

Pontotoc County Public Facilities Authority

(A Component Unit of Pontotoc County, Oklahoma)

Ada, Oklahoma

REPORT ON AUDIT OF FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION

For the Year Ended June 30, 2017

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PONTOTOC COUNTY PUBLIC FACILITIES AUTHORITY
Ada, Oklahoma

(A Component Unit of Pontotoc County, Oklahoma)

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June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Pontotoc County Public Facilities Authority

We have audited the accompanying financial statements of the governmental activities and each major fund of the Pontotoc County Public Facilities Authority, a component unit of Pontotoc County, Oklahoma as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Pontotoc County Public Facilities 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 of 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Pontotoc County Public Facilities Authority as of June 30, 2017, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2018 on our consideration of the Pontotoc County Public Facilities Authority'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* in considering the Pontotoc County Public Facilities Authority's internal control over financial reporting and compliance.



SAUNDERS & ASSOCIATES, PLLC
Certified Public Accountants
Ada, Oklahoma

March 5, 2018

PONTOTOC COUNTY PUBLIC FACILITIES AUTHORITY
Ada, Oklahoma

(A Component Unit of Pontotoc County, Oklahoma)

June 30, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Our discussion and analysis of the financial performance of Pontotoc County Public Facilities Authority, a component unit of Pontotoc County, Oklahoma, provides an overview of the Authority's activities from July 1, 2016 through June 30, 2017. Please read it in conjunction with the Authority's financial statements, which begin on page 8.

FINANCIAL HIGHLIGHTS

- The Authority's net position for the period was \$18,307,374.
- Sales tax receipts in the amount of \$3,231,698 accounted for approximately 97.2% of total revenues.

USING THIS ANNUAL REPORT

This report consists of a series of financial statements. The Statement of Net Position and the Statement of Activities (on pages 8 and 9) provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances. Fund financial statements start on page 10. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Authority's operations in more detail than the government-wide statements by providing information about the Authority's significant funds.

Reporting the Authority as a Whole

The Statement of Net Position and the Statement of Activities report information about the Authority as a whole and about its activities in a way that helps the user determine whether the Authority is better off or worse off as a result of the year's activities. These statements include all assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

These two statements report the Authority's *net position* and changes in them. You can think of the Authority's net position – the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources– as one way to measure its financial health, or *financial position*. Over time, *increases* and *decreases* in the Authority's net position are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in economic conditions that effect sales tax collection, federal and state environmental regulations, and current or proposed plans for expansion.

PONTOTOC COUNTY PUBLIC FACILITIES AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

Reporting on Significant Funds

The Authority provides only governmental-type activities and has only one fund which is funded by a sales tax designated for debt service on long-term debt used to construct a new county detention facility and renovate the county court house and to provide for operations and maintenance of the new facility.

Fund financial statements begin on page 10. As more fully described in the accompanying notes, governmental funds are reported using an accounting method called "*modified accrual*" accounting, which measures cash and all other "*financial*" assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the Authority's operations. This fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Authority's operations. The relationship (or differences) between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and the governmental funds is presented in a reconciliation at the bottom of the fund financial statements (pages 11 and 13).

THE AUTHORITY AS A WHOLE

Net position of the Authority increased by \$1,490,368 over the prior year. This represents a \$17,422 decrease compared to prior year net increase. The analysis below focuses on net position and changes in net position of the Authority.

Table 1
NET POSITION

	<u>Governmental Activities</u>	
	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 10,380,642	\$ 9,300,033
Capital assets	<u>15,333,955</u>	<u>15,770,737</u>
Total assets	<u>25,714,597</u>	<u>25,070,770</u>
Total deferred outflows of resources	<u>0</u>	<u>0</u>
Long-term debt	(7,350,137)	(8,183,643)
Other liabilities	<u>(57,086)</u>	<u>(70,121)</u>
Total liabilities	<u>(7,407,223)</u>	<u>(8,253,764)</u>
Total deferred inflows of resources	<u>0</u>	<u>0</u>
Net position:		
Net investment in capital assets	(7,983,819)	(7,587,094)
Restricted	(143,838)	(137,303)
Unrestricted	<u>(10,179,717)</u>	<u>(9,092,609)</u>
Total net position	<u>\$(18,307,374)</u>	<u>\$(16,817,006)</u>

