

**KAY COUNTY, OKLAHOMA  
FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT  
FOR THE YEAR ENDED JUNE 30, 2001**

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STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

CLIFTON H. SCOTT  
STATE AUDITOR AND INSPECTOR

2300 N. LINCOLN BLVD.  
100 STATE CAPITOL  
OKLAHOMA CITY, OK 73105-4896  
405/521-3495

November 14, 2002

TO THE OFFICERS OF  
KAY COUNTY, OKLAHOMA

Transmitted herewith is the audit of Kay County, Oklahoma, for the fiscal year ended June 30, 2001. A report of this type is critical in nature; however, we do not intend to imply that our audit failed to disclose commendable features in the present accounting and operating procedures of the County.

We wish to take this opportunity to express our appreciation for the assistance and cooperation extended to our office during the course of our audit.

The Office of the State Auditor and Inspector is committed to serve the public interest by providing independent oversight and to issue reports that serve as a management tool to the state to ensure a government which is accountable to the people of the State of Oklahoma.

Sincerely,

A handwritten signature in cursive script, appearing to read "Clifton H. Scott".

CLIFTON H. SCOTT  
State Auditor and Inspector

**KAY COUNTY, OKLAHOMA  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2001**

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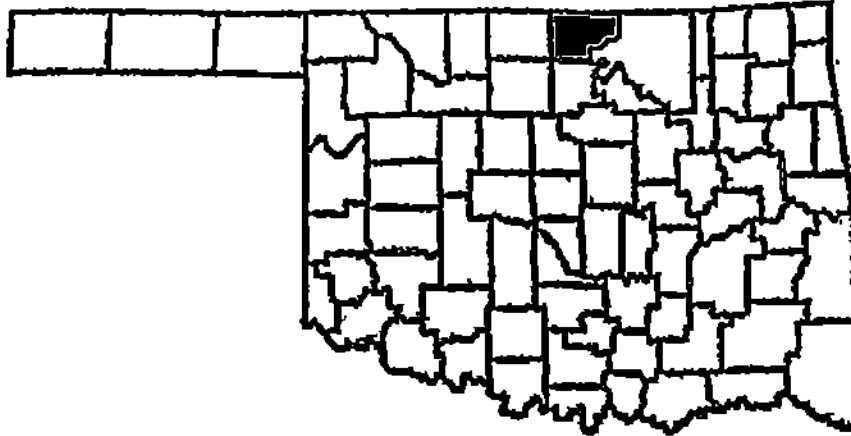
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REPORT TO THE CITIZENS  
OF  
KAY COUNTY, OKLAHOMA

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Kay County was designated as County "K", its name means simply that. The economy of the County is based on petroleum wealth as well as productive agricultural land. Kay County was once home to territorial Governor William M. Jenkins and infamous outlaw Belle Starr.

County Seat – Newkirk

Area – 919 Square Miles

County Population – 46,448  
(1999 est.)

Farms – 929

Land in Farms – 469,493 Acres

Source: Oklahoma Almanac 2001 - 2002

**COUNTY ELECTED OFFICIALS  
AND RESPONSIBILITIES**

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**BOARD OF COUNTY COMMISSIONERS**

**DISTRICT 1**  
Dee Schieber  
(R) Ponca City

**DISTRICT 2**  
Wayne Leven  
(D) Newkirk

**DISTRICT 3**  
Rex Purdy  
(R) Tonkawa

The Board of County Commissioners is the chief administrative body for the county. County Commissioners are also responsible for maintaining and constructing the county roads and bridges.

The Commissioners must act as a Board when entering into contracts or other agreements affecting the county's welfare. Thus, actions taken by the Board are voted on and approved by a majority of the Commissioners. The Board of County Commissioners' business meetings are open to the public.

As the county's chief administrative body, the three County Commissioners must make major financial decisions and transactions. The Board has the official duty to ensure the fiscal responsibility of the other county officers who handle county funds. The review and approval procedures empowered to the Board of County Commissioners are a means to provide the public with a fiscally efficient system of county government.

See independent auditor's report.

**COUNTY ELECTED OFFICIALS  
AND RESPONSIBILITIES**

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**COUNTY SHERIFF**  
Craig Countryman  
(R) Ponca City

The County Sheriff is responsible for preserving the peace and protecting life and property within the county's jurisdiction. As the county's chief law enforcement officer, the Sheriff has the power and authority to suppress all unlawful disturbances, to apprehend and secure persons charged with felony or breach of peace, and to operate the county jail.

The County Sheriff has the responsibility of serving warrants and processing papers ordered by the District Court.

**COUNTY TREASURER**  
Pat Schieber  
(R) Newkirk

All revenues received by county government from ad valorem taxes and other sources are deposited with the County Treasurer. The County Treasurer collects ad valorem taxes for the county and its political subdivisions. The County Treasurer is authorized to issue delinquent personal property tax warrants and to impose tax liens on real property for delinquent taxes.

To account for county revenues and expenditures, the County Treasurer is required to maintain an accurate record of all the monies received and disbursed. The State Auditor and Inspector's Office prescribes all the forms used by the County Treasurer, and at least twice a year inspects the County Treasurer's accounts.

See independent auditor's report.

**COUNTY ELECTED OFFICIALS  
AND RESPONSIBILITIES**

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**COURT CLERK**  
Glenda Emerson  
(R) Blackwell

The Court Clerk has the primary responsibility to record, file, and maintain as permanent records the proceedings of the District Court.

Court proceedings are recorded in the appropriate journal or record docket. All the court proceedings are public information except those related to juvenile, guardianship, adoption, and mental health cases.

The Court Clerk issues marriage licenses, passports, notary certificates, beer and pool hall licenses, and private process server licenses.

Monies from the court fund are identified for distribution by the Court Clerk to the appropriate units of county and state government. Court Clerks use forms and follow procedures prescribed by the Court Administrator's Office, the Oklahoma Supreme Court, and the State Auditor and Inspector.

**DISTRICT ATTORNEY**  
Mark L. Gibson  
(R) Perry

As the chief attorney for county government, the District Attorney acts as the legal advisor to the county officers on matters related to their duties. The District Attorney represents the county in civil litigation. County officials may call upon the District Attorney to clarify a law or request an official interpretation from the Attorney General.

See independent auditor's report.

**COUNTY ELECTED OFFICIALS  
AND RESPONSIBILITIES**

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**COUNTY ASSESSOR**  
Tresa Engle  
(D) Newkirk

The County Assessor has the responsibility to appraise and assess the real and personal property within the County for the purpose of ad valorem taxation. Also, the County Assessor is required to compute the ad valorem taxes due on all taxable property. The County Assessor appraises all the taxable real and personal property according to its fair cash value for which the property is actually being used as of January 1 of the taxable year at the percentages provided for in Article 10, § 8 of the Oklahoma Constitution.

