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Poudre River Public Library District

Presentation to the Board of Trustees

September 12, 2022

Pre-Audit Letter: Overview

- Auditing standards require that we plan and perform our 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.
- An audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Our contract more specifically describes your responsibilities.

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Pre-Audit Letter: Communication of Significant Risk Areas

Risk: Management Override of Controls

- Audit Approach: Review accounting estimates for bias, review journal entries and evaluate business rationale for unusual transactions

Risk: Revenue Recognition

- Audit Approach: Review significant revenue for proper cut-off and compliance with requirements determining recognition and analytically review all revenue for reasonableness

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Pre-Audit Letter: Consideration of Error or Fraud

- Our responsibility, as it relates to fraud, in an audit of financial statements is addressed in auditing standards generally accepted in the United States of America.
- Our audit approach includes such procedures as:
  - Engagement team brainstorming
  - Inquiries of management and others
  - Reviewing accounting estimates for bias
  - Evaluating business rationale for significant unusual transactions
  - Evaluating business rationale for significant transactions with related parties
  - Incorporating an element of unpredictability into the audit each year

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Pre-Audit Letter: Estimates and Judgements and Disclosures

- Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:
  - Fair value of investments
  - Depreciable lives of capital assets
- The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:
  - Revenue recognition
  - Investments

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Audit Scope and Results – *Government Auditing Standards*

- An audit performed 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 is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the opinion unit being audited. Our engagement does not include a detailed audit of every transaction. Our contract more specifically describes our responsibilities.
- These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process.

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Audit Scope and Results – *Government Auditing Standards*

- Proposed Audit Adjustments Recorded:
  - Entry to remove fixed assets which were previously disposed of and subsequently added back as a fixed asset addition ($360,000)
  - Entry to accrue accounts payable invoices for construction services performed prior to year-end ($110,000)
  - Entry to adjust fund balance assigned for encumbrances ($11,125)
- Proposed Audit Adjustments Not Recorded: No matters are reportable

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Audit Scope and Results – *Government Auditing Standards*

- 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
- A significant deficiency is a deficiency, or 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.
- 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 District's financial statements will not be prevented or detected and corrected on a timely basis.

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Audit Scope and Results – *Government Auditing Standards*

- Deficiency – Accounts Payable
  - We identified two construction invoices for services provided prior to December 31, 2021; however, these invoices were not accrued for in accounts payable at year-end. An audit adjustment totaling approximately $110,000 was posted.
  - Recommendation: The District should ensure appropriate procedures are in place at year-end to capture accruals.
- Deficiency – Capital Assets
  - During testing of capital assets, we noted that assets which were previously disposed of were subsequently incorrectly added as an addition for approximately $360,000. An audit entry was posted to correct this error.
  - Recommendation: We recommend that the capital asset reconciliation procedures be updated to ensure that all disposals are appropriately updated within the system as well as within all supporting schedules. Procedures to record additions to capital assets should be updated to ensure that additions are appropriately supported by purchasing documents to ensure validity of additions.

Future Accounting Pronouncements

- GASB Statement No. 87, *Leases* (*GASB 87)*

  In response to the challenges arising from COVID-19, on May 7, 2020, GASB approved Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*. All statements and implementation guides with a current effective date of reporting periods beginning after June 15, 2018, and later have a one-year postponement. This change was effective immediately. Early application is still encouraged.

  GASB Statement 87, *Leases* is effective for the District for the year ending **December 31, 2022**.

- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (*GASB 96)*

  This Statement addresses the accounting for the costs related to cloud computing agreements. The standard defines a subscription-based information technology arrangement (SBITA), establishes that a SBITA would result in a right-to-use (RTU) asset and a corresponding liability, provides capitalization criteria, and requires new note disclosures. The statement's language and concepts closely mirror the lease guidance provided in Statement 87, *Leases*.

  GASB Statement 96, *Subscription-Based Information Technology Arrangements* is effective for the District for the year ending **December 31, 2023**. Early application is encouraged.

Thank you!

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