PONTOTOC COUNTY PUBLIC FACILITIES AUTHORITY
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MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

THE AUTHORITY AS A WHOLE, CONTINUED

**Table 2
CHANGES IN NET POSITION**

	<u>2017</u>	<u>2016</u>
<u>Revenues:</u>		
Program revenues:		
Charges for services	\$ 0	\$ 0
General revenues:		
Sales tax	3,231,698	3,297,543
Interest/dividends	9,890	7,952
Miscellaneous	<u>0</u>	<u>0</u>
Total revenues	<u>3,241,588</u>	<u>3,305,495</u>
<u>Expenses:</u>		
Personnel costs	600,000	600,000
Interest expense	359,501	397,662
Depreciation	436,782	438,531
Trustee fees	0	7,000
Professional fees	9,937	9,412
Maintenance Contract	345,000	345,000
Other	<u>0</u>	<u>100</u>
Total expenses	<u>1,751,220</u>	<u>1,797,705</u>
Increase (decrease) in net position before transfers	1,490,368	1,507,790
Net position, beginning	<u>16,817,006</u>	<u>15,309,216</u>
Net Position, ending	<u>\$ 18,307,374</u>	<u>\$ 16,817,006</u>

Current year sales tax receipts decreased \$65,845. The Authority does not receive use taxes in accordance with an amended sales tax agreement with the City.

PONTOTOC COUNTY PUBLIC FACILITIES AUTHORITY
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June 30, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets:

At June 30, 2017, the Authority had a net investment in land, buildings, and equipment of \$15,333,955. (See Table 3).

**Table 3
CAPITAL ASSETS AT YEAR END
(Net of Depreciation)**

	<u>2017</u>	<u>2016</u>
Land	\$ 399,835	\$ 399,835
Buildings	14,933,055	15,369,449
Furniture & equipment	<u>1,065</u>	<u>1,453</u>
Total	<u>\$ 15,333,955</u>	<u>\$ 15,770,737</u>

Debt:

At year end, the Authority had \$7.35 million in notes outstanding, a decrease of 10.2%. (See Table 4). Sales tax collections have been sufficient to enable the Authority to make a one-time \$4 million prepayment on its outstanding debt in 2012.

**Table 4
OUTSTANDING DEBT AT YEAR END**

	<u>2017</u>	<u>2016</u>
Sales Tax Revenue Notes	<u>\$ 7,350,137</u>	<u>\$ 8,183,644</u>

ECONOMIC FACTORS AND NEXT YEAR'S PLANS

Sales tax collections, the Authority's primary source of funding, equaled \$3,231,698 for the period, a slight decrease compared to 2016. Sales tax collections are sensitive to overall economic conditions and receipts may vary from year-to-year. Management is of the opinion that future collections will be more than adequate to meet debt service requirements on the note and fund operating and maintenance on the detention Facility.

PONTOTOC COUNTY PUBLIC FACILITIES AUTHORITY
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June 30, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS
(UNAUDITED)

CONTACTING THE AUTHORITY'S MANAGEMENT

This financial report is designed to provide citizens, taxpayers, customers, and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report, or need additional financial information, contact Tammy Brown, Secretary-Treasurer of the Authority, c/o Pontotoc County Commissioners, County Courthouse; Ada, Oklahoma 74820.

