

Orange County Sheriff's Department

Financial Statements
(With Independent Auditors' Report)

For the Period from February 1, 2007 to June 30, 2007

Orange County Sheriff's Department

For the Period from February 1, 2007 to June 30, 2007

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 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

Bill Bohnyak, Sheriff
Orange County Sheriff's Department
Chelsea, Vermont

We have audited the accompanying financial statements of the business-type activities of the Orange County Sheriff's Department of the County of Orange, Vermont, for the period from February 1, 2007 to June 30, 2007, 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 Orange County Sheriff's Department of the County of Orange, Vermont, as of June 30, 2007 and the respective changes in financial position and cash flows for the period from February 1, 2007 to June 30, 2007 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 August 15, 2008 on our consideration of the Orange 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.

Orange 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.

August 15, 2008
VT Reg. No. 92-349

Orange County Sheriff's Department
Statement of Net Assets
June 30, 2007

	<u>2007</u>
Assets:	
Current assets	
Cash (note 2)	\$ 73,567
Accounts receivable	108,896
Prepaid expenses	4,356
Other current assets	<u>3,257</u>
Total current assets	190,076
Noncurrent assets	
Vehicles and equipment, net accumulated depreciation (note 3)	175,082
Restricted cash	<u>4,274</u>
Total assets	<u>369,432</u>
Liabilities:	
Current liabilities	
Accounts payable	13,093
Accrued payroll and payroll items	16,069
Deferred revenue (note 5)	4,418
Current installments of long-term debt (note 4)	<u>18,800</u>
Total current liabilities	52,380
Long-term debt - less current installments (note 4)	<u>25,759</u>
Total liabilities	<u>78,139</u>
Net assets:	
Invested in capital assets, net of related debt of \$44,559	130,523
Restricted cash	4,274
Unrestricted	<u>156,496</u>
Total net assets	<u>\$ 291,293</u>

The accompanying notes are an integral part of these statements.

Orange County Sheriff's Department
Statement of Revenues, Expenses, and Changes in Net Assets
For the Period from February 1, 2007 to June 30, 2007

	2007
Operating Revenues:	
Charges for services	\$ 210,022
Operating grants	39,957
County reimbursements	2,423
Miscellaneous revenues	12,913
Total operating revenues	265,315
Operating Expenses:	
Contracted services	89,010
Process services	24,351
Jail services	1,186
Grant expenditures	10,334
Transportation services	7,471
Administration and general	38,512
Communications services	1,698
Automotive services	26,528
Depreciation	18,326
Total operating expenses	217,416
Net operating gain	47,899
Non-operating Expenses:	
Interest expense	1,107
Total non-operating expenses	1,107
Net gain	46,792
Net assets, beginning of period	244,501
Net assets, end of period	\$ 291,293

The accompanying notes are an integral part of these statements.

Orange County Sheriff's Department
Statement of Cash Flows
For the Period from February 1, 2007 to June 30, 2007

	2007
Operating activities:	
Cash received from customers	\$ 167,512
Cash received from operating grants	39,957
Cash payments to suppliers for goods and services	(118,668)
Cash payments to employees for services	(87,978)
Net cash provided by operating activities	823
Cash flows from capital and related financing activities:	
Acquisition of capital assets	(53,033)
Proceeds from issuance of of long-term debt	17,795
Principal payment on long-term debt	(4,918)
Interest expense	(1,107)
Net cash used by capital and related financing activities	(41,263)
Net decrease in cash	(40,440)
Cash, beginning of period	118,281
Cash, end of period	\$ 77,841
Reconciliation of operating gain to net cash provided by operating activities	
Net operating gain	\$ 47,899
Adjustments to reconcile operating gain to net cash provided by operating activities	
Depreciation	18,326
Increase in accounts receivable	(57,154)
Increase in prepaid expenses	(2,184)
Increase in other current assets	(692)
Increase in accounts payable	1,118
Decrease in deferred revenue	(8,922)
Increase in accrued payroll and payroll items	2,432
Total adjustments	(47,076)
Net cash provided by operating activities	\$ 823
Cash consists of:	
Cash and cash equivalents	\$ 73,567
Restricted cash	4,274
	\$ 77,841

The accompanying notes are an integral part of these statements.

Orange County Sheriff's Department
Notes to Financial Statements
For the Period from February 1, 2007 to June 30, 2007

(1) Summary of Significant Accounting Policies

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

Orange County Sheriff's Department
Notes to Financial Statements
For the Period from February 1, 2007 to June 30, 2007

Summary of Significant Accounting Policies (continued)

Estimated useful lives by major classification are as follows:

Office furniture	5 years
Communication equipment	5-10 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 has not recorded an allowance for uncollectible accounts at June 30, 2007.

(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.

Orange County Sheriff's Department
Notes to Financial Statements
For the Period from February 1, 2007 to June 30, 2007

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, 2007.

