McSOLEY McCOY & CO.
Certified Public Accountants and Business Advisors

November 28, 2014

To Sheriff Kirk Martin
Orleans County Sheriff's Department

We have audited the financial statements of the business-type activities of the Orleans County Sheriff's Department (the Department) for the year ended June 30, 2014, and have issued our report thereon dated November 28, 2014. 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 August 5, 2014. 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 September 23, 2014.

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 2014. 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.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

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

118 TILLEY DRIVE, SUITE 202, SOUTH BURLINGTON, VERMONT 05403
PHONE 802.658.1808 FAX 802.658.1779 WEB WWW.CPAVT.COM

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 November 28, 2014.

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

McSoley McCoy & Co.

Orleans County Sheriff's Department
Corrected Misstatements
June 30, 2014

To record June 2013 revenue to proper period					
41500	Accident Reports	$	5,893		
30020	Retained Earnings			$	5,893
To record fuel expense to the correct period					
57270	Vehicle Fuel	$	3,989		
20002	A/P Operating Account			$	3,989

Orleans County Sheriff's Department

Financial Statements

For the Year Ended June 30, 2014
(With Independent Auditors' Report)

Orleans County Sheriff's Department

For the Year Ended June 30, 2014

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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 *Government Auditing Standards*

Schedule of Findings and Questioned Costs

McSOLEY McCOY & CO.
Certified Public Accountants and Business Advisors

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 (the "Department"), as of and for the year ended June 30, 2014, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Unmodified Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Department as of June 30, 2014, and the respective changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Management has omitted the management discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Government Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statement in an appropriate operation, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2014, 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 that 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

McSoley McCoy & Co.

November 28, 2014
VT Reg. No. 92-349

Orleans County Sheriff's Department
Statement of Net Position
June 30, 2014

Assets:		
Current assets		
Cash and cash equivalents	$	15,993
Restricted cash		189,100
Accounts receivable		44,492
Other current assets		9,260
Total current assets		258,845
Vehicles and equipment, net of accumulated depreciation		284,293
Total assets		543,138
Liabilities:		
Accounts payable		8,588
Accrued vacation		8,437
Accrued payroll and related expenses		15,283
Total liabilities		32,308
Net Position:		
Invested in capital assets		284,293
Unrestricted		37,437
Restricted		189,100
Total net position	$	510,830

The accompanying notes are an integral part of this statement.

Orleans County Sheriff's Department
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2014

Operating revenues:		
Charges for services	$	670,567
Operating grants		9,221
Miscellaneous revenues		29,753
State and employee reimbursements		4,309
Interest income		227
Total operating revenues		714,077
Operating expenses:		
Contracted services		255,862
Process services		52,869
Transportation		19,139
Grant services		12,591
Administration and general		226,581
Communications services		47,742
Automotive services		70,557
Depreciation		117,295
Total operating expenses		802,636
Net operating loss		(88,559)
Non-operating income (expense):		
Interest expense		(204)
Gain on sale of equipment		1,750
Total non-operating expense		1,546
Loss before contributions		(87,013)
Capital contributions from grants		60,456
Net loss		(26,557)
Net position, beginning of year		537,387
Net position, end of year	$	510,830

The accompanying notes are an integral part of this statement.

Orleans County Sheriff's Department
Statement of Cash Flows
For the Year Ended June 30, 2014

Operating activities:		
Cash received from customers	$	711,896
Cash received from operating grants		9,221
Cash payments to suppliers for goods and services		(283,484)
Cash payments to employees for services		(391,088)
Interest income		227
Net cash provided by operating activities		46,772
Cash flows from capital financing activities:		
Interest paid on loans		(204)
Purchase of fixed assets		(156,870)
Proceeds from capital contributions from grants		60,456
Receipts from sale of equipment and other assets		7,641
Net cash used by capital financing activities		(88,977)
Net decrease in cash		(42,205)
Cash and cash equivalents, beginning of year		247,298
Cash and cash equivalents, end of year	$	205,093
Reconciliation of operating loss to net cash provided by operating activities:		
Net operating loss	$	(88,559)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation		117,295
Decrease in accounts receivable		7,267
Decrease in prepaid expense		459
Increase in accounts payable		8,392
Increase in accrued payroll and related items		1,918
Total adjustments		135,331
Net cash provided by operating activities	$	46,772
Cash consists of:		
Cash and cash equivalents	$	15,993
Restricted cash		189,100
	$	205,093

The accompanying notes are an integral part of this statement.

