

ORANGE COUNTY SHERIFF'S DEPARTMENT

Financial Statements

June 30, 2017

ORANGE COUNTY SHERIFF'S DEPARTMENT

June 30, 2017

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Independent Auditors' Report

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

Report on the Financial Statements

We have been engaged to audit the accompanying financial statements of the business-type activities of the Orange County Sheriff's Department, Vermont (the Department), as of and for the year ended June 30, 2017.

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. Those standards required that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. Because of the matter described in the "Basis for Disclaimer of Opinion" paragraph, however, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Basis for Disclaimer of Opinion

The Department did not perform general ledger account reconciliations, for the year ended June 30, 2017, and as such, their records did not permit the application of all the required audit procedures.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements referred to in the first paragraph.

Other Matters

Management has omitted the management discussion and analysis and budgetary comparison schedules 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 Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statement in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

McSoley McCoy & Co.

South Burlington, Vermont
February 2, 2018
VT Reg. No. 92-349

ORANGE COUNTY SHERIFF'S DEPARTMENT

Statement of Net Position

June 30, 2017

Assets:

Current assets

Accounts receivable	\$	119,300
Due from other governments		144,879
Total current assets		<u>264,179</u>

Non-current assets

Property, plant, and equipment, net		236,428
Restricted cash		<u>2,477</u>
Total non-current assets		<u>238,905</u>

Total assets		<u>503,084</u>
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Liabilities and Net Position:

Current liabilities

Cash overdraft		23,929
Accounts payable		55,312
Accrued payroll and payroll items		79,338
Current portion of notes payable		34,792
Current portion of capital lease obligation		<u>19,962</u>

Total current liabilities		213,333
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Notes payable, net of current portion		77,882
Capital lease obligation, net of current portion		<u>68,413</u>

Total liabilities		<u>359,628</u>
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Net position:

Net investment in capital assets		35,379
Restricted cash		2,477
Unrestricted		<u>105,600</u>

Total net position	\$	<u>143,456</u>
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See accompanying notes and independent auditors' report.

ORANGE COUNTY SHERIFF'S DEPARTMENT
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2017

Operating Revenues:	
Charges for services	\$ 749,818
Operating grants	379,756
County reimbursements	133,510
Miscellaneous revenues	<u>38,284</u>
 Total operating revenues	 <u>1,301,368</u>
 Operating Expenses:	
Contracted services	385,010
Process services	18,464
Jail services	939
Grant expenses	214,302
Transportation services	12,965
Administration and general	365,711
Communications services	37,991
Automotive services	102,766
Miscellaneous expense	6,477
Depreciation	<u>121,507</u>
 Total operating expenses	 <u>1,266,132</u>
 Net operating income	 35,236
 Non-operating expense:	
Interest expense	<u>6,636</u>
 Net income	 28,600
 Net position, beginning of year, as restated	 <u>114,856</u>
 Net position, end of year	 <u><u>\$ 143,456</u></u>

See accompanying notes and independent auditors' report.

ORANGE COUNTY SHERIFF'S DEPARTMENT

Statement of Cash Flows
For the Year Ended June 30, 2017

Operating activities:

Cash received from customers	\$ 915,173
Cash received from other governments	295,453
Cash payments to suppliers for goods and services	(607,968)
Cash payments to employees for services	<u>(516,007)</u>

Net cash provided by operating activities 86,651

Cash flows from capital and related financing activities:

Acquisition of assets	(10,530)
Principal payments on notes payable	(54,238)
Principal payments on capital lease	(25,189)
Interest expense	<u>(6,636)</u>

Net cash used by capital and related financing activities (96,593)

Net decrease in cash (9,942)

Cash, beginning of year, as restated (11,510)

Cash, end of year \$ (21,452)

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

Net operating income \$ 35,236

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

Depreciation	121,507
Increase in accounts receivable	(6,439)
Increase in due from other governments	(84,303)
Increase in accounts payable	26,064
Decrease in accrued payroll and payroll items	<u>(5,414)</u>

Total adjustments 51,415

Net cash provided by operating activities \$ 86,651

Non-cash transaction affecting financial position:

Capital asset additions acquired through capital lease \$ 29,679

Cash consists of:

Restricted cash	\$ 2,477
Cash overdraft	<u>(23,929)</u>

\$ (21,452)

See accompanying notes and independent auditors' report.