The County Assessor is required to build and maintain permanent records of the taxable real property and tax exempt real property within the county. Information entered on each record includes the property's legal description, owner's name and address, and the homestead exemption status of the owner.

**COUNTY CLERK**  
Pam Goodno  
(D) Blackwell

The County Clerk serves as the register of deeds and custodian of records for the county. The County Clerk also serves as the secretary to several boards, including the Board of County Commissioners, the County Excise Board, the County Board of Equalization, and the Board of Tax Roll Corrections.

The County Clerk reviews all the claims for payment of goods and services purchased or contracted by the county, and prepares the proper warrants for payment of those goods and services and the county payroll. The County Clerk, or his or her designated deputy, serves as the purchasing agent for the county. This system is a means to ensure the public that tax dollars are being spent appropriately.

Various records within the different county offices are classified as "open records." As such, they can be reviewed and mechanically copied by the public.

See independent auditor's report.



**COUNTY ELECTED OFFICIALS  
AND RESPONSIBILITIES**

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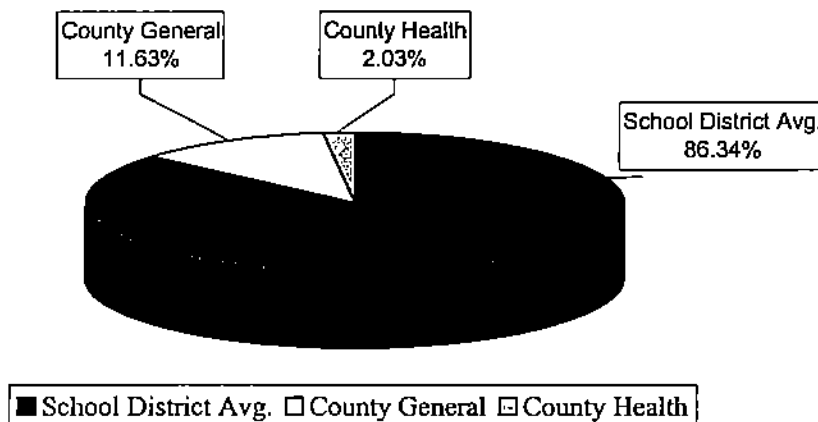
**ELECTION BOARD SECRETARY**  
Carol Stafford  
(D) Blackwell

The Election Board Secretary is appointed by the State Election Board and is the chief administrative officer of the County Election Board. The County Election Board has direct responsibility for all the ballots used in all elections within the county. The Board also conducts all elections held within the county.

To finance the operating expenses of the County Election Board, the County Excise Board must appropriate sufficient funds annually. State and counties split the election costs, but counties must pay for any county elections not held concurrently with state elections.

**KAY COUNTY, OKLAHOMA  
AD VALOREM TAX DISTRIBUTION  
SHARE OF THE AVERAGE MILLAGE**

Property taxes are calculated by applying a millage rate to the assessed valuation of property. Millage rates are established by the Oklahoma Constitution. One mill equals one-thousandth of a dollar. For example, if the assessed value of a property is \$1,000.00 and the millage rate is \$1.00, then the tax on that property is \$1.00. This chart shows the different entities of the County and their share of the various millages as authorized by the Constitution.



County-Wide Millages		School District Millages						
			Gen.	Bldg.	Skg.	Vo-tech	Common	Total
Co. General	10.25	18A Braman-City	36.04	5.15	9.29	15.23	4.10	69.81
Co. Health	1.79	18B Braman-Rural	36.04	5.15	9.29	15.23	4.10	69.81
		27A Peckham-City	35.95	5.14	18.22	15.23	4.10	78.64
		27B Peckham-Rural	35.95	5.14	18.22	15.23	4.10	78.64
		29A Newkirk-City	36.36	5.19	19.50	15.23	4.10	80.38
		29B Newkirk-Rural	36.36	5.19	19.50	15.23	4.10	80.38
		29C Newkirk-City	36.36	5.19	19.50	15.23	4.10	80.38
		45A Blackwell-City	36.10	5.16	26.75	15.23	4.10	87.34
		45B Blackwell-Rural	36.10	5.16	26.75	15.23	4.10	87.34
		50A Kildare-City	36.48	5.21	11.45	15.23	4.10	72.47
		50B Kildare-Rural	36.48	5.21	11.45	15.23	4.10	72.47
		50C Kildare-City	36.48	5.21	11.45	15.23	4.10	72.47
		71A Ponca City-City	35.76	5.11	22.11	15.23	4.10	82.31
		71B Ponca City-Rural	35.76	5.11	22.11	15.23	4.10	82.31
		71C Ponca City-City	35.76	5.11	22.11	15.23	4.10	82.31
		84A Kaw City-City	36.32	5.19	12.40	15.23	4.10	73.24
		84B Kaw City-Rural	36.32	5.19	12.40	15.23	4.10	73.24
		87A Tonkawa-City	36.11	5.16	16.73	15.23	4.10	77.33
		87B Tonkawa-Rural	36.11	5.16	16.73	15.23	4.10	77.33
		87C Tonkawa-City	36.11	5.16	16.73	15.23	4.10	77.33
		I-2 Noble-Joint 4-Mill	35.50	5.07	7.37	15.23	4.10	67.27
		I-4 Noble-Joint 4-Mill	36.22	5.17	5.27	15.23	4.10	65.99
		J11 Osage-Joint 4-Mill	37.67	5.38	9.92	15.23	4.10	72.30
		J95 Grant-Joint 4-Mill	35.67	5.10	5.47	15.23	4.10	65.57

See independent auditor's report



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OKLAHOMA CITY, OK 73105-4896  
405/521-3495

**Independent Auditor's Report**

TO THE OFFICERS OF  
KAY COUNTY, OKLAHOMA

We have audited the accompanying general-purpose financial statements of Kay County, Oklahoma, as of and for the year ended June 30, 2001, as listed in the table of contents. These general-purpose financial statements are the responsibility of Kay County's management. Our responsibility is to express an opinion on these general-purpose financial statements based on our audit. We did not audit the financial statements of the Kay County Home Finance Authority, a component unit of Kay County. Those statements were audited by another auditor whose report has been furnished to us, and our opinion on the general-purpose financial statements, insofar as it relates to the amounts included for the Kay County Home Finance Authority, is based on the report of the other auditor.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.

An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditor provide a reasonable basis for our opinion.

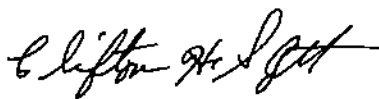
As explained in Note 1 (A), the general-purpose financial statements referred to above do not include the financial statements of the Kay County Public Building Authority, a component unit of Kay County, which should be included in order to conform with accounting principles generally accepted in the United States of America. The effect of this omission on the general-purpose financial statements is not known.

