

**PAYNE 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

JEFF A. McMAHAN  
State Auditor and Inspector

January 22, 2003

TO THE OFFICERS OF  
PAYNE COUNTY, OKLAHOMA

Transmitted herewith is the audit of Payne 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 black ink that reads "Jeff A. McMahon".

JEFF A. McMAHAN  
State Auditor and Inspector

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

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

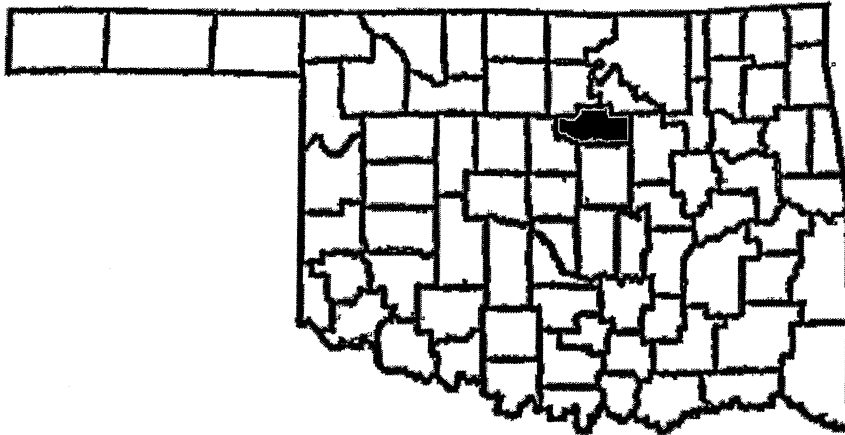
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REPORT TO THE CITIZENS  
OF  
PAYNE COUNTY, OKLAHOMA

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Payne was among the first counties settled during the land run of April 22, 1889.

For more than half a century, agriculture was the basis of the county's economy, with cotton, corn, and later oats, wheat and alfalfa the major crops.

Since World War II, the economic base has changed. Industry has replaced agriculture as the leading source of employment. Major industrial plants along North Perkins Road in Stillwater employ more than 2,500 workers, many of whom commute from Yale, Ripley, Glencoe, Perkins, and Cushing. Oklahoma State University, which opened in 1891, is still the county's largest employer with more than 7,500 employees.

From 1913 to 1930, oil was a major economic factor in the county, but this, too, has declined except for massive facilities at Cushing, enhancing its status as "Pipeline Crossroads of the World."

County Seat - Stillwater

Area - 686.4 Square Miles

County Population - 65,418 (1999 est.)

Farms - 1,115

Land in Farms - 339,359 Acres

Source: Oklahoma Almanac 1999-2000

See independent auditor's report.

**COUNTY ELECTED OFFICIALS  
AND RESPONSIBILITIES**

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**BOARD OF COUNTY COMMISSIONERS**

**DISTRICT 1**  
Bill Deering  
(D) Yale

**DISTRICT 2**  
Gloria Hesser  
(D) Stillwater

**DISTRICT 3**  
Jim Arthur  
(R) Stillwater

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**

Carl Hiner  
(D) Stillwater

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**

Bonita Stadler  
(R) Stillwater

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**  
Lisa Lambert  
(D) Stillwater

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**  
Robert L. Hudson  
(R) Guthrie

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**  
Cheri Hall  
(D) Stillwater

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**  
Sherri Schieffer  
(D) Stillwater

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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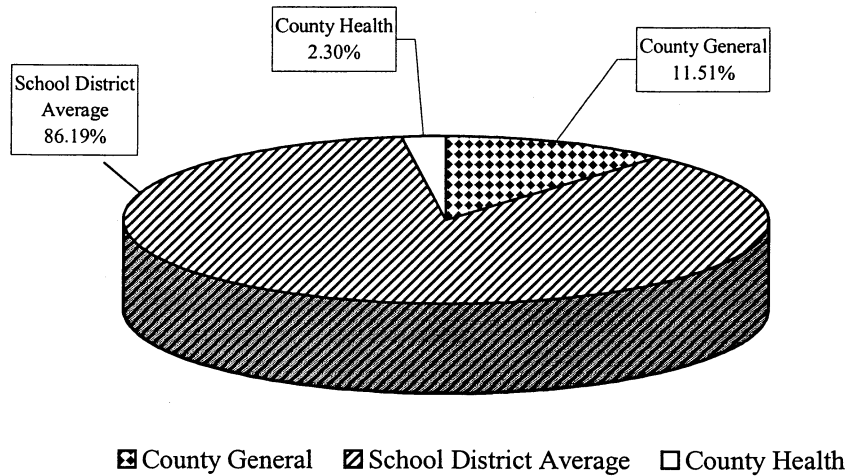
**ELECTION BOARD SECRETARY**  
Glenna Craig  
(D) Stillwater

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.

