

**Financial Statements and Reports of
Independent Certified Public Accountant
Craig County E-911 Governing Authority
December 31, 2013**

**TURNER & ASSOCIATES, PLC
Certified Public Accountants
P.O. Box 378
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**Craig County E-911 Governing Authority
Board of Trustees
December 31, 2013**

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Delbert Bowers	Vice Chairman
Tammy Malone	Treasurer
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Julie Sellmeyer	Vice-Secretary
Jim Butcher	Manager
Clara Butcher	Assistant Manager

**Craig County E-911 Governing Authority
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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Craig County E-911 Governing Authority
Vinita, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the Craig County E-911 Governing Authority, a special revenue fund, of the County of Craig, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the special revenue fund activities of the Craig County E-911 Governing Authority, as of December 31, 2013, in accordance with accounting principles generally accepted in the United States of America.

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United States of America.

Emphasis of Mater

As discussed in Note I, the financial statements present only the Craig County E-911 Governing Authority and do not purport to, and do not present fairly the financial position of the County of Craig, Oklahoma, as of December 31, 2013, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

TURNER & Associates, PLLC

Vinita, Oklahoma
April 21, 2014



**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 Trustees
Craig County E-911 Governing Authority
Vinita, Oklahoma

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the special revenue fund of the Craig County E-911 Governing Authority, County of Craig, Oklahoma, as of and for the year ended December 31, 2013, and the related notes to the financial statements which collectively comprise the Craig County E-911 Governing Authority's financial statements, and have issued our report thereon dated April 21, 2014. The Craig County E-911 Governing Authority did not present the Management's Discussion and Analysis and Budgetary Comparison Schedule that accounting principles generally accepted in the United States of America require to supplement, although not to be part of, the basic financial statements.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Craig County E-911 Governing Authority'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 Craig County E-911 Governing Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Craig County E-911 Governing Authority's internal control.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting, describe in the accompanying schedule of findings and questioned costs that we consider to be a material weakness.

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, 2013-1, described in the accompanying schedule of findings and responses 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Craig County E-911 Governing Authority'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*.

Craig County E-911 Governing Authority Response to Finding

The Craig County E-911 Governing Authority's response to the finding identified in our audit are described in the accompanying schedule of findings and responses. The Craig County E-911 Governing Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no 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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

TURNER & Associates, PLLC

Vinita, Oklahoma
April 21, 2014

Craig County E-911 Governing Authority
Statement of Net Position
December 31, 2013

ASSETS

Current Assets

Cash and Cash Equivalents	\$ 32,329.70
Certificates of Deposit & Other Investments	378,960.79
Accounts Receivable	12,291.30
Prepaid Expenses	1,694.73
Total Current Assets	<u>425,276.52</u>

Noncurrent Assets

Capital Assets, net of Accumulated Depreciation	<u>81,065.27</u>
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TOTAL ASSETS

506,341.79

LIABILITIES

Current Liabilities

Accounts Payable and Accrued Expenses	<u>8,992.74</u>
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NET POSITION

Investment in Capital Assets	81,065.27
Unrestricted Net Position	<u>416,283.78</u>
TOTAL NET POSITION	<u><u>\$ 497,349.05</u></u>

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

**Craig County E-911 Governing Authority
Statement of Activities
For the Year Ended December 31, 2013**

		Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Functions/Programs	Expenses				
Governmental Activities:					
Public Safety	\$ 197,885.05	\$ -	\$ -	\$ -	\$ (197,885.05)
General Revenues and Transfers:					
Tariff Fees					155,272.93
Investment Earnings					6,346.75
Other Income					79.96
Total General Revenues and Transfers					<u>161,699.64</u>
Change in Net Position					(36,185.41)
Net Position, Beginning					<u>533,534.46</u>
Net Position, Ending					<u>\$ 497,349.05</u>

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

**Craig County E-911 Governing Authority
Balance Sheet – Special Revenue Fund
December 31, 2013**

ASSETS

Cash and Cash Equivalents	\$ 32,329.70
Investments	378,960.79
Accounts Receivable - Tariff Fees	12,291.30
Prepaid Expenses	1,694.73
Total Assets	<u>\$ 425,276.52</u>

