

**NORTH DAKOTA FIREFIGHTER'S ASSOCIATION
BISMARCK, NORTH DAKOTA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
North Dakota Firefighter's Association
Bismarck, North Dakota

Report on the Financial Statements

We have audited the accompanying financial statements of North Dakota Firefighter's Association (a nonprofit organization) which comprise the statements of financial position as of December 31, 2017 and 2016, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

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 an opinion on these financial statements based on our audits. We conducted our audits 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 audits 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, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of North Dakota Firefighter's Association as of December 31, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of functional expenses on page 12 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 5, 2018, on our consideration of North Dakota Firefighter's Association 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 solely 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 effectiveness of the North Dakota Firefighter Association's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering North Dakota Firefighter's Association's internal control over financial reporting and compliance.



BRADY, MARTZ & ASSOCIATES, P.C.
BISMARCK, NORTH DAKOTA

July 5, 2018

NORTH DAKOTA FIREFIGHTER'S ASSOCIATION
STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 511,540	\$ 541,887
Accounts/grants receivable	14,708	94,934
Inventory	15,967	17,657
Prepaid expenses	7,016	5,890
Total current assets	<u>549,231</u>	<u>660,368</u>
Property and equipment:		
Equipment and Film Library, at cost less accumulated depreciation of \$411,823 and \$239,584 in 2017 and 2016, respectively	<u>1,020,234</u>	<u>992,006</u>
Total assets	<u><u>\$ 1,569,465</u></u>	<u><u>\$ 1,652,374</u></u>
 LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable	\$ 43,069	\$ 85,328
Accrued expenses	15,053	31,839
Deferred revenue	18,005	19,695
Total current liabilities	<u>76,127</u>	<u>136,862</u>
Net Assets:		
Unrestricted net assets	<u>1,493,338</u>	<u>1,515,512</u>
Total liabilities and net assets	<u><u>\$ 1,569,465</u></u>	<u><u>\$ 1,652,374</u></u>

See Notes to the Financial Statements

NORTH DAKOTA FIREFIGHTER'S ASSOCIATION
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Support		
IFSTA sales	\$ 16,340	\$ 24,901
Dues	16,430	10,815
Grants	823,840	885,607
Registrations	11,795	3,075
Appropriations	414,262	445,011
Testing fees	-	2,000
Donations	605	30,001
Other revenue		
Reimbursed expenses	2,402	3,007
Miscellaneous income	6,165	22,742
Interest income	894	557
Total revenue, gains and other support	<u>1,292,733</u>	<u>1,427,716</u>
Expenses:		
Program services	766,166	382,618
Management and General	548,741	625,398
Total expenses	<u>1,314,907</u>	<u>1,008,016</u>
Change in net assets	(22,174)	419,700
Unrestricted net assets - beginning of year	<u>1,515,512</u>	<u>1,095,812</u>
Unrestricted net assets - end of year	<u><u>\$ 1,493,338</u></u>	<u><u>\$ 1,515,512</u></u>

See Notes to the Financial Statements

NORTH DAKOTA FIREFIGHTER'S ASSOCIATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ (22,174)	\$ 419,700
Adjustments to reconcile change in net assets to cash from operating activities:		
Depreciation	172,239	92,462
Effects on operating cash flows due to changes in:		
Accounts/grants receivable	80,226	(68,520)
Inventory	1,690	(3,259)
Prepaid expenses	(1,126)	(2,776)
Accounts payable	(42,259)	85,328
Accrued expenses	(16,786)	6,740
Deferred revenue	(1,690)	1,975
Net cash provided (used) by operating activities	<u>170,120</u>	<u>531,650</u>
Cash flows from investing activities:		
Purchase of capital assets	<u>(200,467)</u>	<u>(753,683)</u>
Net cash provided (used) by investing activities	<u>(200,467)</u>	<u>(753,683)</u>
Net change in cash and cash equivalents	<u>(30,347)</u>	<u>(222,033)</u>
Cash and cash equivalent balances:		
Beginning of year	<u>541,887</u>	<u>763,920</u>
End of year	<u><u>\$ 511,540</u></u>	<u><u>\$ 541,887</u></u>

See Notes to the Financial Statements

NORTH DAKOTA FIREFIGHTER'S ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2017 AND 2016

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of North Dakota Firefighter's Association have been prepared on the accrual basis of accounting. The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

The North Dakota Firefighter's Association was established to promote the safety and welfare of their members through established training standards. For legislative purposes it is a political sub-division of the State of North Dakota. Most of its revenue comes from state appropriations, grants and membership dues.