ORANGE COUNTY SHERIFF'S DEPARTMENT

Notes to the Financial Statements

June 30, 2017

(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 Department applied all applicable Governmental Accounting Standards Board (GASB) pronouncements.

Operating income reported in proprietary fund financial statements includes revenues and expenses related to the primary, continuing operations of the fund. Principal operating revenues for proprietary funds are charges to customers for sales or services. Principal operating expenses are the costs of providing goods or services and include administrative expenses and depreciation of capital assets. Other revenues and expenses are classified as non-operating in the financial statements.

When both restricted and unrestricted resources are available for use, it is the Department's policy to use restricted resources first, then unrestricted resources, as needed.

(b) Basis of Presentation

The Department accounts for ongoing operations and activities using proprietary 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. Restricted cash is comprised of funds received for the DARE program.

(d) Property, Plant, 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 the Financial Statements

June 30, 2017

Summary of Significant Accounting Policies (continued)

Assets held under capital leases are recorded at the lower of the net present value of the minimum lease payments or the fair value of the leased asset at the inception of the lease. Amortization expense is computed using the straight-line method over the shorter of the estimated useful lives of the assets or the period of the related lease.

Estimated useful lives by major classification are as follows:

Office furniture	5 years
Communication equipment	5-10 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 contractor contracts. These receivables are due within one year. The Department has not recorded an allowance for uncollectible accounts at June 30, 2017, as all amounts are deemed collectible.

(h) Due From Other Governments

Significant receivables include amounts due from the state, towns, county, grants and other governmental entities. These receivables are due within one year. The Department has not recorded an allowance for uncollectible accounts at June 30, 2017, as all amounts are deemed collectible.

ORANGE COUNTY SHERIFF'S DEPARTMENT

Notes to the Financial Statements

June 30, 2017

Summary of Significant Accounting Policies (continued)

(i) Controlling Financial Interest Entities and Consolidation

Accounting principles generally accepted in the United States of America require management to assess whether the Department has a controlling financial interest in any entities to determine if those entities should be consolidated. Management had not performed the required assessment at the end of 2017 for the Orange County Special Investigation Unit. The ultimate effect on the financial statements has not been determined.

(2) Cash Custodial Credit Risk

Custodial credit risk for deposits is the risk that in the event of a bank failure, the Department's deposits may not be returned. The Department does not have an investment policy for assurance against custodial credit risk. As of June 30, 2017, the Departments deposits with financial institutions are fully insured by the FDIC.

(3) Property, Plant, and Equipment

Vehicles, building improvements and equipment are summarized as of June 30, 2017 by major classifications as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Vehicles	\$ 515,250	\$ 36,621	\$ -	\$ 551,871
Building improvements	28,776	-	-	28,776
Equipment	710,457	3,588	-	714,045
Leasehold improvements	<u>15,988</u>	<u>-</u>	<u>-</u>	<u>15,988</u>
Total assets at cost	<u>1,270,471</u>	<u>40,209</u>	<u>-</u>	<u>1,310,680</u>
Less accumulated depreciation for:				
Vehicles	375,626	59,918	-	435,544
Building improvements	13,112	3,995	-	17,107
Equipment	562,408	56,795	-	619,203
Leasehold improvements	<u>1,599</u>	<u>799</u>	<u>-</u>	<u>2,398</u>
Total accumulated depreciation	<u>952,745</u>	<u>121,507</u>	<u>-</u>	<u>1,074,252</u>
Total assets, net	<u>\$ 317,726</u>	<u>\$ (81,298)</u>	<u>\$ -</u>	<u>\$ 236,428</u>

The balance of the assets acquired through capital leases as of June 30, 2017 is as follows:

Cost: Vehicles	\$ 258,960
Less: Accumulated depreciation	<u>(144,912)</u>
Vehicles, net	<u>\$ 114,048</u>

ORANGE COUNTY SHERIFF'S DEPARTMENT

Notes to the Financial Statements

June 30, 2017

(4) Long-term Obligations

The changes in the Department's long-term obligations for the year ended June 30, 2017 are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Current Maturities</u>	<u>Remaining Balance</u>
Notes payable	\$ 166,912	\$ -	\$ 54,238	\$ 34,792	\$ 77,882
Capital leases payable	<u>83,885</u>	<u>29,679</u>	<u>25,189</u>	<u>19,962</u>	<u>68,413</u>
	<u>\$ 250,797</u>	<u>\$ 29,679</u>	<u>\$ 79,427</u>	<u>\$ 54,754</u>	<u>\$ 146,295</u>

Notes Payable

Notes payable at June 30, 2017 is comprised of a 2015 note with an original issue amount of \$174,780, accruing interest at 2.50%. The note has a term of five years, which requires monthly payments of \$3,102 starting September 13, 2015 and matures August 13, 2020.