In our opinion, except for the effect on the general-purpose financial statements of the omission described in the preceding paragraph, based on our audit and the report of the other auditor, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of Kay County, Oklahoma, as of June 30, 2001, and the results of its operations and the cash flows of its proprietary fund types for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 22, 2002, on our consideration of Kay County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations. 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 our audit.

Our audit was performed for the purpose of forming an opinion on the general-purpose financial statements of Kay County, Oklahoma, taken as a whole. The information listed in the table of contents under *Introductory Section* has not been audited by us and accordingly, we express no opinion on such data.

Sincerely,



CLIFTON H. SCOTT  
State Auditor and Inspector

January 22, 2002

**General-Purpose Financial Statements**

**KAY COUNTY, OKLAHOMA  
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS  
AND DISCRETELY PRESENTED COMPONENT UNIT  
JUNE 30, 2001**

	Governmental Fund Types			Fiduciary Fund Types		Account Groups		Total (Memorandum Only) Primary Government	Component Unit Kay County Home Finance Authority	Total (Memorandum Only) Reporting Entity
	General	Special Revenue	Debt Service	Capital Projects	Trust and Agency	General Fixed Assets	Long-Term Debt			
Cash and investments	\$ 903,792	\$ 1,210,957	\$ 10	\$ 9,300	\$ 1,592,206	\$	\$	\$ 3,716,265	\$ 4,404	\$ 3,720,669
Government fund investments	34,096	5,954			276,857			316,907	10,223,583	10,223,583
Ad valorem taxes receivable	8,390	37			1,327			9,754	527,077	536,831
Accrued interest receivable	7,081	266,964			34,202			308,247	375,405	308,247
Due from other governments										
Unamortized bond issuance costs										
Land and buildings						678,183		678,183		678,183
Machinery and other operating equipment						5,951,719		5,951,719		5,951,719
Amount to be provided for capitalized lease agreements										
<b>Total assets</b>	<b>\$ 953,359</b>	<b>\$ 1,483,912</b>	<b>\$ 10</b>	<b>\$ 9,300</b>	<b>\$ 1,904,592</b>	<b>\$ 6,629,902</b>	<b>\$ 907,560</b>	<b>\$ 11,888,635</b>	<b>\$ 11,130,469</b>	<b>\$ 23,019,104</b>

**LIABILITIES AND FUND EQUITY**

Warrants payable	\$ 140,451	\$ 236,055	\$	\$	\$	\$	\$ 376,506	\$	\$ 376,506	
Accounts payable	34,817	35,273					70,090		70,090	
Due to other taxing units					410,833		410,833		1,053,877	
Due to others					1,493,759		1,493,759		1,493,759	
Bonds payable										
Capitalized lease obligations payable									8,674,075	
<b>Total liabilities</b>	<b>175,268</b>	<b>271,328</b>	<b>-</b>	<b>-</b>	<b>1,904,592</b>	<b>-</b>	<b>907,560</b>	<b>3,258,748</b>	<b>9,317,119</b>	<b>12,575,867</b>

<b>Fund Equity:</b>										
Investment in general fixed assets										
Retained earnings:										
Unreserved:										
Reserved per bond indenture									409,536	409,536
Reserved for encumbrances									1,403,814	1,403,814
Unreserved:										
Designated for capital projects										
Undesignated										40,316
Total fund equity										9,300
<b>Total liabilities and fund equity</b>	<b>\$ 953,359</b>	<b>\$ 1,483,912</b>	<b>\$ 10</b>	<b>\$ 9,300</b>	<b>\$ 1,904,592</b>	<b>\$ 6,629,902</b>	<b>\$ 907,560</b>	<b>\$ 11,888,635</b>	<b>\$ 11,130,469</b>	<b>\$ 23,019,104</b>

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

**KAY COUNTY, OKLAHOMA**  
**COMBINED STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES – ALL GOVERNMENTAL FUND TYPES**  
**FOR THE YEAR ENDED JUNE 30, 2001**

	Governmental Fund Types				Total (Memorandum Only)
	General	Special Revenue	Debt Service	Capital Projects	
<b>Revenues:</b>					
Ad valorem taxes	\$ 2,325,052	\$ 496,266	\$ 10	\$	\$ 2,821,328
Charges for services	225,193	213,022			438,215
Intergovernmental revenues	384,787	3,114,017			3,498,804
Miscellaneous revenues	292,885	386,201	4	25,458	704,548
Total revenues	<u>3,227,917</u>	<u>4,209,506</u>	<u>14</u>	<u>25,458</u>	<u>7,462,895</u>
<b>Expenditures:</b>					
Current operating:					
General government	2,246,498	88,745			2,335,243
Public safety	745,365	172,054			917,419
Culture and recreation	11,541				11,541
Education	55,478				55,478
Health and welfare	2,144	251,341			253,485
Roads and highways	142,707	3,773,211			3,915,918
Capital outlay				415,766	415,766
Total expenditures	<u>3,203,733</u>	<u>4,285,351</u>	<u>-</u>	<u>415,766</u>	<u>7,904,850</u>
Excess of revenues over (under) expenditures	<u>24,184</u>	<u>(75,845)</u>	<u>14</u>	<u>(390,308)</u>	<u>(441,955)</u>
<b>Other financing sources (uses):</b>					
Operating transfers in	4			23	27
Operating transfers (out)		(4,769)	(27)		(4,796)
Capitalized lease agreements		269,449			269,449
Total other financing sources (uses)	<u>4</u>	<u>264,680</u>	<u>(27)</u>	<u>23</u>	<u>264,680</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>24,188</u>	<u>188,835</u>	<u>(13)</u>	<u>(390,285)</u>	<u>(177,275)</u>
Beginning fund balances	<u>753,903</u>	<u>1,023,749</u>	<u>23</u>	<u>399,585</u>	<u>2,177,260</u>
Ending fund balances	<u>\$ 778,091</u>	<u>\$ 1,212,584</u>	<u>\$ 10</u>	<u>\$ 9,300</u>	<u>\$ 1,999,985</u>

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

**KAY COUNTY, OKLAHOMA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**BUDGET AND ACTUAL – GENERAL AND SPECIAL REVENUE**  
**(COUNTY HEALTH DEPARTMENT ONLY) FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2001**

