

**Financial Statements and Reports of
Independent Certified Public Accountant
Rural Water District No. 9
Rogers County, Oklahoma
September 30, 2012**

TURNER & ASSOCIATES, PLC
Certified Public Accountants
P.O. Box 378
Vinita, OK 74301
918.256.6788

**Rogers County Rural Water District No. 9
Water District Officials
September 30, 2012**

Board of Directors

David Patterson	Chairman
Lynn Armstrong	Vice – Chairman
Linda Jerchau	Secretary/Treasurer
Jeremy Erwin	Member
Jerry Ragsdale	Member

Rogers County Rural Water District No. 9
Table of Contents

Independent Auditor's Report	1
Report Required by <i>Government Auditing Standards</i> :	2-3
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	
Basic Financial Statements:	
Statement of Net Assets	4
Statement of Revenues, Expenses and Changes in Net Assets	5
Statement of Cash Flows	6-7
Notes to the Financial Statements	8-12
Schedule of Findings and Responses	13-14



Independent Auditor's Report

Board of Directors
Rural Water District No. 9
Rogers County, Oklahoma

We have audited the accompanying financial statements of the business-type activities of the Rural Water District No. 9, Rogers County, Oklahoma, as of and for the year ended September 30, 2012, which comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District'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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Rural Water District No. 9, Rogers County, Oklahoma as of September 30, 2012, and the changes in financial position and cash flows 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 March 11, 2013 on our consideration of the Rural Water District No. 9, Rogers County, Oklahoma'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 conjunction with this report in considering the results of our audit.

The Rural Water District No. 9, Rogers County, Oklahoma has not presented the Management's Discussion and Analysis required by the Governmental Accounting Standards Board (GASB) that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that comprise the Rural Water District No. 9, Rogers County, Oklahoma's basic financial statements.

TURNER & Associates, PLC

Vinita, OK
March 11, 2013



**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**

Board of Directors
Rural Water District No. 9
Rogers County, Oklahoma

We have audited the financial statements of the business-type activities of the Rural Water District No. 9, Rogers County, Oklahoma, as of and for the year ended September 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated March 11, 2013. The Rural Water District No. 9 did not present the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the basic financial statements. 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 Rural Water District No. 9, Rogers County, Oklahoma's internal control over financial reporting as a basis for designing our audit 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 Rural Water District No. 9, Rogers County, Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Rural Water District No. 9, Rogers County, Oklahoma's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting, describe in the accompanying schedule of findings and questioned costs that we consider to be material weaknesses in 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. We consider the deficiencies, 2012-1 and 2012-2 described in the accompanying schedule of findings and questioned costs to be material weaknesses.

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Rural Water District No. 9, 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 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 Rural Water District No. 9, Rogers County, Oklahoma's responses to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Rural Water District No. 9, Rogers County Oklahoma's responses 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, is not intended to be, and should not be used by anyone other than these specified parties.

TURNER & Associates, PLLC

Vinita, OK
March 11, 2013

Rogers County Rural Water District No. 9
Statement of Net Assets
September 30, 2012

	September 30, 2012	(Memo Only) September 30, 2011
ASSETS		
Current Assets		
Cash and Cash Equivalents	\$ 223,345.16	\$ 193,555.37
Investments	60,569.75	60,218.26
Accounts Receivable, net of allowance	18,941.45	19,895.05
Prepaid Insurance	3,556.53	1,949.36
Total Current Assets	<u>306,412.89</u>	<u>275,618.04</u>
Noncurrent Assets		
Capital Assets:		
Non-depreciable	13,930.00	13,930.00
Depreciable	1,059,466.06	1,078,469.44
Total Capital Assets, net	<u>1,073,396.06</u>	<u>1,092,399.44</u>
Total Assets	<u>1,379,808.95</u>	<u>1,368,017.48</u>
LIABILITIES		
Current Liabilities		
Accounts Payable	32,326.96	10,109.23
Accrued Payables	1,674.09	1,632.04
Total Liabilities	<u>34,001.05</u>	<u>11,741.27</u>
NET ASSETS		
Invested in Capital Assets	1,073,396.06	1,092,399.44
Unrestricted	<u>272,411.84</u>	<u>263,876.77</u>
Total Net Assets	<u>\$ 1,345,807.90</u>	<u>\$ 1,356,276.21</u>

