

Cleveland County Justice Authority

Financial Statements

June 30, 2017

Cleveland County Justice Authority
Financial Statements
For the Fiscal Year Ended June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

The Board of Trustees
Cleveland County Justice Authority
Norman, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Cleveland County Justice Authority (a public trust and agency of the State of Oklahoma, a component unit of Cleveland County, Oklahoma) as of and for the year ended June 30, 2017 and the related notes to the financial statements, which collectively comprise the 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 an opinion 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 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 Cleveland County Justice Authority as of June 30, 2017, and the changes in financial position, and, its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted Management's Discussion and Analysis that governmental 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 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. 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 May 7, 2018 on our consideration of the Cleveland County Justice 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 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 Cleveland County Justice Authority's internal control over financial reporting and compliance.

Mary E Johnson & Associates PLLC

Ardmore, Oklahoma
May 7, 2018

Cleveland County Justice Authority
Statement of Net Position
June 30, 2017

ASSETS	
Current Assets	
Cash and cash equivalent	\$ 6,110
Sales tax receivable	682,331
Total current assets	688,441
Noncurrent assets	
Restricted assets	
Cash and cash equivalents	5,093,038
Investments	3,352,875
Accrued interest receivable	1,181
Total restricted assets	8,447,094
Capital assets	
Capital assets not being depreciated	1,240,711
Capital assets being depreciated, net	30,087,086
Total capital assets, net	31,327,797
Total assets	\$ 40,463,332
 DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources from debt refunding	22,345
 LIABILITIES	
Current liabilities	
Accounts payable	\$ 6,100
Accrued interest payable	112,450
Current maturities of bonds payable	4,160,000
Total current liabilities	4,278,550
Noncurrent liabilities	
Bonds payable less current maturities	6,901,686
Total noncurrent liabilities	6,901,686
Total liabilities	11,180,236
 NET POSITION	
Net investment in capital assets	20,266,112
Restricted for detention center operations	160,759
Restricted for construction and bonds	8,376,706
Restricted for repairs and maintenance	501,853
Unrestricted	11
Total net position	29,305,441

The notes to the financial statements are an integral part of this statement

Cleveland County Justice Authority
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2017

Operating revenues	
Revenue from Cleveland County	<u>\$ 8,253,838</u>
Operating expenses	
Detention center operations	2,226,060
General and administrative	7,589
Depreciation	2,052,728
Trustee fees	<u>4,000</u>
Total operating expenses	<u>4,290,377</u>
Operating Income	<u>3,963,461</u>
Nonoperating revenues (expenses)	
Interest expense on bonds	(230,266)
Investment return	<u>7,297</u>
	<u>(222,969)</u>
Change in Net Position	3,740,492
Net Position, Beginning of Year	<u>25,564,949</u>
Net Position, End of Year	<u><u>\$ 29,305,441</u></u>

The notes to the financial statements are an integral part of this statement

Cleveland County Justice Authority
Statement of Cash Flows
For the Year Ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts of Sales Tax from Cleveland County	\$ 8,221,911
Payments to County for detention center operations	(2,226,060)
Payments to Vendors for trustee fees and administrative costs	(11,589)
Net Cash Provided by Operating Activities	<u>5,984,262</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal paid on capital debt	(4,040,000)
Interest paid on capital debt	(464,423)
Other receipts (payments)	5,873
Net Cash Used by Capital Financing Activities	<u>(4,498,550)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Receipt of interest on investments	6,143
Purchase of investments	(9,001,747)
Sale of investments	9,001,100
Net Cash Provided by Investing Activities	<u>5,496</u>
 Net Increase in Cash and Cash Equivalents	 1,491,208
 Cash and Cash Equivalents, Beginning of Year	 <u>3,607,940</u>
Cash and Cash Equivalents, End of Year	<u>\$ 5,099,148</u>
 As reported on Statement of Net Assets	
Unrestricted	\$ 6,110
Restricted	5,093,038
	<u>\$ 5,099,148</u>
 Reconciliation of Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$ 3,963,461
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Depreciation	2,052,728
Change in Assets and Liabilities:	
Accounts receivable	(31,927)
Net Cash Provided by Operating Activities	<u>\$ 5,984,262</u>

