

Orleans County Sheriff's Department

Financial Statements

For the Year Ended June 30, 2010

Orleans County Sheriff's Department

For the Year Ended June 30, 2010

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Independent Auditors' Report

Kirk Martin, Sheriff
Orleans County Sheriff's Department
Newport, Vermont

We have audited the accompanying financial statements of the business-type activities of the Orleans County Sheriff's Department of the County of Orleans, 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 Orleans County Sheriff's Department of the County of Orleans, 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 11, 2011 on our consideration of the Orleans 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.

Orleans 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 11, 2011
VT Reg. No. 92-349

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

| | |
|---|-------------------|
| Assets: | |
| Current assets | |
| Cash | \$ 89,772 |
| Accounts receivable | 74,293 |
| Other current assets | <u>5,799</u> |
| Total current assets | 169,864 |
| Vehicles and equipment, net of accumulated depreciation | <u>117,431</u> |
| Total assets | <u>287,295</u> |
| Liabilities: | |
| Current liabilities | |
| Accrued vacation | 4,370 |
| Accrued payroll and related expenses | 11,772 |
| Current installments of long-term debt | <u>16,733</u> |
| Total current liabilities | 32,875 |
| Long-term debt, less of current portion | <u>26,284</u> |
| Total liabilities | <u>59,159</u> |
| Net assets: | |
| Invested in capital assets, net of related debt of \$43,017 | 74,414 |
| Unrestricted | 76,276 |
| Restricted | <u>77,446</u> |
| Total net assets | <u>\$ 228,136</u> |

The accompanying notes are an integral part of these statements.

Orleans 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 | \$ 591,297 |
| Operating grants | 41,533 |
| Miscellaneous revenues | 12,432 |
| State and employee reimbursements | <u>11,541</u> |
| Total operating revenues | <u>656,803</u> |
| Operating expenses: | |
| Contracted services | 193,269 |
| Process services | 35,309 |
| Transportation | 11,103 |
| Grant services | 12,878 |
| Administration and general | 174,672 |
| Communications services | 58,112 |
| Automotive services | 55,255 |
| Depreciation | <u>22,020</u> |
| Total operating expenses | <u>562,618</u> |
| Net operating income | <u>94,185</u> |
| Non-operating income (expense): | |
| Interest expense | (1,846) |
| Interest income | <u>137</u> |
| Total non-operating expense | <u>(1,709)</u> |
| Net income | 92,476 |
| Net assets, beginning of year | <u>135,660</u> |
| Net assets, end of year | <u><u>\$ 228,136</u></u> |

The accompanying notes are an integral part of these statements.

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

Operating activities:

| | |
|---|------------------|
| Cash received from customers | \$ 595,060 |
| Cash received from operating grants | 41,533 |
| Cash payments to suppliers for goods and services | (250,999) |
| Cash payments to employees for services | <u>(295,141)</u> |

| | |
|---|---------------|
| Net cash provided by operating activities | <u>90,453</u> |
|---|---------------|

Cash flows from capital and related financing activities:

| | |
|----------------------------------|----------------|
| Interest paid on loans | (1,846) |
| Purchase of vehicles | (109,462) |
| Interest income | 137 |
| Receipt of loans | 51,000 |
| Principal paid on long-term debt | <u>(7,983)</u> |

| | |
|---|-----------------|
| Net cash used by capital and related financing activities | <u>(68,154)</u> |
|---|-----------------|

| | |
|----------------------|--------|
| Net increase in cash | 22,299 |
|----------------------|--------|

| | |
|-------------------------|---------------|
| Cash, beginning of year | <u>67,473</u> |
|-------------------------|---------------|

| | |
|-------------------|-------------------------|
| Cash, end of year | <u><u>\$ 89,772</u></u> |
|-------------------|-------------------------|

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

| | |
|----------------------|------------------|
| Net operating income | \$ <u>94,185</u> |
|----------------------|------------------|

Adjustments to reconcile operating income to net cash provided by operating activities

| | |
|---|----------------|
| Depreciation | 22,020 |
| Increase in accounts receivable | (20,210) |
| Decrease in prepaid expense | 857 |
| Decrease in accrued payroll and related items | <u>(6,399)</u> |

| | |
|-------------------|----------------|
| Total adjustments | <u>(3,732)</u> |
|-------------------|----------------|

| | |
|---|-------------------------|
| Net cash provided by operating activities | <u><u>\$ 90,453</u></u> |
|---|-------------------------|

Cash consists of:

| | |
|---------------------------|-------------------------|
| Cash and cash equivalents | \$ 12,326 |
| Restricted cash | <u>77,446</u> |
| | <u><u>\$ 89,772</u></u> |

The accompanying notes are an integral part of these statements.

Orleans County Sheriff's Department
Notes to Financial Statements
June 30, 2010

(1) Summary of Significant Accounting Policies

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

Orleans County Sheriff's Department
Notes to Financial Statements
June 30, 2010

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) Restricted net assets

Restricted net assets for proprietary funds represent accumulating reserves for vehicle and equipment replacement.

