

Franklin County Sheriff's Department

Financial Statements

June 30, 2006

Franklin County Sheriff's Department

June 30, 2006

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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, as of and for the year ended June 30, 2006, 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, 2006 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 17, 2006 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, 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.

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

November 17, 2006
VT Reg. No. 92-349

Franklin County Sheriff's Department
Statement of Net Assets
June 30, 2006

	2006
Assets:	
Current assets	
Cash (note 2)	\$ 14,551
Accounts receivable, net of an allowance of \$2,000	55,422
Prepaid expenses	22,359
Total current assets	92,332
Vehicles and equipment, net of accumulated depreciation (note 3)	312,040
Total assets	404,372
Liabilities:	
Current liabilities	
Accounts payable	18,959
Accrued payroll and payroll items	107,081
Deferred revenue	15,640
Current installments of long-term debt (note 5)	75,463
Total current liabilities	217,143
Long-term debt - less current installments (note 5)	187,144
Total liabilities	404,287
Net assets:	
Invested in capital assets, net of related debt of \$262,607	49,433
Unrestricted	(49,348)
Total net assets	\$ 85

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, 2006

	2006
Operating Revenues:	
Charges for services	\$ 1,083,353
Jail revenue	211,426
Operating grants	342,217
County reimbursements	116,834
Miscellaneous revenues	21,950
Total operating revenues	1,775,780
Operating Expenses:	
Contracted services	829,840
Process services	49,866
Jail services	340,344
Grant expenditures	169,773
Administration and general	266,638
Communications services	22,880
Automotive services	127,009
Depreciation	95,128
Total operating expenses	1,901,478
Net operating loss	(125,698)
Non-operating Expenses:	
Loss on sale of equipment	3,951
Interest expense	11,255
Total non-operating expenses	15,206
Net loss	(140,904)
Net assets, beginning of year	140,989
Net assets, end of year	\$ 85

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, 2006

	2006
Operating activities:	
Cash received from customers	\$ 1,502,894
Cash received from operating grants	342,217
Cash payments to suppliers for goods and services	(754,076)
Cash payments to employees for services	(990,513)
Net cash provided by operating activities	100,522
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(122,985)
Proceeds on sale of equipment	1,335
Proceeds from issuance of long-term debt	50,900
Interest paid on loans	(11,255)
Principal on long-term debt	(56,328)
Net cash used by capital and related financing activities	(138,333)
Net decrease in cash	(37,811)
Cash, beginning of year	52,362
Cash, end of year	\$ 14,551
Reconciliation of operating loss to net cash provided by (used in) operating activities:	
Net operating loss	\$ (125,698)
Adjustments to reconcile operating loss to net cash provided by operating activities	
Depreciation	95,128
Decrease in accounts receivable	69,331
Decrease in prepaid expenses	(18,013)
Increase in accounts payable	843
Increase in accrued payroll and payroll items	64,744
Decrease in accrued expenses	(1,453)
Increase in deferred revenue	15,640
Total adjustments	226,220
Net cash provided by operating activities	\$ 100,522

The accompanying notes are an integral part of these statements.

Franklin County Sheriff's Department
Notes to Financial Statements
June 30, 2006

(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 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, 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.

Franklin County Sheriff's Department
Notes to Financial Statements
June 30, 2006

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 receivable are due within one year. The Department recorded \$2,000 in allowance for uncollectible accounts at June 30, 2006.

(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, 2006

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, 2006.

	<u>Book Balance</u>	<u>Bank Balance</u>
Insured deposits	\$ 14,451	\$ 67,833
Uninsured deposits	-	-
Cash on hand	<u>100</u>	<u>100</u>
Total cash deposits	<u>\$ 14,551</u>	<u>\$ 67,933</u>

(3) Vehicles and Equipment

Property, plant and equipment are summarized, as of June 30, 2006, by major classifications as follows:

Vehicles	\$ 391,567
Equipment	169,718
Jail Improvements	<u>91,353</u>
Total	652,638
Less: accumulated depreciation	<u>340,598</u>
Net vehicles and equipment	<u>\$ 312,040</u>

Depreciation expense for the year ended June 30, 2006 amounted to \$95,128.

(4) Commitments

The Department leases a copier under an operating lease agreement expiring in December 2009. Total rent expense charged to operations was \$2,176 in 2006.

Minimum lease payments under the agreement are as follows:

Years ending <u>June 30</u>		
2007	\$	1,758
2008	\$	1,758
2009	\$	1,758
2010	\$	732

Franklin County Sheriff's Department
Notes to Financial Statements
June 30, 2006

(5) Long-Term Debt

Long-term debt as of June 30, 2006 consists of the following:

Note payable, TD Banknorth, 4%, monthly payments of principal and interest of \$3,622, through July 1, 2010, secured by vehicle	\$ 163,968
Note payable, TD Banknorth, 3.85%, monthly payments of principal and interest of \$985, through March 18, 2008, secured by vehicle	19,955
Note payable, TD Banknorth, 4.85%, monthly payments of principal and interest of \$1,219, through April 15, 2009, secured by vehicle	37,420
Note payable, TD Banknorth, 5.77%, monthly payments of principal and interest of \$1,063, through August 15, 2009, secured by vehicle	36,664
Note payable, Town of Montgomery, no interest, monthly payments of principle of \$225, through February 15, 2008	<u>4,600</u>
Total long-term debt	262,607
Less current installments	<u>75,463</u>
Long-term debt, less current installments	<u>\$ 187,144</u>

Maturities on long-term debt for the years after June 30, 2006 are as follows:

<u>Year-ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 75,463	\$ 9,864	\$ 85,327
2008	75,076	6,607	81,683
2009	63,688	3,510	67,198
2010	44,272	1,101	45,373
2011	<u>4,108</u>	<u>14</u>	<u>4,122</u>
Total	<u>\$ 262,607</u>	<u>\$ 21,096</u>	<u>\$ 280,703</u>

(6) 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, 2006 has not been determined.

Franklin County Sheriff's Department
Notes to Financial Statements
June 30, 2006

(7) 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, 2006, 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

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, 2006, which comprise the Franklin County Sheriff's Department's basic financial statements, and have issued our report thereon dated November 17, 2006. 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. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment could adversely affect the Department's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying schedule of findings and questioned costs as 2006-01.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider item 2006-01 to be a material weakness.

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*.

We also noted a certain additional matter that we have reported to the management of the Department. The other matter is described in the accompanying schedule of findings and questioned costs as item 2006-02.

MCSoley McCoy & Co.
November 17, 2006
VT Reg. No. 92-349

Franklin County Sheriff's Department
Schedule of Findings and Questioned Costs
June 30, 2006

Internal Control – Material Weakness

Findings

2006-01 Financial Statement Presentation

Comprehensive financial information is fundamental to any organization for making sound economic decisions and demonstrating accountability and stewardship.

During our audit, accounts receivable, liabilities, and net assets required several adjusting journal entries to bring the accounts current. We also noted the fiscal year ended June 30, 2005 had not been closed causing revenue and expense accounts to be overstated.

To provide accurate financial information, financial statements should be reviewed and reconciled quarterly. The Department implemented this policy in April 2006. This will provide the Department with useful financial information throughout the year, reduce work at year-end, and could provide an early indication of potential errors or problems within the Department.

Franklin County Sheriff's Department
Schedule of Findings and Questioned Costs
June 30, 2006

Internal Control – Other Matters

Findings

2006-02 Outstanding Checks

Monthly reconciliations are prepared for the checking account. During our review of the reconciliations we noted several checks that were more than three months old. All old outstanding checks should be periodically investigated and payments stopped when appropriate.