The notes to the financial statements are an integral part of this statement

Cleveland County Justice Authority
Notes to Financial Statements
June 30, 2017

NOTE 1 - NATURE OF OPERATIONS

The Cleveland County Justice Authority (the Authority) is a public trust and agency of the State of Oklahoma. It was created by a Trust Indenture dated October 9, 2007, (the “Trust Indenture”) for the furtherance of public purposes and the benefit of Cleveland County, Oklahoma (Beneficiary), pursuant to the provisions of Title 60, Oklahoma Statutes 2001, Section 176 et seq., as amended (the “Public Trust Act”), Title 60, Oklahoma Statutes 2001, Section 175.1 et seq. as amended (the “Oklahoma Trust Act”) and other applicable statutes and laws of the State of Oklahoma. The financial operations of the Authority began in March of 2009 with the issuance of the Cleveland County Justice Authority Sales Tax Revenue Bonds Series 2009A and 2009B.

The Authority by virtue of common control and dependence is a component unit of Cleveland County, Oklahoma. The Trustees of this Trust shall be duly elected Commissioners of Cleveland County and their successors in office. Each successor in office shall without any further act, deed or conveyance, automatically becomes a Trustee of this trust, as set forth in the Trust Indenture. The financial activities of Cleveland County and its other component units are not included in the financial statements of the Authority.

This Trust shall have duration for the term of duration of the beneficiary and until such time as its purposes shall have been fully fulfilled or until it shall be terminated as provided by the Trust Indenture.

Purposes of the Trust

To assist the Beneficiary, the State of Oklahoma, its Governmental Agencies, and private entities, agencies and citizens in making the most efficient use of all their economic resources and powers in accord with the needs and benefit of the Beneficiary in order to lessen the burdens on government and to stimulate economic growth and development.

To promote and develop any and all public works projects or facilities of any type or description including but not limited to, 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.

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, law enforcement and other government facilities, parking facilities, housing and any and all other facilities whose purpose is to promote law enforcement and other governmental functions.

Cleveland County Justice Authority
Notes to Financial Statements
June 30, 2017

NOTE 1 - NATURE OF OPERATIONS (continued)

To promote, finance and develop projects, facilities and services pertaining to governmental institutions and the furtherance of governmental opportunities at all levels and all programs related to the foregoing.

To promote, finance and develop any other projects or facilities, which will provide public facilities and/or aid the Beneficiary or any other level of government.

To plan, establish, develop, construct, finance, enlarge, remodel, acquire, improve, make alterations, extend, maintain, equip, operate, lease, furnish and regulate any facilities related to any of the foregoing, and, if desired, to lease such facilities and to operate the same in connection therewith, and to do, perform, own, acquire, construct or engage in or finance any other enterprise or activity, project or facility to such extent and in such manner as now is or may be considered a proper and lawful function of public trust entities within the State of Oklahoma.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Government Accounting Standards Board (GASB). Pursuant to the Authority's bond obligation resolutions, separate funds are established by each trustee bank to record all transactions relating to the Authority's programs financed under each resolution. Within each fund, there is a group of accounts required by the respective resolutions.

Basis of Accounting

The Authority accounts for its activities within a proprietary fund. As a financing authority for Cleveland County, the Authority may use enterprise fund accounting and financial reporting as allowed by GASB 34. Thus the Authority uses the proprietary fund type to account for its activities.

The proprietary fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the statement of net assets. Proprietary fund operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in total net assets. The accrual basis of accounting is utilized by the proprietary fund. Under this basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred.

Cleveland County Justice Authority
Notes to Financial Statements
June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. Revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

Cash and Cash Equivalents

The Authority has defined cash and cash equivalents to include demand deposits, and highly liquid investments with original maturities of three months or less. Cash held with trustees is treated as investments.

Investments

The investments within the bond programs are generally restricted by the various bond resolutions as to authorized investments. Authorized investments include cash, obligations of the U.S. government, agency or instrumentality that are backed by the full faith and credit of the U.S., Certificates of deposit of any bank whose short-term debt obligations are rated A-1 by S&P or P-1 by Moody's and mature no more than 360 days after purchase, money market funds rated AAAM or AAM-G by S&P. Short-term investments are held in guaranteed investment contracts or money market accounts collateralized by government securities. These short-term investments are reported at cost, which approximates market values as allowed by GASB Statement 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools."

