

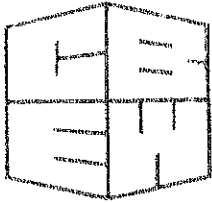
PAWNEE COUNTY PUBLIC PROGRAMS AUTHORITY
Pawnee, Oklahoma

BASIC FINANCIAL STATEMENTS
June 30, 2020 and 2019

PAWNEE COUNTY PUBLIC PROGRAMS AUTHORITY
Pawnee, Oklahoma

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INDEPENDENT AUDITOR'S REPORT

September 23, 2020

To the Board of Trustees
Pawnee County Public Programs Authority
Pawnee, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Pawnee County Public Programs Authority (PCPPA), a component unit of Pawnee County, Oklahoma, as of and for the years ended June 30, 2020 and 2019, and the related notes to the 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 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 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, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pawnee County Public Programs Authority as of June 30, 2020 and 2019, and the changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Pawnee County Public Programs Authority, a component unit of Pawnee County, Oklahoma, and do not purport to, and do not, present fairly the financial position of Pawnee County, Oklahoma, as of June 30, 2020 and 2019 and the changes in its financial position and cash flows in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

PCPPA has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires 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 (GASB), 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2020, on our consideration of the Pawnee County Public Programs 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 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 Pawnee County Public Programs Authority's internal control over financial reporting and compliance.

CBEW Professional Group, LLP

CBEW Professional Group, LLP
Certified Public Accountants
Cushing, Oklahoma

PAWNEE PUBLIC PROGRAMS AUTHORITY
Pawnee, Oklahoma

STATEMENT OF NET POSITION
As of June 30, 2020 and 2019

	<u>June 30,</u> <u>2020</u>	<u>June 30,</u> <u>2019</u>
Assets:		
Cash and investments:		
Cash and cash equivalents (Note 1)	\$ 693,692	\$ 717,678
Temporary investments	3,651,397	3,081,962
Accounts receivable	166,066	178,925
Due from Pawnee County	2,708	2,708
Restricted assets:		
Bond fund/cash & investments (Note 3)	182,080	327,680
Capital assets:		
Buildings, improvements and equipment	5,916,917	5,916,917
Less accumulated depreciation	<u>(1,786,598)</u>	<u>(1,589,431)</u>
Total assets	<u>8,826,262</u>	<u>8,636,439</u>
Deferred outflows of resources:		
Total deferred outflows	<u>-</u>	<u>-</u>
Current liabilities:		
Accounts payable	167	167
Deferred rent revenue	-	-
Accrued interest payable	31,781	34,697
Current portion of revenue bonds payable	355,000	350,000
Total current liabilities	<u>386,948</u>	<u>384,864</u>
Long-term liabilities:		
Revenue bonds payable (Note 3)	3,880,000	4,230,000
Less: current portion	<u>(355,000)</u>	<u>(350,000)</u>
Total long-term liabilities	<u>3,525,000</u>	<u>3,880,000</u>
Total liabilities	<u>3,911,948</u>	<u>4,264,864</u>
Deferred inflows of resources:		
Total deferred inflows	<u>-</u>	<u>-</u>
Net position:		
Net investment in capital assets	250,319	97,486
Restricted	182,080	327,680
Unrestricted	<u>4,481,915</u>	<u>3,946,409</u>
Total net position	<u>\$ 4,914,314</u>	<u>\$ 4,371,575</u>

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

PAWNEE PUBLIC PROGRAMS AUTHORITY
Pawnee, Oklahoma

STATEMENT OF ACTIVITIES
For the Years Ended June 30, 2020 and 2019

	June 30, 2020	June 30, 2019
Revenues:		
Sales tax revenue (Note 1)	\$ 892,135	\$ 847,194
Rent Income	6,500	6,500
	Total revenues	853,694
	898,635	853,694
Expenses:		
Audit	5,100	5,100
Depreciation	197,167	197,167
Inspection Fees	-	1,213
	Total expenses	203,480
	202,267	203,480
Operating income (loss)	696,368	650,214
	696,368	650,214
Other income and expense:		
Interest income	112,406	106,970
Interest expense	(264,035)	(283,897)
Trustee fees	(2,000)	(2,000)
	Total other income and expense	(178,927)
	(153,629)	(178,927)
Net income (loss)	542,739	471,287
	542,739	471,287
Net position - beginning of year	4,371,575	3,900,288
	4,371,575	3,900,288
Net position - end of year	\$ 4,914,314	\$ 4,371,575