According to Chapter 18-03 of the North Dakota Century Code, The North Dakota Firefighter's Association consists of the various organized fire departments within the state. Each fire department within the state is entitled to membership in the Association upon compliance with the constitution and by-laws thereof.

Basis of Accounting

The financial statements of the Association have been prepared on the accrual basis and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

The accompanying financial statements are presented in accordance with accounting principles generally accepted in the United States of America, ("GAAP"), as codified by the Financial Accounting Standards Board.

Financial statement presentation follows the recommendations of the Accounting Standards Codification Topic 958, Accounting for Not-for-Profit Entities. The codification requires the Association to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

The Association has no temporarily or permanently restricted net assets.

Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions. Contributions received with donor-imposed restrictions

NORTH DAKOTA FIREFIGHTER'S ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017 AND 2016

that are met in the same year in which the contributions are received are classified as unrestricted contributions.

Cash and Cash Equivalents

Cash includes cash on hand and cash in checking and savings accounts.

Accounts Receivable

Accounts receivable are made up of billings to members for various fees and are carried at original invoice amount less an estimate made for doubtful receivables based on a periodic review of all outstanding amounts. Management determines the allowance for doubtful accounts by identifying troubled accounts and by using historical experience applied to an aging of accounts. Accounts receivable are written off when deemed uncollectible. Recoveries of accounts receivable previously written off are recorded when received. As of December 31, 2017 and 2016, management deemed all accounts receivable as collectible.

Grants receivable consist of receivables for various federal and state grants used to support the association and to provide firefighter trainings.

Inventory

Inventory is stated at the acquisition value and is made up of pins, patches and other items to recognize firefighter achievements.

Film Library and Equipment

The film library and equipment is recorded at actual cost. The Association capitalizes property and equipment purchased with a cost greater than \$500 and a useful life greater than one year.

Property and equipment is recorded at cost or, if donated, at the estimated fair market value upon receipt. Depreciation of property and equipment is provided over five to ten year estimated useful life of the respective assets on a straight-line basis.

Expenditures for major additions and improvements that extend the useful lives of property and equipment are capitalized. Routine expenditures for repairs and maintenance are charged to expenses as incurred.

Deferred Revenue

Local fire departments pay an annual membership due to belong to the Association for the calendar year. The amount as of December 31, 2017 and 2016 represents amounts to be recognized as income when earned in the following fiscal year.

NORTH DAKOTA FIREFIGHTER'S ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017 AND 2016

Income Taxes

The Association is a not-for-profit corporation and has been recognized as tax-exempt pursuant to Section 501(c)(3) of the U.S. Internal Revenue Code. Therefore, the Association is not subject to income tax.

The Association's policy is to evaluate the likelihood that its uncertain tax positions will prevail upon examination based on the extent to which those positions have substantial support within the Internal Revenue Code and Regulations, Revenue Rulings, court decisions, and other evidence.

Functional Allocation of Expenses

The costs of providing the various programs and activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

Grant Revenue Recognition

The Organization received various grant awards. Grant revenue is not recognized until qualified grant expenses are incurred. If grant funds are received in advance of expenditure, deferred revenue is recorded to reflect the amount of money received but not yet expended.

Donated Property and Equipment

Donations of property and equipment are recorded as support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Association reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Association reclassifies temporarily restricted net assets to unrestricted net assets at that time.

No donated items were noted for the years ended December 31, 2017 and 2016.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

NORTH DAKOTA FIREFIGHTER'S ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017 AND 2016

Accrued Compensated Absences

The Association's annual leave is earned based on length of eligible service worked by employees, with a maximum carryover of 240 hours per year. Payment in lieu of vacation shall not be granted except in the case of termination. Employees are paid for all accrued hours upon termination.

