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ADAIR COUNTY JAIL TRUST AUTHORITY

FINANCIAL STATEMENTS AND AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2011

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**ADAIR COUNTY JAIL TRUST AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

This discussion and analysis of the Adair County Jail Trust Authority's (ACJTA) financial statements provides an overview of the ACJTA's financial activities for the year ended June 30, 2011. Management has prepared the financial statements and related footnote disclosures along with this discussion analysis.

Financial Highlights

- The ACJTA's financial position remained stable during the fiscal period ending June 30, 2011. Net Assets decreased \$158,742 and the total Net Assets remains over \$1,500,000. This decrease is the results of a loss on the Statement of Revenue, Expense and Changes in Net Assets for the year due largely to the Jail Operating Contract.
- The ACJTA's total liabilities decreased \$36,806. The Current Liabilities decreased \$91, which is a decrease in Accrued Interest Payable. Long term Liabilities decreased \$36,715, consisting of regular monthly Loan payments on the USDA loan.

Using this Annual Report

The ACJTA's Annual Report consist of; the Auditors report; this Management Discussion and Analysis; Balance Sheet, Statement of Revenues, Expenses and Changes in Net Assets; Statement of Cash Flows; and Footnotes. This Annual Report provides information about the activities of the ACJTA.

The Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets

These two financial statements, Balance Sheet and Statement of Revenues, Expenses and Changes in Net Assets are designed to report information about the ACJTA's resources and financial activities in such a way to answer the question, "Is the ACJTA better or worse off financially as a results of the year's activity." These statements are prepared using the Accrual Basis of accounting.

These two financial statements report the ACJTA's net assets and changes there on. You can think of Net Assets as the difference between total assets and total liabilities. Net Assets are one way to measure the financial health of the ACJTA. Over long periods of time increases or decreases in the ACJTA's Net Assets is an indicator of financial health improving or deteriorating.

**ADAIR COUNTY JAIL TRUST AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

The Statement of Cash Flows

The third statement is the Statement of Cash Flows. This statement reports the elements of Cash; cash receipts, cash payments and net changes in cash resulting from operations, investing and financing activities. This statement provides answers to such questions as : "Where did cash come from?" What was cash used for?" and "What was the change in cash balance during the reporting period?".

The ACJTA's Net Assets

The ACJTA's Net Assets are the difference between total assets and total liabilities reported on the Balance Sheet (see page 4). The ACJTA's Net Assets decreased \$158,742 for the period being discussed.

The primary components of the change in Net Assets are:

From the Statement of Revenues, Expenses and Changes in Net Assets:

- Decrease in Interest Income \$1,809 for the period, -46.2%.
- Decrease in Jail Operating Expense - \$11,847 for the period, -2.9%
- Increase in Sales Tax Revenues - \$29,023 for the period, +6.6%

From the Balance Sheet:

- Total Assets decreased \$195,548
- Total Liabilities decreased \$36,805

Non-operating Revenues and Expenses

Non-operating revenues consist of investment income, interest income.

The ACJTA's Cash Flows

The ACJTA's liquidity decreased \$116,674. This was a net decrease in cash and receivables of \$116,765, netted with a decrease in accounts payable and accrued expense of \$91.

**ADAIR COUNTY JAIL TRUST AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

Capital Assets and Debt Administration

The Jail Operating Contract has been in effect for approximately seven and one-half years. Amendments to this contract are in effect, relating to the number of non Adair County prisoners and payments to the operator of the jail system. The board voted December 14, 2010 to increase the funding for Jail Operations by \$2,152.33 as a one time increase in connection with a Department of Labor audit. The board voted February 23, 2011 to supplement the jail Operating Budget \$120,000 for this fiscal year. On May 10, 2011 the board approved the next years funding of Jail Operations in the amount \$276,000.

Contacting the ACJTA's Financial Management

This financial report is designed to provide our creditors, taxpayers, suppliers and the general public with an overview of the Adair County Jail Trust Authority's accountability for the funds we receive. If you have questions about this report or need additional financial information, contact, Adair County Jail Trust Authority, 600 Paul Mead Drive, Stilwell, Oklahoma 74960.