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

Rogers County Rural Water District No. 9
Statement of Revenues, Expenses and Changes in Net Assets
For the Year Ended September 30, 2012

	<u>September 30, 2012</u>	(Memo Only) <u>September 30, 2011</u>
Operating Revenues		
Water Revenues	\$ 207,728.30	\$ 193,485.41
Late Charges	6,916.01	7,203.89
Miscellaneous Operating Revenue	<u>3,932.00</u>	<u>3,117.00</u>
Total Operating Revenues	<u>218,576.31</u>	<u>203,806.30</u>
Operating Expenses		
Water Purchased	96,452.00	82,734.71
Depreciation	39,567.99	39,175.78
Salaries and Wages	28,561.94	28,561.94
Utilities	905.65	662.71
Operating Supplies	2,220.00	190.00
Repairs and Maintenance	54,693.21	25,921.80
Telephone	2,072.64	1,953.32
Office Expense	4,338.46	3,030.02
Insurance	1,871.27	2,104.75
Professional Fees	3,050.00	3,224.50
Licenses/Subscriptions/Dues	625.29	620.27
Office Expense Reimbursement	2,400.00	2,466.43
Travel Expenses	1,200.00	1,200.00
Payroll Taxes	2,473.99	2,456.75
Miscellaneous Expense	<u>756.00</u>	<u>728.00</u>
Total Operating Expenses	<u>241,188.44</u>	<u>195,030.98</u>
Operating Income (Loss)	(22,612.13)	8,775.32
Non-Operating Revenues (Expenses)		
Interest Income	1,143.82	1,686.11
Capital Contributions		
Memberships	<u>11,000.00</u>	<u>6,000.00</u>
Change in Net Assets	(10,468.31)	16,461.43
Net Assets, Beginning of Year	<u>1,356,276.21</u>	<u>1,339,814.78</u>
Net Assets, End of Year	<u>\$ 1,345,807.90</u>	<u>\$ 1,356,276.21</u>

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

Rogers County Rural Water District No. 9
Statement of Cash Flows
For the Year Ended September 30, 2012

	<u>September 30, 2012</u>	(Memo Only) <u>September 30, 2011</u>
Cash Flows from Operating Activities		
Cash Inflows:		
Payments Received from Customers	\$ 208,681.90	\$ 190,926.89
Other Cash Received	<u>21,848.01</u>	<u>16,320.89</u>
Total Cash Provided	<u>230,529.91</u>	<u>207,247.78</u>
Cash Outflows:		
Payments for Salaries and Benefits	(30,993.88)	(30,988.88)
Payments for Goods and Services	<u>(149,973.96)</u>	<u>(126,069.22)</u>
Total Cash Used	<u>(180,967.84)</u>	<u>(157,058.10)</u>
Net Cash Provided (Used) by Operating Activities	<u>49,562.07</u>	<u>50,189.68</u>
Cash Flows from Noncapital Financing Activities		
Purchase of Capital Assets	<u>(20,564.61)</u>	<u>-</u>
Cash Flows from Investing Activities		
Purchase of Investments	(351.49)	(727.01)
Interest Received from Investments	<u>1,143.82</u>	<u>1,686.11</u>
Net Cash Provided by Investing Activities	<u>792.33</u>	<u>959.10</u>
Net Cash Inflow (Outflow) from All Activities	29,789.79	51,148.78
Cash and Cash Equivalents at Beginning of Year	<u>193,555.37</u>	<u>142,406.59</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 223,345.16</u></u>	<u><u>\$ 193,555.37</u></u>
Cash and Cash Equivalents		
Unrestricted Cash and Cash Equivalents	<u><u>\$ 223,345.16</u></u>	<u><u>\$ 193,555.37</u></u>

