

## Briefing Document: Review of Pottawatomie County Facilities Authority Audits (2016-2023)

### *Integrity of the Game vs Economic Impact (Politics); The Oklahoma Business Plan*

This briefing document summarizes the main themes and important information found within the provided excerpts from the State Auditor's reports for the Pottawatomie County Facilities Authority (PCFA) from 2016 to 2023. These reports provide an independent audit of the PCFA's financial statements and internal controls.

#### **Overview of Pottawatomie County Facilities Authority (PCFA):**

**Public Trust:** The PCFA is a public trust established under Oklahoma statutes. It is a component unit of Pottawatomie County.

**Beneficiary:** Pottawatomie County is the beneficiary of the trust.

**Purpose:** The Authority is not organized for profit, and its purposes are broadly defined to benefit the State of Oklahoma, governmental agencies, and private entities and citizens, particularly in areas such as economic resources, infrastructure, health, education, and welfare. This includes constructing, improving, operating, and maintaining various facilities.

**Trustees:** The Trustees of the Authority are to be three (3) in number and shall be citizens and residents of the Beneficiary (Pottawatomie County).

**Termination:** Upon termination of the Authority, the residue of its property will be distributed to the Beneficiary.

#### **Independent Auditor's Reports:**

**Auditor's Opinion:** Across the provided years (2017-2023), the auditor consistently provided an **unmodified opinion** on the financial statements, stating that they "present fairly, in all material respects, the respective financial position of the Pottawatomie County Facilities Authority" in accordance with accounting principles generally accepted in the United States of America.

**Emphasis on Presentation:** Despite the clean opinion, the auditor consistently noted under "Other Matters" that the PCFA had omitted the Management's Discussion and Analysis (MD&A) required by the Governmental Accounting Standards Board (GASB). The auditor states, "...my opinion on the basic financial statements is not affected by this missing information." This suggests a presentational issue rather than a fundamental problem with the financial data itself.

**Report on Compliance and Internal Control:** The auditor also issued separate reports on compliance and internal control over financial reporting. These reports state that the auditor's consideration of internal control was for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. The reports consistently note that they did not identify any deficiencies in internal control over financial reporting that they consider to be material weaknesses.

**Performed Under Government Auditing Standards:** The audits were conducted in accordance with Government Auditing Standards, which require planning and performing the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

**Financial Statement Highlights:**

**Focus on Specific Projects/Bonds:** The financial statements often detail the activities and balances related to specific educational facilities lease revenue bonds issued for various school districts (e.g., Tecumseh Public Schools, Bethel Public Schools, Dale Public Schools, North Rock Creek Public Schools, McLoud Public Schools, Shawnee Public Schools, Gordon Cooper Technology Center).

**Lease Revenue Bonds:** A significant portion of the PCFA's activity revolves around the issuance and management of lease revenue bonds to finance facilities. The statements detail the sources and uses of these funds, including par amounts of bonds, premiums/discounts, costs of issuance, and deposits to debt service and project construction funds.

**Operating Leases:** The Authority enters into lease agreements with the school districts, where the districts make rental and acquisition payments to the PCFA. These payments are used to service the debt (bonds) and potentially acquire the facilities over time.

**Assets and Liabilities:** The balance sheets (or Statements of Net Position from 2017 onwards) show assets primarily consisting of cash and cash equivalents, notes receivable (likely from lease agreements), bond issuance costs (net of amortization), and construction in progress. Liabilities mainly consist of bonds payable (both current and non-current) and accrued interest payable.

**Revenues and Expenses:** The statements of revenues, expenses, and changes in fund balance (or net position) show revenues primarily from lease rental income and interest income. Expenses include bond payments, interest expense, amortization expense, and other administrative costs.

**Construction in Progress:** The reports track the costs associated with the construction of facilities being financed through the bond issuances. These costs are capitalized and will likely be depreciated once the facilities are placed in service.

**Bond Schedules:** The notes to the financial statements provide detailed schedules of the lease revenue bonds outstanding, including maturity dates, principal amounts, interest rates, and total maturity amounts for each bond series.

**Key Themes and Important Ideas:**

**Conduit Debt Issuer:** The PCFA appears to primarily function as a conduit debt issuer, facilitating the financing of facilities for local school districts through the issuance of lease revenue bonds. The ultimate responsibility for repaying the debt rests with the lessee school districts through their lease payments.

**Financial Stability (as indicated by Unmodified Opinions):** The consistent unmodified opinions suggest that the PCFA's financial statements are presented fairly and are free from material misstatements according to accounting standards.

**Omission of Required Information (MD&A):** The recurring "Other Matters" paragraph highlights a consistent issue with the PCFA not presenting the Management's Discussion and Analysis,

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which is supplementary information required by GASB. While not affecting the audit opinion, this indicates a lack of complete financial reporting.

**Focus on Lease Agreements:** The core of the PCFA's operations and financial activity is driven by the lease agreements with the beneficiary school districts. The terms and conditions of these leases are critical to the Authority's ability to service its debt.

**No Reported Material Weaknesses in Internal Control:** The auditor did not identify any material weaknesses in the PCFA's internal control over financial reporting during the periods reviewed. This suggests that the Authority has reasonably designed and implemented controls to prevent or detect material misstatements in its financial statements.

### **Quotes Illustrating Key Points:**

**Auditor's Unmodified Opinion (2017):** "In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Pottawatomie County Facilities Authority, as of December 31, 2017 and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America."

**Omission of MD&A (2017):** "The Pottawatomie County Facilities Authority has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require 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, which considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. My opinion on the basic financial statements is not affected by this missing information."

**Purpose of the Authority (Notes to Financial Statements, 2016):** "The Authority is not organized for profit and no part of its net earnings may inure to the benefit of any private person. The purposes of the Authority, as are more fully described in the Trust Indenture, are:" [followed by a detailed list of public benefit activities].

**Description of Lease Revenue Bonds (Notes to Financial Statements, 2016 - Educational Facilities Lease Revenue Bonds (2006 Series Tecumseh Public Schools)):** "September 1, 2006, the Series 2006 Bonds are being issued by the Depository Trust Company, New York, New York ('Issuer'), under the terms and provisions of the Indenture, for the purpose of providing funds to the Pottawatomie County Facilities Authority ('Authority') for the financing of certain facilities to be leased to the Tecumseh Public Schools (District)."

This briefing document provides a high-level overview of the information contained in the provided audit excerpts. A more in-depth analysis would involve a detailed review of the financial statements and notes for each year to identify trends and specific financial activities.

**Disclaimer:** This summary is presented in a formal, academic style, reflecting both legal and community perspectives. The findings herein are based on the data compiled in the Research and do not constitute legal advice. The opinions expressed regarding municipal failures are those of the investigator(s) and do not necessarily represent an official stance by any governing body.