

ADAIR COUNTY JAIL TRUST AUTHORITY
FINANCIAL STATEMENTS
AND AUDIT REPORT
FOR THE YEAR ENDED JUNE 30, 2015

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Adair County Jail Trust Authority
Stilwell, Oklahoma

I have audited the accompanying balance sheet of the Adair County Jail Trust Authority as of June 30, 2015, and the related statement of revenue, expenses, and changes in net position, and cash flow for the year then ended, 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Adair County Jail Trust Authority as of June 30, 2015, and the changes in financial position and cash flows thereof 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 the management 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, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operations, economic, or historical context. My 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, I have also issued my report dated November 9, 2016, on my consideration of Adair County Jail Trust Authority's internal control over financial reporting and on my 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 my 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 Adair County Jail Trust Authority's internal control over financial reporting and compliance.



Michael Green
Certified Public Accountant

November 9, 2016

ADAIR COUNTY JAIL TRUST AUTHORITY
BALANCE SHEET
JUNE 30 2015

ASSETS

CURRENT ASSETS	
Cash	\$ 138,432
Receivables	159,790
Total Current Assets	<u>298,222</u>
RESTRICTED ASSETS	
Restricted Cash	118,463
PROPERTY AND EQUIPMENT	
Land	70,975
Buildings	2,928,694
Furniture, Fixtures, and Equipment	140,879
Total Fixed Assets	<u>3,140,548</u>
Less Accumulated Depreciation	<u>(1,030,075)</u>
Net Property and Equipment	<u>2,110,473</u>
Total Assets	<u><u>\$ 2,527,158</u></u>

LIABILITIES & NET POSITION

CURRENT LIABILITIES	
Accounts Payable	\$ 565
Interest Payable	4,022
Current Portion of Long Term Debt	45,731
Total Current Liabilities	<u>50,318</u>
LONG TERM LIABILITIES	
Note Payable - Rural Development	1,585,476
NET POSITION	
Restricted Net Position	118,463
Unrestricted Net Position	297,657
Invested in Capital Assets, Net of Related Debt	475,244
Total Net Position	<u>891,364</u>
Total Liabilities and Net Position	<u><u>\$ 2,527,158</u></u>

ADAIR COUNTY JAIL TRUST AUTHORITY
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDING JUNE 30, 2015

REVENUE	
Sales Tax	\$ 929,530
Total Revenue	<u>929,530</u>
OPERATING EXPENSES	
Advertising	25
Jail Operating Contract	722,822
Repairs	4,868
Professional Fees	8,995
Depreciation	73,217
Insurance	10,173
Taxes	40
Supplies	<u>1,565</u>
Total Operating Expenses	<u>821,705</u>
Operating Income	<u>107,825</u>
NON-OPERATING REVENUE (EXPENSE)	
Interest Expense	(73,867)
Interest Income	<u>391</u>
Total Non-Operating Income	<u>(73,476)</u>
Net Position- Beginning of Year	817,138
Prior Period Adjustment	39,877
Excess of Revenues Over Expenses	<u>34,349</u>
Net Position - End of Year	<u><u>\$ 891,364</u></u>

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

ADAIR COUNTY JAIL TRUST AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDING JUNE 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Sales Tax	\$ 848,693
Cash Paid for Jail Operations and Employee	(748,129)
Net Cash Provided by Operations	<u>100,564</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest Income	391
Capital Expenditures	-
Net Cash used in Investing Activities	<u>391</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Interest Expense	(73,867)
Payments of Notes Payable	(44,547)
Net Cash Provided in Operating Activities	<u>(118,414)</u>
Net Increase in Cash and Cash Equivalents	(17,459)
Cash and Cash Equivalents at Beginning of Year	<u>155,891</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 138,432</u></u>
Reconciliation of Operating Income to Net Cash	
Provided by Operating Income	
Net Income	\$ 107,825
Adjustments to Reconcile Operating Income to Net Cash	
Depreciation	73,217
Increase in Receivables	(80,836)
Decrease in Accounts Payable	358
Net Cash Provided by Operating Activities	<u><u>\$ 100,564</u></u>

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

ADAIR COUNTY JAIL TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. GENERAL

Under the provision of the Oklahoma Trust Act, the Adair County Jail Trust Authority (hereinafter referred to as the "Authority") was established March 12, 1996, for the purpose of promoting the establishment and maintenance of an effective corrections and detention system which will enhance the preservation of the welfare and safety of the residents of the county. The authority is governed by a board of trustees, which include the Chairman of the Board of the County Commissioners, the County Sheriff, and three appointed trustees.

