Financial Statements and Reports of
Independent Certified Public Accountant

Rogers County Public Health Facilities Authority

Claremore, Oklahoma
June 30, 2012

TURNER & ASSOCIATES
Certified Public Accountants
P.O. Box 378
Vinita, OK 74301
(918) 256-6788

Rogers County Public Health Facilities Authority
Board of Trustees
June 30, 2012

Rogers County Public Health Facilities Authority
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TURNER & ASSOCIATES, PLC
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Rogers County Public Health Facilities Authority
Claremore, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Rogers County Public Health Facilities Authority, as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions 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. 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 opinions.

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 Rogers County Public Health Facilities Authority, as of June 30, 2012, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2013, on our consideration of the Rogers County Public Health Facilities Authority'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 should be considered in assessing the results of our audit.

As discussed in Note IV to the financial statements, the 2011-2012 financial statements have been restated to correct misstatements.

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The management's discussion and analysis on pages 5 through 8 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Turner & Associates, PLC

Vinita, Oklahoma
January 16, 2013

TURNER & ASSOCIATES, PLC
Certified Public Accountants

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*

Board of Directors
Rogers County Public Health Facilities Authority
Rogers County, Oklahoma

We have audited the financial statements of the business-type activities of the Rogers County Public Health Facilities Authority, Rogers County, Oklahoma, as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated January 16, 2013. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Rogers County Public Health Facilities Authority, Rogers County, Oklahoma's internal control over financial reporting as a basis for designing our auditing procedures 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 Rogers County Public Health Facilities Authority, Rogers County, Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Rogers County Public Health Facilities Authority, Rogers County, Oklahoma'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 misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We consider the deficiency described in the accompanying schedule of findings and comments to be significant deficiencies in internal control over financial reporting listed as items 2012-1 and 2012-2.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Rogers County Public Health Facilities Authority, Rogers County, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, noncompliance with which could have a direct and material effect on the determination of

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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 one instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and comments as item 2012-3.

The Rogers County Public Health Facility Authority, Rogers County, Oklahoma's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Rogers County Public Health Facilities Authority, Rogers County's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Directors, management, and the Oklahoma State Auditor and is not intended to be and should not be used by anyone other than these specified parties.

Turner & Associates, PLC

Vinita, Oklahoma
January 16, 2013

Rogers County Public Health Facilities Authority
Management's Discussion and Analysis
For the Year Ended June 30, 2012

Our discussion and analysis of the Authority's financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2012. Please read it in conjunction with the Authority's financial statements which begin on page 9.

FINANCIAL HIGHLIGHTS

- The assets of the Authority exceeded its liabilities at June 30, 2012 by $1,335,353.
- Total operating revenues were $18,000 this fiscal year while operating expenses were $69,675 resulting in operating loss of $51,675. Net non-operating income of $986 offset this loss, leaving the Authority with a total decrease in net assets of $50,688 for the fiscal year.

USING THIS ANNUAL REPORT

This annual report consists of two parts; Management's Discussion and Analysis and the Financial Statements. The Financial Statements also include notes that explain in more detail some of the information in the financial statements.

Rogers County Public Health Facilities Authority
Management's Discussion and Analysis
For the Year Ended June 30, 2012

FINANCIAL ANALYSIS OF THE AUTHORITY AS A WHOLE

One of the most important questions asked about the Authority's finances is "Is the Authority, as a whole, better off or worse off as a result of the year's activities?" The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets report information about the Authority's activities in a way that will help answer this question. These two statements report the net assets of the Authority and changes in them. You can think of the Authority's net assts—the difference between assets and liabilities—as one way to measure financial health or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. However, you will need to also consider other non-financial factors such as changes in economic conditions, population growth, and new or changed legislation.

The Authority's total Net Assets decreased $50,688 from last year. Our analysis below focuses on the Authority's net assets (Table 1) and changes in net assets (Table 2) during the year.

Table 1

	June 30, 2012	June 30, 2011	Differences	
Current Assets	$ 381,377	$ 375,730	$ 5,647	1.5%
Capital Assets	954,390	1,009,311	(54,921)	-5.8%
Other Assets	1,000	1,000	-	0.0%
Total Assets	1,336,767	1,386,041	(49,274)	-3.7%
Liabilities	1,415	-	1,415	100.0%
Net Assets, Invested in Capital Assets, Net of Debt	954,390	1,009,311	(54,921)	-5.8%
Net Assets, Unrestricted	380,963	376,730	4,233	1.1%
Total Net Assets	$ 1,335,353	$ 1,386,041	$ (50,688)	-3.8%

The decrease in net assets is mostly due to a depreciation expense.