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

Rogers County Rural Water District No. 9
Statement of Cash Flows (Continued)
For the Year Ended September 30, 2012

	<u>September 30, 2012</u>	<u>(Memo Only)</u> <u>September 30, 2011</u>
Reconciliation of Operating Income (Loss to Net Cash)		
Provided by Operating Activities:		
Operating Income (Loss):	\$ (22,612.13)	\$ 8,775.32
Depreciation	39,567.99	39,175.78
Memberhips	11,000.00	6,000.00
(Increase) Decrease in:		
Accounts Receivable	953.60	(2,558.52)
Prepaid Insurance	(1,607.17)	(298.42)
Increase (Decrease) in:		
Accounts Payable	22,217.73	(934.29)
Accrued Payables	42.05	29.81
	<u>42.05</u>	<u>29.81</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 49,562.07</u>	<u>\$ 50,189.68</u>

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

Rogers County Rural Water District No. 9
Notes to the Financial Statements
For the Year Ended September 30, 2012

The following notes to the financial statements are an integral part of Rural Water District No. 9's financial statements.

I. Summary of Significant Accounting Policies

Rural Water District No. 9, Rogers County, Oklahoma (the "District") was created under the provisions of Title 82, O.S. 1981, Sections 1324.1-1324.26 inclusive, for the purpose of providing water to the members of the District it serves. Membership in the water district consists of water users who have paid the required membership and connection fees. The District is exempt from federal and state income taxes.

The membership consists of approximately 424 users, each entitled to one vote. The Board of Directors consists of five members serving three-year terms. The vacant Board seats are elected at the annual meeting, and following, the Board of Directors meet and elect a chairman, vice-chairman and secretary/treasurer. All Board members serve without pay.

A. Financial Reporting Entity

Rural Water District No. 9 is an independent, self-contained reporting entity with no associated component units. The District'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.

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP) promulgated in the United States of America. The accounting and financial reporting treatment is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation are included on the statement of net assets. The operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. Depreciation expense is provided for capital assets based upon estimated useful lives.

Financial activity is accounted for on the flow of economic resources measurement focus using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. The District complies with generally accepted accounting principles and applies all relevant Government Accounting Standards Board (GASB) pronouncements. In addition, the District applies Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The District has elected not to follow FASB pronouncements issued since that date.

Memorandum Only – Total Column

The total column on the financial statements is captioned "Memo Only" to indicate that it is present only to facilitate financial analysis. Data in this column does not present assets and liabilities, revenues collected and expenditures paid in conformity with the statutory basis of accounting. Neither is such data comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of this data.

Rogers County Rural Water District No. 9
Notes to the Financial Statements
For the Year Ended September 30, 2012

I. Summary of Significant Accounting Policies (continued)

C. Assets, Liabilities and Net Assets

1. Cash and Cash Equivalents

For purposes of the statement of cash flows, the District 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. Investments

Investments consist of one certificate of deposit maturing in the following fiscal year with interest added to the CD at maturity.

3. Fair Value of Financial Instruments

The District's financial statements include cash and investments. The District'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.

4. Inventory of Supplies and Materials

Inventory is stated at cost using the first-in, first-out method. Inventories, which consist of materials and supplies used for repairs to the system, are recorded under the purchases method where materials and supplies are recorded as an expense immediately when purchased. The District has determined that any materials and supplies on hand at year end are immaterial and have not been recorded as inventory.

5. Accounts Receivable

Accounts receivable consists primarily of charges for water sales. Management has established a provision for uncollectible accounts in the amount of \$500.

6. Capital Assets

The water storage and delivery system and furniture and equipment are recorded at cost. Donated capital assets are reported at estimated fair market value at the date of donation. District policy has set the capitalization threshold for reporting capital assets at \$1,000.

Additions and improvements that significantly extend the useful life of an asset are capitalized. The cost of normal maintenance and repairs are expensed as incurred.