**PAYNE 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 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**

Co. General	10.00
Co. Health	2.00

**School District Millages**

		Gen.	Bldg.	Skg.	Vo-tech	Common	Cities	E.M.S.	Total
Ripley I-3		35.00	5.00	20.01	13.00	4.00	-	-	77.01
Logan I-3		35.00	5.00	18.94	15.00	4.00	-	-	77.94
Noble I-6		35.00	5.00	15.75	15.00	4.00	-	-	74.75
Logan I-14		35.00	5.00	8.24	-	4.00	-	-	52.24
Stillwater I-16		35.00	5.00	17.37	15.00	4.00	11.54	-	87.91
Creek I-20		35.00	5.00	18.36	13.00	4.00	-	-	75.36
Creek I-39		35.00	5.00	26.77	13.00	4.00	-	-	83.77
Perkins I-56		35.00	5.00	16.22	15.00	4.00	-	-	75.22
Cushing I-67		35.00	5.00	20.77	13.00	4.00	-	-	77.77
Glencoe I-101		35.00	5.00	22.25	15.00	4.00	-	-	81.25
Yale I-103		35.00	5.00	11.43	13.00	4.00	-	3.00	71.43
Oakgrove D-104		35.00	5.00	7.18	13.00	4.00	-	-	64.18

See independent auditor's report.



STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN  
State Auditor and Inspector

**Independent Auditor's Report**

TO THE OFFICERS OF  
PAYNE COUNTY, OKLAHOMA

We have audited the accompanying general-purpose financial statements of Payne 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 Payne 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 Payne County Home Finance Authority, which represents 100% of the assets and revenues of the discretely presented proprietary fund type or the financial statements of the Payne County Economic Development Authority, which represents 96% of the assets and 91% of the revenues and other financing sources of the special revenue fund, or the Payne County Facilities Authority representing .02% of the assets and 1.16% of the revenues of the special revenue fund and 100% of the assets and 100% of the revenues of the enterprise proprietary fund. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units, is based on the reports of the other auditors.

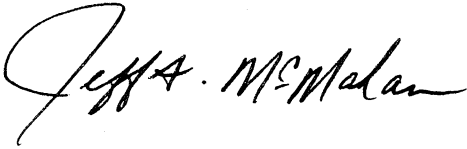
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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 reports of the other auditors provide a reasonable basis for opinion.

In our opinion, based on our audit and the reports of the other auditors, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of Payne 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 May 30, 2002, on our consideration of Payne County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. 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 Payne County, Oklahoma, taken as a whole. The supplementary schedule listed in the table of contents is presented for purposes of additional analysis and is not a required part of the general-purpose financial statements. The accompanying schedule of expenditures of federal awards is presented as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Such information has been subjected to the auditing procedures applied in the audit of the general-purpose financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the general-purpose financial statements taken as a whole. The other 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,

A handwritten signature in black ink that reads "Jeff A. McMahon". The signature is written in a cursive style with a large initial "J" and "M".