	General			Special Revenue Funds		
	Budget	Actual	Variance	County Health Department		
	Budget	Actual	Variance	Budget	Actual	Variance
Beginning fund balance, budgetary basis	\$ 624,265	\$ 630,863	\$ 6,598	\$ 78,451	\$ 80,018	\$ 1,567
Revenues:						
Ad valorem taxes	2,125,715	2,310,113	184,398	371,222	403,426	32,204
Charges for services	171,642	225,193	53,551			
Intergovernmental revenues	349,477	384,787	35,310		28,337	28,337
Miscellaneous revenues	230,186	297,975	67,789			
Total revenues, budgetary basis	<u>2,877,020</u>	<u>3,218,068</u>	<u>341,048</u>	<u>371,222</u>	<u>431,763</u>	<u>60,541</u>
Expenditures:						
Current operating:						
General government	2,508,147	2,163,733	344,414			
Public safety	759,463	753,657	5,806			
Culture and recreation	12,000	12,000				
Education	69,720	55,479	14,241			
Health and welfare	5,000	2,144	2,856	449,673	253,570	196,103
Roads and highways	146,955	143,250	3,705			
Total expenditures, budgetary basis	<u>3,501,285</u>	<u>3,130,263</u>	<u>371,022</u>	<u>449,673</u>	<u>253,570</u>	<u>196,103</u>
Excess of revenues and beginning fund balances over (under) expenditures, budgetary basis	<u>-</u>	<u>718,668</u>	<u>718,668</u>	<u>-</u>	<u>258,211</u>	<u>258,211</u>
Other financing sources (uses):						
Operating transfers in		4	4			
Operating transfers (out)						
Total other financing sources (uses)	<u>-</u>	<u>4</u>	<u>4</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>718,672</u>	<u>\$ 718,672</u>	<u>\$ -</u>	<u>258,211</u>	<u>\$ 258,211</u>
Reconciliation to Statement of Revenues, Expenditures, and Changes in Fund Balances						
Add: Ad valorem taxes receivable		34,096			5,954	
Accrued interest		8,390				
Due from other governments		7,081				
Reserved for encumbrances		9,852			3,640	
Ending fund balances		<u>\$ 778,091</u>			<u>\$ 267,805</u>	

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



**KAY COUNTY, OKLAHOMA  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
IN RETAINED EARNINGS – PROPRIETARY FUND TYPE  
FOR THE YEAR ENDED JUNE 30, 2001**

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	<u>Component Unit</u> <u>Kay County Home Finance Authority</u>
Operating revenues:	
Interest on investments	\$ 300,229
Net increase in fair value of investments	<u>924,564</u>
Total operating revenues	<u>1,224,793</u>
Operating expenses:	
Interest on debt	661,324
Legal and professional fees	1,509
Amorization of deferred charges	<u>36,331</u>
Total operating expenses	<u>699,164</u>
Net income (loss) before transfers	<u>525,629</u>
Transfers:	
Interfund transfers - in	578,550
Interfund transfers - out	<u>(578,550)</u>
Total interfund transfers	<u>-</u>
Net income (loss) after transfers	525,629
Retained earnings, beginning of year	1,287,721
Retained earnings, end of year	<u>\$ 1,813,350</u>

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

**KAY COUNTY, OKLAHOMA  
STATEMENT OF CASH FLOWS – PROPRIETARY FUND TYPE  
FOR THE YEAR ENDED JUNE 30, 2001**

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	<u>Component Unit</u> <u>Kay County Home Finance</u> <u>Authority</u>
Cash flows from operating activities:	
Net income (loss)	\$ 525,629
Adjustments to reconcile net income to net cash provided by operating activities:	
Amortization	36,331
Net (increase) decrease in receivables	(83,929)
Net increase (decrease) in payables	82,774
Net cash provided (used) by operating activities	<u>560,805</u>
Cash flows provided (used) by investing activities:	
(Increase) decrease in Investments	<u>(561,244)</u>
Net cash provided (used) by investing activities	<u>(561,244)</u>
Net increase (decrease) in cash and cash equivalents	(439)
Cash and cash equivalents at beginning of year:	<u>4,843</u>
Cash and cash equivalents at end of year:	<u>\$ 4,404</u>

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

**Notes to the Financial Statements**

1. Summary of Significant Accounting Policies

The financial statements of the County are required to be presented in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies and practices are described below.

A. Reporting Entity

Counties were created by the Constitution of Oklahoma. One county officer is appointed; however, most county officers are locally elected by their constituents. All county powers are delegated by the state.

In accordance with Governmental Accounting Standards Board Statement No. 14, "*The Financial Reporting Entity*," the County is required to present the entities, which comprise the primary government and its legally separate component units in the fiscal year 2001 general-purpose financial statements.

Discretely Presented Component Unit

The component unit column in the combined financial statements includes the financial data of the Kay County Home Finance Authority. It is reported in a separate column to distinguish the financial data of the primary government and its discretely presented component unit. The Kay County Home Finance Authority is included in the reporting entity as a component unit because the primary government is financially accountable and is able to impose its will upon the organization.

Complete financial statements of the Kay County Home Finance Authority are available at the Kay County Clerk's office. Those financial statements have been included as a proprietary fund type in the component unit column of the total reporting entity of Kay County.

Component Units Excluded from the Reporting Entity

The financial data of the Kay County Public Building Authority is also required to be reported as a component unit, however, it has not been included because the component unit prepares its financial statements on the cash basis which is an incompatible basis of accounting for inclusion with the financial statements prepared in accordance with accounting principles generally accepted in the United States of America.

The financial data of the Kay County Development Authority is also required to be reported as a component unit. However, it has been inactive since its formation and there is no financial activity.

Summary of Significant Accounting Policies (continued)

B. Fund Accounting

The government uses funds and account groups to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fund is a separate accounting entity with a self-balancing set of accounts. An account group is a financial reporting device designed to provide accountability for certain assets and liabilities that are not recorded in the funds because they do not directly affect net expendable available financial resources.

Funds are classified into three categories: governmental, proprietary, and fiduciary.

Governmental Funds

Governmental funds are used to account for all or most of a government's general activities, including the collection and disbursement of earmarked monies (special revenue funds), the acquisition or construction of general fixed assets (capital projects funds), and the servicing of general long-term debt (debt service funds). The general fund is used to account for all activities of the general government not accounted for in some other fund.

Proprietary Funds

Proprietary funds are used to account for activities similar to those found in the private sector, when 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 government (internal service funds).

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the County has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) except those that conflict with GASB pronouncements.

Fiduciary Funds

Fiduciary funds are used to account for assets held on behalf of outside parties, including other governments, or on behalf of other funds within the government. Agency funds are generally used to account for assets that the government holds on behalf of others as their agent.

Summary of Significant Accounting Policies (continued)

Account Groups

General Fixed Assets Account Group (GFAAG) – Accounting principles generally accepted in the United States of America require that those fixed assets of a government not reported in a proprietary fund or a trust fund be reported in a general fixed assets account group (GFAAG). This account group is not a fund. It does not have a balance sheet as such, nor does it report operations. Instead, the GFAAG serves as a list of the government's fixed assets and is designed to ensure accountability.

