



Emergency Services District Audits

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Agenda

- Legal Requirements of an Audit
- Components of an Audit
- Understanding the Auditor's Opinion
- Making Sense of the Annual Financial Report
- Internal Controls



Why Get an Audit?

Because You Have To!



Legal Requirements

- Filed with County Commissioners by June 1
- Performed by independent CPA or county auditor



HB 3764

- New law that exempts certain districts from needing an audit.
- CONDITIONS APPLY!



HB 3764 Requirements

- No Debt –Includes capital leases
- Income less than \$250,000
(Includes contributions)
- Less than \$250,000 in cash



The Auditors Work For You!

- ✓ Not a “Got You!” Relationship
- ✓ Gives you a tool to address financial issues – both present and potential



Audit is a Tool

- ✓ Checks the Box for Legal Compliance
- ✓ Verifies Financial Statements
- ✓ General Review of Internal Controls



What is an Audit?

- Analysis
- Testing
- Procedures
- Sampling

All these are used to ascertain whether your financials are correct.



At the Conclusion of Your Audit

- 1) Annual Financial Report
- 2) Auditor's Communication to Governance
- 3) Auditor's Communication of Significant Deficiencies and Material Weaknesses
(AKA the management letter)







Annual Financial Report

- 1) Opinion
- 2) Management's Discussion and Analysis
- 3) Financial Statements
- 4) Notes to Financial Statements



The Auditor's Opinion

	-Unmodified
	-Qualified
	-Disclaimed
	-Adverse





Unmodified

- Financials are Materially Correct
(Materiality - Amount of error would not change someone's willingness to borrow/invest in)



Qualified

- Qualified – Will say these financial statements are correct **EXCEPT FOR . . .**

MEANS



Something within the financial statements isn't properly accounted for or can't be accounted for.



Causes of Qualified Opinions

- Not Following Generally Accepted Accounting Principles (GAAP)
- Poor Bookkeeping

*Auditor should communicate possible ways to rectify the situation in Management Letter.



Disclaimed

- Accounting records lack evidence or support for the auditor to determine if it is correct or not



Causes of Disclaimed Opinions

- Poor Record Keeping



Adverse

- Financial Statements Not Represented Fairly
- Multiple Departures from Generally Accepted Accounting Principles (GAAP)



Reasons for Adverse Opinions

- Negligent or Fraudulent Accounting
- Management Refusing the Auditor's Corrections



Management's Discussion & Analysis

- If you review one thing—**THIS** should be it
- High Level Overview of the Annual Financial Report
 - Why did you go over budget?
 - Why did you go under budget?
 - Projections for next year



Management's Discussion & Analysis

- Comparison to Prior Year with Reason for Change

- Describes Financial Highlights of the Year
 - Changes in largest revenue sources
 - Purchases of Capital Assets
 - Issuances and payments of debt
 - Budget comparison analysis



Financial Statements

- 1) Statement of Net Position
(Formerly Statement of Net Assets)
- 2) Statement of Activities
- 3) Balance Sheet
- 4) Statement of Revenues, Expenditures,
& Change in Fund Balance
- 5) Budget to Actual



Designed for Longer Range (1 year+) Planning

- 1) Statement of Net Position
(Formerly Statement of Net Assets)
- 2) Statement of Activities



Short Term Planning

- 3) Balance Sheet
- 4) Statement of Revenues, Expenditures, and
Change in Fund Balance- **Operating Reserve**

*GFOA recommends a 2-month reserve for
operating expenses



Compares Performance to Planning

5) Budget to Actual



Notes to Financial Statements

- Describes the Accounting Policies and Concepts Used
- Explains Types of Investments
- Further Details from Financial Report:
 - Non-financial Obligations of a District (Agreements to Provide Service)
 - More Information on Repayment/Debt Terms



Overview

Annual Financial Report	Audit
<ul style="list-style-type: none"> ✓ Opinion ✓ Management's Discussion and Analysis ✓ Financial Statements ✓ Notes to financial statements 	<ul style="list-style-type: none"> ✓ Annual Financial Report ✓ Auditor's Communication to Governance ✓ Auditor's Communication of Significant Deficiencies and Material Weaknesses



Auditor's Communication to Governance

- Disagreements the Auditor had with Management (Not Common)
- Important & Sensitive Estimates in the Report
- Sensitive disclosure
 - Over Budget
 - Inadequate Cash Reserves
 - Legal Matters



Auditor's Communication of Significant Deficiencies and Material Weaknesses

➤ The Management Letter

Level of Importance:

- Material Weakness
- Significant Deficiency
- Other Matters



Internal Controls

- ### ➤ Processes and procedures in place to prevent mistakes or errors and to prevent fraud



Material Weakness

- Something within the district's processes that allows errors or fraud to occur without being easily detected



Significant Deficiency

- Something within the district's process that allows for the possibility of errors or fraud to occur



Other Matters

- Operational or financial suggestions or compliance issues

Questions?





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