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

PAWNEE COUNTY PUBLIC PROGRAMS AUTHORITY
Pawnee, Oklahoma

STATEMENT OF CASH FLOWS
For the Years Ended June 30, 2020 and 2019

	<u>June 30,</u> <u>2020</u>	<u>June 30,</u> <u>2019</u>
Cash flows from operating activities:		
Cash received from sales tax	\$ 904,994	\$ 818,644
Cash payments to suppliers for goods and contractors and other services	(5,100)	(6,313)
Other operating revenues	6,500	3,250
Net cash provided by operating activities	<u>906,394</u>	<u>815,581</u>
Cash flows from investing activities		
(Purchase) liquidation of investments	(569,435)	(1,057,826)
Interest income	112,406	106,970
Net cash provided (used) by investing activities	<u>(457,029)</u>	<u>(950,856)</u>
Cash flows from financing activities:		
Principal paid on debt	(350,000)	(345,000)
Interest expense	(266,951)	(286,772)
Trustee fees	(2,000)	(2,000)
Net cash provided (used) for capital and related financing activities	<u>(618,951)</u>	<u>(633,772)</u>
Net increase (decrease) in cash	(169,586)	(769,047)
Cash and cash equivalents at beginning of year	<u>1,045,358</u>	<u>1,814,405</u>
Cash and cash equivalents at end of year	<u>\$ 875,772</u>	<u>\$ 1,045,358</u>
Reconciliation of operation income to net cash provided by operating activities:		
Operating income (loss)	\$ 696,368	\$ 650,214
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	197,167	197,167
Change in assets and liabilities:		
(Increase) decrease in due from Pawnee County	-	(2,708)
(Increase) decrease in accounts receivable	12,859	(28,550)
Increase (decrease) in unearned revenues	-	(542)
Total adjustments	<u>210,026</u>	<u>165,367</u>
Net cash provided by operating activities	<u>\$ 906,394</u>	<u>\$ 815,581</u>

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

PAWNEE COUNTY PUBLIC PROGRAMS AUTHORITY
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2020 and 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Management

Pawnee County Public Programs Authority (PCPPA) is a public trust created August 3, 1981 under the authority and pursuant to the provisions of Title 60, Oklahoma Statutes 1981, Sections 176-180.4, as amended in the Oklahoma Trust Act.

PCPPA by virtue of common control and dependence is a component unit of Pawnee County, Oklahoma. Prior to July 1, 1992, the Board of County Commissioners, acting as trustees for the Authority, provided management. On June 30, 1992, the Board of County Commissioners amended the Trust Indenture dated August 3, 1981 to provide for the appointment of trustees. A three-member board was appointed by the Board of County Commissioners to serve as Trustees of the Authority. Pawnee County maintains beneficial interest in PCPPA. The financial activities of Pawnee County and its other component units are not included in the financial statements of PCPPA.

B. Measurement Focus, Basis of Accounting and Basis of Presentation – Fund Accounting

The accounts of the PCPPA are organized as a proprietary fund that is considered to be a separate accounting entity. The operations of the fund are summarized by providing a separate set of self-balancing accounts that include its assets, liabilities, net position, revenues and expenses. A proprietary fund is used to account for operations that are financed in a manner similar to private business enterprises where the costs (expenses, including depreciation) of providing facilities is financed through user charges. Funds are accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and liabilities (whether current or non-current) are included in the balance sheet.

Financial activity is accounted for on the flow of economic resources measurement focus using the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

C. Assets, Liabilities and Equity

1. Deposits and Investments

Oklahoma Statutes authorize PCPPA to invest in certificates of deposit, repurchase agreements, passbooks, bankers' acceptances, and other available bank investments provided that all deposits are fully covered by approved securities pledged to secure those funds. In addition, PCPPA can invest in direct debt securities of the United States unless law expressly prohibits such an investment.

For financial statement presentation and for purposes of the statement of cash flows, PCPPA's cash and cash equivalents are considered to be; cash on hand, demand deposits, and certificates of deposit with a maturity date of three months or less. Debt instruments with a maturity date of more than three months are considered to be investments.