Fixed income investments are reported at fair value as determined by trustee bank based on published market data for publicly traded securities. Security transactions and any resulting gains or losses are accounted for by the specific identification method on a trade date basis.

Bond Premium and Discount

Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

Cleveland County Justice Authority
Notes to Financial Statements
June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restrictions of Net Assets

The use of assets of each bond program fund is restricted by the related bond resolution. Certain amounts in the program funds are considered subject to the restriction that they may be applied to the financing of construction of a new detention center in Cleveland County, Oklahoma (Project) or to the retirement of obligations issued for such purposes. A depository agreement creates a gross revenue fund- capital improvements bond account to receive 100% of pledged sales tax revenue, a gross revenue fund – operations and expense account to receive an amount up to 25% of pledged revenues at the discretion of the Authority, and a repair and replacement fund to accumulate and maintain a balance of \$500,000. The use of funds accumulated in the capital improvements bond account is restricted for debt service, trustee fees, and special mandatory redemptions. The operations and expense account is restricted to costs of operation and expenses incidental to the operation and maintenance of the Project, bank fees and charges, and as needed for debt service, trustee fees and special mandatory redemptions. The repair and replacement fund is restricted to extraordinary repairs or major replacement of the Project. Any remaining funds may be used for redemption of bonds or any proper purpose of the Authority. When the Authority incurs and expense for which it may use either restricted or unrestricted net assets, it uses restricted net assets first.

Capital Assets

Capital assets are carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets of 5-10 years. Maintenance and repairs are expensed as incurred. Interest costs are capitalized as a part of the cost of constructing assets. Interest earned on proceeds of tax-exempt borrowing arrangements restricted to the acquisition of qualifying assets is offset against interest costs in determining the amount to be capitalized.

Deferred Outflow of Resources

CCJA reports decreases in net assets that related to future periods as deferred outflows of resources on the statement of net position.

Deferred outflow of resources are reported in the statement of net position for the difference between the reacquisition price of debt refunded in 2015 and the net carrying amount of the old debt. This deferred outflow of resources is amortized to interest expense over a total of 5 years, the life of the new debt.

Deferred Inflow of Resources

CCJA's statements of net position reports 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. No amounts have been reported as deferred inflows.

Cleveland County Justice Authority
Notes to Financial Statements
June 30, 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Operating and Non-operating Revenues

Proprietary fund operating revenues result from exchange transactions related to the operations. Exchange transactions are those in which each party receives and gives up essentially equal values. The Authority also reports pledged sales tax revenues from Cleveland County, Oklahoma as operating revenues. Operating expenses includes costs of operations of the project, contractual services and depreciation expense. Non-operating revenue and expenses are investment income, interest paid on debt, and amortization of debt issuance costs.

Budgetary Comparison

Budgetary comparison information is required to be presented for the general fund with legally adopted budget. The Authority is not legally required to adopt a budget. Therefore, budget comparison information is not included in the Authority's financial statements.

NOTE 3 - CASH AND INVESTMENTS

Custodial Credit Risk

For deposits, custodial credit risk is the risk that in the event of a bank failure, The Authority's deposits may not be returned to it. The Authority does not have a policy for custodial credit risk but follows state and local laws. The Authority was not exposed to deposit custodial credit risk as of June 30, 2017.

As of June 30, 2017, \$3,352,875 cash restricted for bonds consists of money market mutual funds held at trustee banks. These funds are classified as investments for purposes of GASB Statement 40 Deposit and Investment Risk Disclosure requirements and therefore are not subject to custodial credit risk. For presentation on the statement of net position, these funds are classified as investments. Additionally, these amounts are not insured by the FDIC and are not obligations of or guaranteed by the trustee bank.

For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Authority will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. The Authority does not hold any investments subject to custodial credit risk.

Cleveland County Justice Authority
Notes to Financial Statements
June 30, 2017

NOTE 3 - CASH AND INVESTMENTS (continued)

Concentration of Investment Credit Risk

The Authority places no limit on the amount that may be invested in one issuer. The Authority's investment are concentrated in money market mutual funds and guarantee investment contracts held by trustee banks that are not evidenced by securities; therefore they are not subject to custodial credit risk. The credit quality rating for the money market mutual funds was AAAM by S&P and Aaa by Moody's.

