

Orange County Sheriff's Department

Financial Statements
(With Independent Auditors' Report)

June 30, 2021

Orange County Sheriff's Department

June 30, 2021

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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, 2021.

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, 2021, 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.

Emphasis of Matter – GASB 68

Governmental Accounting Standards Board (GASB) 68 requires employers to present extensive note disclosures and other required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the liability. As discussed in Note 9, the Department participates in the Vermont State Employees' Retirement System. The Department has not determined the impact of adopting GASB 68. Our opinion is not modified in respect to this matter.

Emphasis of Matter – Controlling Financial Interest Entity

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 2021 for the Orange County Special Investigation Unit. The ultimate effect on the financial statements has not been determined. Our opinion is not changed in regards to this matter.



South Burlington, Vermont
January 20, 2023
VT Reg. No. 92-349

Orange County Sheriff's Department

Statement of Net Position

June 30, 2021

Assets:

Current assets

Cash	\$	27,525
Accounts receivable		12,905
Due from other governments		<u>50,241</u>
Total current assets		<u>90,671</u>

Non-current assets

Buildings, vehicles and equipment, net		405,437
Restricted cash		<u>3,860</u>
Total non-current assets		<u>409,297</u>

Total assets		<u>499,968</u>
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Liabilities and Net Position:

Current liabilities

Accounts payable		36,053
Accrued payroll and payroll items		99,223
Current portion of notes payable		<u>40,340</u>
Total current liabilities		175,616

Notes payable, net of current portion		<u>234,295</u>
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Total liabilities		<u>409,911</u>
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Net Position:

Investment in capital assets, net of related debt		130,802
Restricted cash		3,860
Unrestricted		<u>(44,605)</u>

Total net position	\$	<u>90,057</u>
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See accompanying notes to the financial statements.

Orange County Sheriff's Department
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2021

Operating Revenues:	
Charges for services	\$ 799,009
Operating grants	221,619
County reimbursements	87,195
Miscellaneous revenues	<u>2,955</u>
 Total operating revenues	 <u>1,110,778</u>
 Operating Expenses:	
Contracted services	397,083
Process services	52,228
Grant expenses	132,956
Administration and general	459,921
Communications services	37,741
Automotive services	80,261
Miscellaneous expense	39,077
Depreciation	<u>82,818</u>
 Total operating expenses	 <u>1,282,085</u>
 Net operating loss	 (171,307)
 Non-operating Revenue (Expense):	
Interest expense	<u>(14,699)</u>
 Net loss	 (186,006)
 Net position, beginning of year	 <u>276,063</u>
 Net position, end of year	 <u>\$ 90,057</u>

See accompanying notes to the financial statements.

Orange County Sheriff's Department
Statement of Cash Flows
For the Year Ended June 30, 2021

Operating Activities:

Cash received from customers	\$ 1,006,168
Cash received from operating grants	266,352
Cash payments to suppliers for goods and services	(737,369)
Cash payments to employees for services	<u>(422,387)</u>
Net cash provided by operating activities	<u>112,764</u>

Cash Flows from Capital and Related Financing Activities

Acquisition of assets	(35,688)
Bank overdrafts	(47,277)
Proceeds from issuance of notes payable	25,506
Principal payments on notes payable	(47,238)
Interest expense	<u>(14,699)</u>
Net cash used by capital and related financing activities	<u>(119,396)</u>

Net decrease in cash	(6,632)
Cash and restricted cash, beginning of year	<u>38,017</u>
Cash and restricted cash, end of year	<u><u>\$ 31,385</u></u>

Reconciliation of Net Operating Loss to Net Cash used by Operating Activities:

Net operating loss	\$ <u>(171,307)</u>
Adjustments to reconcile net operating loss to net cash provided by operating activities:	
Depreciation	82,818
Decrease in accounts receivable	117,009
Decrease in due from other governments	44,733
Increase in accounts payable	28,368
Increase in accrued payroll and payroll items	<u>11,143</u>
Total adjustments	<u>284,071</u>
Net cash provided by operating activities	<u><u>\$ 112,764</u></u>

Cash consists of:

Cash	\$ 27,525
Restricted cash	<u>3,860</u>
	<u><u>\$ 31,385</u></u>

See accompanying notes to the financial statements.

ORANGE COUNTY SHERIFF'S DEPARTMENT

Notes to the Financial Statements

June 30, 2021

(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 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) Buildings, Vehicles and Equipment

Buildings, vehicles and equipment are recorded at cost with depreciation computed using the straight-line method over their estimated useful lives. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected as non-operating activity for the period. The cost of maintenance and repairs is charged to expense as incurred; renewals and betterments over \$1,000 are capitalized.

ORANGE COUNTY SHERIFF'S DEPARTMENT

Notes to the Financial Statements

June 30, 2021

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
Buildings	39 years
Leasehold improvements	5-25 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, 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, 2021, as all amounts are deemed collectible.