General Long-Term Debt Account Group (GLTDAG) - The general long-term debt account group (GLTDAG) is used to account for a government's unmatured long-term indebtedness that has not been identified as a specific fund liability of a proprietary or trust fund. In addition to general obligation debt instruments (e.g., bonds, notes, warrants), the GLTDAG is also used to report revenue bonds that will be repaid from general government resources, special assessment debt when the government is "obligated in some manner," special revenue bonds, and certain liabilities that are normally not expected to be liquidated with expendable available financial resources (e.g., compensated absences, claims and judgments, unfunded pension costs, and capitalized lease-purchase obligations).

C. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus and basis of accounting. All governmental fund types and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these fund types present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary funds, nonexpendable trust funds, and pension trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund-type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The accrual basis of accounting is utilized by proprietary fund types, pension trust funds, and nonexpendable trust funds. Under this method, revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred.

The modified accrual basis of accounting is used by all governmental fund types, expendable trust funds, and agency funds. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be quantified, and "available" means collectible within the

Summary of Significant Accounting Policies (continued)

current period or soon enough thereafter to be used to pay liabilities of the current period. The government considers property taxes as available if collected within 60 days after year-end. Expenditures are recorded when incurred and the related fund liability is expected to be paid from available spendable resources. Principal and interest on general long-term debt are recorded as fund expenditures when paid or when amounts for principal and interest have been accumulated in the debt service fund for payments to be made early in the following year.

Those revenues susceptible to accrual are property taxes, sales tax, interest revenue, and other taxes collected and held by the Oklahoma Tax Commission at year-end on behalf of the government. Charges for services are not susceptible to accrual because generally they are not measurable until received in cash.

D. Budgetary Policies and Procedures

Under current Oklahoma statutes, the general fund and the County Health department fund are required to adopt a formal budget. The budget presented for the general and special revenue (County Health Department only) funds include the originally approved budgeted appropriations for expenditures as adjusted for supplemental appropriations and approved transfers between budget categories. Appropriations for the highway funds and other cash funds are made on a monthly basis, according to the funds then available.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the general and special revenue funds.

Any encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities. At the end of the year, unencumbered appropriations are lapsed.

The Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General and Special Revenue (County Health Department only) Funds present comparisons of the legally adopted budget with actual data. The "actual" data, as presented in the comparison of budget and actual, will differ from the data as presented in the Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - All Governmental Fund Types because of adopting certain aspects of the modified accrual basis of accounting and the adjusting of encumbrances to their related budget year.

E. Cash and Investments

The County pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Investments are carried at cost, which approximates

Summary of Significant Accounting Policies (continued)

fair value. All funds were fully invested or deposited in interest-bearing demand accounts at June 30, 2001.

F. Receivables

All receivables are reported at their gross value.

G. Interest Receivable

Interest on deposits and investments is recorded as revenue in the year the interest is earned and is available to pay liabilities of the current period.

H. Fixed Assets

General fixed assets are not capitalized in the funds used to acquire or construct them. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the general fixed assets account group. All purchased fixed assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated fixed assets are valued at their estimated fair value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets, as applicable.

Public domain ("infrastructure") general fixed assets consisting of roads, bridges, and drainage systems are not capitalized since these assets are immovable and of value only to the government. Assets in the general fixed assets account group are not depreciated.

I. Risk Management

The County is exposed to various risks of loss as follows:

<u>Type of Loss</u>	<u>Method Managed</u>	<u>Risk of Loss Retained</u>
General Liability -Torts -Errors and Omissions -Law Enforcement Officers Liability -Vehicle	The County participates in a public entity risk pool – Association of County Commissioners of Oklahoma – Self-Insured Group (See ACCO-SIG).	If claims exceed pool assets, the County would have to pay its share of the pool deficit.



**KAY COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001**

Summary of Significant Accounting Policies (continued)

<u>Type of Loss</u>	<u>Method Managed</u>	<u>Risk of Loss Retained</u>
Physical Plant -Theft -Damage to Assets -Natural Disasters	The County participates in a public entity risk pool. (See ACCO-SIG).	If claims exceed pool assets, the County would have to pay its share of the pool deficit.
Worker's Compensation -Employees' Injuries	The County participates in a public entity risk pool. (See ACCO Self-Insured Fund ACCO-SIF).	If claims exceed pool assets, the County would have to pay its share of the pool deficit.
Health and Life -Medical -Disability -Dental -Life	The County carries commercial insurance for these types of risk.	None

ACCO-SIG: The pool operates as a common risk management and insurance program and is to be self-sustaining through member premiums. Each participating County will pay a deductible amount (\$1,000 to \$10,000; Kay County has a \$5,000 deductible) for each insured event as stated in the County's "Certificate of Participation." The risk pool will pay legitimate claims in excess of the deductible amounts up to and including \$50,000 per insured event. The pool has acquired commercial reinsurance to cover claims in excess of \$50,000 up to a \$1,000,000 limit per insured event. The pool, established in 1986, has never had to assess additional premiums to be paid by its members.

ACCO-SIF: The pool operates as a common risk management and insurance program and is to be self-sustaining through member premiums. ACCO-SIF was set up in 1984 and will pay legitimate worker's compensation claims up to \$500,000 per incident. A reinsurance policy, with no limit, pays claims that exceed \$500,000 for a particular incident. The pool has not assessed additional premiums to be paid by its members in the past three years.

The County continues to carry commercial insurance for employees' health and accident insurance. Management believes such coverage is sufficient to preclude any significant uninsured losses to the County. Settled claims have not exceeded insurance coverage in any of the past three fiscal years. There have been no significant reductions in insurance coverage during the 2001 fiscal year.

J. Compensated Absences

The County does not accrue any liability for future vacation benefits. Vacation benefits are earned by the employee during the year and may be accumulated. The amount of accumulated unpaid vacation benefits is not material to the financial statements for the fiscal year ending June 30, 2001.

Summary of Significant Accounting Policies (continued)

K. Long-Term Obligations

The County reports long-term debt of governmental funds at face value in the general long-term debt account group. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the general long-term debt account group. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

L. Interfund Transactions

Quasi-external transactions are accounted for as revenues, expenditures, or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

The Kay County Home Finance Authority transferred \$578,550 from the escrow account to the Single Family Mortgage Bond Fund for interest payments.

Operating transfers consisted of \$23 transferred from the debt service fund to the capital projects fund and \$4 transferred from the debt service fund to the general fund. The debt service fund is collecting back taxes on a judgment that has been paid off. Therefore, the collections were transferred to capital projects for courthouse improvements and the remainder to the general fund. Other transfers consisted of \$4,769 transferred from the special revenue fund to the trust and agency funds to close out road debt improvement.

M. Memorandum Only - Total Columns

Total columns on the financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations or cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America. Interfund transactions have not been eliminated from the total column of each financial statement.

N. Grant Revenue

Revenues from state grants are recognized when expenditures are incurred.