(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) Cash and cash equivalents

For the purpose of reporting cash flows, all highly liquid investments with a maturity of three months or less are considered to be cash equivalents. In addition, the Department considers all certificates of deposits to be cash equivalents.

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 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.

Estimated useful lives by major classification are as follows:

Office furniture	5 years
Communication equipment	5-7 years
Vehicles	5 years

(e) Net position

Net position represents the difference between assets and liabilities. Net investment in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances on any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Department or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

(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, 2014.

(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, 2014.

	Book Balance	Bank Balance
Insured deposits	$ 205,093	$ 254,210
Uninsured deposits	-	-
Cash on hand	-	-
Total cash deposits	$ 205,093	$ 254,210

(3) Restricted Cash

As of June 30, 2014, the Department has a balance of $189,100 in restricted cash designated for future purchases of vehicles.

(4) Vehicles and Equipment

Vehicles and equipment are summarized as of June 30, 2014 by major classifications as follows:

	Beginning Balance	Additions / Adjustments	Deletions	Ending Balance
Vehicles	$ 279,686	$ 85,269	$ (72,742)	$ 292,213
Equipment	411,455	71,601	-	483,056
Total vehicles and equipment	691,141	156,870	(72,742)	775,269
Less accumulated depreciation	(446,424)	(117,294)	72,742	(490,976)
Vehicles and equipment, net	$ 244,717	$ 39,576	$ -	$ 284,293

(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, 2014 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, 2014, 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.

(8) Employer Contribution

The Department contributes to the Vermont Municipal Employees' Retirement System, under plan F, a cost sharing multiple employer defined benefit pension plan. Vermont state statures (VSA Title 24, Chapter 125) provide the authority under which benefit provisions are established. The Department contributes 10.21% and the employees contribute 6.40%. Total contributions made by the Department for the year ended June 30, 2014 was $9,625.

The State of Vermont issues an audited financial report that includes financial statements and required disclosures. This report may be obtained by writing the State Auditor of Accounts, 132 State Street, Montpelier, VT 05602.

(9) Subsequent Events

In accordance with ASC 855, the Department evaluated subsequent events through November 28, 2014, the date the Department's financial statements were available to be used and no events or transactions occurred.

McSOLEY McCOY & CO.
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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, 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, 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, 2014, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated November 28, 2014.

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 *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, we identified certain deficiencies in internal control that we consider to be control deficiencies, which are of a lesser magnitude then significant deficiencies. These control deficiencies are described in the accompanying schedule of findings and questioned costs as items 2014-01, 2014-02, 2014-03 and 2014-04.

118 TILLEY DRIVE, SUITE 202, SOUTH BURLINGTON, VERMONT 05403
PHONE 802.658.1808 FAX 802.658.1779 WEB WWW.CPAVT.COM

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Department's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

This communication is intended solely for the information and use of Orleans County Sheriff's Department and is not intended to be, and should not be, used by anyone other than this specified parties.

McSoley McCoy & Co.

November 28, 2014
VT Reg. No. 92-349

Orleans County Sheriff's Department
Schedule of Findings and Questioned Costs
June 30, 2014

Internal Control – Control Deficiencies

Findings

2014-01 Vehicles and Equipment

The Department's fixed asset records at June 30, 2014 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.

2014-02 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.

2014-03 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.

Orleans County Sheriff's Department
Schedule of Findings and Questioned Costs
June 30, 2014

Internal Control – Control Deficiencies

Findings (continued)

2014-04 Approval of Expenses

During our testing of expenses, we noted instances where signatures or supporting documentation authorizing the invoices were missing.

To maintain sound internal control over disbursements, we recommend that approval of invoices be documented in the future.