(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) Accounts receivable

Significant receivables include amounts due from state, town, and contractor contracts. These receivable are due within one year. The Department has not recorded an allowance for uncollectible accounts at June 30, 2010.

(h) 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 11, 2011, the date the Department's financial statements were available to be used and no events or transactions occurred.

Orleans County Sheriff's Department
Notes to Financial Statements
June 30, 2010

(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 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, 2010.

| | <u>Book Balance</u> | <u>Bank Balance</u> |
|---------------------|-------------------------|-------------------------|
| Insured deposits | \$ 89,772 | \$ 94,390 |
| Uninsured deposits | - | - |
| Cash on hand | - | - |
| Total cash deposits | <u>\$ 89,772</u> | <u>\$ 94,390</u> |

(3) Vehicles and Equipment

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

| | <u>Beginning Balance</u> | <u>Additions / Adjustments</u> | <u>Deletions</u> | <u>Ending Balance</u> |
|-------------------------------|------------------------------|------------------------------------|------------------|---------------------------|
| Vehicles | \$ 173,949 | \$ 86,971 | \$ (11,952) | \$ 248,968 |
| Equipment | <u>277,931</u> | <u>22,491</u> | <u>-</u> | <u>300,422</u> |
| Total vehicles and equipment | 451,880 | 109,462 | (11,952) | 549,390 |
| Less accumulated depreciation | <u>(421,891)</u> | <u>(22,020)</u> | <u>11,952</u> | <u>(431,959)</u> |
| Vehicles and equipment, net | <u>\$ 29,989</u> | <u>\$ 87,442</u> | <u>\$ -</u> | <u>\$ 117,431</u> |

Orleans County Sheriff's Department
Notes to Financial Statements
June 30, 2010

(4) Long-term Debt

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

Passumpsic Savings Bank – 2.58%, monthly payments of principal and interest of \$722 due May 2013 as follows:

| <u>Beginning Balance</u> | <u>Increase</u> | <u>Decrease</u> | <u>Current Maturity</u> | <u>Ending Balance</u> |
|------------------------------|-----------------|-----------------|-----------------------------|---------------------------|
| \$ _____ - | \$ 25,000 | \$ 668 | \$ 8,119 | \$ 16,213 |

Community National Bank – 7.625%, monthly payments of principal and interest of \$812 due July 2012 as follows:

| <u>Beginning Balance</u> | <u>Increase</u> | <u>Decrease</u> | <u>Current Maturity</u> | <u>Ending Balance</u> |
|------------------------------|-----------------|-----------------|-----------------------------|---------------------------|
| \$ _____ - | \$ 26,000 | \$ 7,315 | \$ 8,614 | \$ 10,071 |

| | | | | | |
|-------|------------|-----------|----------|-----------|-----------|
| Total | \$ _____ - | \$ 51,000 | \$ 7,983 | \$ 16,733 | \$ 26,284 |
|-------|------------|-----------|----------|-----------|-----------|

(5) Cost Sharing

Under Vermont law, Orleans County and the State of Vermont are required to cover certain costs of the Orleans 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 for the Year Ended June 30, 2010 has not been determined.

(6) Operating Grants

The Orleans 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

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

Kirk Martin, Sheriff
Orleans County Sheriff's Department
Newport, Vermont

We have audited the financial statements of the business-type activities of the Orleans County Sheriff's Department of the County of Orleans, Vermont (the Department) as of and for the year ended June 30, 2010, which comprise the Orleans County Sheriff's Department's basic financial statements, and have issued our report thereon dated January 11, 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 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 deficiencies in internal control that we consider to be control deficiencies, which are of a lesser magnitude than significant deficiencies. These control deficiencies are described in the accompanying schedule of findings and questioned costs as items 2010-01, 2010-02 and 2010-03.



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.

January 11, 2011
VT Reg. No. 92-349

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

Internal Control – Control Deficiencies

Findings

2010-01 Vehicles and Equipment

The Department's fixed asset records at June 30, 2010 did not include fully depreciated assets that are still in service, thus understating the value of gross vehicles and equipment and accumulated depreciation. Many small organizations use their depreciation schedule as their fixed asset register as well as a tool to calculate depreciation. In order to do so, however, the schedules must be kept current, and periodic physical inventories must be taken of the fixed assets from the depreciation schedules.

We recommend that the Department bring their depreciation schedules current, and begin a schedule of periodic inventories.

2010-02 Payroll

In accordance with the Uniform Accounting Manual for the County Sheriff Departments, employees should receive their pay within 6 days after the end of a payroll period. During our audit, we noted payroll was processed later than that deadline. We recommend the Department change its policy for processing payroll to comply with the State of Vermont.

2010-03 Revenue Cutoff

During our audit, we noted that revenue was recorded when billed instead of when the services were performed. Revenue should be recorded based on when services were performed. A reliable cutoff is critical to the accuracy and reliability of the financial statements.

We suggest that a review be performed by the Department's bookkeeper to verify that year-end cutoff is performed during the months following year-end.