2. Stewardship, Compliance, and Accountability

Budgetary Compliance

On or before the first Monday in July of each year, each officer or department head submits an estimate of needs to the governing body. The budget is approved by fund, office, or department and object. The County Board of Commissioners may approve changes of appropriations within the fund by office or department and object. To increase or decrease the budget by fund requires approval by the County Excise Board.

3. Detailed Notes on Account Balances

A. Deposits

Title 62 O.S. 1996 Supp., § 348.3 authorizes the County Treasurer to invest in:

- U.S. Government Obligations
- Certificates of Deposit
- Savings Accounts
- G.O. Bonds issued by Counties, Municipalities, or School Districts
- Money judgments against Counties, Municipalities, or School Districts
- Bonds and Revenue Notes issued by a Public Trust when the beneficiary of the Trust is a County, Municipality, or School District
- Negotiable Certificates of Deposit
- Prime Bankers Acceptances which are eligible for purchase by the Federal Reserve System
- Prime Commercial Paper with a maturity of 180 days or less
- Repurchase Agreements
- Money Market Funds regulated by the Securities and Exchange Commission and which investments consist of the above-mentioned types of investments.

Deposits- Primary Government

At year-end, the carrying amount of the County's deposits was \$3,716,265 and the bank balance was \$4,128,644. Of the bank balance, all funds were covered by federal depository insurance or by collateral held by the County's agent in the County's name.

Public trusts that have the state or a county as a beneficiary must only invest in certificates of deposit or other evidence of deposit.

These restrictions do not apply to the proceeds of bonds issued by the Kay County Home Finance Authority or the revenues that service the debt which shall be invested pursuant to the indenture established for such bonds per Title 62 O. S. 1997 Supp., §72.4a.

KAY COUNTY, OKLAHOMA  
 NOTES TO THE FINANCIAL STATEMENTS  
 JUNE 30, 2001

Detailed Notes on Account Balances (continued)

Deposits, Investments, and Collateral-Kay County Home Finance Authority

Deposits are insured or collateralized with securities held by the Authority or its agent in the Authority's name. Investments are insured, registered, or collateralized with securities held by the Authority or its agent in the Authority's name.

	<u>Carrying Amount</u>	<u>Fair Value</u>
Restricted Cash	\$ 4,404	\$ 4,404
Treasury bills	\$406,282	\$406,282

A detail of the Authority's restricted government fund investments is as follows.

Government Fixed Income Investments:

<u>MATURITY VALUE</u>	<u>MATURITY DATE</u>	<u>COST</u>	<u>FAIR VALUE</u>
1992 Escrow Fund			
\$ 289,000	10/15/01	\$ 174,951	\$ 285,859
289,000	4/15/02	167,513	280,475
290,000	10/15/02	161,278	276,005
289,000	4/15/03	154,219	267,207
289,000	10/15/03	148,277	261,597
289,000	4/15/04	142,373	253,537
290,000	10/15/04	137,112	247,213
289,000	4/15/05	131,076	238,676
289,000	10/15/05	125,813	233,333
289,000	4/15/06	120,577	225,302
290,000	10/15/06	116,319	220,974
289,000	4/15/07	111,141	212,005
289,000	10/15/07	106,520	207,109
290,000	4/15/08	102,541	199,390
289,000	10/15/08	98,272	193,338
289,000	4/15/09	93,694	186,803
289,000	10/15/09	89,931	181,639
290,000	4/15/10	86,600	175,325

**KAY COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001**

Detailed Notes on Account Balances (continued)

<u>MATURITY VALUE</u>	<u>MATURITY DATE</u>	<u>COST</u>	<u>FAIR VALUE</u>
289,000	10/15/10	82,801	170,397
289,000	4/15/11	79,556	163,536
<u>8554,000</u>	10/15/11	<u>2,250,985</u>	<u>4,700,081</u>
<u>\$14,339,000</u>		<u>\$4,681,549</u>	<u>\$9,179,801</u>
1993 Escrow Fund:			
\$ 2,500,000	10/15/11	\$ <u>637,500</u>	\$ 637,500
Accrued interest			<u>527,077</u>
			<u>\$1,164,577</u>

**B. Receivables**

The County's property tax is levied each October 1 on the assessed value listed as of January 1 of the same year for all real and personal property located in the County, except certain exempt property. Assessed values are established by the County Assessor within the prescribed guidelines established by the Oklahoma Tax Commission and the State Equalization Board. Title 68 O.S. § 2820.A. states, . . . "Each assessor shall thereafter maintain an active and systematic program of visual inspection on a continuous basis and shall establish an inspection schedule which will result in the individual visual inspection of all taxable property within the county at least once each four (4) years."

The net assessed property value as of January 1, 2000, was approximately \$228,125,462. The County levied 10.25 mills for general fund operations and 1.79 mills for the County Health Department. In addition, the County also collects the ad valorem taxes assessed by cities and towns and school districts and apportions the ad valorem taxes collected to the appropriate taxing units.

Taxes are due on November 1 following the levy date, although, they may be paid in two equal installments. If the first half is paid prior to January 1, the second half is not delinquent until April 1. Unpaid real property taxes become a lien upon said property on October 1 of each year. Unpaid delinquent personal property taxes are published usually in May. If the taxes are not paid within 30 days from publication, they shall be placed on the personal tax lien docket.

Current year tax collections for the year ended June 30, 2001, were approximately 98 percent of the tax levy.

**C. Fixed Assets**

Following is a summary of changes in the general fixed assets account group during the fiscal year:

KAY COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001

Detailed Notes on Account Balances (continued)

	<u>Balance</u> <u>July 1, 2000</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30, 2001</u>
Land and Buildings	\$ 678,183	\$ -	\$ -	\$ 678,183
Machinery and Equipment	<u>5,666,608</u>	<u>1,024,460</u>	<u>739,349</u>	<u>5,951,719</u>
Total General Fixed Assets	<u>\$ 6,344,791</u>	<u>\$ 1,024,460</u>	<u>\$ 739,349</u>	<u>\$ 6,629,902</u>

D. Pension Plan

Plan Description. The County contributes to the Oklahoma Public Employees Retirement Plan (the Plan), a cost-sharing, multiple-employer defined benefit pension plan administered by the Oklahoma Public Employees Retirement System (OPERS). Benefit provisions are established and can be amended by the Oklahoma Legislature. The Plan provides retirement, disability, and death benefits to Plan members and beneficiaries. Title 74, Sections 901 through 943, as amended, establishes the provisions of the Plan. OPERS issues a publicly available financial report that includes financial statements and supplementary information. That report may be obtained by writing OPERS, P.O. Box 53007, Oklahoma City, Oklahoma 73105 or by calling 1-800-733-9008.