Custodial Credit Risk

At June 30, 2020 and 2019, PCPPA held unrestricted deposits of approximately \$4,345,089 and \$3,799,640, respectively, at financial institutions. PCPPA's cash deposits, including interest-bearing certificates of deposit, are entirely covered by Federal Depository Insurance (FDIC) or direct obligation of the U.S. Government insured or collateralized with securities held by PCPPA or by its agent in PCPPA's name.

PAWNEE COUNTY PUBLIC PROGRAMS AUTHORITY
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2020 and 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities and Equity (Continued)

1. Deposits and Investments (Continued)

Investment Interest Rate Risk

PCPPA 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.

Investment Credit Risk

PCPPA has no policy that limits its investment choices other than the limitation of state law as follows:

- a. Direct obligations of the U.S. Government, its agencies and instrumentalities to which the full faith and credit of the U.S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.
- b. Certificates of deposits or savings accounts that are either insured or secured with acceptable collateral with in-state financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.
- c. With certain limitation, negotiable certificates of deposit, prime bankers acceptances, prime commercial paper and repurchase agreements with certain limitations.
- d. County, municipal or school district tax supported debt obligations, bond or revenue anticipation notes, money judgments, or bond or revenue anticipation notes of public trusts whose beneficiary is a county, municipality or school district.
- e. Notes or bonds secured by mortgage or trust deed insured by the Federal Housing Administrator and debentures issued by the Federal Housing Administrator, and in obligations of the National Mortgage Association.
- f. Money market funds regulated by the SEC and in which investments consist of the investments mentioned in the previous paragraphs (a.-d.).

The cash and investments held at June 30, 2020 and 2019 are as follows:

Type	Weighted Average Maturity (Months)	Credit Rating	Market Value	Cost
<u>As of June 30, 2020</u>				
Cash and investments				
Money Market	N/A	NA	\$ 693,692	\$ 693,692
Certificates of deposit	1.67	N/A	\$ 3,651,397	\$ 3,651,397
Total cash and investments			<u>\$ 4,345,089</u>	<u>\$ 4,345,089</u>
<u>As of June 30, 2019</u>				
Cash and investments				
Money Market	N/A	NA	\$ 717,678	\$ 717,678
Certificates of deposit	1.67	N/A	\$ 3,081,962	\$ 3,081,962
Total cash and investments			<u>\$ 3,799,640</u>	<u>\$ 3,799,640</u>

PAWNEE COUNTY PUBLIC PROGRAMS AUTHORITY
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2020 and 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities and Equity (Continued)

1. Deposits and Investments (Continued)

Concentration of Investment Credit Risk

PCPPA places no limit on the amount it may invest in any one issuer. PCPPA has the following of credit risk in 2020: 84% in Certificates of deposit (\$3,651,397) and 16% in Money Market accounts (\$693,692) and 2019: 81% in Certificates of deposit (\$3,081,962) and 19% in Money Market accounts (\$717,678).

2. Restricted Cash and Investments

The restricted bond fund cash and investments are the result of financial requirements of bond issues and consist of funds held in accounts with the Trustee bank. Under the terms and provisions of the Bond Indenture, these special accounts and reserve funds are maintained for the benefit of the holders of the bonds and are not subject to lien or attachment by any other creditors. These accounts and reserve funds are to be maintained so long as any bonds are outstanding. Monies contained in the accounts and reserve funds held by the Trustee are required to be continuously invested in authorized securities that mature not later than the respective dates when the funds shall be required for the purpose intended by the trust indenture. The County has levied a sales tax in which all related revenues are to be applied to the balance of the bond.

3. Fair Value Measurement

PCPPA's financial instruments include cash and cash equivalents, investments, accounts receivable and accounts payable. PCPPA's estimate of fair value of all financial instruments does not differ materially from the aggregate carrying values of its financial instruments recorded in the accompanying statement of financial condition. The carrying amount of these financial instruments approximates fair value of their short maturity.

4. 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

5. Inventories

Inventories consist of minimal amounts of expendable supplies held for consumption. The costs of inventories are recorded as expenditures when purchased rather than when consumed.

6. Capital Assets

Additions to the buildings and equipment are recorded at cost or, if contributed property, at their estimated acquisition value at time of contribution. Repairs and maintenance are recorded as expenses; renewals and betterments are capitalized. The sale or disposal of fixed assets is recorded by removing cost and accumulated depreciation from the accounts and charging the resulting gain or loss to income. The Authority maintains a capitalization threshold of \$500. Depreciation for major movable equipment and building and improvements is computed on the straight-line method over useful lives of 5-20 years for equipment and 30 years for buildings and improvements.