Rogers County Public Health Facilities Authority
Management's Discussion and Analysis
For the Year Ended June 30, 2012

The Authority's net assets invested in capital assets (e.g., public health facilities and equipment) net of any related debt still outstanding used to acquire those assets represents about 73% of its total net assets. The Authority leases these capital assets to the Rogers County Youth Services and Rogers County Adult Daycare which uses them to provide services to citizens and consumers. Consequently, these assets are not available for future spending.

Changes in the Authority's net assets can be determined by reviewing the following condensed Statement of Revenue, Expenses and Changes in Net Assets for the year.

Table 2

	June 30, 2012	June 30, 2011	Differences	
Lease Revenues	$ 18,000	$ 18,000	$ -	0.0%
Depreciation Expense	(62,460)	(62,969)	509	-0.8%
Other Operating and Non-Operating Net Revenues (Expenses)	(6,228)	(7,542)	1,315	-21.1%
Increase in Net Assets	(50,688)	(52,511)	1,824	-3.6%
Net Assets, Beginning of Year	1,386,041	1,438,552	(52,511)	-3.8%
Net Assets, End of Year	$ 1,335,353	$ 1,386,041	$ (50,688)	-3.8%

The Authority's primary source of revenue is the lease revenues from the Rogers County Youth Services which saw a decrease in the current year.

Major expense is depreciation. Depreciation expense saw a very slight increase in the current year.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2012, the Authority had $2,123,406 invested in capital assets, including the public health facility building and a youth shelter building as well as land and equipment. This amount represents a net decrease of $54,921 from the previous year due primarily to depreciation during the current year. Additions to capital assets included improvements to the building at a cost of $7,539. These changes are presented in detail in Note III to the financial statements.

Rogers County Public Health Facilities Authority
Management's Discussion and Analysis
For the Year Ended June 30, 2012

Debt

As of June 30, 2012, the Authority had no bonds outstanding.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the Authority's financial condition, the Board estimates that revenues and expenses in the coming year will approximate actual revenues and expenses for the past fiscal year.

CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Board of Trustees at Rogers County Public Health Facilities Authority, 2664 N. Hwy 88, Claremore, OK 74017-0419.

Rogers County Public Health Facilities Authority
Statement of Net Assets
June 30, 2012

ASSETS		
Current Assets		
Cash and cash equivalents	$	379,877.41
Lease Receivable		1,500.00
		381,377.41
Noncurrent Assets		
Capital Assets		
Capital Assets, net of accumulated depreciation		841,289.97
Land		113,100.00
Total capital assets		954,389.97
Other Assets		
Deposits		1,000.00
Total noncurrent assets		955,389.97
TOTAL ASSETS		1,336,767.38
LIABILITIES		
Accounts Payable		1,414.50
NET ASSETS		
Invested in Capital Assets, net of Related Debt		954,389.97
Unrestricted		380,962.91
TOTAL NET ASSETS	$	1,335,352.88

The accompanying Notes to the Financial Statements are an integral part of this statement.

Rogers County Public Health Facilities Authority
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended June 30, 2012

Operating Revenues		
Lease Revenues	$	18,000.00
Operating Expenses		
Accounting Fees		3,550.00
Depreciation		62,459.55
Repairs and Maintenance		3,328.96
Legal Fees		336.00
Total Operating Expenses		69,674.51
Operating Income (Loss)		(51,674.51)
Non-Operating Revenues (Expenses)		
Interest Income		986.75
Change in Net Assets		(50,687.76)
Net Assets, Beginning of Year		1,386,040.64
Net Assets, End of Year	$	1,335,352.88

The accompanying Notes to the Financial Statements are an integral part of this statement.