Funding Policy. The contribution rates for each member category are established by the Oklahoma Legislature and are based on an actuarial calculation, which is performed to determine the adequacy of contribution rates. County employees are required to contribute between 3.5% and 8.5% of earned compensation. The County contributes between 5% and 10% of earned compensation. Elected officials could contribute between 4.5% and 10% of their entire compensation. The County contributes 10% of earned compensation for elected officials. The County's contributions to the plan for the years ending June 30, 2001, 2000, and 1999, were \$290,062, \$275,137, and \$326,178, respectively, equal to the required contributions each year.

E. Capital Leases

The County acquires road machinery and equipment through lease-purchase agreements financed by the Oklahoma Department of Transportation and/or the equipment vendors or their assignees pursuant to the provisions of 69 O.S. 1991, § 636.1 through § 636.7. Lease agreements entered into with the Oklahoma Department of Transportation (ODOT) are interest free. However, starting January 1997, ODOT began charging a one-time fee of 3% on all subsequent pieces of machinery acquired. The one-time fee will be reported as interest. Oklahoma statutes prohibit the County from entering into contracts of this nature longer than one year. For this reason, these lease-purchase agreements do not qualify for capitalization until the year the lease-purchase agreements are completed and title to the equipment is transferred to the County. However, it is the County's intent to exercise its right to purchase this property; accordingly, the lease-purchase agreements have been capitalized to conform to accounting principles generally accepted in the United States of America. The unpaid portions of these

KAY COUNTY, OKLAHOMA  
 NOTES TO THE FINANCIAL STATEMENTS  
 JUNE 30, 2001

Detailed Notes on Account Balances (continued)

agreements have been reflected as capitalized lease obligations within the general long-term debt account group.

Providing all capital leases are renewed each year by resolution of the Board of Commissioners, minimum lease commitments under capitalized lease-purchase agreements as of June 30, 2001, are as follows:

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 276,470	\$ 33,158	\$ 309,628
2003	230,144	21,145	251,289
2004	193,812	12,252	206,064
2005	132,807	4,312	137,119
2006	43,305	376	43,681
2007	16,920	-	16,920
2008	<u>14,102</u>	<u>-</u>	<u>14,102</u>
Total	<u>\$ 907,560</u>	<u>\$ 71,243</u>	<u>\$ 978,803</u>

During the year, the County capitalized leases totaling \$269,449 and paid \$334,915 on the outstanding balances of lease-purchase agreements.

F. Long-Term Debt – Primary Government

Changes in Long-Term Liabilities

During the year ended June 30, 2001, the following changes occurred in liabilities reported in the general long-term debt account group:

	<u>Balance July 1, 2000</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2001</u>
Capital Leases	<u>\$973,026</u>	<u>\$269,449</u>	<u>\$334,915</u>	<u>\$907,560</u>
Total	<u>\$973,026</u>	<u>\$269,449</u>	<u>\$334,915</u>	<u>\$907,560</u>

KAY COUNTY, OKLAHOMA  
 NOTES TO THE FINANCIAL STATEMENTS  
 JUNE 30, 2001

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Detailed Notes on Account Balances (continued)

Long-Term Debt – Kay County Home Finance Authority

1992 Single Family Mortgage Revenue Refunding Bonds

The bonds are special limited obligations of the Authority upon issuance and were payable solely from the mortgage loans and certain other assets and pledged revenues. The bonds are subject to redemption on or after May 1, 2002, at the option of the Authority, in whole at any time or in part on any payment date from any legally available source of funds.

1992 Subordinate Single Family Mortgage Revenue Refunding Bonds

The bonds are limited obligations of the Authority and are subordinate to the 1992 Single Family Mortgage Revenue Refunding Bonds. The subordinate bonds are not subject to redemption prior to maturity.

Interest on the bonds is compounded semi-annually on May 1 and November 1 of each year, and will be payable at maturity.

The following is a summary of long-term debt of the Authority at June 30, 2001.

	<u>1992 Single Family Mortgage Revenue Refunding Bonds</u>	<u>1992 Subordinate Single Family Mortgage Revenue Refunding Bonds</u>	<u>Total</u>
Maturity	11-1-11	11-1-11	
Interest Rate	7%	9.5%	
Original Issue	\$13,335,000	\$409,075	\$13,744,075
Retirements, 6/30/01	-0-	-0-	-0-
Principle balance at 6/30/01	\$8,265,000	\$409,075	\$8,674,075

The issuance costs of the bonds are being amortized using the straight line method over the life of the bonds.

G. Fund Equity

Reservations of fund balances of governmental funds are established to either (1) satisfy legal covenants that require a portion of the fund balance be segregated or (2) identify the portion of the fund balance that is not appropriable for future expenditures. Reservations of retained earnings are limited to outside third party restrictions. Designations of fund balance are used to show the amounts within unreserved fund balance, which is intended to be used for specific purposes but are not legally restricted. Specific reservations and designations of the fund balance accounts are summarized below.



KAY COUNTY, OKLAHOMA  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2001

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Detailed Notes on Account Balances (continued)

Reserved for Encumbrances - The reserve for encumbrances represents encumbrances outstanding at the end of the year based on purchase orders and contracts signed by the County but not completed as of the close of the fiscal year.

Reserved for Bond Indenture - Reserves to the Kay County Home Finance Authority are recorded to signify that a portion of the fund equity is segregated for future use and is not available for appropriation or expenditure.

Designated for Capital Projects - This represents funds designated for the remodel or construction to the County Courthouse.

H. Fuel Taxes

The County receives major funding for roads and highways from a state imposed fuel tax. Taxes are collected by the Oklahoma Tax Commission. Taxes are imposed on all gasoline, diesel, and special fuel sales statewide. The County's share is determined on formulas based on the County population, road miles, and land area and is remitted to the County monthly. These funds are earmarked for road and highways only and are accounted for in the County highway fund. The County highway fund is reported herein as "special revenue," and the fuel tax revenue is presented as "intergovernmental."

4. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, primarily the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time; although, the government expects such amounts, if any, to be immaterial.

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the government attorney, the resolution of these matters will not have a material adverse effect on the financial condition of the government.

**Report on Compliance and on Internal Control Over Financial Reporting  
Based on an Audit of Financial Statements Performed in Accordance With  
*Government Auditing Standards***



STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

CLIFTON H. SCOTT  
STATE AUDITOR AND INSPECTOR

2300 N. LINCOLN BLVD.  
100 STATE CAPITOL  
OKLAHOMA CITY, OK 73105-4896  
405/521-3495

**Report on Compliance and on Internal Control Over Financial Reporting  
Based on an Audit of Financial Statements Performed in Accordance With  
*Government Auditing Standards***

TO THE OFFICERS OF  
KAY COUNTY, OKLAHOMA

We have audited the financial statements of Kay County as of and for the year ended June 30, 2001, and have issued our report thereon dated January 22, 2002. We qualified our opinion because the financial statements of the Kay County Public Buildings Authority, a component unit of Kay County, were not included in the financial statements of Kay County. We did not audit the financial statements of the Kay County Home Finance Authority, which represent the amounts shown as the discretely presented component unit. Those statements were audited by another auditor whose report has been furnished to us, and our opinion on the general-purpose financial statements, insofar as it relates to the amounts included for the Kay County Home Finance Authority, is based on the report of the other auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Kay County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards*, as follows:

**Finding 99-3 (Repeat Finding)**

Criteria: Chapter IV of the County Purchasing Manual requires the requesting officer to complete the requisition part of the *Requisition-Purchase Order-Claim Form SA&I 1116(1983)*, the purchasing agent completes the purchase order and the county clerk encumbers the funds for the purchase order face amount. These procedures, but not limited to these procedures, must be performed before the goods or services are received by the receiving officer.