B. REPORTING ENTITY

The Adair County Jail Trust Authority is a component unit of Adair County and for the purpose of this report is considered to be a proprietary fund. A proprietary fund is used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from such activities can be provided either to outside parties (enterprise funds) or to other departments or agencies primarily within the governmental unit (internal service funds).

C. BASIS OF ACCOUNTING

Basis of Accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of Accounting relates to the timing of the measurements made, regardless of the measurement focus applied. The financial statements of the ("Authority") record revenue when cash is appropriated and expenses are recorded in the period in which encumbrances are made. The financial statements have been adjusted at year-end to reflect the accrual basis of accounting, revenues are recognized when they are measurable and susceptible to accrual and expenses are recognized when they are incurred, in accordance with accounting principles generally accepted in the United States of America.

D. PROPERTY, PLANT, AND EQUIPMENT Depreciation is provided in the-Trust Fund in amounts sufficient to relate the cost of depreciable assets to operations over their estimated useful lives computed on the straight-line method.

Those rates are as follows:	Rates
Buildings	2.5%
Furniture, Fixtures, and Equipment	20%

One of the primary purposes for the establishment of the Adair County Jail Trust Authority was for the construction of a new jail facility. The amounts disclosed in the financial statements represent the construction costs of this facility. Depreciation has been recorded in relation to this asset, starting March 6, 2003, the occupancy date.

E. INVENTORY AND PREPAID EXPENSES

Supplies purchased are consumed in operations and expensed as incurred. As of June 30, 2015 There were no Prepaid Expenses.

F. CASH AND INVESTMENTS

The Authority's investment policies are governed by state statute. Permissible investments include direct obligations of the United States Government and Agencies; certificates of deposit of savings and loan associations, and bank and trust companies; and savings accounts or savings certificates of savings and loan associations, and trust companies; collateral is required for demand deposits and certificates of deposit for all amounts not covered by federal deposit insurance. For the purposes of the statement of cash flows, the Authority considers all cash on hand, demands deposits and highly liquid investments, with an original maturity of twelve months or less when purchased, to be cash and cash equivalents.

Deposit Categories of Credit Risk

- (A) Insured or collateralized with securities.
- (B) Collateralized with securities held by the pledging financial institutions trust department.
- (C) Uncollateralized.

	<u>Category</u>			Bank	Carrying
	(A)	(B)	(C)	Balance	Amount
Cash	250,000	6,895	0	\$256,895	\$256,895

G. LONG TERM DEBT

At the balance sheet date of June 30, 2015, there was long-term debt of \$1,631,207 (See Note 3).

H. INCOME TAXES

The Authority is a political subdivision of Adair County organized under the laws of the State of Oklahoma and is not subject to Federal or State income taxes.

I. BUDGETS

The Adair County Jail Trust is required to legally adopt a formal operating budget as required by State Statute.

J. SALES TAX REVENUE

The Authority's major source of revenue is a sales tax of one-half of one percent (1/2%) upon the gross proceeds or gross receipts derived from all sales or services in the County of Adair, State of Oklahoma, upon which a consumer's sales tax is levied by the State of Oklahoma.

There was an election held during the last fiscal year that gives the Authority another one-half of one percent starting in this fiscal year.

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results differ from those estimates.

NOTE 2: CONTINGENCIES

None.