Rogers County Public Health Facilities Authority
Statement of Cash Flows
For the Year Ended June 30, 2012

Cash Flows from Operating Activities		
Cash Inflows:		
Payments Received from Lessor	$	18,000.00
Cash Outflows:		
Payments to Suppliers for Goods and Services		(5,800.46)
Net Cash Provided (Used) by Operating Activities		12,199.54
Cash Flows from Capital and Related Financing Activities		
Transfer to Investments		
Purchase of Capital Assets		(7,538.88)
Net Cash Provided (Used) for Capital and Related Financing Activities		(7,538.88)
Cash Flows from Investing Activities		
Interest Income		986.75
Net Cash Inflow (Outflow) from All Activities		5,647.41
Cash and Cash Equivalents at Beginning of Year		374,230.00
Cash and Cash Equivalents at End of Year	$	379,877.41
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	$	(51,674.51)
Depreciation		62,459.55
Increase in Accounts Payable		1,414.50
Net Cash Provided (Used) by Operations	$	12,199.54

The accompanying Notes to the Financial Statements are an integral part of this statement.

Rogers County Public Health Facilities Authority
Notes to the Financial Statements
For the Year Ended June 30, 2012

The following notes to the financial statements are an integral part of Rogers County Public Health Facilities Authority's financial statements.

I. Summary of Significant Accounting Policies

Rogers County Public Health Facilities Authority, Claremore, Oklahoma (the Authority) was created by a declaration of Trust dated July 17, 1989, for the purpose of acquiring and constructing a public health facility in and for the benefit of Rogers County. The Authority began operation on March 1, 1990. The Authority is exempt from federal and state income taxes.

A. Financial Reporting Entity

The Authority complies with GASB Statement No. 14, *"The Financial Reporting Entity."* This statement establishes standards for defining and reporting on the financial reporting entity. It defines component units as legally separate organizations for which the elected officials of the primary government are financially accountable and other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The Authority considered all potential component units in determining what organizations should be included in the financial statements. Based on these criteria, there are no component units to include in the Authority's financial statements.

B. Basis of Presentation

The Authority's fund is an enterprise fund. Enterprise funds are proprietary funds used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

C. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe *which* transactions are recorded within the various financial statements. Basis of accounting refers to *when* transactions are recorded regardless of the measurement focus applied.

The proprietary funds utilize an *"economic resources"* measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Proprietary fund equity is classified as net assets.

All proprietary funds utilize the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority's enterprise fund is charges to customers for sales and services. The Authority also recognizes as operating revenue the portion of tap fees intended to

Rogers County Public Health Facilities Authority
Notes to the Financial Statements
For the Year Ended June 30, 2012

C. Measurement Focus and Basis of Accounting

recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Assets, Liabilities, Net Assets and Revenues

1. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Authority considers all cash on hand, demand deposits, and highly liquid investments, with an original maturity of three months or less when purchased, to be cash and cash equivalents.

2. Fair Value of Financial Instruments

The Authority's financial statements include cash and investments. The Authority's estimates of the fair value of all financial instruments do not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying balance sheet. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

3. Capital Assets

The public health facilities, furniture and equipment are recorded at cost. Donated capital assets are reported at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

All reported capital assets are depreciated on the straight-line basis over the estimated useful lives ranging from five to fifty years.

The Authority does not currently have a capitalization policy.

Rogers County Public Health Facilities Authority
Notes to the Financial Statements
For the Year Ended June 30, 2012

I. Summary of Significant Accounting Polices (continued)

D. Assets, Liabilities, Net Assets and Revenues (continued)

4. Equity Classifications

Equity is classified as net assets and displayed in three components:

a. Invested in capital assets, net of related debt --- Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
b. Restricted net assets --- Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
c. Unrestricted net assets --- All other net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

5. Revenues

The Authority entered into a lease of the facilities to the Rogers County Youth Services and Rogers County Adult Daycare, as lessee, for a term extending to June 30, 2012, renewable at the option of the Rogers County Youth Services and Rogers County Adult Day Care for successive one year terms. The consideration for the lease is the payment by the County to the Authority of sums sufficient to pay the costs of making repairs to the facilities.

6. Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. Detailed Notes Concerning the Funds

A. Cash and Investments

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Authority’s deposits may not be returned to it. The Authority’s cash deposits, including interest-bearing certificates of deposit, are maintained in financial institutions. As of June 30, 2012, none of the Authority’s deposits were exposed to custodial credit risk.