PAWNEE COUNTY PUBLIC PROGRAMS AUTHORITY
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2020 and 2019

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Assets, Liabilities and Equity (Continued)

7. Compensated Absences

PCPPA has no employees and thus does not provide sick leave or vacation. There is no recorded liability for compensated absences.

8. Comparative Data

Comparative information for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in PCPPA's financial position and operations. Certain reclassifications have been made for comparability.

9. Net Position

In the basic financial statements, net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net position are reported as restricted when limitations on their use change the nature or normal understanding of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, laws or other governments, or are imposed by law through constitutional provisions or enabling legislation. PCPPA applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

10. Resource Use Policy

It is in PCPPA's policy for all funds that when an expenditure/expense is incurred for purposes for which both restricted and unrestricted resources, including net positions, are available, PCPPA considers restricted amounts to be spent first before any unrestricted amounts are used.

2. CAPITAL ASSETS

The following is a summary of changes in property and equipment:

	Balance 7/1/19	Additions	Deletions	Balance 6/30/20
Buildings & Improvements	\$ 5,911,789	\$ -	\$ -	\$ 5,911,789
Equipment	5,128	-	-	5,128
Total	5,916,917	-	-	5,916,917
Less accumulated depreciation	(1,589,431)	(197,167)	-	(1,786,598)
Net	\$ 4,327,486	\$ (197,167)	\$ -	\$ 4,130,319

PAWNEE COUNTY PUBLIC PROGRAMS AUTHORITY
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2020 and 2019

2. CAPITAL ASSETS (CONTINUED)

	Balance 7/1/18	Additions	Deletions	Balance 6/30/19
Buildings & Improvements	\$ 5,911,789	\$ -	\$ -	\$ 5,911,789
Equipment	5,128	-	-	5,128
Total	<u>5,916,917</u>	<u>-</u>	<u>-</u>	<u>5,916,917</u>
Less accumulated depreciation	(1,392,264)	(197,167)	-	(1,589,431)
Net	<u>\$ 4,524,653</u>	<u>\$ (197,167)</u>	<u>\$ -</u>	<u>\$ 4,327,486</u>

Total depreciation for 2020 and 2019 was \$197,167 and \$197,167, respectively.

3. LONG-TERM DEBT

PCPPA's Sales Tax Revenue Bonds Series 2009 were issued to fund construction of the Pawnee County jail. The County shall levy a \$0.01 sales tax as of January 1, 2011, which was approved by voters on October 13, 2009. Sales tax funding is to be used for the sole purpose of all related costs for the construction of the jail. 75% of the sales tax shall be collected through January 1, 2030. The remaining 25% of sales tax is to be collected until repeal.

On September 1, 2016, PCPPA refinanced their Sales Tax Revenue Bonds Series 2009 by unanimous vote of the Board.

PCPPA's long-term debt and amounts to be repaid from business-type activities are described below:

\$5,115,000 Sales Tax Refunding Revenue Bonds Series 2016 dated September 1, 2016 due in annual installments of \$205,000 to \$425,000 through February 1, 2030 with interest payable semi-annually at 1.50% to 2.25%.

The following is a summary of long-term debt transactions of PCPPA:

	Original Amount	Balance Outstanding 6/30/19	Issued	Retired, or Defeased During Year	Balance Outstanding 6/30/20
PCPPA:					
Series 2016 Debt	5,115,000	4,230,000	-	350,000	3,880,000
Total	<u>\$ 5,115,000</u>	<u>\$ 4,230,000</u>	<u>\$ -</u>	<u>\$ 350,000</u>	<u>\$ 3,880,000</u>

The annual debt service requirements to maturity, including principal and interest, for long-term debt are as follows:

Year Ending June 30,	Principal	Interest	Totals
2021	355,000	76,274	431,274
2022	365,000	69,174	434,174
2023	370,000	61,874	431,874
2024	375,000	56,324	431,324
2025	385,000	50,136	435,136
2026-2030	2,030,000	134,581	2,164,581
Total Liability	<u>\$ 3,880,000</u>	<u>\$ 448,363</u>	<u>\$ 4,328,363</u>

PAWNEE COUNTY PUBLIC PROGRAMS AUTHORITY
Pawnee, Oklahoma

NOTES TO THE BASIC FINANCIAL STATEMENTS
June 30, 2020 and 2019

4. RISK MANAGEMENT

PCPPA is exposed to various risks of loss related to general liability and torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. Property insurance coverage is being provided through the Association of County Commissioners of Oklahoma Self-Insurance Group.