(h) Due From Other Governments

Due from other governments includes 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, 2021, as all amounts are deemed collectible.

(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 2021 for the Orange County Special Investigation Unit. The ultimate effect on the financial statements has not been determined.

ORANGE COUNTY SHERIFF'S DEPARTMENT

Notes to the Financial Statements

June 30, 2021

Summary of Significant Accounting Policies (continued)

(j) Subsequent Events

The Department evaluated subsequent events through January 20, 2023, the date the Department's financial statements were available to be used.

(2) Restricted Cash

As of June 30, 2021, the Department has a balance of \$3,860 in restricted cash designated for equipment purchases.

(3) 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, 2021, the Department's deposits with financial institutions are fully insured by the FDIC.

(4) Buildings, Vehicles and Equipment

Buildings, vehicles and equipment are summarized as of June 30, 2021 by major classifications as follows:

	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
Vehicles	\$ 378,321	\$ 35,688	\$ -	\$ 414,009
Building and leasehold improvements	314,365	-	-	314,365
Equipment	<u>288,520</u>	<u>-</u>	<u>-</u>	<u>288,520</u>
Total assets at cost	<u>981,206</u>	<u>35,688</u>	<u>-</u>	<u>1,016,894</u>
Less accumulated depreciation	<u>(528,639)</u>	<u>(82,818)</u>	<u>-</u>	<u>(611,457)</u>
Total assets, net	<u>\$ 452,567</u>	<u>\$ (47,130)</u>	<u>\$ -</u>	<u>\$ 405,437</u>

ORANGE COUNTY SHERIFF'S DEPARTMENT

Notes to the Financial Statements

June 30, 2021

(5) Notes Payable

Notes payable as of June 30, 2021 consists of the following:

Ally Financial:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Current Maturities</u>	<u>Ending Balance</u>
4.89% note due August, 2020 secured by a vehicle as follows:	\$ <u>1,081</u>	\$ <u>-</u>	\$ <u>1,081</u>	\$ <u>-</u>	\$ <u>-</u>
6.41% note due October, 2020 secured by a vehicle as follows:	\$ <u>2,143</u>	\$ <u>-</u>	\$ <u>2,143</u>	\$ <u>-</u>	\$ <u>-</u>
5.99% note due April, 2021 secured by a vehicle as follows:	\$ <u>5,338</u>	\$ <u>-</u>	\$ <u>5,338</u>	\$ <u>-</u>	\$ <u>-</u>
5.99% note due July, 2022 secured by a vehicle as follows:	\$ <u>13,451</u>	\$ <u>-</u>	\$ <u>6,256</u>	\$ <u>6,632</u>	\$ <u>563</u>
5.79% note due October, 2021 secured by a vehicle as follows:	\$ <u>6,386</u>	\$ <u>-</u>	\$ <u>5,317</u>	\$ <u>1,069</u>	\$ <u>-</u>
6.79% note due October, 2022 secured by a vehicle as follows:	\$ <u>13,928</u>	\$ <u>-</u>	\$ <u>6,196</u>	\$ <u>6,100</u>	\$ <u>1,632</u>

Toyota Financial Services:

3.90% note due September, 2023 secured by a vehicle as follows:	\$ <u>19,643</u>	\$ <u>-</u>	\$ <u>6,486</u>	\$ <u>6,028</u>	\$ <u>7,129</u>
7.44% note due February, 2025 secured by a vehicle as follows:	\$ <u>16,132</u>	\$ <u>-</u>	\$ <u>1,796</u>	\$ <u>3,247</u>	\$ <u>11,089</u>

ORANGE COUNTY SHERIFF'S DEPARTMENT

Notes to the Financial Statements

June 30, 2021

Notes Payable (continued)

Bar Harbor Bank and Trust:

3.48% note due November, 2034 secured by equipment as follows:

<u>\$ 218,265</u>	<u>\$ _____</u>	<u>\$ 11,803</u>	<u>\$ 12,287</u>	<u>\$ 194,175</u>
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3.00% note due March, 2026 secured by vehicle as follows:

<u>\$ _____</u>	<u>\$ 25,506</u>	<u>\$ 822</u>	<u>\$ 4,977</u>	<u>\$ 19,707</u>
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Totals	<u>\$ 296,367</u>	<u>\$ 25,506</u>	<u>\$ 47,238</u>	<u>\$ 40,340</u>	<u>\$ 234,295</u>
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Future minimum lease payments under these agreements are as follows:

Year ending	
<u>June 30:</u>	
2022	\$ 40,340
2023	29,810
2024	23,086
2025	26,756
2026	14,120
2027 - 2031	78,450
2032 - 2036	<u>62,073</u>
Total	<u>\$ 274,635</u>

(6) 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, 2021 has not been determined.

(7) 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, 2021, management believes that no significant liabilities will result from such audits.