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

Rogers County Rural Water District No. 9
Notes to the Financial Statements
For the Year Ended September 30, 2012

I. Summary of Significant Accounting Policies (continued)

C. Assets, Liabilities and Net Assets (continued)

7. 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.”

8. 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.

9. Subsequent Events

Management has evaluated subsequent events through March 11, 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.

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 District’s deposits may not be returned to it. The District’s cash deposits, including interest-bearing certificates of deposit, are maintained in financial institutions. The District does not have a deposit policy for custodial credit risk. As of September 30, 2012 none of District’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 District 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 Rural Water District No. 9
Notes to the Financial Statements
For the Year Ended September 30, 2012

II. Detailed Notes Concerning the Funds (continued)

B. Accounts Receivable

Following is an aged schedule of accounts receivable as of September 30, 2012:

<u>0-30 Days</u>	<u>31-60 Days</u>	<u>61-90 Days</u>	<u>Over 90 Days</u>	<u>Total</u>
<u>\$ 13,954.75</u>	<u>\$ 4,181.06</u>	<u>\$ 398.33</u>	<u>\$ 907.31</u>	<u>\$ 19,441.45</u>

C. Changes in Capital Assets

Capital asset activity for the year was as follows:

<u>Description</u>	<u>Balance 9/30/11</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 9/30/12</u>
Land	\$ 13,930.00	\$ -	\$ -	\$ 13,930.00
Water Distribution System	1,539,598.36	19,486.61	-	1,559,084.97
Furniture and Equipment	7,359.20	1,078.00	-	8,437.20
Total	1,546,957.56	20,564.61	-	1,567,522.17
Accumulated Depreciation	(468,488.12)	(39,567.99)	-	(508,056.11)
Net Depreciable Assets	1,078,469.44	(19,003.38)		1,059,466.06
Net Capital Assets	\$ 1,092,399.44	\$ (19,003.38)	\$ -	\$ 1,073,396.06

D. Long-Term Debt

The District has no long term debt.

III. Other Information

A. Risk Management

The District 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 District purchases commercial insurance to cover these risks, including general and auto liability, property damage, and public officials liability. There were no significant reductions in insurance coverage from the prior year. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Rogers County Rural Water District No. 9
Notes to the Financial Statements
For the Year Ended September 30, 2012

III. Other Information (continued)

B. Rates and Fees

Water usage and rates for Roger County RWD No. 9 are illustrated in the chart below.

Minimum Usage	Maximum Usage	Fixed Rate	Plus, Per/1000
	1000	15.20	
1001	3000	15.20	3.10
3001	5000	21.40	3.30
5001	7000	28.00	3.50
7001	9000	35.00	3.70
9001	11000	42.40	3.90
11001	13000	50.20	4.10
13001	and up	58.40	4.50

Late payment penalties higher of \$5.00 or 10% of unpaid balance.

Membership Fee	1,000.00
NSF Charge	3.00
Reconnect	40.00
Transfer	25.00

**Rogers County Rural Water District No. 9
Schedule of Findings and Responses
For the Year Ended September 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 District's management is responsible for internal controls over financial reporting. This includes controls over the fair and complete presentation of the District'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 District 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. This finding was also noted in 2011.

Cause:

District 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 District 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 District consider designing and implementing sufficient internal controls over financial reporting by obtaining the necessary knowledge, expertise and continuing education to prepare financial statements in accordance with 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.

Client Response:

No Response.

Rogers County Rural Water District No. 9
Schedule of Findings and Responses
For the Year Ended September 30, 2012

2012-2 Material Adjusting Journal Entries

Criteria:

The District'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 District'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 District's trial balances for the year ended September 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 depreciation expense; adjusting prepaid insurance; and recording adjustments from the prior period. This was the same finding in 2011.

Cause:

The District'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 assistance from its external auditors, the District 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 since management is responsible for the completeness and accuracy of the financial statements.

Recommendation:

The District 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.