MICHAEL W. GREEN

Certified Public Accountant

827 West Locust Street
STILWELL, OK. 74960
(918) 696-6298

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Adair County Jail Trust Authority
Stilwell, Oklahoma

I have audited the accompanying basic financial statements of the Adair County Jail Trust Authority as of and for the year ended June 30, 2011, as listed in the Table of Contents. These basic financial statements are the responsibility of the Adair County Jail Trust Authority's management. My responsibility is to express an opinion on these basic financial statements based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion the basic 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, 2011, and the results of its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on page 1 through 3, is not a required part of the basic financial statements, but is supplementary information required by the *Governmental Accounting Standards Board*. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was performed for the purpose of forming an opinion on the basic financial statements of the Adair County Jail Trust Authority, taken as a whole. The accompanying schedule is presented for purposes of additional analysis and is not a required part of the

basic financial statements of the Adair County Jail Trust Authority. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, I have also issued my report dated October 25, 2011, on my consideration of the Adair County Jail Trust Authority's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of my audit.

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

Michael Green, CPA
October 25, 2011

ADAIR COUNTY JAIL TRUST AUTHORITY
BALANCE SHEET
JUNE 30 2011

<u>ASSETS</u>	
CURRENT ASSETS	
Cash	\$ 175,721
Investments	294,520
Prepaid Expense	276,000
Receivables	46,133
Total Current Assets	792,374
RESTRICTED ASSETS	
Restricted Cash	118,443
PROPERTY AND EQUIPMENT	
Land	70,975
Buildings	2,928,694
Furniture, Fixtures, and Equipment	140,879
Total Fixed Assets	3,140,548
Less Accumulated Depreciation	(733,591)
Net Property and Equipment	2,406,957
Total Assets	\$ 3,317,774
<u>LIABILITIES & NET ASSETS</u>	
CURRENT LIABILITIES	
Interest Payable	\$ 4,428
Current Portion of Long Term Debt	38,389
Total Current Liabilities	42,817
LONG TERM LIABILITIES	
Note Payable - Rural Development	1,757,717
NET ASSETS	
Restricted Net Assets	118,443
Unrestricted Net Assets	1,398,797
Total Net Assets	1,517,240
Total Liabilities and Net Assets	\$ 3,317,774

The accompanying report and notes are an integral part of these statements.

ADAIR COUNTY JAIL TRUST AUTHORITY
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDING JUNE 30, 2011

REVENUE	
Sales Tax	\$ 466,031
Total Revenue	<u>466,031</u>
 OPERATING EXPENSES	
Personal Services	45,735
Bank Service Charges	108
Jail Operating Contract	398,152
Repairs	10,226
Professional Fees	1,748
Depreciation	78,784
Interest Expense	81,622
Insurance	10,507
Total Operating Expenses	<u>626,882</u>
Operating Income	<u>(160,851)</u>
 NON-OPERATING REVENUE (EXPENSE)	
Interest Income	2,107
Total Non-Operating Income	<u>2,107</u>
Net Assets - Beginning of Year	1,675,984
Excess of Revenues Over Expenses	<u>(158,744)</u>
Net Assets - End of Year	<u>\$ 1,517,240</u>

The accompanying report and notes are an integral part of these statements.

ADAIR COUNTY JAIL TRUST AUTHORITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDING JUNE 30, 2011

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash Received from Sales Tax	\$ 456,442
Cash Paid for Jail Operations and Employee	(466,566)
Interest Received	2,107
Interest Expense	<u>(81,622)</u>
	<u>(89,639)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Capital Expenditures	<u>-</u>
Net Cash used in Investing Activities	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Payments of Notes Payable	<u>(36,715)</u>
Net Cash Provided in Operating Activities	<u>(36,715)</u>
Net Increase in Cash and Cash Equivalents	(126,354)
Cash and Cash Equivalents at Beginning of Year	<u>715,038</u>
Cash and Cash Equivalents at End of Year	<u>\$ 588,684</u>
Reconciliation of Operating Income to Net Cash	
Provided by Operating Income	
Net Income	\$ (158,744)
Adjustments to Reconcile Operating Income to Net Cash	
Depreciation	78,784
Increase in Receivables	(9,589)
Decrease in Accounts Payable	(90)
Net Cash Provided by Operating Activities	<u>\$ (89,639)</u>

The accompanying report and notes are an integral part of these statements.