LIABILITIES AND FUND EQUITY**Liabilities:**

Accounts Payable and Accrued Expenses	\$ 8,992.74
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Fund Equity:

Fund Equity, Restrictd	416,283.78
Total Liabilities and Fund Equity	<u>\$ 425,276.52</u>

Reconciliation of Balance Sheet to Statement of Net Position:

Special Revenue Fund Equity	\$ 416,283.78
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$565,049.60 and the accumulated depreciation is \$483,984.33 for a net book value of \$81,065.27

81,065.27

Net Position of Governmental Activities	<u>\$ 497,349.05</u>
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The accompanying Notes to the Financial Statements are an integral part of this statement.

Craig County E-911 Governing Authority
Statement of Revenues, Expenditures, and Changes in Fund Balance – Special Revenue Fund
For the Year Ended December 31, 2013

Revenues:

Tariff Fees	\$ 155,272.93
Investment Earnings	6,346.75
Other Income	79.96
Total Revenues	<u>161,699.64</u>

Expenditures:

Audit and Accounting	2,975.00
Bank Charges	94.32
Dispatching Fees	24,000.00
Maintenance Agreement	7,570.00
Insurance	2,208.00
Repairs & Maintenance	11,327.45
Miscellaneous	1,884.22
Postage	752.82
Payroll Taxes	4,207.36
Salaries	54,999.96
Supplies	2,497.80
Fuel	1,461.15
Utilities	18,654.84
Fees	32.00
Vehicles	273.60
Equipment	5,059.22
Total Expenditures	<u>137,997.74</u>

Net Change in Fund Balance 23,701.90

Fund Balance, Beginning of Year	<u>392,581.88</u>
Fund Balance, End of Year	<u><u>\$ 416,283.78</u></u>

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

Craig County E-911 Governing Authority
Reconciliation of the Special Revenue Fund Statement of Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities
For the Year Ended December 31, 2013

Net Change in Fund Balance - Special Revenue Fund	\$	23,701.90
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Amounts reported for governmental activities in the Statement of Activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, in the Statement of Activities, the cost of those assets are allocated over their estimated useful lives as depreciation expense.

Capital Outlay	2,986.23	
Depreciation expense	<u>(62,873.54)</u>	<u>(59,887.31)</u>

Change in Net Position	\$	<u><u>(36,185.41)</u></u>
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The accompanying Notes to the Financial Statements are an integral part of this statement.

**Craig County E-911 Governing Authority
Notes to the Financial Statements
For the Year Ended December 31, 2013**

I. Summary of Significant Accounting Policies

The following notes to the financial statements are an integral part of the Authority's financial statements.

The Authority is a special revenue fund of the County of Craig, Oklahoma and will be included in the County of Craig's basic financial statements. Therefore, these financial statements present only the activities of the special revenue fund and are not intended to present the financial status of the County as a whole.

The Authority complies with Generally Accepted Accounting Principles (GAAP). Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the Statement of Net Position and Statement of Activities, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent sections of this Note.

A. Measurement Focus, Basis of Accounting, and Basis of Presentation

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

In the Statement of Net Position and Statement of Activities, governmental activities are presented using the "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of net income, financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Fund equity is classified as net assets. Governmental activities are presented using 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 the economic asset is used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable financial resources at the end of the period. The fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for general obligation bond principal and interest which are reported when due.

**Craig County E-911 Governing Authority
Notes to the Financial Statements
For the Year Ended December 31, 2013**

I. Summary of Significant Accounting Policies (continued)

A. Measurement Focus, Basis of Accounting, and Basis of Presentation

Special Revenue Fund

Special revenue funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally or administratively restricted to expenditures for specified purposes. The operating fund of the Authority is a special revenue fund. It is used to account for all activities of the Craig County E-911 Governing Authority.

Major and Non-Major Funds

Major: Special Revenue Fund: Craig County E-911 Governing Authority

Non-Major: None

B. Assets, Liabilities and Equity

Cash and Cash Equivalents

For the purpose of the Statement of Net Position, "cash and cash equivalents" includes all demand, savings accounts and certificates of deposit of the Authority that have a maturity of three months or less.