BASIC FINANCIAL STATEMENTS

PONTOTOC COUNTY PUBLIC FACILITIES AUTHORITY
Ada, Oklahoma

(A Component Unit of Pontotoc County, Oklahoma)

STATEMENT OF NET POSITION

June 30, 2017

	<u>Governmental Activities</u>
ASSETS	
Cash and cash equivalents	\$ 2,430,714
Sales tax receivable	541,379
Dividends receivable	320
Restricted cash	7,408,229
Capital assets	
Land	399,835
Other capital assets, net of depreciation	<u>14,934,120</u>
Total capital assets	<u>15,333,955</u>
Total assets	<u>25,714,597</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Total deferred outflows of resources	<u>0</u>
 LIABILITIES	
Accounts payable - vendors	1,000
Accrued interest payable	56,086
Long-term liabilities:	
Due within one year	873,176
Due in more than one year	<u>6,476,961</u>
Total liabilities	<u>7,407,223</u>
 DEFERRED INFLOWS OF RESOURCES	
Total deferred inflows of resources	<u>0</u>
 NET POSITION	
Net investment in capital assets	7,983,819
Restricted for:	
Debt service	143,838
Unrestricted	<u>10,179,717</u>
Total Net Position	<u>\$ 18,307,374</u>

* The accompanying notes are an integral part of the financial statements.

PONTOTOC COUNTY PUBLIC FACILITIES AUTHORITY
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STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2017

	<u>Governmental Activities</u>
Expenses:	
Administrative costs:	
Salaries - Detention Center	\$ 600,000
Professional services	9,937
Maintenance contract	345,000
Other	0
Total administrative costs	<u>954,937</u>
Capital projects:	
Interest expense	359,501
Depreciation	436,782
Total capital projects costs	<u>796,283</u>
Total expenses	1,751,220
Program revenues:	
Charges for services	0
Operating grants and contributions	0
Capital grants and contributions	0
Net program expense	<u>1,751,220</u>
General revenues:	
Sales tax	3,231,698
Interest/dividends	9,890
Miscellaneous	
Total general revenues and transfers	<u>3,241,588</u>
Change in net position	1,490,368
Net position - beginning	<u>16,817,006</u>
Net position - ending	<u>\$ 18,307,374</u>

* The accompanying notes are an integral part of the financial statements.

PONTOTOC COUNTY PUBLIC FACILITIES AUTHORITY
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BALANCE SHEET
Governmental Funds

June 30, 2017

	<u>Major Fund</u> <u>General</u> <u>Fund</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
ASSETS		
Cash and cash equivalents	\$ 2,430,714	\$ 2,430,714
Accounts receivable		
Sales tax	541,379	541,379
Dividend	320	320
Restricted cash	<u>7,408,229</u>	<u>7,408,229</u>
Total assets	<u>10,380,642</u>	<u>10,380,642</u>
DEFERRED OUTFLOWS OF RESOURCES		
Total deferred outflows of resources	<u>0</u>	<u>0</u>
 Total assets and deferred outflows of resources	 <u>\$ 10,380,642</u>	 <u>\$ 10,380,642</u>
LIABILITIES, DEFERRED INFLOWS, AND FUND BALANCE		
Liabilities:		
Accounts payable - vendors	\$ <u>1,000</u>	\$ <u>1,000</u>
Total liabilities	<u>1,000</u>	<u>1,000</u>
Deferred inflows of resources:		
Total deferred inflows of resources	<u>0</u>	<u>0</u>
Fund balances:		
Restricted for debt service	143,838	143,838
Unassigned	<u>10,235,804</u>	<u>10,235,804</u>
Total fund balance	<u>10,379,642</u>	<u>10,379,642</u>
 Total Liabilities, deferred inflows of resources, and fund balance	 <u>\$ 10,380,642</u>	 <u>\$ 10,380,642</u>

* The accompanying notes are an integral part of the financial statements.

PONTOTOC COUNTY PUBLIC FACILITIES AUTHORITY
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RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

June 30, 2017

Total fund balance - total governmental funds	\$ 10,379,642
Amounts reported for governmental activities in the statement of activities are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet.	15,333,955
Long-term debt principal and interest payable are not reported in the governmental fund financial statements. This amount represents the amount of long-term debt and interest payable of the Authority at June 30, 2017	<u>(7,406,223)</u>
Net position of governmental activities	<u>\$ 18,307,374</u>

* The accompanying notes are an integral part of the financial statements.