ADAIR COUNTY JAIL TRUST AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2011

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

Supplies purchased are consumed in operations and expensed as incurred.

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					
Investments	\$588,684	\$ 0.00	\$ 0.00	\$588,684	\$588,684

G. LONG TERM DEBT

At the balance sheet date of June 30, 2011, there was long-term debt of \$1,796,106 (See Note 7).

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.

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: ACCRUED COMPENSATED ABSENCES

The annual leave policy of the Adair County Jail Trust Authority requires that all annual leave be used by the end of each calendar year. At the balance sheet date of June 30, 2011, the liability was not reflected in the financial statements and the estimate made of the liability is not material to the overall financial statement presentation.

NOTE 3: RETIREMENT PLAN -POST EMPLOYMENT BENEFITS

Although the Adair County Jail Trust is a separate legal entity, its employees participate in the Oklahoma Public Employee Retirement System through its Beneficiary (Adair County). Employee and employer contributions are administered by Oklahoma Public Employee Retirement System board of trustees who act as a fiduciary for investing the funds and governing the administration of the plan.

The compensation for employees covered by the plan for the year ended June 30, 2011, was \$33,360.00. Total contributions made during the year were \$5,671.20, which represents \$4,670.40, 14% employer and \$1,000.80, 3% employee, paid by the Authority.

The pension benefit obligation is a standardized disclosure measure of the present value of pension benefits. This pension valuation method reflects the present value of estimated pension benefits that will be paid in future years as a result of employee services performed to date and is adjusted for the effect of projected salary increases. There are no actuarial valuations performed on individual members. The unfunded pension benefit obligation of the System, as determined as part of the latest actuarial valuation dated June 30, 2010, is as follows:

Net Assets Available for Benefits, at Cost Total	\$6,208,245,334
Pension Benefit Obligation Unfunded pension	<u>9,291,457,837</u>
Benefit Obligation	\$3,083,212,503

NOTE 4: PERSONAL SERVICE

Due to the nature of the accounting records, wages, payroll taxes, and employee benefits have been disclosed in the financial statements as personnel services.

NOTE 5: WORKERS' COMPENSATION

Although the Adair County Jail Trust is a separate legal entity, its employees are covered under the Adair County Workman's Compensation Policy. The County makes payments on behalf of the Jail Trust for which no reimbursement is made. The amount of the payments is estimated to be immaterial to the overall presentation of the financial statements and therefore has not been recorded in the financial statements.

NOTE 6: CONTINGENCIES

None.

NOTE 7: NOTE PAYABLE

The note payable as of June 30, 2011, 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, 2011, is \$1,796,106 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.

Maturities of the note in each of the next five years are as follows:

2012	38,389
2013	40,152
2014	41,997
2015	43,926
2016	45,944

At June 30, 2011, the fair value of the note payable approximates the amounts recorded in the financial statements.

NOTE 8: CONCENTRATION OF RISK

The Adair County Sheriff's office operates primarily from a revenue stream and support from an operating contract with the State of Oklahoma and is supplemented by the Adair County Jail Trust. During the June 30, 2009 year the operating contract between the Adair County Sheriff's office and the State of Oklahoma was not renewed. Currently negotiations are in progress to form a new operating contract. The Jail Trust has increased its funding to the Sheriff's office for jail operations, and possibly could see more increases.

MICHAEL W. GREEN

Certified Public Accountant

827 West Locust Street
STILWELL, OK. 74960
(918) 696-6298

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF COMBINED
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT
AUDITING STANDARDS*

Board of Trustees
Adair County Jail Trust Authority
Stilwell, Oklahoma

I have audited the basic financial statements of Adair County Jail Trust Authority, as of and for the year ended June 30, 2011, and have issued my report thereon dated October 25, 2011. I conducted my 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.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered Adair County Jail Trust Authority's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing my opinion on the financial statements and not to provide opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted the following matter involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

Organizational Structure

The size of the Organization's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. This situation dictates that the Board remains involved in the financial affairs of the organization to provide oversight and independent review functions.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Adiar County Jail Trust Authority's financial statements are free of 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Trustees, management, and all applicable federal and state agencies, and is not intended to be and should not be used by anyone other than these specified parties.



Michael Green, CPA
October 25, 2011