Receivables

In the Statement of Net Position, receivables consist of all revenues earned at year-end and not yet received. Major receivable balances for the governmental activities include tariff fee revenues and interest earned but not received as of the end of the year.

In the fund financial statements, material receivables in governmental funds include tariff fee revenues since they are usually both measurable and available. Non-exchange transactions collectible but not available are deferred in the fund financial statements in accordance with modified accrual, but not deferred in the government-wide financial statements in accordance with the accrual basis of accounting. Interest and investment earnings are recorded when earned only if paid within 60 days since they would be considered both measurable and available.

**Craig County E-911 Governing Authority
Notes to the Financial Statements
For the Year Ended December 31, 2013**

I. Summary of Significant Accounting Policies (continued)

B. Assets, Liabilities and Equity (continued)

Fixed Assets

The accounting treatment over property, plant and equipment (fixed assets) depends on whether the assets are reported in the Statement of Net Position or fund financial statements.

Statement of Net Position

In the Statement of Net Position, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. The Authority's capitalization policy is \$1,000.00

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Position. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation.

The Authority estimates useful lives of 5-20 years on equipment.

Fund Financial Statements

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

Equity Classifications

Statement of Net Position

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

- a. Invested in capital assets – Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. Restricted net position – 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 position – All other net assets that do not meet the definition of "restricted" or "invested in capital assets."

**Craig County E-911 Governing Authority
Notes to the Financial Statements
For the Year Ended December 31, 2013**

I. Summary of Significant Accounting Policies (continued)

B. Assets, Liabilities and Equity (continued)

Fund Statements

In the fund financial statements, governmental funds report the hierarchy of fund balances. The hierarchy is based primarily on the degree of spending constraints placed on the use of resources for a specific purpose versus availability of appropriation. An important distinction that is made in reporting fund balance is between amounts that are considered *nonspendable* (i.e, fund balance associated with assets that are not in spendable form, such as inventories or prepaid items, long-term portions of loans and notes receivable, or items that are legally required to be maintained intact (such as the corpus of a permanent fund) and those that are *spendable* (such as fund balance associated with cash, investments or receivables).

Amounts in the *spendable* fund balance category are further classified as *restricted*, *committed*, *assigned* or *unassigned*, as appropriate.

Restricted fund balance represents amounts that are constrained either externally by creditors (such as debt covenants), grantors, contributors, or laws and regulations of other governments; or by law through constitutional provision or enabling legislation.

Committed fund balance represents amounts that are usable only for specific purposes by formal action of the government's highest level of decision making authority. Such amounts are not subject to legal enforceability (like restricted amounts), but cannot be used for any other purpose unless the government removes or changes by taking action similar to that which imposed the commitment. The Authority's Board of Trustees is the highest level of decision making authority of the Authority.

Assigned fund balance represents amounts that are *intended* to be used for specific purposes but are neither restricted nor committed. Intent is expressed by the governing body itself, or a subordinated high-level body or official who the governing body has delegated the authority to assign amounts to be used for specific purposes. Assigned fund balances includes all remaining spendable amounts (except negative balances) that are reported in governmental funds *other than the general fund*, that are neither restricted nor committed, and amounts in the general fund that are intended to be used for specific purpose in accordance with the provisions of the standard.

Unassigned fund balance is the residual classification for the general fund. It represents the amounts that have not been assigned to other funds, and that have not been restricted, committed, or assigned to specific purposes within the general fund.

C. Revenues, Expenditures and Expenses

Tariff Fees

Revenues from tariff fees include amounts due to the Authority from taxes collected by the local telephone companies.

**Craig County E-911 Governing Authority
Notes to the Financial Statements
For the Year Ended December 31, 2013**

I. Summary of Significant Accounting Policies (continued)

C. Revenues, Expenditures and Expenses (continued)

Investment Earnings

Investment earnings include interest on certificates of deposit.

Expenditures/Expenses

In the Statement of Activities, expenses are classified by function for governmental activities.

In the fund financial statements, expenditures are classified by character. In the fund financial statements, governmental funds report expenditures of financial resources.

D. 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 certain 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. Stewardship, Compliance and Accountability

By its nature as a component unit of a local government unit, the Authority is subject to various federal, state and local laws and contractual regulations. An analysis of the Authority's compliance with significant laws and regulations and demonstration of its stewardship over Authority resources follows.