5. CONCENTRATIONS

Approximately 99% and 99% of the Authority's revenues were derived from sales tax collections for June 30, 2020 and 2019, respectively. Any significant change in sales tax appropriations by Pawnee County could have a significant impact on operations.

6. LEASE AGREEMENT

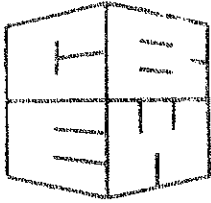
On February 4, 2013, PCPPA entered into a lease agreement with the Board of County Commissioners of Pawnee County. The lease term is for one year, with option to renew, and semiannual payments of \$3,250 are due May 30 and November 30 for each year the lease is in effect. The lease was renewed on September 23, 2019, with the same terms as the original agreement. In 2019, PCPPA did not receive rent for February through July until after fiscal year end, thus, a receivable is recorded for \$2,708. In 2020, PCPPA did not receive rent for February through July until after fiscal year end, thus, a receivable is recorded for \$2,708.

7. SUBSEQUENT EVENTS

The Board of Trustees have evaluated subsequent events and transactions through the date of the audit report, which is the date the financial statements were available to be issued. The Board of Trustees are currently evaluating the impact of the COVID-19 pandemic on PCPPA and has concluded that while it is reasonably possible that the virus could have a negative effect on PCPPA's financial position and results of its operations, the specific impact is not readily determinable as of the date of these financial statements. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

PAWNEE COUNTY PUBLIC PROGRAMS AUTHORITY
Pawnee, Oklahoma

REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS*
June 30, 2020



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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**

September 23, 2020

To the Board of Trustees
Pawnee County Public Programs Authority
Pawnee, Oklahoma

We have audited, in accordance with the 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 Pawnee County Public Programs Authority (PCPPA), a component unit of Pawnee County, Oklahoma, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise PCPPA's basic financial statements, and have issued our report thereon dated September 23, 2020. PCPPA did not present the Management's Discussion and Analysis required by the Governmental Accounting Standards Board.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered PCPPA'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 PCPPA's internal control. Accordingly, we do not express an opinion on the effectiveness of PCPPA'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 did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses (Finding 2020-001).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether PCPPA'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*.

PCPPA's Response to Finding

PCPPA's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. PCPPA'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 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.

CBEW Professional Group, LLP

CBEW Professional Group, LLP
Certified Public Accountants
Cushing, Oklahoma

PAWNEE COUNTY PUBLIC PROGRAMS AUTHORITY
Pawnee, Oklahoma

SCHEDULE OF FINDINGS AND RESPONSES
For the Year Ended June 30, 2020

2020-001. Internal Control – Material Adjusting Journal Entries

Criteria: The authority's management is responsible for internal controls over financial reporting. This responsibility includes the design and implementation of controls over the fair and complete presentation of the authority's annual financial statements in accordance with generally accepted accounting principles (GAAP) from trial balances derived from the authority's accounting records. For trial balances to be both complete and accurate, the authority 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, authority management should not rely on the external auditor to detect and correct material misstatements in the books and records as part of its internal controls, 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 June 30, 2020, 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: payments on bonds, interest expense, receivables and depreciation. This condition was also reported in 2019.

Cause: The Authority's Board has the necessary knowledge, expertise and education, relative to the complex nature of applying GAAP applicable to state and local authorities, to provide reasonable assurance that the trial balances used for preparing the GAAP financial statements are complete and accurate prior to audit. Management has relied on the external auditors to identify and correct a number of material misstatements in the trial balances. However, as required by professional standards, management had the capacity to review, understand and accept the adjusting entries proposed by the auditor in order to take full responsibility for them and the related financial statements.

Effect or Potential Effect: As a result of this condition, without assistance on its external auditors, the authority did not apply appropriate 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.

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 authority'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.

Responsible Official's Response: The authority concurs with the recommendation, and will strive to expand their knowledge and understanding to identify and correct material misstatements timely in order to prepare complete and accurate financial statements.