Interest rate risk: This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Authority does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Rogers County Public Health Facilities Authority
Notes to the Financial Statements
For the Year Ended June 30, 2012

II. Detailed Notes Concerning the Funds (continued)

B. Changes in Capital Assets

Capital asset activity for the year was as follows:

	Balance June 30, 2011	Additions	Deletions	Balance June 30, 2012
Not Depreciated				
Land	$ 113,100.00	$ -	$ -	$ 113,100.00
Depreciable Assets				
Buildings	1,952,130.72	7,538.88	-	1,959,669.60
Equipment	50,636.44	-	-	50,636.44
Total	2,002,767.16	7,538.88	-	2,010,306.04
Accumulated Depreciation	(1,106,556.52)	(62,459.55)	-	(1,169,016.07)
Total Depreciable Assets	896,210.64	(54,920.67)	-	841,289.97
Net Capital Assets	$ 1,009,310.64	$ (54,920.67)	$ -	$ 954,389.97

E. Lease Agreement

The Authority entered into a lease agreement with the Rogers County Youth Services which commenced on July 1, 2010. The Authority also negotiated a lease agreement with the Rogers County Adult Daycare which commenced on July 1, 2010 however the lease agreement was not signed and the matter is with the Assistant District Attorney for opinion.

Under the terms of the agreement, the Rogers County Youth Services and Rogers County Adult Daycare will lease from the Authority the Rogers County Public Health Facility for a minimum rental amount. The lease is renewable for four (4) twelve month periods on each July 1. Future annual minimum rental payments under the agreement are as follows:

Lease Term	Minimum Rentals
July 1, 2012 – June 30, 2013	18,000

Rogers County Youth Services is paying the lease on a monthly basis however Rogers County Adult Daycare has not paid any lease payments for the current year.

Rogers County Public Health Facilities Authority
Notes to the Financial Statements
For the Year Ended June 30, 2012

III. Other Information

A. Economic Dependence

During the fiscal year ended June 30, 2012, the Organization reported lease revenues of $18,000 pursuant to its lease agreement with the Rogers County Youth Services. This amount represents 100% of the Authority's total operating revenues. If the Authority did not receive these revenues, alternate sources of funding would need to be secured in order to continue to service the facility.

B. Subsequent Events

Management has evaluated subsequent events through January 16, 2013, which is the date the financial statements were available to be issued and have determined that no additional information needs to be added to the financial statements.

C. Contingent Liabilities

The governing board of the Authority is not aware of any pending or threatened legal actions against it. However, any such actions would probably be covered by insurance.

Rogers County Public Health Facilities Authority
Schedule of Findings and Responses
For the Year Ended June 30, 2012

FINDINGS - FINANCIAL STATEMENT AUDIT

2012-1 Material Weakness in Internal Control over Financial Reporting – Preparation of Financial Statements in Accordance with GAAP

Criteria:
The Government's management is responsible for internal controls over financial reporting. This includes controls over the fair and complete presentation of the Government's annual financial statements in accordance with generally accepted accounting principles (GAAP). The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal books and records), and (2) reporting government-wide and fund financial statements, including the related footnotes (i.e., external financial reporting). Professional audit standards clearly indicate that the external financial statement auditor cannot take responsibility for any part of management's control activities or be a component of the internal controls over financial reporting.

Condition:
As is the case with many smaller and medium-sized entities, the Government has historically relied extensively on its independent external auditors to provide the necessary expertise to assist in the preparation of the financial statements and footnotes. However, management is responsible for the preparation and fair presentation of the financial statements in accordance with the applicable financial reporting, even if the auditor assists in drafting the financial statements. Accordingly, the government's ability to prepare financial statements in accordance with GAAP is based, in part, on assistance from its external auditors, who cannot by definition be considered a part of the government's internal controls.

Cause:
Government personnel do not possess formal knowledge, expertise, and education relative to preparing GAAP financial statements and related note disclosures without assistance from the external auditor or another outside source. Professional standards do not require that the management possess the expertise to prepare the financial statements and related note disclosures but to have the skills to understand them. As a result management was able to review the financial statements and related note disclosures and sufficiently understand them to take full responsibility for them as required by professional standards.

Effect or Potential Effect:
As a result of this condition, without assistance from its external auditors or another outside source, the Government may lack the necessary internal controls over the preparation of financial statements in accordance with GAAP. This condition also places the auditor in a questionable position regarding auditor independence as a result of potentially performing part of management's functions.

Recommendation:
We recommend that the Government consider designing and implementing sufficient internal controls over financial reporting by obtaining the necessary knowledge, expertise and continuing education to prepare financial statements in according to generally accepted accounting principles without assistance from the external financial statement auditor. This could be achieved through employment of qualified accounting staff or the outsourcing of these control activities to a qualified accounting firm other than the external auditor.