NOTE 2 RETIREMENT ARRANGEMENTS

In August 2009, the Association voted, starting October 2009, to participate in the North Dakota Public Employees Retirement System (NDPERS), which is administered by the State of North Dakota. The following is a brief description of the plan:

NDPERS is a cost-sharing multiple-employer defined benefit pension plan covering substantially all classified employees of the North Dakota Firefighter's Association

The plan provides retirement, disability, and death benefits. If an active employee dies with less than three years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to a single payment refund, lifetime monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, sixty monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 65 the day before death occurred or monthly payments in an amount equal to the employee's accrued 100% joint and survivor retirement benefit if the member had reached normal retirement age prior to the date of death. If the surviving spouse dies before the employee's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible employees, who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits that are equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the employee must meet the criteria established by the Retirement Board for being considered totally disabled.

Employees are entitled to unreduced monthly pension benefits equal to 2.0% of their final average salary for each year of service beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65). The plan permits early retirement at ages 55-64, with three or more years of service.

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. Member and employer contributions paid to NDPERS are set by statute and are established as a percent of salaries and wages. Member contribution rates are 7% and employer contribution rates are 7.12% of covered compensation. The required contributions are determined using an entry age normal actuarial funding method and are included in the state statute. The North Dakota Retirement Board was created by the state legislature and is the governing authority of NDPERS. The North Dakota Firefighter's Association's required and actual contributions to NDPERS for fiscal years ending December 31, 2017, 2016, and 2015 were \$12,456, \$15,627, and \$14,807, respectively. NDPERS issues

NORTH DAKOTA FIREFIGHTER'S ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017 AND 2016

a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing NDPERS, 400 East Broadway, Suite 505, and P.O. Box 1657, Bismarck, ND 58502-1657.

NOTE 3 CONCENTRATION OF CREDIT RISK

The Association maintains interest bearing cash on deposit at a financial institution. The deposits are insured by the Federal Insurance Corporation (FDIC) up to \$250,000 per financial institution. At year ending December 31, 2017, the Association's carrying amount of deposits was \$511,540 and the bank balance was \$657,106. As of December 31, 2017, the Association had \$156,692 in excess of the FDIC limit on deposits.

NOTE 4 INVENTORY

Inventory is stated at the acquisition value. Cost is determined using the specific identification method. Inventory consists of pins, patches, shirts and boots. Inventory balances were \$15,967 and \$17,657 as of December 31, 2017 and 2016.

NOTE 5 CONCENTRATION OF SUPPORT RECEIVED

In 2017 and 2016, the Association received approximately 32% and 31%, respectively, of its support from the State of North Dakota in the form of appropriations. In the event that this support were to be eliminated, it is likely that the Association would need to reduce its current operations. The Association does not expect in any way that the support from this governmental agency will be lost in the near term.

NOTE 6 RISK MANAGEMENT

The Association is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. The association has purchased commercial insurance through the Kramer Agency and also participates in the North Dakota Insurance Reserve Fund, State Bonding Fund, and the North Dakota Workforce Safety and Insurance Program. The State Bonding Fund currently provides the association with a blanket fidelity bond coverage in the amount of \$215,000 for its employees. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. There have been no reportable liabilities as a result of claims exceeding insurance coverage for the years ended December 31, 2017 and 2016.

NORTH DAKOTA FIREFIGHTER'S ASSOCIATION
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
DECEMBER 31, 2017 AND 2016

NOTE 7 LEASE

In 2016, the Association signed a new ten-year lease agreement for a different location. This new lease began January 1st, 2017 with a monthly lease payment of \$7,661, which is set to increase by 1.5% on the first of each new year throughout the ten-year lease term. Total lease expense was \$92,042 and \$28,571 for the years ending December 31, 2017 and 2016. Future lease commitments are:

2018	\$	93,306
2019		94,706
2020		96,127
2021		97,569
2022		99,032
Thereafter		411,208

NOTE 8 NEW ACCOUNTING PRONOUNCEMENTS

ASU 2016-02, Leases (Topic 842)

This ASU will change the accounting for leases. Lessees will be required to recognize lease assets and lease liabilities for most long-term leases, including those classified as operating leases under GAAP. This ASU is effective for the Association for fiscal years beginning after December 15, 2019, and interim periods within fiscal years beginning after December 15, 2020.

