | 30,876 | (30,361) | 1,024,791 |
| Less accumulated depreciation | (609,011) | (109,316) | 28,408 | (689,919) |
| Net vehicles and equipment | \$ 415,265 | \$ (78,440) | \$ (1,953) | \$ 334,872 |

(4) Long-term Debt

Long-term debt as of June 30, 2012 consists of the following:

| | Beginning Balance | Increases | Decreases | Current Maturities | Remaining Balance |
|----------------------------|----------------------|-----------|-----------|-----------------------|----------------------|
| Peoples Trust Company | | | | | |
| 6.99% note due March, 2013 | | | | | |
| | \$ 17,999 | \$ - | \$ 17,999 | \$ - | \$ - |

Franklin County Sheriff's Department
Notes to Financial Statements
June 30, 2012

Long-term Debt (continued)

| | | | | | |
|-------|----------------------------|-------------|------------------|-----------------|-----------------|
| | 8.00% note due March, 2013 | | | | |
| | \$ <u>22,697</u> | \$ <u>-</u> | \$ <u>20,117</u> | \$ <u>2,580</u> | \$ <u>2,580</u> |
| | 8.00% note due July, 2011 | | | | |
| | \$ <u>4,363</u> | \$ <u>-</u> | \$ <u>4,363</u> | \$ <u>-</u> | \$ <u>-</u> |
| Total | \$ <u>45,059</u> | \$ <u>-</u> | \$ <u>42,479</u> | \$ <u>2,580</u> | \$ <u>2,580</u> |

(5) Line of Credit

The Department has a \$32,000 line of credit, of which \$3,000 was unused at June 30, 2012. Bank advances on the credit line are payable on demand and carry an interest rate of 8%. The credit line is substantially all assets of the Department.

(6) Cost Sharing

Under Vermont law, Franklin 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, 2012 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, 2012, management believes that no material liabilities will result from such audits.

(8) Risk Management / Contingencies

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 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.

Franklin County Sheriff's Department
Notes to Financial Statements
June 30, 2012

Risk Management / Contingencies (continued)

The Department has been named as a defendant in a lawsuit regarding a former detainee of the Department's jail facility. The Department maintains commercial insurance coverage covering the risk of such loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Department. The matter has been settled and both parties are awaiting court approval.

(9) Retirement Plan

The Department participates in the Vermont State Retirement System. The Department contributes 8.99% of eligible compensation for all employees deferring the required 5.10% of eligible compensation.

(10) Occupancy

The Department rents office space under a five-year agreement. Monthly rent during 2012 varied from \$3,000 to \$3,102. Rent expense for the years ended June 30, 2012 and 2011 amounted to \$36,102 and \$36,000, respectively.

The following represents future annual lease payments:

| | |
|-----------------|-------------------|
| <u>June 30,</u> | |
| 2013 | \$ 37,224 |
| 2014 | 37,224 |
| 2015 | 37,224 |
| 2016 | 37,224 |
| 2017 | <u>34,122</u> |
| Total | <u>\$ 183,018</u> |

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

Robert Norris, Sheriff
Franklin County Sheriff's Department
St. Albans, Vermont

We have audited the financial statements of the business-type activities of the Franklin County Sheriff's Department of the County of Franklin, Vermont (the Department) as of and for the year ended June 30, 2012, which comprise the Franklin County Sheriff's Department's basic financial statements, and have issued our report thereon dated December 20, 2012. 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 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 certain deficiency in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be a significant deficiency in internal control over financial reporting. A significant deficiency is a deficiency, or a 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. The significant deficiency is described in the accompanying schedule of findings and questioned costs as item 2012-01.

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 20, 2012
VT Reg. No. 92-349

Franklin County Sheriff's Department
Schedule of Findings and Questioned Costs
June 30, 2012

Internal Control – Significant Deficiencies

Findings

2012-01 Significant Operating Loss

As shown on the audited financial statements, the Department had an operating loss of \$149,003. The operating loss was the result of not responding quickly to a loss of revenue resulting in expenses with no corresponding revenue.

Although the Department has taken the necessary actions subsequently to address this particular matter, we recommend that the Department addresses similar matters that may arise in the future promptly to minimize the operational loss.

Management response: The Department will respond with corrective action quickly if an unexpected decline in revenue occurs again in the future.

December 20, 2012

To Sheriff Robert Norris
Franklin County Sheriff's Department

We have audited the financial statements of the business-type activities of the Franklin County Sheriff's Department (the Department) for the year ended June 30, 2012, and have issued our report thereon dated December 20, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated March 1, 2012. Professional standards also require that we communicate to you the following information related to our audit.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on November 7, 2012.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Department are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2012. We noted no transactions entered into by the Department during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. There were no sensitive estimates used by management.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.



Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes corrected misstatements of the financial statements.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 20, 2012.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Department's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Department's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of management of the Department and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

McSoley McCoy & Co.

Franklin County Sheriff's Department
 Corrected Misstatements
 June 30, 2012

Adjusting Journal Entries JE # 1
 To correct accounts payable.

| | | | |
|-------|-------------------|-----------|-----------|
| 20001 | Accounts Payable | \$ 14,455 | |
| 57340 | Cruiser Insurance | | \$ 14,455 |

Adjusting Journal Entries JE # 2
 To capitalize purchases of equipment.

| | | | |
|-------|------------------------|--------|--------|
| 16000 | Equipment | 25,376 | |
| 55390 | Telephone | | 6,821 |
| 59301 | OSG Equip #001 Expense | | 18,555 |

Adjusting Journal Entries JE # 3
 To adjust prepaid expenses.

| | | | |
|-------|------------------|-------|-------|
| 15050 | Prepaid Expense | 9,375 | |
| 55372 | Lake Road Rental | | 9,375 |

Adjusting Journal Entries JE # 4
 To correct accounts receivable for the adjusting entry
 recorded by the accountant to adjust deferred revenue.

| | | | |
|-------|---------------------|--------|--------|
| 41101 | Patrol | 30,512 | |
| 12000 | Accounts Receivable | | 30,512 |

Adjusting Journal Entries JE # 5
 To adjust fixed assets balances.

| | | | |
|-------|----------------------|--------|--------|
| 16050 | A/D Vehicles | 28,408 | |
| 44300 | Sale of Equipment | 1,953 | |
| 55500 | Depreciation Expense | 4,002 | |
| 16030 | A/D Equipment | | 4,002 |
| 16040 | Vehicles | | 30,361 |