	Book Balance	Bank Balance
Insured deposits	\$ 66,289	\$ 73,590
Undeposited funds	7,278	-
Total cash funds	\$ 73,567	\$ 73,590

(3) Vehicles and Equipment

Vehicles and equipment are summarized as of June 30, 2007 by major classifications as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Vehicles	\$ 128,367	\$ 55,033	\$ -	\$ 183,400
Equipment	188,517	-	-	188,517
Total vehicles and equipment	316,884	55,033	-	371,917
Less accumulated depreciation	(178,509)	(18,326)	-	(196,835)
Net vehicles and equipment	\$ 138,375	\$ 36,707	\$ -	\$ 175,082

Depreciation expense for the period from February 1, 2007 to June 30, 2007 amounted to \$18,326.

(4) Long-Term Debt

Long-term debt as of June 30, 2007 consists of the following:

Note payable, Ford Motor Credit Co, 7%, annual payments of principal and interest of \$6,025, through June 1, 2009, secured by vehicle	\$ 10,894
Note payable, Ford Motor Credit Co, 7%, annual payments of principal and interest of \$6,047, through October 4, 2009, secured by vehicle	15,870

Orange County Sheriff's Department
Notes to Financial Statements
For the Period from February 1, 2007 to June 30, 2007

Long-Term Debt (continued)

Note payable, Ford Motor Credit Co, 7%, annual payments of principal and interest of \$9,828, through March 20, 2009, secured by vehicle	17,795
Long-term debt	44,559
Less current installments	(18,800)
Long-term debt, less current installments	\$ 25,759

Maturities on long-term debt for the years after June 30, 2007 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
June 30, 2008	\$ 18,800	\$ 2,354	\$ 21,154
June 30, 2009	20,107	1,794	21,901
June 30, 2010	5,652	396	6,048
	\$ 44,559	\$ 4,544	\$ 49,103

(5) Deferred Revenue

The Department has recognized a deferred revenue liability for unused support received for specific programs. The balance in this account consists of the following at June 30, 2007:

Dare grant	\$ 2,648
Project graduation	818
Scholarship fund	952
	\$ 4,418

(6) Cost Sharing

Under Vermont law, Orange County and the State of Vermont are required to cover certain costs of the Orange 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 period from February 1, 2007 to June 30, 2007 has not been determined.

(7) Operating Grants

The Orange 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, 2007, management believes that no material liabilities will result from such audits.

Orange County Sheriff's Department
Notes to Financial Statements
For the Period from February 1, 2007 to June 30, 2007

(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

Bill Bohnyak, Sheriff
Orange County Sheriff's Department
Chelsea, Vermont

We have audited the financial statements of the business-type activities of the Orange County Sheriff's Department of the County of Orange, Vermont (the Department) for the period from February 1, 2007 to June 30, 2007, which comprise the Orange County Sheriff's Department's basic financial statements, and have issued our report thereon dated August 15, 2008. 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 on 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.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we considered to be significant deficiencies and material weaknesses.

A control deficiency 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 misstatements in a timely manner. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Department's ability to record, process, summarize, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a 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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. The significant deficiencies are described in the accompanying schedule of findings and questioned costs as items 2007-01, 2007-02 and 2007-03.

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. We believe the significant deficiencies presented in the accompanying schedule as items 2007-01 and 2007-02 constitute material weaknesses.



Our consideration of the 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 the internal control that might be significant deficiencies or material weaknesses and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses.

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.

August 15, 2008
VT Reg. No. 92-349

Orange County Sheriff's Department
Schedule of Findings and Questioned Costs
For the period from February 1, 2007 to June 30, 2007

Internal Control – Material Weaknesses

Findings

2007-01 Financial Reporting

Meaningful financial reports are the end product of any sound accounting system. They are a crucial tool in assisting management make sound budgeting, financial, and operational decisions. Currently, the Department does not produce any periodic financial reports. The Department's current accounting system has the capabilities to produce a full set of financial statements that can assist the Sheriff in managing the Department. We recommend that the Department institute a written month end closing routine that culminates with the Department bookkeeper reviewing the financial statements with the Sheriff and any other Department management personnel.

Management response: Management agrees with this finding and effective immediately the Sheriff will receive monthly reports from the bookkeeper to review.

2007-02 Revenue Cutoff

As a result of our audit, significant adjustments were required to correct invoices processed near the end of the year to the proper accounting period. A reliable cutoff is critical to ensure the accuracy and reliability of the financials.

We suggest that a review be performed by the bookkeeper to ensure proper cutoff of revenue at month end. We recommend that they implement this review immediately as a routine process.

Management response: Management agrees with this finding and effective immediately all invoices processed will be reviewed for proper cutoff.

Orange County Sheriff's Department
Schedule of Findings and Questioned Costs
For the period from February 1, 2007 to June 30, 2007

Internal Control – Significant Deficiency

Findings

2007-03 Segregation of Duties – Cash Disbursements

The Uniform Accounting Manual for the County Sheriff's Departments and a basic tenet of any internal control system requires that a responsible official approve all expenses and disbursements. This approval process shall include written documentation that the Sheriff authorized amounts to be paid.

We noted that several timesheets were missing such approval during the five months ended June 30, 2007. All timesheets should be noted as reviewed and approved prior to payroll processing.

Management response: Management agrees with this finding and effective immediately all timesheets will be reviewed and approved by the Sheriff or his designee.