

ADAIR COUNTY
JAIL TRUST AUTHORITY

FINANCIAL STATEMENTS
AND AUDIT REPORT

FOR THE YEAR ENDED JUNE 30, 2014 and 2013

TABLE OF CONTENTS

Management's Discussion and Analysis	1
Independent Auditor's Report	3
Balance Sheet	5
Statement of Revenues, Expenses, and Changes in Net Assets	6
Statement of Cash Flows	7
Notes to Financial Statements	8
Report on Internal Control Over Financial Reporting and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	12
Schedule of Findings and Recommendations	14

MANAGEMENT'S DISCUSSION AND ANALYSIS

Adair County Jail Trust Authority

Our discussion and analysis of the Adair County Jail Trust Authority's financial performance provides an overview of the Authority's financial activities for the fiscal years ended June 30, 2013, and June 30, 2014. Please read it in conjunction with the accountant's compilation letter and the Authority's financial statements. The accompanying table provides a year to year summary of financial results, while this discussion primarily focuses on the two years as a whole.

FINANCIAL HIGHLIGHTS

The Authority's net assets decreased by \$505,959 mostly due to the satisfaction of large prepaid expenses recorded in previous years, but also due to the continuing large debt service of the Authority.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets, the Statement of Revenues, Expenses, and Changes in Net Assets, and the Statement of Cash Flows provide information about the activities of the Authority as a whole and present a longer-term view of the Authority's finances.

Reporting the Authority as a Whole

One of the most important questions asked about the Authority's finances is, "Is the Authority as a whole better off or worse off as a result of the year's activities?" The financial statements referred to above report information about the Authority as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These statements report the Authority's net assets and changes in them. You can think of the Authority's net assets—the difference between assets and liabilities—as one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Authority's customer base, rates charged for services, and the condition of the Authority's fixed assets, to assess the overall health of the Authority.

The Authority is considered by be a proprietary (enterprise) funds, using generally the same accounting methods that privately held businesses use.

ECONOMIC FACTORS

The Authority has struggled to maintain cash flow in view of its large debt service. In April voters in the County approved an additional sales tax account to begin July 1, 2014, and management believes these additional revenues will make the Authority more viable.

**Adair County Jail Trust Authority
Management Discussion and Analysis
The Authority as a Whole for the Years Ended
June 30, 2013, and 2014**

	June 30, 2014	June 30, 2013	Change
Total assets	2,497,120	2,716,224	(219,104)
Capital assets	2,183,690	2,257,178	(73,487)
Other assets	313,430	459,046	(145,617)
Total liabilities	48,142	92,353	(44,211)
Current liabilities	48,142	92,353	(44,211)
Long-term Liabilities	1,631,840	1,675,752	(43,912)
Total Net Assets	817,138	948,119	(130,981)
Invested in Capital Assets, net of related debt	503,855	535,295	(31,440)
Restricted	118,463	118,463	
Unrestricted	194,820	294,361	(99,541)
	Year Ended	Year Ended	
	June 30, 2014	June 30, 2013	
Sales tax	443,690	442,371	1,319
Expenses	498,868	739,818	(240,950)
Income from operations	(55,178)	(297,447)	242,269
Non-operating Revenue (Expenses)	(75,803)	(77,531)	1,727
Change in net assets	(130,981)	(374,978)	243,997
Ending Net Assets	817,138	948,119	(130,981)

MICHAEL W. GREEN

Certified Public Accountant

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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, 2014 and 2013, and the related statements of revenue, expenses, and changes in net assets, and cash flows for the years 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, 2014 and 2013, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the financial statements. Such 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 operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued my report dated November 18, 2015, 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 18, 2015

ADAIR COUNTY JAIL TRUST AUTHORITY
BALANCE SHEET
JUNE 30 2013 and 2014

<u>ASSETS</u>		2014	2013
CURRENT ASSETS			
Cash		\$ 155,891	\$ 304,843
Receivables		39,076	35,740
Total Current Assets		<u>194,967</u>	<u>340,583</u>
RESTRICTED ASSETS			
Restricted Cash		118,463	118,463
PROPERTY AND EQUIPMENT			
Land		70,975	70,975
Buildings		2,928,694	2,928,694
Furniture, Fixtures, and Equipment		140,879	140,879
Total Fixed Assets		<u>3,140,548</u>	<u>3,140,548</u>
Less Accumulated Depreciation		<u>(956,858)</u>	<u>(883,370)</u>
Net Property and Equipment		<u>2,183,690</u>	<u>2,257,178</u>
Total Assets		<u>\$ 2,497,120</u>	<u>\$ 2,716,224</u>
<u>LIABILITIES & NET ASSETS</u>			
CURRENT LIABILITIES			
Accounts Payable		\$ 147	\$ 46,222
Interest Payable		4,082	4,234
Current Portion of Long Term Debt		43,913	41,897
Total Current Liabilities		<u>48,142</u>	<u>92,353</u>
LONG TERM LIABILITIES			
Note Payable - Rural Development		1,631,840	1,675,752
NET ASSETS			
Restricted Net Assets		118,463	118,463
Unrestricted Net Assets		194,820	294,361
Invested in Capital Assets, Net of Related Debt		503,855	535,295
Total Net Assets		<u>817,138</u>	<u>948,119</u>
Total Liabilities and Net Assets		<u>\$ 2,497,120</u>	<u>\$ 2,716,224</u>

ADAIR COUNTY JAIL TRUST AUTHORITY
STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDING JUNE 30, 2013 and 2014

	2014	2013
REVENUE		
Sales Tax	\$ 443,690	\$ 442,371
Total Revenue	443,690	442,371
OPERATING EXPENSES		
Personal Services	-	22,496
Election Expense	4,616	-
Jail Operating Contract	392,569	631,047
Repairs	14,642	-
Professional Fees	4,113	2,476
Depreciation	73,487	74,627
Insurance	9,172	9,172
Supplies	269	-
Total Operating Expenses	498,868	739,818
Operating Income	(55,178)	(297,447)
NON-OPERATING REVENUE (EXPENSE)		
Interest Expense	(76,379)	(78,275)
Interest Income	576	744
Total Non-Operating Income	(75,803)	(77,531)
Net Assets - Beginning of Year	948,119	1,323,097
Excess of Revenues Over Expenses	(130,981)	(374,978)
Net Assets - End of Year	\$ 817,138	\$ 948,119

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, 2013 and 2014

	<u>2014</u>	<u>2013</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Sales Tax	\$ 440,354	\$ 440,999
Cash Paid for Jail Operations and Employee	<u>(471,606)</u>	<u>(343,069)</u>
Net Cash Provided by Operations	<u>(31,252)</u>	<u>97,930</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest Income	576	744
Capital Expenditures	<u>-</u>	<u>-</u>
Net Cash used in Investing Activities	<u>576</u>	<u>744</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Interest Expense	(76,379)	(78,275)
Payments of Notes Payable	<u>(41,897)</u>	<u>(40,054)</u>
Net Cash Provided in Operating Activities	<u>(118,276)</u>	<u>(118,329)</u>
Net Increase in Cash and Cash Equivalents	(148,952)	(19,655)
Cash and Cash Equivalents at Beginning of Year	<u>423,306</u>	<u>442,961</u>
Cash and Cash Equivalents at End of Year	<u>\$ 274,354</u>	<u>\$ 423,306</u>
Reconciliation of Operating Income to Net Cash		
Provided by Operating Income		
Net Income	\$ (55,178)	\$ (297,447)
Adjustments to Reconcile Operating Income to Net Cash		
Depreciation	73,487	74,627
(Increase) Decrease in Receivables	(3,336)	274,628
(Decrease) Increase in Accounts Payable	<u>(46,225)</u>	<u>46,122</u>
Net Cash Provided by Operating Activities	<u>\$ (31,252)</u>	<u>\$ 97,930</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, 2013 AND 2014

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, 2013 and 2014 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. The following is a schedule of the deposits and their respective categories at June 30, 2013 and 2014 respectively.

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	503,354	-0-	\$423,306	\$423,306

	<u>Category</u>			Bank	Carrying
	(A)	(B)	(C)	Balance	Amount
Cash	250,000	503,354	-0-	\$274,354	\$274,354

G. LONG TERM DEBT

At the balance sheet date of June 30, 2013 and 2014 there was long-term debt of \$ 1,717,649 and \$1,675,753 respectively. (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.

There was an election held during the 2014 year that gives the Authority another one-half of one percent starting in the next 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: 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, 2013 and 2014, 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, 2013, was \$22,516.00.

There were no employees of the Adair County Jail Trust during the year ended June 30, 2014.

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, 2012, is as follows:

Net Assets Available for Benefits, at Cost Total	\$6,821,303,541
Pension Benefit Obligation Unfunded pension	<u>8,334,637,900</u>
Benefit Obligation	\$1,513,334,359

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 personal 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 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. 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:

	Principal	Interest
Current Portion	43,913	74,515
2016	45,731	72,697
2017	48,032	70,396
2018	50,238	68,190
2019	52,546	63,642
Thereafter	1,435,293	460,336
Total	<u>1,675,753</u>	<u>809,776</u>

NOTE 8: SUBSEQUENT EVENTS

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

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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*

Board of Trustees
Adair County Jail Trust Authority
Stilwell, Oklahoma

I have audited the balance sheet of the Adair County Jail Trust Authority as of June 30, 2014 and 2013, and the related statements of revenue, expenses and changes in net assets, and cash flows for the years then ended, and have issued my report thereon dated November 18, 2015. I conducted the audit in accordance with 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 of the financial statements, I considered Adair County Jail Trust Authority's (the Authority) internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, I do not express an opinion on the effectiveness of the Organization's internal control.

My consideration of internal control was for the limited purpose described in the first paragraph 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. However, as described in the accompanying schedule of findings and responses I identified certain deficiencies in internal control that I consider to be material weaknesses and significant deficiencies.

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. I consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. (Items 1 – 4).

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.

Compliance and Other Matters


As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* and is disclosed in item 4 in the accompanying schedule of findings and recommendations.

Adair County Jail Trust Authority's Response to Findings

The Authority's response to the findings identified in my audit is described in the accompanying schedule of findings and responses. The 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 my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization'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 organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


Michael Green, CPA
November 18, 2015

ADAIR COUNTY JAIL TRUST AUTHORITY
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
JUNE 30, 2014 AND 2013

1. At the beginning of the engagement, although there were journals of expenditures and receipts, there was not an actual set of accounting records or financial statements. The financials were subsequently produced in a manner that we could audit.

Recommendation: We recommend that an accountant be retained to keep the posting and the financial statements up to date. We have observed that this recommendation has already been implemented.

2. There were no bank reconciliations being done on a regular basis. These were done by Kris Kirk, CPA, after the fact.

Recommendation: We recommend that monthly bank reconciliations be completed. We have observed that this recommendation has already been implemented.

3. The balances on the Authority's books and the county appropriations ledger do not appear to match. It appears that the county appropriations ledger is overstated. This was discussed with the Adair County Clerk, who after reviewing the information agreed with the finding.

Recommendation: We recommend that the ledger be reconciled monthly.

4. The audit is not being done on a timely basis. This is both an internal control problem and a compliance issue.

Recommendation: We recommend that the audit be done in a timely manner each year and also that it be done on an annual basis as is required per your loan requirements with USDA.