PONTOTOC COUNTY PUBLIC FACILITIES AUTHORITY
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STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE

Governmental Funds

For the Year Ended June 30, 2017

	<u>Major Fund</u> <u>General</u> <u>Fund</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
REVENUES:		
Sales tax	\$ 3,231,698	\$ 3,231,698
Interest/dividends	9,890	9,890
Total revenues	<u>3,241,588</u>	<u>3,241,588</u>
EXPENDITURES		
Salaries - Detention Center	600,000	600,000
Capital outlay	0	0
Debt service:		
Principal	833,507	833,507
Interest	366,035	366,035
Professional services	9,937	9,937
Maintenance contract	345,000	345,000
Trustee fees	0	0
Other	0	0
Total expenditures	<u>2,154,479</u>	<u>2,154,479</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,087,109</u>	<u>1,087,109</u>
OTHER FINANCING SOURCES (USES):		
Other revenues	<u>0</u>	<u>0</u>
Total other financing sources (uses)	<u>0</u>	<u>0</u>
Net change in fund balance	1,087,109	1,087,109
Fund balance - beginning	<u>9,292,533</u>	<u>9,292,533</u>
Fund balance - ending	<u>\$ 10,379,642</u>	<u>\$ 10,379,642</u>

* The accompanying notes are an integral part of the financial statements.

PONTOTOC COUNTY PUBLIC FACILITIES
Ada, Oklahoma

(A Component Unit of Pontotoc County, Oklahoma)

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2017

Net change in fund balance - total governmental funds	\$ 1,087,109
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the net amount that capital outlays (\$0) exceeded depreciation expense (\$436,782) in the current year.	(436,782)
Governmental funds report long-term debt payments as expenditures. In the statement of activities, principal payments are reported on the statement of net position as a reduction of long-term debt. This amount represents the amount of current year debt principal payments.	833,507
Governmental funds do not record accrued interest related to long-term debt as this expense is recorded at the time of payment. In GAAP financial statements, accrued interest is considered to be a liability at June 30, 2017 and is recorded as such. This amount represents the difference in actual interest paid and interest owed.	<u>6,534</u>
Change in net position of governmental activities	<u>\$ 1,490,368</u>

* The accompanying notes are an integral part of the financial statements.

PONTOTOC COUNTY PUBLIC FACILITIES AUTHORITY
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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Pontotoc County Public Facilities Authority, a component unit of Pontotoc County, Oklahoma was established on the 8th day of January 2009, is a public trust, and was created for the use and benefit of Pontotoc County, Oklahoma, (the "Beneficiary") pursuant to the terms of Title 60 of Oklahoma Statutes (1992 Supp) Section 176 et seq. as well as 19 O.S. 904.1, et seq. as amended and supplemented, the Oklahoma Authority Act, and other applicable statutes and laws of the State of Oklahoma.

The purpose of the Authority is to assist the Beneficiary, the State of Oklahoma, governmental agencies, municipalities and private entities, agencies and citizens in making the most efficient use of all of their economic resources and powers in accordance with the needs and benefit of the State of Oklahoma and the Beneficiary in order to lessen the burdens on government and to stimulate economic growth and development. In furtherance of the Authority's general objectives, the following specific powers or purposes have been granted:

- (1) To promote and develop any and all public works projects for facilities of any type or description including, but not limited to, those juvenile development programs, law enforcement and correctional facilities, water, sewer, solid waste, recycling, recovery, materials reduction, communication, power, natural gas or other public utilities of any type or description.
- (2) To promote, develop and finance projects or facilities relating to the development of law enforcement and corrections within and near the jurisdictional boundaries of the beneficiary including, but not limited to, jail facilities, juvenile detention facilities, law enforcement and other governmental facilities, parking facilities, housing and any, and all other facilities whose purpose is to promote law enforcement and other governmental functions.
- (3) To promote, finance and develop projects, facilities and services pertaining to governmental institutions and the furtherance of governmental opportunities at all levels and programs related to the foregoing.