Condition: Of the 15 items tested, 2 items were received prior to the requisition or encumbrance of funds.

Effect: This condition could result in an account not having the sufficient funds to cover goods or services received by the County.

Recommendation: Management should be aware of the requirements regarding purchases and ensure that requisitions are completed and funds are encumbered prior to good or services being received.

Management's Corrective Action Plan: Management's response is not available.

**Finding 99-5 (Repeat Finding)**

Criteria: According to 19 O.S. Supp. 1999, §1505 G.1 and 2, for consumable items other than road or bridge items having an original cost greater than five hundred dollars, a record of the date and place of consumption shall be prepared by the consuming department and filed bimonthly with the Board of County Commissioners. For road or bridge items or materials, a monthly report of the road and bridge projects completed during said period shall be prepared by the consuming department and filed with the County Clerk.

Condition: No monthly or bimonthly reports of consumables and road bridge projects were on file for Highway District #2.

Effect: This condition results in the Highway District #2 not being in compliance with state statutes.

Recommendation: We recommend that Highway District #2 file bimonthly reports for consumables and monthly reports for road and bridge items with the County Clerk's office.

Management's Corrective Action Plan: Management's response is not available.

**Finding 99-6 (Repeat Finding)**

Criteria: According to 19 O.S. Supp. 1999, §1501A.3., the county purchasing agent shall make purchases and rental or lease-purchase agreements only after following the bidding procedures as provided for by law on services or items totaling \$5,000 or more.

Condition: Three of the six items tested totaling \$5,000 or more were obtained without following the statutorily prescribed bidding procedures.

Effect: Highway District 2 is not in compliance with the requirements of state statutes.

Recommendation: We recommend that items totaling \$5,000 or more follow the statutorily prescribed bidding procedures.

Management's Corrective Action Plan: Management's response is not available.

**Finding 01-1**

Criteria: According to 68 O.S. 2001, § 3003 B., all funds received by counties from the federal government shall be deposited in the treasury of the county in a fund, which shall be recorded and accounted for separately and apart from all other funds.

Condition: It appears that federal funds received from the Federal Emergency Management Agency (FEMA) were deposited in the highway cash fund and no separate sub-account was established to record all receipts and expenditures from the federal funds.

Effect: This condition has resulted in noncompliance with state statutes and could result in termination of future federal funding.

Recommendation: We recommend that management establish a fund for each federal grant separate from County funds and maintain records in enough detail to identify the source and use of these funds.

Management's Corrective Action Plan:

Contact Person: Board of County Commissioners

Pam Goodno, County Clerk

Pat Schieber, County Treasurer

Federal funds will be deposited and spent separately.

#### **Finding 01-2**

Criteria: According to 19 O.S. 2001, § 681, all monies received under the color of a county office shall be deposited with the County Treasurer.

Condition: It appears that Local Law Enforcement Block Grant funds were deposited with a financial institution directly, rather than through the County Treasurer.

Effect: This condition has resulted in noncompliance with state statutes and could result in under collateralization of funds on deposit. Furthermore, this condition could result in undetected errors or misappropriation of assets.

Recommendation: The bank account should be closed and funds should be deposited with the Kay County Treasurer.

Management's Corrective Action Plan:

Contact Person: Craig Countryman, Sheriff

The bank account was closed and the balance deposited with the Kay County Treasurer.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Kay County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described below.

**Finding 97-1 (Repeat Finding)**

Criteria: GASB 14, "*The Financial Reporting Entity*" requires that a component unit's financial position and activity be included with the financial statements of the reporting entity.

Condition: The Kay County Public Building Authority, a component unit of Kay County, did not provide audited financial statements prepared in accordance with accounting principles generally accepted in the United States of America for inclusion in Kay County's financial statements.

Effect: A component unit for which the County is financially accountable has not been included in the County's financial statements. Therefore, the financial statements do not present fairly the financial position of the County.

Recommendation: We recommend the County require financial preparers of the above component unit to prepare and present their financial statements compatible for inclusion with the financial statements of the County.

Management's Corrective Action Plan:

Contact Person: Board of County Commissioners, Kay County

No planned corrective action is anticipated due to the cost of changing the basis of accounting for the Trust.

**Finding 99-1 (Repeat Finding)**

Criteria: The overall goal of accounting principles generally accepted in the United States of America for governmental entities is to demonstrate accountability and stewardship to be used in evaluating management's accounting for funds. To help insure a proper accounting of funds, the duties of receiving, receipting, recording, and depositing cash and checks should be segregated.

Condition: It was noted that the duties of receiving, receipting, recording, and depositing collections are not adequately segregated.

Effect: These conditions could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriation of assets.

Recommendation: Management should be aware of these conditions and realize that the concentration of duties and responsibilities in a limited number of individuals is not desirable from a control point of view. Under these conditions, the most effective controls lie in management's knowledge of County operations and periodic review of those operations.

Management's Corrective Action Plan:

Contact Person: Board of County Commissioners, Kay County

We agree the duties of receiving, receipting, recording, and depositing cash and checks should be segregated. The County acknowledges this condition and understands the risks associated with it. We plan to discuss this situation during the budget process and comply if it is cost effective and feasible. Management is aware of County operations and will be making periodic reviews of those operations.

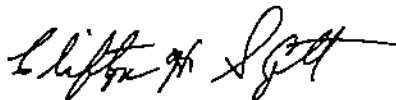
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider items 97-1 and 99-1 to be material weaknesses.

The American Institute of Certified Public Accountants Statement on Auditing Standards No. 87 requires the inclusion of the following paragraph in this report:

This report is intended solely for the information and use of the management of the County and is not intended to be and should not be used by anyone other than these specified parties.

However, the Oklahoma Open Records Act states that all records of public bodies and public officials shall be open to any person, except as specifically exempted. The purpose of this Act is to ensure and facilitate the public's right of access to and review of government records so they may efficiently and intelligently exercise their inherent political power. Therefore, this report is a matter of public record and its distribution is in no way limited or restricted.

Sincerely,



CLIFTON H. SCOTT  
State Auditor and Inspector

January 22, 2002