A. Fund Accounting Requirements

The Authority complies with all state and local laws and regulations requiring the use of separate funds. The Authority uses a special revenue fund as legally required by the terms of its trust indenture.

B. Deposit and Investments Laws and Regulations

In accordance with state law, all uninsured deposits of municipal funds in financial institutions must be secured with acceptable collateral valued at the lower of market or par. Acceptable collateral includes certain U.S. Government or Government Agency securities, certain State of Oklahoma or political subdivision debt obligations or surety bonds. As required by 12 U.S.C.A., Section 1823(e), all financial institutions pledging collateral to the Authority must have a written collateral agreement approved by the Board of Trustees or loan committee. As reflected in note III A., deposits were collateralized.

Investments of any Town or County (excluding Public Trusts) whose population exceeds 3,000 according to the latest census information are restricted by state law. Public trusts created under O.S. Title 60 are not subject to these investment limitations and are primarily governed by any restrictions in their trust or bond indentures. For the year ended December 31, 2013, the Authority complied, in all material respects, with

these investment restrictions.

**Craig County E-911 Governing Authority
Notes to the Financial Statements
For the Year Ended December 31, 2013**

II. Stewardship, Compliance and Accountability (continued)

C. Revenue Restrictions

The Authority's revenues are restricted solely for Craig County E-911 purposes. For the year ended December 31, 2013, the Authority complied, in all material respects, with this revenue restriction.

D. Fund Equity Restrictions

Deficit Prohibition

Title 11, Section 17-211 of the Oklahoma Statutes prohibits the creation of a deficit fund balance in any individual fund. The Authority complied with this statute in all material respects for the year ended December 31, 2013.

III. Detailed Notes on Transaction Classes/Accounts

A. Deposits and Investments

State statutes govern the Authority's investment policy. Permissible investments include direct obligations of the United States Government and Agencies; certificates of deposit of savings and loan associations, and bank and trust companies; and savings accounts or savings certificates of savings and loan associations and trust companies. Collateral is required for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance. Investments are stated at cost.

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 are maintained in financial institutions. As of December 31, 2013, 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 Trust 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.

B. Capital Assets

Capital asset activity for the year was as follows:

	Balance December 31, 2012	Additions	Disposals	Balance December 31, 2013
Buildings	\$ 6,067.63	\$ -	\$ -	\$ 6,067.63
Equipment	553,507.01	2,986.23	-	556,493.24
Furniture	2,488.73	-	-	2,488.73
Total Depreciable Assets	562,063.37	2,986.23	-	565,049.60
Accumulated Depreciation	(421,110.79)	(62,873.54)	-	(483,984.33)
Net Capital Assets	\$ 140,952.58	\$ (59,887.31)	\$ -	\$ 81,065.27

**Craig County E-911 Governing Authority
Notes to the Financial Statements
For the Year Ended December 31, 2013**

IV. Other Information

A. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; or acts of God. The Authority purchases commercial insurance to cover these risks, including general and auto liability, property damage, and public officials liability. Settled claims resulting from these risks have not exceeded the commercial insurance coverage in any of the past three fiscal years.

B. Subsequent Events

Management has evaluated subsequent events through April 21, 2014, 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.

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Authority expects such amounts, if any, to be immaterial.

**Craig County E-911 Governing Authority
Schedule of Findings and Responses
For the Year Ended December 31, 2013**

FINDINGS - FINANCIAL STATEMENT AUDIT

2013-1 Material Adjusting Journal Entries

Criteria:

The Authority'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 Authority's trial balances for the year ended December 31, 2013, 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, reclassify income/expense accounts, reclassifying petty cash activity, adjusting outstanding checks, adjusting payroll taxes and employee deductions, and recording activity for a certificate of deposit. This is a repeat finding.

Cause:

The Authority's accounting and financial reporting staff lacks 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 Authority 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.

**Craig County E-911 Governing Authority
Schedule of Findings and Responses
For the Year Ended December 31, 2013**

FINDINGS - FINANCIAL STATEMENT AUDIT (continued)

2013-2 Material Adjusting Journal Entries (continued)

Recommendation:

The Authority 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.