ORANGE COUNTY SHERIFF'S DEPARTMENT

Notes to the Financial Statements

June 30, 2021

(8) Risk Management

The 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 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.

(9) Retirement Plan

The Department participates in the Vermont State Employees' Retirement System (VSERS). The Department contributes 13.84% of eligible compensation for all employees deferring the required 6.65% of eligible compensation.

GASB 68 requires employers to present extensive note disclosures and other required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the liability. The Department has not determined the impact of adopting GASB 68.

Vermont state statutes (VSA Title 24, Chapter 125) provide the authority under which benefit provisions are established. 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.

Contributions made to the VSERS by the Department for the year ended June 30, 2021 amounted to \$47,293.

(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, 2021.

INDEPENDENT AUDITORS' 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, in accordance with the 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 Orange County Sheriff's Department (the "Department"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements, and have issued our report thereon dated January 20, 2023.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Department's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Department's internal control. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a certain deficiency in internal control that we consider to be a material weakness and deficiencies that we consider to be significant deficiencies.

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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2021-001 to be a material weakness.

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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2021-002, 2021-003, and 2021-004 to be significant deficiencies.

Compliance and Other Matters

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

The Orange County Sheriff's Department's Response to Findings

The Department's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Department's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we do not express an opinion on it.

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.



January 20, 2023
South Burlington, Vermont
VT Reg. No. 92-349

Orange County Sheriff's Department
Schedule of Findings and Questioned Costs
June 30, 2021

Finding 2021-001: Accounting Function and Reconciliations

Condition:

The Department's accounting is not operating consistently and effectively. During our initial audit work, it was apparent the department was not ready to be audited as account balances were not reconciled or adjusted to close out the year. Debt balances had interest amounts recorded as payments, fixed assets did not include prior year entries, and accounts receivable contained large stale items. We proposed several adjusting journal entries. In addition, the main checking account was not reconciled timely and included a large variance that was unresolved by management. The magnitude and scope of these adjustments makes it difficult to produce timely and accurate internal financial information on which management can rely. We also believe it hinders management to properly perform its financial role and properly operate the Department. It also increases the Department's exposure to fraud and irregularities.

Recommendation:

We recommend the Department place more emphasis on the importance of the accounting function and accuracy of financial reporting, especially with debt, accruals, revenue and fixed assets.

We also recommend the Department develop and implement an accounting and procedures manual.

Finding 2021-002: Cash Reconciliations and Stale Items

Condition:

During our test work, it was noted that cash reconciliations were not occurring timely and contained stale items dating back to 2019.

Recommendation:

We recommend the Department reconcile cash accounts timely and review and remove stale items.

Finding 2021-003: Stale Items in Accounts Receivable and Accounts Payable Aging and Cash Reconciliations

Condition:

During our test work, we noted that the accounts receivable aged listing included balances with a related credit, thus netting to zero. Additionally, the accounts payable listing included balances with a related debit, thus netting to zero. The accounts receivable and accounts payable aged listing is a useful tool to monitor the aging of invoices/payables. However, these balances with related debits/credits convolutes the listing. Additionally, one cash reconciliation did not tie to the general ledger and reconciling items were stale.

Recommendation:

We recommend the Department identify and resolve reconciling items each month and assess the validity of such reconciling items. These procedures would ensure account balances are accurately stated and would enable management to make informed decisions and rely on accurate information.

Finding 2021-004: Liquidity**Condition:**

During our test work, we noted that the Department's main checking account did not reconcile to the bank reconciliation. Furthermore, this reconciliation was signed off and completed in October, four months after year end. The Department has large stale deposits inflating their sweep account and their main checking account is continuously over drawn when reconciled. In addition, the majority of the Department's receivables are in the greater than 90 days past due category. These conditions raise concerns about the Department's liquid assets and its ability to cover the next year's expenses.

Recommendation:

We recommend the Department evaluate the liquidity of its assets to ensure the Department has adequate cash on hand to meet operating expenses.

Management's Views and Corrective Action Plan:

Management's views and corrective action plan is included at the end of this report.

Orange County Sheriff's Department
Management's Corrective Action Plan
For the Year Ended June 30, 2021

2021-001: Accounting Function and Reconciliations

The Department will implement a system to ensure all prepaids, accruals, and fixed asset additions and disposals are properly recorded in the accounting function. Furthermore, the Department will ensure timely and accurate reconciliations of all cash accounts. The Department will also implement a system to ensure revenue is captured in the correct period. The Department will begin developing and implementing an accounting policies and procedures manual.

2021-002: Cash Reconciliations and Stale Items

The Department will stress the importance of reconciling cash accounts and removing stale items.

2021-003: Stale Items in Accounts Receivable and Accounts Payable Aging and Cash Reconciliations

The Department will clean up the stale items in all reconciliations.

2021-004: Liquidity

The Department will evaluate the liquidity of its assets to ensure cash flow needs are met for operating expenses.