The Authority is governed by a Board of Trustees (Board) comprised of seven (7) individuals as follows:

Current Chairman of the Pontotoc County Board of Commissioners; current Sheriff of Pontotoc County, Oklahoma or his/her designee; and five (5) residents of Pontotoc County, Oklahoma, none of whom shall be elected officials. Of these five individuals, one shall be nominated by each of the current Pontotoc County Commissioners, with the Chairman of the Board of County Commissioners nominating two (2) additional persons. The current Chairman of the Board of County Commissioners serves as the Chair of the Authority. The Chair's responsibilities are to preside at all meetings of the Board; be the chief officer of the Authority, perform all duties commonly incident to the position of presiding officer of a board, commission or business organization and exercise supervision over the business of the Authority, its officers, and employees. The duly elected County Clerk of Pontotoc County serves as Secretary-Treasurer of the Authority.

As more fully discussed in Note 2, the Authority is funded through a dedicated sales tax.

PONTOTOC COUNTY PUBLIC FACILITIES AUTHORITY
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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

The Authority's current year financial statements are prepared in accordance with accounting principles (GAAP) generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). The more significant accounting policies established in GAAP and used by the Authority are discussed below. The financial statements also include a Management's Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and results of operations. The Authority does not operate under a legally adopted budget. Therefore, budget-to-actual comparisons required by GAAP have been omitted.

B. Basic Financial Statements

The Authority's basic financial statements include both government-wide (reporting the Authority as a whole) and fund financial statements (reporting the Authority's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. The Authority has no business-type activities and all funds are classified as governmental.

Government-Wide Financial Statements – The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all activity of the Authority.

The statement of activities demonstrates the degree to which the expenses are offset by program revenues. Program revenues include 1) charges to customers who purchase, use or directly benefit from goods, services, or privileges provided, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of the Authority. Other items not properly included among program revenues (i.e. the County's dedicated sales tax) are reported as general revenues.

Fund Financial Statements – Fund financial statements are designed to present financial information of a government at a more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. The Authority does not have any non-major funds.

The following is the Authority's major governmental fund:

General Fund – The General Fund is the general operating fund of the Authority, and the only fund maintained by the Authority. It accounts for all financial resources of the Authority. Major revenue sources include the funds collected from the sales tax revenue. Expenditures include all costs associated with the daily operations of the Authority and capital projects, except for any debt service on long-term debt. The Authority does not operate under a legally adopted budget

PONTOTOC COUNTY PUBLIC FACILITIES AUTHORITY
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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

- (1) *Accrual* - The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.
- (2) *Modified Accrual* - Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Interest and sales tax collections associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues in the current fiscal period.

D. Financial Statement Amounts

1. Cash and Cash Equivalents - The Authority considers cash and cash equivalents to include cash on hand, demand deposits, and cash with fiscal agent. Restricted cash amounts consist of deposits which are restricted for debt service costs. Restricted cash amounts are held in money market accounts held by the Authority's paying agent.
2. Receivables - All receivables consist of sales tax collections and dividends and are considered to be fully collectible.
3. Capital Assets - *Capital assets* have been recorded at cost. The buildings are being depreciated using the straight-line method over their estimated useful life of 40 years. Current year depreciation expense equaled \$436,782.
4. Deferred Outflows of Resources - The Authority reports decreases in net position that relate to future periods as deferred outflows of resources in a separate section of its government-wide statement of net position. No deferred outflows of resources affect the financial statements in the current year.
5. Deferred Inflows of Resources - The Authority's governmental funds report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net position that applies to a future period. The District will not recognize the related revenues until a future event occurs. The Authority did not have deferred inflows of resources to report in its financial statements for the current year.

PONTOTOC COUNTY PUBLIC FACILITIES AUTHORITY
Ada, Oklahoma

(A Component Unit of Pontotoc County, Oklahoma)

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

6. Net Position and Fund Balances – Government-wide net position (page 8) is divided into three components:

- *Net investment in capital assets* – consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.
- *Restricted net position* – consists of net position that is restricted by the Authority's creditors (for example, through debt covenants), by state enabling legislation (through restrictions on shared revenues), or by grantors or donors.
- *Unrestricted* – All other net position is reported in this category.