ASU 2016-14, Not-for-Profit Entities (Topic 958): Presentation of financial Statements of Not-for-Profit Entities

This ASU simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance and cash flows. The ASU is effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018.

With the exception of the new standards discussed above, we have not identified any other new accounting pronouncements that have potential significance to the Association's financial statements.

NOTE 9 SUBSEQUENT EVENTS

No significant events have occurred subsequent to the Association's year end. Subsequent events have been evaluated through July 5, 2018, which is the date these financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

NORTH DAKOTA FIREFIGHTER'S ASSOCIATION
SCHEDULES OF FUNCTIONAL EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Program Services		
Auto extrication	\$ 15,056	\$ 36,557
Certification	27,420	24,784
Grants	572,049	149,000
Regional schools	2,826	9,026
State school	131,949	158,028
Training library	684	2,151
Workshops	16,182	3,072
Total Program Services	<u>766,166</u>	<u>382,618</u>
Management and General		
Administrative	-	114
Annual convention	6,604	12,163
Automobile	4,246	2,846
Bank charges	25	-
Conferences	7,571	21,329
Depreciation	172,239	92,462
Dues and subscriptions	290	1,080
Employee benefits	22,682	35,449
Executive board	13,401	10,267
Insurance	8,810	5,125
Items for resale	4,338	27,966
Miscellaneous	1,702	2,534
Office	126,433	71,022
Payroll taxes	13,563	15,991
Professional fees	12,310	111,424
Repairs	4,919	6,012
Salaries	149,608	209,614
Total Management and General	<u>548,741</u>	<u>625,398</u>
Total Expenses	<u>\$ 1,314,907</u>	<u>\$ 1,008,016</u>

**INDEPENDENT AUDITOR'S 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**

To the Board of Directors
North Dakota Firefighter's Association
Bismarck, North Dakota

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 North Dakota Firefighter's Association (a nonprofit organization), which comprise the statement of financial position as of December 31, 2017, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated July 5, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the North Dakota Firefighter's Association'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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we do not express an opinion on the effectiveness of the Association's internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control that we consider to be a material weakness. We consider the deficiency 2017-001 in the accompanying schedule of findings and responses to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the North Dakota Firefighter's Association's financial statements are free from 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 Association's Response to Findings

North Dakota Firefighter's Association's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Association'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 result of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



BRADY, MARTZ & ASSOCIATES, P.C.
BISMARCK, NORTH DAKOTA

July 5, 2018

NORTH DAKOTA FIREFIGHTER'S ASSOCIATION
SCHEDULE OF FINDINGS AND RESPONSES
DECEMBER 31, 2017

2017-001: Material Weakness

Criteria

An appropriate system of internal controls requires that the Association makes a determination that financial statements and the underlying general ledger accounts are properly stated in compliance with accounting principles generally accepted in the United States of America. This requires the Association's personnel to maintain a working knowledge of current accounting principles generally accepted in the United States of America and required financial statement disclosures.

Condition

The Association's auditors prepared the draft financial statements. In addition, material adjusting entries were proposed to bring the financial statements into compliance with accounting principles generally accepted in the United States of America (U.S. GAAP). An appropriate system of internal controls requires that the Association must make a determination that financial statements and the underlying general ledger accounts are properly stated in compliance with GAAP. This requires the Association's personnel to maintain a working knowledge of current generally accepted accounting principles in the United States of America and required financial statement disclosures.

Cause

Auditor's prepared draft financial statements and proposed material adjusting entries.

Effect

The Association's management is aware of the deficiency and addresses it by reviewing and approving the adjusting journal entries and completed statements prior to distribution to the end users.

Recommendation

For entities of the Association's size, it generally is not practical to obtain the internal expertise needed to handle all aspects of the external financial reporting. The Association should establish an internal control policy to document the annual review of the financial statements, disclosures and checklists.

Views of Responsible Officials and Planned Corrective Actions

Management will propose that compensating controls be sought out through client preparation of the financial statements and/or review function.