Franklin County Sheriff's Department

Financial Statements
(With Independent Auditors' Report)

June 30, 2010

Franklin County Sheriff's Department
June 30, 2010

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McSOLEY McCOY & CO.
Certified Public Accountants and Business Advisors

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, as of and for the year ended June 30, 2010, 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 Franklin County Sheriff's Department of the County of Franklin, Vermont, as of June 30, 2010 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 January 15, 2011 on our consideration of the Franklin 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.

Franklin 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.

January 15, 2011
VT Reg. No. 92-349

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Franklin County Sheriff's Department
Statement of Net Assets
June 30, 2010

Assets:		
Current assets		
Cash	$	128,026
Prepaid expenses		19,864
Accounts receivable, net of an allowance of $2,000		120,375
Total current assets		268,265
Vehicles and equipment, net of accumulated depreciation		230,636
Total assets		498,901
Liabilities:		
Accounts payable		51,045
Accrued payroll and payroll items		154,040
Deferred revenue		37,803
Current installments of long-term debt		47,925
Total liabilities		290,813
Net assets:		
Invested in capital assets, net of related debt of $47,925		182,711
Unrestricted		25,377
Total net assets	$	208,088

The accompanying notes are an integral part of these statements.

Franklin County Sheriff's Department
Statement of Revenues, Expenses, and Changes in Net Assets
For the Year Ended June 30, 2010

Operating revenues:	
Charges for services	$ 1,672,283
Jail revenue	108,528
Operating grants	142,955
County reimbursements	145,589
Miscellaneous revenues	9,487
Total operating revenues	2,078,842
Operating expenses:	
Contracted services	1,347,865
Process services	57,627
Jail services	60,503
Grant expenditures	1,444
Administration and general	348,224
Communication services	43,092
Automotive services	164,767
Depreciation	74,067
Total operating expenses	2,097,589
Net operating loss	(18,747)
Non-operating expenses:	
Loss on sale of equipment	(48,831)
Interest expense	(3,742)
Total non-operating expenses	(52,573)
Net loss	(71,320)
Net assets, beginning of year	279,408
Net assets, end of year	$ 208,088

The accompanying notes are an integral part of these statements.

Franklin County Sheriff's Department
Statement of Cash Flows
For the Year Ended June 30, 2010

Operating activities:	
Cash received from customers	$ 1,941,241
Cash received from operating grants	142,955
Cash payments to suppliers for goods and services	(742,865)
Cash payments to employees for services	(1,248,673)
Net cash provided by operating activities	92,658
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(80,249)
Proceeds from issuance of long-term debt	46,082
Interest paid on loans	(3,742)
Principal paid on long-term debt	(101,191)
Net cash used by capital and related financing activities	(139,100)
Net decrease in cash	(46,442)
Cash, beginning of year	174,468
Cash, end of year	$ 128,026
Reconciliation of net operating loss to net cash provided by operating activities:	
Net operating loss	$ (18,747)
Adjustments to reconcile net operating loss to net cash provided by operating activities	
Depreciation	74,067
Increase in accounts receivable	(5,292)
Increase in prepaid expenses	(14,934)
Increase in accounts payable	18,366
Increase in accrued payroll and payroll items	28,552
Increase in deferred revenue	10,646
Total adjustments	111,405
Net cash provided by operating activities	$ 92,658

The accompanying notes are an integral part of these statements.

(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) 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.

Summary of Significant Accounting Policies (continued)

Estimated useful lives by major classification are as follows:

Jail improvements	31.5 years
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 recorded $2,000 in allowance for uncollectible accounts at June 30, 2010.

(g) Subsequent Events

Effective June 30, 2010, the Department adopted FASB ASC 855, *Subsequent Events*. Under FASB ASC 855, subsequent events are defined as events or transactions that occur after the statement of net assets, but before the financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the statement of net assets. Unrecognized subsequent events are events or transactions that provide evidence about conditions that did not exist at the date of the statement of net assets, but arose before the financial statements are issued. Recognized subsequent events are recorded in the statement of net assets and unrecognized subsequent events are excluded from the statement of net assets but are disclosed in the notes to the financial statements if their effect is material. In accordance with FASB ASC 855, the Department evaluated subsequent events through January 15, 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.

The Department's bank balances are categorized below to give an indication of the level of risk assumed by the Department at June 30, 2010.

	Book Balance	Bank Balance
Insured deposits	$ 127,926	$ 128,566
Uninsured deposits	-	-
Cash on hand	100	100
Total cash deposits	$ 128,026	$ 128,666

(3) Vehicles and Equipment

Vehicles and equipment are summarized as of June 30, 2010 by major classifications as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Vehicles	$ 500,202	$ 73,968	$ -	$ 574,170
Equipment	167,344	6,281	-	173,625
Jail improvements	91,353	-	(91,353)	-
Total vehicles and equipment	758,899	80,249	(91,353)	747,795
Less accumulated depreciation	(485,613)	(122,899)	91,353	(517,159)
Net vehicles and equipment	$ 273,286	$ (42,650)	$ -	$ 230,636

(4) Long-term Debt

Long-term debt as of June 30, 2010 consists of the following:

	Beginning Balance	Increases	Decreases	Current Maturities	Remaining Balance
Notes payable to Peoples Trust Company:					
6.99% note due April 1, 2011 as follows:					
	$ -	$ 46,082	$ 6,150	$ 39,932	$ -
TD Bank					
5.53% note due June, 2011 as follows:					
	$ 20,467	$ -	$ 12,474	$ 7,993	$ -

(5) Cost Sharing

Under Vermont law, Franklin County and the State of Vermont are required to cover certain costs of the Franklin 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, 2010 has not been determined.

(6) Operating Grants

The Franklin 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, 2010, management believes that no material liabilities will result from such audits.

(7) 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.

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 believes that this litigation will not materially affect its financial position, future operating results or cash flows, although no assurance can be given with respect to the ultimate outcome of this litigation.

(8) Retirement Plan

The Department participates in the Vermont State Retirement System. The Department contributes 5.10% of eligible compensation for all employees deferring the required 3.35% of eligible compensation.

McSOLEY McCOY & CO.
Certified Public Accountants and Business Advisors

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

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, 2010, which comprise the Department's basic financial statements, and have issued our report thereon dated January 15, 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 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 that we consider to be significant deficiencies 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 deficiencies are described in the accompanying schedule of findings and questioned costs as item 2010-01 and 2010-02.

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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 note be used by anyone other than these specified parties.

McSoley McCoy & Co.

January 15, 2011
VT Reg. No. 92-349

Franklin County Sheriff's Department
Schedule of Findings and Questioned Costs
June 30, 2010

Internal Control – Significant Deficiencies

Findings

2010-01 Resolve Outstanding Checks on a Timely Basis

During the audit we noted that bank reconciliations included outstanding checks that were over 6 months old.

We recommend that checks older than 6 months be transferred to the liability account for unclaimed checks for control purposes and to facilitate preparation of monthly bank reconciliations. These items should also be reviewed regarding whether they should be voided and/or reissued.

2010-02 Contract Documentation

Maintaining a log for contracts is fundamental to the billing procedures. It was noted during our internal control testing that the Department does not maintain such a log. As required under Uniform Accounting Manual, the Department shall maintain a subsidiary record of contracts in order to ensure proper internal control environment.

We recommend that Management implement procedures to ensure a log for all contracts is maintained and a review process of such a log is being performed on quarterly basis to ensure proper billing.