NOTE 3: NOTE PAYABLE

The note payable as of June 30, 2015, represents a Community Facilities Loan, in the amount of \$2,150,000.00, provided by the Department of Agriculture (Rural Housing Service), to be used for the construction, acquisition, and equipping of criminal justice facilities in Adair County, Oklahoma. The balance at June 30, 2015, is \$1,631,207 with no remaining un-advanced funds. Interest is being charged at 4.50%, payable interest only for the first two years and thereafter monthly installments of \$9,869.00. The note is secured by the 1/2 percent sales tax levied by the State of Oklahoma upon gross proceeds or gross receipts from all sales or services in Adair County.

Schedule of Maturity for the next five years and in five year increments after that are as follows:

	Principal	Interest
Current Portion	\$ 45,731	\$ 72,697
2017	48,032	70,396
2018	50,238	68,190
2019	52,546	65,882
2020	54,786	63,642
2021-2025	314,879	277,261
2026-2030	394,197	197,943
2031-2035	493,498	98,642
2036-2040	177,300	6,645
Total	<u>\$ 1,631,207</u>	<u>\$ 921,298</u>

At June 30, 2015, the fair value of the note payable approximates the amounts recorded in the financial statements.

NOTE 4: PRIOR PERIOD ADJUSTMENT

It was discovered during the current year that although the monies are received by the county during the next month's business, they are not deposited into the Jail Trust bank account until the Treasurer has balanced at the month end. Due to this fact there is a two month time lapse which resulted in an understatement of income on the prior year audit.

NOTE 5: PROPERTY AND EQUIPMENT

Property, plant and equipment are stated at their historical cost. The following table shows any additions or deletions to fixed assets over the current year:

	Balance at June 30, 2014	Additions	Deletions	Balance at June 30, 2015
Land	\$ 70,975	-	-	\$ 70,975
Buildings	2,928,694	-	-	2,928,694
Furniture, Fixtures and Equipment	140,879	-	-	140,879
Accumulated Depreciation	(956,858)	(73,217)	-	(1,030,075)
Net Property and Equipment	<u>\$ 2,183,690</u>	<u>(73,217)</u>	<u>-</u>	<u>\$ 2,110,473</u>

NOTE 6: SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date of the Auditor's report.

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
Adair County Jail Trust Authority
Stilwell, Oklahoma

I 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 governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Adair County Jail Trust Authority, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Adair County Jail Trust Authority's basic financial statements and have issued our report thereon dated November 09, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, I considered the Adair County Jail Trust 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 the Adair County Jail Trust Authority's internal control. Accordingly, I do not express an opinion on the effectiveness of the Adair County Jail Trust 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 my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. I did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that I consider to be significant deficiencies. (2015-1)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Adair County Jail Trust Authority's financial statements are free from material misstatement, I 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, I do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items.

Adair County Jail Trust Authority's Response to Findings

Adair County Jail Trust Authority's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Adair County Jail Trust Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I 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.

A handwritten signature in black ink, appearing to read 'Michael Green', is positioned above the printed name.

Michael Green, CPA

November 09, 2016

ADAIR COUNTY JAIL TRUST AUTHORITY
SCHEDULE OF FINDINGS AND RESPONSES

Finding 2015-1 Noncompliance with Purchasing Procedures

Objective: To determine if proper procedures are being followed in the purchasing process

Conclusion: With respect to the items tested, the procedures that are in place to ensure that all purchases follow the prescribed purchasing process are not being followed in all instances.

Condition: Upon inquiry, observation, review of documentation, and test work, the following was noted:

- Proper procedure was not followed on some of the purchases and purchase orders. Some purchase orders had no approval signatures by the County Commissioners, some had no official County Clerk seal, and some had no approval by the encumbrance clerk.
- Of the invoices tested, one invoice was dated before the purchase order, which indicates that the item may have been purchased prior to approval.

Cause of Condition: Policies and procedures are not being followed to ensure that approvals are being correctly made on all purchase orders. Also, procedures aren't being followed to ensure that purchases are approved before being made.

Effect of Condition: These conditions could result in unapproved purchases.

Recommendation: I recommend that proper procedure be followed during the purchasing process.

Management Response:

Management will strive to follow proper procedure on all purchases in the future.

Criteria: Accountability and following proper procedures are goals of managements in the purchasing process. To ensure this process, the procedures set forth should be followed.