Debt service requirements to retire outstanding notes payables at June 30, 2017 are as follows:

<u>Year ending June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 34,792	\$ 2,433	\$ 37,225
2019	35,762	1,554	37,316
2020	36,574	651	37,225
2021	<u>5,636</u>	<u>19</u>	<u>5,655</u>
	<u>\$ 112,764</u>	<u>\$ 4,657</u>	<u>\$ 117,421</u>

Capital Leases

The Department leases vehicles under agreements that are classified as capital leases due to a bargain purchase option at the completion of the leases. Depreciation of assets under capital leases is included in depreciation expense.

ORANGE COUNTY SHERIFF'S DEPARTMENT

Notes to the Financial Statements

June 30, 2017

Long-term Obligations (continued)

The following are the individual capital lease obligations of the Department at June 30, 2017:

2015 Dodge Ram 1500, due in monthly installments of \$544, including interest at 4.89%, through August 2020	\$ 17,964
2016 Dodge Pickup, due in monthly installments of \$543, including interest at 6.409%, through October 2020	19,192
2016 Dodge Charger, due in monthly installments of \$549, including interest at 5.99%, through April 2021	22,173
2017 Dodge Ram, due in monthly installments of \$574, including interest at 5.99%, through July 2022	<u>29,046</u>
	<u>\$ 88,375</u>

Future minimum lease payments under these agreements are as follows:

Year ending <u>June 30:</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 19,962	\$ 4,351	\$ 24,313
2019	23,042	3,466	26,508
2020	24,417	2,091	26,508
2021	14,810	546	15,356
2022	5,573	251	5,824
Thereafter	<u>571</u>	<u>2</u>	<u>573</u>
	<u>\$ 88,375</u>	<u>\$ 10,707</u>	<u>\$ 99,082</u>

(5) Cost Sharing

Under Vermont law, Orange County and the State of Vermont are required to cover certain costs of the Department. Such costs include the Sheriff's salary and benefits, administrative salary and benefits, office space, certain automotive expenses and others. The amount fully expended by the County and State during the year ended June 30, 2017 has not been determined.

ORANGE COUNTY SHERIFF'S DEPARTMENT

Notes to the Financial Statements

June 30, 2017

(6) Operating Grants

The 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, 2017, 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) Retirement Plan

The Department contributes to the Vermont Municipal Employees' Retirement System, a cost sharing multiple employer defined benefit pension plan. Vermont state statutes (VSA Title 24, Chapter 125) provide the authority under which benefit provisions are established. The Department contributes 10.56% of the employee gross wages to their retirement account. Contributions made by the Department for the years ended June 30, 2017 and 2016 were \$54,431 and \$40,368, respectively.

(9) Subsequent Events

The Department evaluated subsequent events through February 2, 2018, the date the Department's financial statements were available to be used and no events or transactions occurred.

(10) Litigation

From time to time the Department is party to various lawsuits arising out of the normal course of business. In the opinion of management, based on the advice of legal counsel, there are currently no lawsuits that will have a significant adverse impact on the Department's financial position as of June 30, 2017.

ORANGE COUNTY SHERIFF'S DEPARTMENT

Notes to the Financial Statements

June 30, 2017

(11) Restatement of Net Position

During the year ended June 30, 2017, it was discovered the Department previously understated 2016 accounts payables and cash by \$17,169 and \$6,013, respectively.

The net position of the Department has been restated as follows:

	<u>Unrestricted</u>
Net position as of July 1, 2016, as previously stated (unaudited)	\$ 126,012
Restatement due to understatement of cash	6,013
Restatement due to understatement of accounts payable	<u>(17,169)</u>
Net position as of July 1, 2016, as restated (unaudited)	<u>\$ 114,856</u>