Investment Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will reduce the fair value of a government's investments. The longer the period until an investment matures, the greater the negative impact that changes in interest rates can have on fair value. The Authority does not have a policy to manage exposure. The Authority holds money market mutual funds with a maturity of less than 1 year.

NOTE 4 - BONDS PAYABLE

The bonds are special limited obligation of the Authority, payable solely from a gross pledge of the one-fourth of one percent (1/4%) sales tax revenues, the ("Sales Tax Revenues"), collected by Cleveland County, State of Oklahoma, (the "County") pursuant to a proposition approved by the electorate on December 8, 2008, and the Sales Tax Agreement (the "Sales Tax Agreement") pledging Sales Tax Revenue, wherein the County has agreed to pay over the Sales Tax Revenues to the Authority.

The Bond series 2009A and 2009B were refunded during fiscal year 2015. New bonds were issued as Series 2015 to payoff remaining debt. Total interest paid for the year ended June 30, 2017 was \$230,266. Bonds and notes payable as of June 30, 2017, and changes for the fiscal year then ended are as follows:

Sales Tax Revenue Bond	Issued	Average Interest Rate	Maturity	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due in One Year
2015	1/1/2015	3.20%	3/1/2020	14,585,000	-	4,040,000	10,545,000	4,160,000
				14,585,000	-	4,040,000	10,545,000	\$ 4,160,000
less deferred bond discount and premium				710,443	-	193,757	516,686	
				<u>\$ 15,295,443</u>	<u>\$ -</u>	<u>\$ 4,233,757</u>	<u>\$ 11,061,686</u>	

Cleveland County Justice Authority
Notes to Financial Statements
June 30, 2017

NOTE 4 - BONDS PAYABLE (continued)

Debt requirements on bonds payable as of June 30, 2017 are as follows:

	Principal and Interest	less Interest	Principal
2018	4,497,350	(337,350)	4,160,000
2019	4,497,550	(212,550)	4,285,000
2020	2,184,000	(84,000)	2,100,000
	\$ 11,178,900	\$ (633,900)	\$ 10,545,000

Accrued interest payable and bond debt is payable from restricted assets. These bonds are secured by the property financed.

NOTE 5 - CAPITAL ASSETS

As of June 30, 2017, capital assets consisted of the following:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Capital assets, not being depreciated</i>				
Land	\$ 1,240,711	\$ -	\$ -	\$ 1,240,711
Construction in progress	-	-	-	-
Total capital assets, not being depreciated	1,240,711	-	-	1,240,711
<i>Capital assets, being depreciated</i>				
Building	38,188,030	-	-	38,188,030
Equipment	109,265	-	-	109,265
Furniture	1,225,327	-	-	1,225,327
Total capital assets, being depreciated	39,522,622	-	-	39,522,622
Less Accumulated Depreciation	(7,382,808)	(2,052,728)	-	(9,435,536)
Total capital assets, being depreciated, net	32,139,814	(2,052,728)	-	30,087,086
Capital assets, net	\$ 33,380,525	\$ (2,052,728)	\$ -	\$ 31,327,797

NOTE 6 – RELATED PARTY

The Authority receives pledged sales tax from Cleveland County, Oklahoma which is related as an affiliated governmental unit. The sales tax revenue received from Cleveland County in 2017 was \$8,253,838 and is included as income on the statement of activities. The Authority also paid salaries and benefits and provided operational support for the Detention Center to the County in the amount of \$2,226,060 which is included in expenses.



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*

Board of Trustees
Cleveland County Justice Authority
Norman, 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 Cleveland County Justice Authority as of and for the year ended June 30, 2017, and the related notes to the financial statements which collectively comprise Cleveland County Justice Authority's basic financial statements and have issued our report thereon dated May 7, 2018. Our report on the financial statements included an other matter that management did not include Management's Discussion and Analysis.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Cleveland County Justice Authority'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 Cleveland County Justice Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Cleveland County Justice Authority'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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Cleveland County Justice 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 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.

Mary E Johnson & Associates PLLC

Ardmore, Oklahoma
May 7, 2018