In the governmental fund financial statements, (page 10) fund balances are classified as follows:

- *Non-spendable* – Amounts that cannot be spent either because they are in a non-spendable form or because they are legally or contractually required to be maintained intact.
- *Restricted* – Amounts that can be spent only for specific purposes because of state or federal laws, or externally imposed conditions by grantors or creditors.
- *Committed* – Amounts that can be used only for specific purposes determined by a formal action by Board resolution.
- *Assigned* – Amounts are designated by management for a particular purpose but are not spendable until there is a majority vote approval by the Board of Trustees.
- *Unassigned* – All amounts not included in other spendable classifications.

NOTE 2: REVENUE RESTRICTIONS

The Authority is funded through a dedicated eleven-sixteenths of one-percent (.6875 of one cent) sales tax approved by the people of Pontotoc County on December 12, 2007. A portion of this tax, nine-sixteenths (.05625 of one cent) is scheduled to terminate after a term of twenty (20) years from date of commencement, or after all indebtedness incurred by the Authority on behalf of the county has been paid in full, whichever occurs earlier. The remaining portion of the sales tax, one-eighth (0.125) of one cent, is to continue until repealed by a majority of the electors in Pontotoc County. Proceeds from the collections of this tax are to be used first to service the debts described in Note 4. Any excess sales tax revenue shall remain with the Authority to be utilized for operation and maintenance expenses of the facilities or for accelerated payments on the note.

PONTOTOC COUNTY PUBLIC FACILITIES AUTHORITY
Ada, Oklahoma

(A Component Unit of Pontotoc County, Oklahoma)

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 3: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

	Balance <u>06/30/16</u>	<u>Additions</u>	Reclassification and <u>Retirements</u>	Balance <u>06/30/17</u>
Governmental activities -				
Capital assets not being depreciated:				
Land	\$ 399,835	\$ 0	\$ 0	\$ 399,835
Construction in progress	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total capital assets not being depreciated	<u>399,835</u>	<u>0</u>	<u>0</u>	<u>399,835</u>
Other capital assets:				
Buildings	17,455,791	0	0	17,455,791
Furniture and equipment	<u>125,900</u>	<u>0</u>	<u>0</u>	<u>125,900</u>
Total other capital assets	17,581,691	0	0	17,581,691
Less accumulated depreciation for:				
Buildings	(2,086,341)	(436,395)	0	(2,522,736)
Furniture and equipment	<u>(124,448)</u>	<u>(387)</u>	<u>0</u>	<u>(124,835)</u>
Other capital assets, net	<u>15,370,902</u>	<u>(436,782)</u>	<u>0</u>	<u>14,934,120</u>
Governmental activities capital assets, net	<u>\$ 15,770,737</u>	<u>\$ (436,782)</u>	<u>\$ 0</u>	<u>\$ 15,333,955</u>

NOTE 4: LONG-TERM DEBT ACTIVITY

Note 1 – The Authority has issued a Sales Tax Revenue Note – Bank Qualified, dated April 19, 2007 in the amount of \$10,000,000, proceeds of which are to be used to finance the acquisition, construction, renovation, expansion and equipping of Phase I of certain capital improvement projects in Pontotoc County. The note bears an interest rate of 4.9% and payments are due in semi-annual installments through May 1, 2022.

Principal balance, June 30, 2017

\$ 2,096,616

Note 2 – The Authority has issued a Sales Tax Revenue Note – Bank Qualified, dated April 18, 2008 in the amount of \$8,000,000, proceeds of which are to be used to finance the acquisition, construction, renovation, expansion and equipping of Phase II of certain capital improvement projects in Pontotoc County. The note bears an interest rate of 4.45% and payments are due in semi-annual installments through May 1, 2023.