Rogers County Public Health Facilities Authority
Schedule of Findings and Responses
For the Year Ended June 30, 2012

FINDINGS - FINANCIAL STATEMENT AUDIT (continued)

2012-1 Material Weakness in Internal Control over Financial Reporting – Preparation of Financial Statements in Accordance with GAAP (continued)

Client Response:
No response.

Rogers County Public Health Facilities Authority
Schedule of Findings and Responses
For the Year Ended June 30, 2012

FINDINGS - FINANCIAL STATEMENT AUDIT (continued)

2012-2 Material Adjusting Journal Entries

Criteria:
The government's management is responsible for internal controls over accounting and financial reporting. This responsibility includes the design and implantation of controls over the fair and complete presentation of the government's annual financial statements in accordance with generally accepted accounting principles (GAAP) from trial balances derived from the government's accounting records. For trial balances to be both complete and accurate, the government must have effective internal controls over recording, processing, summarizing, and adjusting accounting data. As evidence of effective internal controls over accounting and financial reporting, there should generally be few, if any, material adjustments to the trial balances required that are detected and corrected solely as a result of the financial statement audit. In other words, government management should not rely on the external auditor to detect and correct material misstatements in the books and records as part of its internal control, but rather should have its own procedures designed and in place that are independent of the external auditor to provide reasonable, although not absolute, assurance that material misstatements will be detected and corrected in its trial balances prior to audit.

Condition:
The government's trial balances for the year ended June 30, 2012, required a number of material adjusting journal entries in order for the financial statements to be prepared in accordance with GAAP. These necessary adjusting entries, identified solely as a result of the financial statement audit, included such adjustments as the following: adjusting accounts receivable/accounts payable; adjusting note activity for unrecorded debt; recording accounting activity for funds held at county; recording adjustments from the prior period; writing off outstanding checks; adjusting payroll taxes, prepaid insurance, accrued interest, interest earned, meter deposits payable, depreciation, and due from other governments.

Cause:
The Government's accounting and financial reporting staff does not possess the necessary knowledge, expertise and education, relative to the complex nature of applying GAAP applicable to state and local governments, sufficient to provide reasonable assurance that the trial balances used for preparing the GAAP financial statements are complete and accurate prior to audit. As a result, management has had to rely on the external auditors to identify and correct a number of material misstatements in the trial balances.

Effect:
As a result of this condition, without reliance on its external auditors, the government lacks the necessary internal controls over the completeness and accuracy of the trial balances that are used in the preparation of its financial statements in accordance with GAAP. This condition can result in undetected and uncorrected material misstatements in the financial statements that are not detected by management and may also not be detected by the financial statement audit. In addition, if management's intentions are to continue to rely on the external auditor to detect and correct material misstatements, this condition could place the auditor in a questionable position regarding auditor independence as a result of the auditor performing part of management's functions regarding to the trial balances.

Rogers County Public Health Facilities Authority
Schedule of Findings and Responses
For the Year Ended June 30, 2012

FINDINGS - FINANCIAL STATEMENT AUDIT (continued)

2012-2 Material Adjusting Journal Entries (continued)

Recommendation:
The government should consider designing and implementing sufficient internal controls over the completeness and accuracy of trial balances by obtaining the necessary knowledge, expertise, and continuing education to apply GAAP in the development of working trial balances that will be used to prepare the government's annual financial statements. This could be achieved through employment of qualified accounting staff or the outsourcing of these control activities to a qualified accounting firm other than the external auditor.

Client Response:
No response.

Rogers County Public Health Facilities Authority
Schedule of Findings and Responses
For the Year Ended June 30, 2012

FINDINGS - FINANCIAL STATEMENT AUDIT (continued)

2012-3 Preparation of a Budget

Criteria:
According to Oklahoma State Statute (60 O.S., S. 176.G.) public trusts created pursuant to this section shall file annually, with their respective beneficiaries, copies of financial documents and reports sufficient to demonstrate the fiscal activity of such trust, including, but not limited to, budgets, financial reports, bond indentures, and audits. Amendments to the adopted budget shall be approved by the trustees of the public trust and recorded as such in the official minutes of such trust.

Condition:
The Authority is required by state statute to prepare and file a budget annually.

Cause:
Management did not prepare a budget as required by state statute.

Effect:
The Authority is not in compliance with state statute.

Recommendation:
We recommend that the Authority implement procedures to prepare an annual budget and file it with the county.

Client Response: