

POTTAWATOMIE COUNTY
PUBLIC SAFETY CENTER TRUST

(A Component Unit of Pottawatomie County, OK)
Financial Statements
For the Year Ended June 30, 2016

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**Pottawatomie County Public Safety Center Trust
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

The following discussion and analysis of the financial performance of Pottawatomie County Public Safety Center Trust (the Authority) provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2016. Please read it in conjunction with the Authority's financial statements, which begin on page 8.

Financial Highlights

- ❖ During the year ended June 30, 2016 the Authority's net position decreased to \$7,364,934 from \$7,950,626 in 2015. This decrease is primarily due to an increase in personnel expense.
- ❖ Change in net position decreased from a loss of \$435,522 in 2015 to a loss of \$585,692 in 2016. This decrease was due primarily to an increase in personnel costs.

Overview of the Financial Statements

The report on audit of financial statements is presented in two sections: financial, and supplementary. The Authority has elected to present the financial statements in accordance with the business-type activities format, as designated by the Authority's primary government, Pottawatomie County. Accordingly, the financial section of this report includes Management's Discussion and Analysis (as required supplementary information); the Statement of Net position; the Statement of Revenues, Expenses, and Changes in Net position; the Statement of Cash Flows; and explanatory Notes to the Financial Statements, as required by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis—for State and Local Governments*.

The Basic Financial Statements

One of the most important questions asked about the Authority is whether it is better off or worse off as a result of the year's financial activities. The Statement of Net position and the Statement of Revenues, Expenses, and Changes in Net position report information about the Authority as a whole and about its activities in a way that answers this question. These statements include *all* assets and *all* liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. The accrual basis of accounting reports the current year's revenues and expenses regardless of when cash is actually received or disbursed.

**Pottawatomie County Public Safety Center Trust
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report the Authority's net position and changes to them. You can think of the Authority's net position—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 position are one indicator of whether its financial health is improving or deteriorating. You will also need to consider non-financial factors, however, such as changes in requirements of the programs funded by the Authority, in addition to the condition of its physical facilities, to fully assess the overall health of the Authority.

Financial Analysis of the Authority as a Whole

The Authority's net position decreased from a year ago. The following amounts are from the statement of net position, page 8, which is presented on an accrual basis of accounting whereby assets are capitalized and depreciated.

Pottawatomie County Public Safety Center Trust			
Net Position			
<u>June 30, 2016 and 2015</u>			
	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Increase (Decrease)</u>
Current Assets	\$ 2,280,201	\$ 2,836,667	\$ (556,466)
Noncurrent assets	<u>5,447,900</u>	<u>5,657,230</u>	<u>(209,330)</u>
Total assets	<u>7,728,101</u>	<u>8,493,897</u>	<u>(765,796)</u>
Deferred outflows of resources	181,368	148,991	32,377
Current liabilities	\$ 252,682	\$ 247,927	\$ 4,755
Noncurrent liabilities	<u>176,991</u>	<u>95,085</u>	<u>81,906</u>
Total liabilities	<u>429,673</u>	<u>343,012</u>	<u>86,661</u>
Deferred inflows of resources	114,862	349,250	(234,388)
Net Position:			
Investment in capital assets	\$ 5,447,900	\$ 5,657,230	\$ (209,330)
Restricted net position	22,581	17,294	5,287
Unrestricted net position	<u>1,894,453</u>	<u>2,276,102</u>	<u>(381,649)</u>
Total net position	<u>\$ 7,364,934</u>	<u>\$ 7,950,626</u>	<u>\$ (585,692)</u>

Net Position decreased by \$ 585,692 from a year ago.

**Pottawatomie County Public Safety Center Trust
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

The Authority's net revenues decreased \$150,170 from a year ago. The following amounts are from the Statement of Revenue, Expenses, and Changes in Net Position from page 9.

**Pottawatomie County Public Safety Center Trust
Operating Results
Year Ended June 30, 2016 and 2015**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Increase (Decrease)</u>
Operating revenues	\$ 3,127,206	\$ 2,749,284	\$ 377,922
Operating expenses	<u>3,712,898</u>	<u>3,184,806</u>	<u>528,092</u>
Operating income (loss)	<u>(585,692)</u>	<u>(435,522)</u>	<u>(150,170)</u>
Change in net position	<u>(585,692)</u>	<u>(435,522)</u>	<u>(150,170)</u>
Net position, beginning	7,950,626	8,386,148	(435,522)
Net position, ending	<u>\$ 7,364,934</u>	<u>\$ 7,950,626</u>	<u>\$ (585,692)</u>

The Authority's net position decreased \$ 585,692 from a year ago. The following amounts were taken from the Statement of Net Position on page 8.

**Pottawatomie County Public Safety Center Trust
Analysis of Net Position
Year Ended June 30, 2016 and 2015**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Increase (Decrease)</u>
Net position:			
Investment in capital assets	\$ 5,447,900	\$ 5,567,230	\$ (209,330)
Restricted	22,581	17,294	5,287
Unrestricted	<u>1,894,453</u>	<u>2,276,102</u>	<u>(381,649)</u>
Total net position	<u>\$ 7,364,934</u>	<u>\$ 7,950,626</u>	<u>\$ (585,692)</u>

**Pottawatomie County Public Safety Center Trust
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

The Authority's overall cash and cash equivalents decreased by \$ 576,901 from a year ago. The following amounts are from the Statement of Cash Flows on page 10.

**Pottawatomie County Public Safety Center Trust
Cash Flows
Year Ended June 30, 2016 and 2015**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Increase (Decrease)</u>
Cash provided (used) by:			
Operating activities	\$ (544,339)	\$ (282,455)	\$ (261,884)
Capital and related financing activities	(32,562)	(144,896)	112,334
Investing activities	<u>0</u>	<u>0</u>	<u>0</u>
Net increase (decrease) in cash and cash equivalents	(576,901)	(427,351)	(149,550)
Cash and cash equivalents, beginning	<u>2,487,362</u>	<u>2,914,713</u>	<u>(427,351)</u>
Cash and cash equivalents, ending	<u>\$ 1,910,461</u>	<u>\$ 2,487,362</u>	<u>\$ (576,901)</u>

**Capital Assets and Debt Administration
Capital Assets**

At June 30, 2016, the Authority's investment in capital assets decreased by \$ 209,330 from a year ago. Capital assets are building and improvements, equipment, vehicles and software. The net decrease is principally due to depreciation expense. (See Note 3 page 16.)

**Pottawatomie County Public Safety Center Trust
Capital Assets, Net
Year Ended June 30, 2016 and 2015**

	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>Increase (Decrease)</u>
Capital assets:	\$ 8,320,525	\$ 8,287,964	\$ 32,561
Less: accumulated depreciation	<u>2,872,625</u>	<u>2,630,734</u>	<u>241,891</u>
Capital assets, net	<u>\$ 5,447,900</u>	<u>\$ 5,657,230</u>	<u>\$ (209,330)</u>

**Pottawatomie County Public Safety Center Trust
Management's Discussion and Analysis
For the Year Ended June 30, 2016**

Economic Factors and Authority's Future

During the fiscal year of July 1, 2014 through June 30, 2015 the Oklahoma Department of Corrections (DOC) made a significant change in the housing of DOC inmates in County facilities. The DOC policy change resulted in a major decrease in the number of DOC inmates held in the Pottawatomie County Public Safety Center Trust (PCPSCT) facility. The DOC had reopened several closed facilities to house their inmates and virtually overnight moved inmates held in County facilities into these reopened facilities and severely limited the number of DOC inmates held at the PCPSCT facility. This resulted in a decrease of DOC income to PCPSCT from \$745,146 during fiscal year 2013-2014 to \$229,905 during fiscal year 2014-2015. This decrease of \$515,241 in annual DOC income resulted in the facility's inability to operate at a profitable level and PCPSCT has operated with significant losses for the past two years.

The PCPSCT Board of Directors met with the County Commissioners as soon as the new DOC policy was implemented and alerted the Commissioners that the loss in DOC income coupled with the loss of additional County funding would result in the PCPSCT facility operating with significant losses in the foreseeable future. PCPSCT had received \$228,375 of additional County funding during fiscal year 2013-2014 but has received no additional funding during fiscal years 2014-2015 or 2015-2016. The County Commissioners were notified that this loss of annual income averaging a total of \$750,000 could not be sustained long term based on the amount of the PCPSCT's monetary reserves.

At June 30, 2016 the PCPSCT's reserve accounts totaled \$1,467,242. The average monthly loss sustained during that fiscal year was \$69,429. Based on this continued average loss PCPSCT will encounter going concern issues during fiscal year 2017-2018. The County Commissioners receive monthly financial statements and the PCPSCT board of directors continues to update the County Commissioners as often as possible.

Contacting the Authority's Management

This financial report is designed to provide our citizens and taxpayers with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have questions about this report, or need additional financial information contact Pottawatomie County Public Safety Center Trust, 14209 Highway 177, Shawnee, Oklahoma 74804.

ROBERT D. TURNER C.P.A.

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Independent Auditor's Report

Board of Trustees
Pottawatomie County Public Safety Center Trust
Shawnee, Oklahoma

I have audited the accompanying statement of Net Position of the Pottawatomie County Public Safety Center Trust, a component unit of Pottawatomie County, Oklahoma, as of June 30, 2016 and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended and the related notes to the financial statements, comprising the basic financial statements of Pottawatomie County Public Safety Center Trust.

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 and 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 financial statements are free of 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 Pottawatomie County Public Safety Center Trust, as of June 30, 2016, and the changes in its operations and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis information on pages 1 through 5, the Schedule of Trust's Proportionate Share of Net Pension Liability Oklahoma Public Employee Retirement Plan (page 27), and the Schedule of the Trust's Contributions Oklahoma Public Employee Retirement Plan (page 28) be presented to supplement the basic 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 management's discussion and analysis, the Schedule of Trust's Proportionate Share of Net Pension Liability Oklahoma Public Employee Retirement Plan and the Schedule of the Trust's Contributions Oklahoma Public Employee Retirement Plan 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 December 12, 2016, on my consideration of the Authority's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, 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 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 the Authority's internal control over financial reporting and compliance.

Robert D. Turner

Robert D. Turner, CPA
Lawton, Oklahoma
December 12, 2016

Pottawatomie County Public Safety Center Trust

**Statement of Net Position
June 30, 2016**

ASSETS

Current Assets:

Cash, Operating	\$ 380,008
Cash, Payroll	40,929
Cash, Inmate	14,692
Cash, Bail Bonds	7,591
Cash, Sales Tax	69,225
Cash, Reserve	292,376
Cash, Emergency Fund	<u>1,105,640</u>
Total Cash	1,910,461

Sales Tax Receivable	253,075
Accounts Receivable	<u>116,665</u>
Total Current Assets	2,280,201

Non Current Assets:

Capital Assets (net of accumulated depreciation)	<u>5,447,900</u>
Total Noncurrent Assets	<u>5,447,900</u>
TOTAL ASSETS	<u>\$ 7,728,101</u>

DEFERRED OUTFLOW OF RESOURCES:

Deferred Amounts Related to Pensions	\$ 181,368
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LIABILITIES AND NET POSITION

Current Liabilities:

Accounts Payable	100,554
Bail Bonds	7,889
Payable to Inmates	14,692
Accrued Payroll Payable	71,130
Accrued Absences Payable	49,545
Accrued Payables	<u>8,872</u>
Total Current Liabilities	<u>252,682</u>

Noncurrent Liabilities:

Net Pension Liability	<u>176,991</u>
Total Noncurrent Liabilities	<u>176,991</u>

Total Liabilities	429,673
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DEFERRED INFLOWS OF RESOURCES:

Deferred Amounts Related to Pensions	114,862
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NET POSITION

Investment in Capital Assets	5,447,900
Restricted Net Position (Note 5)	22,581
Unrestricted Net Position	<u>1,894,453</u>

TOTAL NET POSITION	<u>\$ 7,364,934</u>
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The notes to the financial statements are an integral part of this statement.

Pottawatomie County Public Safety Center Trust
Statement of Revenues, Expenses and Changes in Net Position
For the Year Ended June 30, 2016

Operating Revenues:

Sales Tax (20%)	\$ 1,562,736
Incarceration Fees	1,344,827
Other Income	219,643
Total Operating Revenues	<u>3,127,206</u>

Operating Expenditures:

Salaries	1,768,354
Payroll Taxes	146,389
Health Insurance	163,918
Workmen's Comp. Insurance	101,022
Total Personnel	<u>2,179,683</u>

Other Expenses:

Depreciation	241,892
Insurance	120,219
Professional Fees	36,650
Telephone and Video	29,871
Vehicle	11,674
Supplies, Cleaning	12,460
Supplies, Inmate	39,429
Supplies, Office	15,268
Supplies, Maintenance	22,574
Supplies, Other	10,222
Supplies, Operational	20,745
Supplies Uniforms	2,616
Meals	417,272
Medical	319,728
Professional Dues and Member Fees	13,003
Repairs and Maintenance	35,734
Other Operating	10,165
Utilities	173,693
Total Other Expenditures	<u>1,533,215</u>
Total Operating Expenditures	<u>3,712,898</u>

Operating Income (585,692)

Change in Net Position

Beginning Net Position	<u>7,950,626</u>
Ending Net Position	<u>\$ 7,364,934</u>

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

Pottawatomie County Public Safety Center Trust
Statement of Cash Flows
For the Year Ended June 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:

Receipts Sales Tax(20%)	\$ 1,556,765
Receipts from Incarceration Fees	1,330,364
Payments to Employees	(2,358,909)
Payments to Suppliers	(1,297,488)
Other Receipts	<u>224,929</u>
Net Cash Provided (Used) Operating Activities	<u>(544,339)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Purchase of Assets	<u>(32,562)</u>
Net Cash Provided by (Used) Capital and Related Financing Activities	<u>(32,562)</u>

Net Increase (Decrease) in Cash	(576,901)
Cash Balance - Beginning of the Year	<u>2,487,362</u>
Cash Balance - End of the Year	<u>1,910,461</u>

Reconciliation of Operating Income (Loss) to Net Cash Provided(Used) Operating Activities:

Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:

Operating Income(Loss)	(585,692)
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Adjustment to Reconcile Operating Income to Net Cash Provided by Operating Activities:

Depreciation	241,892
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Change in Assets and Liabilities:

Accounts Receivable	(14,463)
Sales Tax Receivable	(5,971)
Accounts Payable	(6,165)
Accrued Payroll Payable	6,447
Accrued Absences Payable	(815)
Bail Bonds Payable	2,982
Net Pension Liability	(184,859)
Inmate Trust Fund Payable	<u>2,305</u>
Net Cash Provided(Used) by Operating Activities	<u>\$ (544,339)</u>

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

Pottawatomie County Public Safety Center Trust
Notes to Financial Statements
June 30, 2016

1. Reporting Entity and Nature of Operations

The Pottawatomie County Public Safety Center Trust (the Trust) a component unit of Pottawatomie County) was created February 4, 2002 under the provisions of Title 60 of Oklahoma Statutes. One of the purposes of the Trust was to construct and operate a county adult detention center in the county of Pottawatomie, Oklahoma. These financial statements of the Trust are required to be presented in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for the establishing governmental accounting and financial reporting principles. The more significant accounting policies and practices are described below.

In evaluating how to define the entity for financial statement purposes, management evaluated the Trust on a number of criteria. The basic, but not only, criterion is the Trust's financial accountability to the primary government (Pottawatomie County). Financial accountability is measured through the degree to which the primary government can appoint a voting majority of the governing body, impose its will, ascertain a potential financial benefit, or face a potential financial burden with regard to the potential component unit.

Based on the above criterion, it was determined that the Trust is a component unit of the County. The accompanying financial statements include only the operations of the Trust, and not those of Pottawatomie County.

2. Summary of accounting policies

This report is prepared in conformity with GAAP and the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. GASB Statement No. 34 establishes standards for external financial reporting for all state and local governmental entities which include a Statement of Net Position, a Statement of Revenues, Expenses, and Changes in Net Position, and a Statement of Cash Flows.

Basis of Accounting - The financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the accounting period in which the liability is incurred.

Operating revenues for the Trust result from providing adult detention services in connection with its principal ongoing operations. Operating expenses include personnel cost, facility cost, supplies, general administrative, and depreciation on capital assets. Revenues and expenses not meeting those definitions are reported as nonoperating revenues and expenses.

Pottawatomie County Public Safety Center Trust
Notes to Financial Statements
June 30, 2016

Government-wide Financial Statements - The adopted GASB Statements require that the overall financial condition of the Authority be displayed in three entity-wide financial statements. These are the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. These include all financial activity of the Authority.

The financial statements are presented using the “business-type activities” approach. Business-type activities are those that provide specific, divisible services to residents or businesses and are funded primarily by user charges.

GASB Statement No. 34 requires that the Statement of Net Position classify net position into three components: investment in capital assets, restricted, and unrestricted. These classifications are defined as follows.

Investment in Capital Assets - This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of debt attributable to the unspent proceeds are not included in the calculation of net investment in capital assets. Rather, that portion of the debt is included in the net position component as the unspent proceeds.

Restricted Net Position - This component of net position consists of constraints placed on net position use through external restrictions imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provision or enabling legislation.

Unrestricted Net Position - This component of net position consists of the net position that does not meet the definition of “restricted” or “net investment in capital assets.”

Deferred Outflows of Resources - In addition to assets, the statements of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

Deferred Inflows of Resources - In addition to liabilities, the statements of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that

Pottawatomie County Public Safety Center Trust
Notes to Financial Statements
June 30, 2016

applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

Long Lived Assets - Management reviews the recoverability of its long-lived assets in accordance with the provisions of GASB 42, *Accounting and Financial Reporting for Impairment of Capital Assets and Insurance Recoveries*. GASB 42 requires recognition of impairment of long-lived assets in the event the assets service utility has declined significantly and unexpectedly. Accordingly, management evaluates assets' recoverability annually or when an event occurs that may impair recoverability of the asset.

Recent Accounting Pronouncements

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application* (GASB 72). GASB 72 addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB 72 provides guidance for determining a fair value measurement for financial reporting purposes. GASB 72 also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of GASB 72 will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. GASB 72 also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. The Authority adopted GASB 72 on July 1, 2015. The adoption had no significant impact on the Authority's financial statement.

In June 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* (GASB 73). GASB 73 amendments include restricting additional disclosures related to 10-year schedules required by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68), to be limited to factors over which the plan or government has influence, such as a change in investment policies. Amendments also address payables to a plan that are not separately financed specific liabilities, and the timing of employer recognition of revenue for the support of nonemployer contributing entities. The Authority adopted this statement on July 1, 2015. The adoption had no significant impact on the Authority's financial statements.

In June 2015, GASB issued Statement No 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (GASB 76). GASB 76 identifies accounting sources used to prepare state and local government financial statements in conformity with GAAP, and established a GAAP hierarchy of these resources. This Statement improves financial reporting by raising the category of GAAP Implementation Guides in the

Pottawatomie County Public Safety Center Trust
Notes to Financial Statements
June 30, 2016

Recent Accounting Pronouncements, continued

GAAP hierarchy, by emphasizing the importance of analogies to authoritative literature when an accounting event is not specified in authoritative GAAP, and by requiring the consideration of consistency with GASB Concept Statements when evaluating accounting treatments in non-authoritative GAAP. The Authority adopted this statement on July 1, 2015. The adoption had no significant impact on the Authority's financial statements.

In March 2016, GASB issued Statement No. 82, *Pension Issues* (GASB 82). GASB 82 addresses issues that arose for pension plans and participating employers when implementing GASB 67 and GASB 68. Under GASB 82, "covered payroll" will be the metric used to prepare ratios and other measures in schedules included in required supplementary information. This change replaces "covered-employee payroll," the presentation required by GASB 67 and GASB 68, since this particular data element presented operational challenges to pension plans. GASB 82, also now clarifies that a deviation, as defined by the Actuarial Standards Board, when selecting the assumptions used to determine total pension and liability related measures, is not considered to be in conformity with GASB 67 and GASB 68. And lastly, in certain circumstances, employers may make a portion or the entire employee required contributions to a pension plan on behalf of the employee. For purposes of GASB 68, including determining an employer's proportion, those amounts should also be considered employee contributions. The Authority adopted this statement July 1, 2015. The adoption had no significant impact on the Authority's financial statements.

Fair Value of Financial Instruments

The District's financial instruments include cash and cash equivalents and certificates of deposit. The District's estimate of the fair value of all financial instruments does not differ materially from the aggregate carrying value of its financial instruments recorded in the accompanying statement of net position. The carrying amount of these financial instruments approximates fair value because of the short maturity of these instruments.

Use of Estimates - Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets, liabilities and net position, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Cash and Cash Equivalents - The Authority considers cash on hand, demand deposits, interest bearing accounts, and investments with a maturity of 90 days or less to be cash and cash equivalents except for cash and investments restricted for the bond program.

Pottawatomie County Public Safety Center Trust
Notes to Financial Statements
June 30, 2016

Accounts Receivable - The Authority bills different agencies for providing jail facilities to inmates of these agencies. The Authority has not established an allowance for doubtful accounts because uncollectible accounts are insignificant.

Capital Assets - Capital assets are stated at cost, net of accumulated depreciation. Acquisitions of property and equipment with a useful life of more than one year are recorded as additions to capital assets. Depreciation of property and equipment has been calculated on the estimated useful lives using the straight-line method as follows:

<u>Type of Asset</u>	<u>Years</u>
Buildings and improvements	40
Vehicle	5
Equipment	5-10
Software	5

Statement of Cash Flows - In accordance with GAAP the accompanying financial statements include a Statement of Cash Flows which is presented using the direct method.

Income Tax Status - The Authority qualifies as an organization exempt from income taxes. As a government instrumentality, no provision has been made for federal or state income taxes.

Budget - Title 60 requires public trusts to have budgets. This budget requirement does not set legal appropriations therefore; a budget to actual statement is not required.

Pensions - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, Oklahoma Public Employees Retirement Plan (the "Plan") and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Pottawatomie County Public Safety Center Trust
Notes to Financial Statements
June 30, 2016

3. Capital Asset

CAPITAL ASSET SCHEDULE
JUNE 30, 2016

	Beginning Balance <u>June 30, 2015</u>	<u>Increase</u>	<u>Decrease</u>	Ending Balance <u>June 30, 2016</u>
Assets Being Depreciated:				
Buildings and improvements	\$ 7,658,593	\$		\$ 7,658,593
Vehicles	131,554			131,554
Equipment	426,213	32,562		458,775
Software	<u>71,604</u>			<u>71,604</u>
Total Assets Being Depreciated	<u>8,287,964</u>	<u>32,562</u>		<u>8,320,526</u>
 Less Accumulated Depreciation:				
Buildings and improvements	2,122,232	190,787		2,313,019
Vehicles	128,055	2,800		130,855
Equipment	342,007	36,245		378,252
Software	<u>38,440</u>	<u>12,060</u>		<u>50,500</u>
Total Accumulated Depreciation	<u>2,630,734</u>	<u>241,892</u>		<u>2,872,626</u>
Net Capital Assets	<u>\$ 5,657,230</u>	<u>(\$ 209,330)</u>	<u>\$</u>	<u>\$ 5,447,900</u>

4. Deposits and Deposit Risk

The Pottawatomie County Public Safety Center Trust is governed by the deposit and investment limitations of state law. The Authority held the following deposits at June 30, 2016 of \$ 2,497,580.

Custodial Credit Risk - Deposits in financial institutions, reported as components of cash and cash equivalents at June 30, 2016 were fully insured by depository insurance or secured with collateral held by the Authority's agent in its name.

Investment Interest Rate Risk - The Authority has no normal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Pottawatomie County Public Safety Center Trust
Notes to Financial Statements
June 30, 2016

Investment Credit Risk - The Authority has no investment policy that limits its investment choices other than the limitation of state law as follows:

a. Direct obligations of the U. S. Government, its agencies and instrumentalities to which the full faith and credit of the U. S. Government is pledged, or obligations to the payment of which the full faith and credit of the State is pledged.

b. Certificates of deposit or savings accounts that are either insured or secured with acceptable collateral with financial institutions, and fully insured certificates of deposit or savings accounts in out-of-state financial institutions.

Concentration of Investment Credit Risk - The Authority places no limit on the amount it may invest in any one issuer.

5. Restricted Net Position

Inmate Moneys - The Authority maintains a trust account for each inmate. Deposits to these accounts include funds the inmate had with him/her when arrested or deposits made by families and friends of the inmate. These funds are funds owed to the inmates. Net Position has been restricted for the amount owed to the inmates on June 30, 2016. This amount was \$ 14,692.

Bail Bond - These funds are received for inmates to post bond. The funds are restricted to this use and are not funds available to the Authority. This amount was \$ 7,889.

The total restricted net position at June 30, 2016 is \$ 22,581 as follows:

Cash, owed to inmate	\$ 14,692
Cash, bail bond	<u>7,889</u>
Total Net Position Restricted	<u>\$ 22,581</u>

Pottawatomie County Public Safety Center Trust
Notes to Financial Statements
June 30, 2016

6. Ground Lease

Annually the Authority executes an option to renew the ground lease with the County.

Under the terms of this lease the Authority is responsible for all insurance coverage, maintenance and repairs.

The land remains the property of Pottawatomie County. Upon the expiration or termination of the lease agreement the land and all improvements revert to Pottawatomie County.

7. Risk Management

As described in note 5, the lease agreement requires certain insurance coverage be provided by the Authority. This coverage includes fire and extended coverage on Building; comprehensive general public liability and property damage and workmen's compensation. Property & Liability Protection Plan – The Authority is a member of the Association of County Commissioners of Oklahoma Self-Insurance Group (AACO-SIG). The lines of coverage and limits of liability afforded by ACCO-SIG are subject to a \$ 25,000 deductible and are as follows:

Property- Per Schedule on file with the ACCO-SIG.

Blanket Bond Coverage - \$ 100,000 each and every loss.

Casualty –

Comprehensive, General Liability - \$25/\$125/\$1,000,000 per Occurrence

Personal Liability - \$25/125/1,000,000 per Occurrence

Law Enforcement, Liability - \$2,000,000 per Occurrence

Employment Practices Liability - \$2,000,000 per Occurrence

Employee Benefits Liability - \$25/\$125/\$1,000,000 per Occurrence

Automobile Liability - \$25/\$125/\$1,000,000 per Occurrence

Criminal defense reimbursement - \$20,000.00 per Claim, with a \$100,000.00 Annual Aggregate per plan period. (subject to a \$2,500.00 maintenance deductible)

Sexual misconduct legal expenses - \$175,000.00 per claim with a \$350,000 Annual Reimbursement Aggregate per Plan Period.

Medical Payment for Volunteers - \$20,000.00 per Claim (subject to a \$2,500.00 maintenance deductible).

Cyber liability coverage - \$1,000,000.00 per Claim with a \$1,000,000.00 Annual Aggregate (Retroactive Date 7-1-14)

Public Officials Wrongful Acts - \$2,000,000 per Occurrence.

Pottawatomie County Public Safety Center Trust
Notes to Financial Statements
June 30, 2016

Workmen's Compensation- Workers compensation is covered through participation in ACCO-SIG workers compensation program. Risk of loss retained is limited to the excess of insurance liability coverage limits set by ACCO-SIG.

8. Employee Retirement System

Plan description - The Trust as the employer, participates in Oklahoma Public Employees Retirement Plan—a cost-sharing multiple-employer defined benefit pension plan administered by the Oklahoma Public Employees Retirement System (OPERS). Title 74 of the Oklahoma State Statutes grants the authority to establish and amend the benefit terms to the OPERS. OPERS issues a publicly available financial report that can be obtained at www.opers.ok.gov

Benefits provided - OPERS provides retirement, disability, and death benefits to members of the plan. Members qualify for full retirement benefits at their specified normal retirement age or, for any person who became a member prior to July 1, 1992, when the sum of the member's age and years of credited service equals or exceeds 80 (Rule of 80), and for any person who became a member after June 30, 1992, when the member's age and years of credited service equals or exceeds 90 (Rule of 90).

Normal retirement date is further qualified to require that all members employed on or after January 1, 1983 must have six or more years of full-time equivalent employment with a participating employer before being eligible to receive benefits. Credited service is the sum of participating and prior service. Prior service includes nonparticipating service before January 1, 1975, or the entry date of the employer and active wartime military service.

A member with a minimum of ten years of participating service may elect early retirement with reduced benefits beginning at age 55 if the participant became a member prior to November 1, 2011, or age 60 if the participant became a member on or after November 1, 2011.

Benefits are calculated for each member category as follows:

Employees

Benefits are determined at 2% of the average annual salary received during the highest thirty-six months of the last ten years of participating service, but not to exceed the applicable annual salary cap, multiplied by the number of years of credited service. Members who join OPERS on or after July 1, 2013, will have their salary averaged over the highest 60 months of the last ten years. Normal retirement age under the Plan is 62 or Rule of 80/90 if the participant became a member prior to November 1, 2011, or age 65 or Rule of 90 if the participant became a member on or after November 1, 2011.

Pottawatomie County Public Safety Center Trust
Notes to Financial Statements
June 30, 2016

Members who elect to pay the additional contribution rate, which became available in January 2004, will receive benefits using a 2.5% computation factor for each full year the additional contributions are made.

In 2004, legislation was enacted to provide an increased benefit to retiring members who were not yet eligible for Medicare. The Medicare Gap benefit option became available to members under age 65 who retired on or after May 1, 2006. Members may elect to receive a temporary increased benefit to cover the cost of health insurance premiums until the member is eligible to receive Medicare. After the member becomes eligible for Medicare, the retirement benefit will be permanently reduced by an actuarially determined amount. The option is irrevocable, must be chosen prior to retirement, and is structured to have a neutral actuarial cost to the Plan.

Members become eligible to vest fully upon termination of employment after attaining eight years of credited service, or the members' contributions may be withdrawn upon termination of employment.

Benefits are determined at (a) 2.5% of the final average compensation up to the applicable annual salary cap multiplied by the number of years of service as a hazardous duty member not to exceed 20 years and (b) 2.0% of the final average compensation multiplied by the number of years of service in excess of 20 years and any other years of service creditable. Normal retirement age under the Plan is 62 or at completion of 20 years of creditable service as a hazardous duty member or Rule of 80/90 if participant became a member prior to November 1, 2011, or age 65 or at completion of 20 years of creditable service as a hazardous duty member or Rule of 90 if participant became a member on or after November 1, 2011.

Disability retirement benefits are available for members having eight years of credited service whose disability status has been certified as being within one year of the last day on the job by the Social Security Administration. Disability retirement benefits are determined in the same manner as retirement benefits, but payable immediately without an actuarial reduction.

Upon the death of an active member, the accumulated contributions of the member are paid to the member's named beneficiary (ies) in a single lump sum payment. If a retired member elected a joint annuitant survivor option or an active member was eligible to retire with either reduced or unreduced benefits or eligible to vest the retirement benefit at the time of death, benefits can be paid in monthly payments over the life of the spouse if the spouse so elects.

Pottawatomie County Public Safety Center Trust
Notes to Financial Statements
June 30, 2016

Upon the death of a retired member, the Plan will pay a \$5,000 death benefit to the member's beneficiary or estate of the member if there is no living beneficiary. The death benefit will be paid in addition to any excess employee contributions or survivor benefits due to the beneficiary.

Contributions - The contribution rates for each member category of the Plan are established by the Oklahoma Legislature after recommendation by the Board based on an actuarial calculation, which is performed to determine the adequacy of such contribution rates. Employees are required to contribute 3.5% percent of their annual pay. Participating entities are required to contribute 16.5% of the employees' annual pay. Contributions to the pension plan from the Trust were \$178,601.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the Trust reported a liability of \$176,991 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2015. The Trust's proportion of the net pension liability was based on the Trust's contributions received by the pension plan relative to the total contributions received by pension plan for all participating employers as of June 30, 2015. Based upon this information, the Trust's proportion was .0491 percent.

For the year ended June 30, 2016, the Trust recognized a negative pension expense of \$6,258 due to the amortization of deferred outflows or resources and deferred inflows of resources. At June 30, 2016, the Trust reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes of assumptions	\$ 2,753	\$ -
Net difference between projected and actual earnings on pension plan investments		99,963
Changes in proportion and differences between Trust contributions and proportionate share of contributions	-	14,899
Trust contributions during the measurement date	14	
Trust contributions subsequent to the measurement date	178,601	-
Total	\$ 181,368	\$ 114,862

Pottawatomie County Public Safety Center Trust
Notes to Financial Statements
June 30, 2016

\$178,601 reported as deferred outflows of resources related to pensions resulting from Trust contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2017	\$	(59,327)
2018		(49,387)
2019		(39,910)
2020		36,529
Total	\$	<u>(112,095)</u>

Actuarial Assumptions - The total pension liability as of June 30, 2015, was determined based on an actuarial valuation prepared as of July 1, 2015, using the following actuarial assumptions:

- Investment return – 7.5% compounded annually net of investment expense and including inflation
- Salary increases – 4.5% to 8.4% per year including inflation
- Mortality rates – Active participants and nondisabled pensioners – RP-2000 Mortality Table projected to 2010 by Scale AA (disabled pensioners set forward 15 years)
- No annual post-retirement benefit increases
- Assumed inflation rate – 3.0%
- Payroll growth – 4.0% per year
- Actuarial cost method – Entry age
- Select period for the termination of employment assumptions – 10 years

The actuarial assumptions used in the July 1, 2015, valuation are based on the results of the most recent actuarial experience study, which cover the three-year period ending June 30, 2013. The experience study report is dated May 9, 2014.

The long-term expected rate of return on pension plan investments was determined using a log-normal distribution analysis in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Pottawatomie County Public Safety Center Trust
Notes to Financial Statements
June 30, 2016

The Target asset allocation and best estimates of geometric real rates of return for each major asset class as of June 30, 2015, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
U.S. Large Cap Equity	38.0%	5.3%
U.S. Small Cap Equity	6.0%	5.6%
U.S. Fixed Income	25.0%	0.7%
International Stock	18.0%	5.6%
Emerging Market Stock	6.0%	6.4%
TIPS	3.5%	0.7%
Rate Anticipation	3.5%	1.5%
Total	100.0%	

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and the employers will be made at the current contribution rate as set out in state statute. Based on those assumptions, the pension plan's fiduciary net position was projected through 2114 to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determined does not use a municipal bond rate.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate-The following presents the net pension liability of the employers calculated using the discount rate of 7.5%, as well as what the Plan's net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

	1% Decrease (-6.5%)	Current Discount Rate (7.5%)	1% Increase (-8.5%)
Employers' net pension liability	\$ 659,515	\$ 176,991	\$ (233,230)

Pension plan fiduciary net position - Detailed information about the pension plan's fiduciary net position is available in the separately issued financial report of the OPERS; which can be located at www.opers.ok.gov.

Pottawatomie County Public Safety Center Trust
Notes to Financial Statements
June 30, 2015

9. Subsequent Events

Management has evaluated subsequent events through December 12, 2016 which is the date the financial statements were available to be issued.

ROBERT D. TURNER C.P.A.

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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
Pottawatomie County Public Safety Center Trust
Lawton, 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 Pottawatomie County Public Safety Center Trust, and as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Pottawatomie County Public Safety Center Trust's basic financial statements, and have issued my report thereon date December 12, 2016.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered Pottawatomie County Public Safety Center Trust's 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 Pottawatomie County Public Safety Center Trust's internal control. Accordingly, I do not express an opinion on the effectiveness of Pottawatomie County Public Safety Center Trust'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.

My 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. Given these limitations, during my audit I did not identify any deficiencies in internal control that I 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 Pottawatomie County Public Safety Center Trust'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 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*.

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 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.

Robert D. Turner

Robert D. Turner, CPA
December 12, 2016

Pottawatomie County Public Safety Center Trust

**Schedule of the Trust's Proportionate Share of the Net Pension Liability
Oklahoma Public Employees Retirement Plan
Last 10 Fiscal Years***

	<u>2015</u>	<u>2016</u>
Trust's Proportion of the Net Pension Liability	0.0518%	0.4921%
Trust's Proportionate of the Net Pension Liability	\$ 95,085	\$ 176,991
Trust Covered-Employee Payroll	\$ 964,173	\$ 957,000
Trust's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	10.00%	18.00%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	97.90%	96.00%

*The amounts present for each fiscal year were determined as of June 30.

Notes to Schedule:

Only the current year and prior year are presented because 10 year data is not yet available.

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

Pottawatomie County Public Safety Center Trust

**Schedule of the Trust's Contributions
Oklahoma Public Employees Retirement Plan
Last 10 Fiscal Years***

	<u>2015</u>	<u>2016</u>
Contractually Required Contribution	\$ 143,550	\$ 178,601
Contributions in Relation to the Contractually Required Contribution	<u>143,550</u>	<u>178,601</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>
Trust Covered-Employee Payroll	\$ 957,000	\$ 1,190,673
Contribution as a Percentage of Coverd-Employee Payroll	15.00%	15.00%

Notes to Schedule:

Only the current year and prior year are presented because 10 year data is not yet available.