Principal balance, June 30, 2017

\$ 5,253,521

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 4: LONG-TERM DEBT ACTIVITY, CONTINUED

SUMMARY OF LONG-TERM DEBT ACTIVITY

	Balance <u>06/30/16</u>	<u>Additions</u>	<u>Retirements</u>	Balance <u>06/30/17</u>	Due In <u>One Year</u>
Note 1	\$ 2,566,899	\$ 0	\$ 470,283	\$ 2,096,616	\$ 493,609
Note 2	<u>5,616,745</u>	<u>0</u>	<u>363,224</u>	<u>5,253,521</u>	<u>379,567</u>
TOTAL	\$ <u>8,183,644</u>	\$ <u>0</u>	\$ <u>833,507</u>	\$ <u>7,350,137</u>	\$ <u>873,176</u>

Annual debt service requirements for these notes are as follows:

Year Ending <u>June 30,</u>	<u>Note 1</u>		<u>Note 2</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 493,609	\$ 96,761	\$ 379,567	\$ 229,605	\$ 873,176	\$ 326,366
2019	518,092	72,278	396,646	212,527	914,738	284,805
2020	543,789	46,580	414,493	194,680	958,282	241,260
2021	541,126	19,608	433,143	176,030	974,269	195,638
2022	0	0	452,632	156,540	452,632	156,540
2023 and beyond	<u>0</u>	<u>0</u>	<u>3,177,040</u>	<u>136,174</u>	<u>3,177,040</u>	<u>136,174</u>
	\$ <u>2,096,616</u>	\$ <u>235,227</u>	\$ <u>5,253,521</u>	\$ <u>1,105,556</u>	\$ <u>7,350,137</u>	\$ <u>1,340,783</u>

Proceeds from unrestricted sales tax collections, as previously discussed in Note 2, will be used to pay off this debt in accordance with note requirements.

NOTE 5: USE OF RESTRICTED RESOURCES

When an expense is incurred that can be paid using either restricted or unrestricted resources (net position), the Authority's policy is to first apply the expense toward restricted resources and then toward unrestricted resources. It is the Authority's policy to first apply expenditures toward restricted fund balance and then to other, less restrictive classifications.

NOTE 6: ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

PONTOTOC COUNTY PUBLIC FACILITIES AUTHORITY
Ada, Oklahoma

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NOTES TO THE FINANCIAL STATEMENTS

June 30, 2017

NOTE 7: RISK MANAGEMENT

The Pontotoc County Public Facilities Authority, Ada, Oklahoma, as a component unit of Pontotoc County, Oklahoma, is exposed to various risks of loss to torts: theft of, damage to and destruction of assets; errors and omissions; injuries to persons; or acts of God. The County purchases commercial insurance to cover these risks, including general and auto liability, property damage, and public officials liability. Claims settled by the County resulting from these risks have not exceeded the commercial insurance coverage in past years.

NOTE 8: DATE OF MANAGEMENT'S EVALUATION

Management of the Authority has evaluated subsequent events through March 5, 2018 which is the date the financial statements were available to be issued.

Saunders & Associates, PLLC

Certified Public Accountants

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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 Trustees
Pontotoc County Public Facilities Authority

We have audited the financial statements of the governmental activities and each major fund of Pontotoc County Public Facilities Authority, a component unit of Pontotoc County, Oklahoma as of and for the year ended June 30, 2017, which collectively comprise Pontotoc County Public Facilities Authority's basic financial statements and have issued our report thereon dated March 5, 2018. 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 of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pontotoc County Public Facilities Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Pontotoc County Public Facilities Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Pontotoc County Public Facilities Authority's 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.

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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pontotoc County Public Facilities 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*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance with applicable provisions of laws, regulations, contracts, and grant agreements and the results of our testing, and to provide an opinion on Pontotoc County Public Facilities Authority's compliance but not to provide an opinion on the effectiveness of Pontotoc County Public Facilities Authority's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Pontotoc County Public Facilities Authority's compliance and its internal control over compliance. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in cursive script that reads "Saunders & Associates, PLLC".

SAUNDERS & ASSOCIATES, PLLC
Certified Public Accountants
Ada, Oklahoma

March 5, 2018

PONTOTOC COUNTY PUBLIC FACILITIES AUTHORITY
Ada, Oklahoma

(A Component Unit of Pontotoc County, Oklahoma)

STATUS OF PRIOR AUDIT FINDINGS

June 30, 2017

None reported.

PONTOTOC COUNTY PUBLIC FACILITIES AUTHORITY
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SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2017

None reported.