JEFF A. McMAHAN  
State Auditor and Inspector

May 30, 2002

**General-Purpose Financial Statements**

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

	Governmental Fund Types		Proprietary Fund Type	Fiduciary Fund Type	Account Groups		Total (Memo Only) Primary Government	Component Unit Proprietary	Total (Memo Only) Reporting Entity		
	General	Special Revenue			Capital Projects	Enterprise				Trust and Agency	General Long-Term Debt
										General Fixed Assets	
<b>ASSETS</b>											
Cash and investments	\$ 4,260,013	\$ 34,776,165	\$ 1,639,211	\$ 2,347,218	\$	\$	\$ 48,019,241	\$ 641,583	\$ 48,660,824		
Ad valorem taxes receivable	23,419	4,684		116,811			144,914		144,914		
Sales tax receivable	194,408		64,803				259,211		259,211		
Accrued interest receivable	3,107	6,731		4,001			13,839		13,839		
Due from other governments	8,043	251,223		43,202			302,468		302,468		
Notes receivable		3,412,746					3,412,746		3,412,746		
Mortgages receivable		44,451,740					44,451,740	1,496,017	45,947,757		
Construction in progress							195,972		195,972		
Bond issuance costs							136,006		136,006		
Fixed assets					18,152,297		18,152,297		18,152,297		
Amount to be provided for retirement of general long-term debt						82,296,374	82,296,374		82,296,374		
Amount to be provided for capitalized lease agreements						550,642	550,642		550,642		
<b>Total assets</b>	<b>\$ 4,488,990</b>	<b>\$ 82,903,289</b>	<b>\$ 1,704,014</b>	<b>\$ 2,511,232</b>	<b>\$ 18,152,297</b>	<b>\$ 82,847,016</b>	<b>\$ 197,935,450</b>	<b>\$ 2,137,600</b>	<b>\$ 246,020,807</b>		
<b>LIABILITIES AND FUND EQUITY</b>											
Liabilities:											
Warrants payable	\$ 304,696	\$ 171,733	\$ 17,000	\$	\$	\$	\$ 493,429	\$ 290,835	\$ 493,429		
Accounts payable	539,790	135,953					675,743		966,578		
Due to other taxing units				315,764			315,764		315,764		
Bonds payable				2,195,468		82,007,747	2,195,468	1,915,000	2,195,468		
Interest payable						288,627	86,602,747	55,056	88,517,747		
Capitalized lease obligations payable							304,640		359,696		
<b>Total liabilities</b>	<b>844,486</b>	<b>307,686</b>	<b>17,000</b>	<b>2,511,232</b>	<b>-</b>	<b>82,847,016</b>	<b>91,138,433</b>	<b>2,260,891</b>	<b>93,399,324</b>		
Fund equity:											
Investment in general fixed assets					18,152,297		18,152,297		18,152,297		
Retained earnings (deficit)											
Reserved					173,649		173,649		173,649		
Unreserved					543,950		543,950	(123,291)	420,659		
Fund balances:											
Reserved for encumbrances	277,537	332,069					609,606		609,606		
Reserved for debt service		5,252,132					5,252,132		5,252,132		
Unreserved:											
Designated for capital projects											
Undesignated	3,366,957	77,011,402	1,687,014				1,687,014		1,687,014		
<b>Total fund equity</b>	<b>3,644,494</b>	<b>82,595,603</b>	<b>1,687,014</b>	<b>-</b>	<b>18,152,297</b>	<b>-</b>	<b>106,797,007</b>	<b>(123,291)</b>	<b>106,673,716</b>		
<b>Total liabilities and fund equity</b>	<b>\$ 4,488,980</b>	<b>\$ 82,903,289</b>	<b>\$ 1,704,014</b>	<b>\$ 2,511,232</b>	<b>\$ 18,152,297</b>	<b>\$ 82,847,016</b>	<b>\$ 197,935,440</b>	<b>\$ 2,137,600</b>	<b>\$ 200,073,040</b>		

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

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

	Governmental Fund Types			Total
	General	Special Revenue	Capital Projects	(Memorandum Only) Reporting Entity
<b>Revenues:</b>				
Ad valorem taxes	\$ 2,465,257	\$ 616,410	\$	\$ 3,081,667
Sales tax	2,265,552		755,314	3,020,866
Charges for services	264,415	299,784		564,199
Intergovernmental revenues	468,974	3,505,052		3,974,026
Miscellaneous revenues	280,454	4,043,150	3,561	4,327,165
<b>Total revenues</b>	<b>5,744,652</b>	<b>8,464,396</b>	<b>758,875</b>	<b>14,967,923</b>
<b>Expenditures:</b>				
<b>Current operating:</b>				
General government	2,127,231	4,008,170		6,135,401
Public safety	987,589	1,201,433		2,189,022
Culture and recreation	364,421	148,061		512,482
Education	161,144			161,144
Health and welfare		463,279		463,279
Roads and highways	1,810,312	2,790,043		4,600,355
Capital outlay			166,950	166,950
<b>Total expenditures</b>	<b>5,450,697</b>	<b>8,610,986</b>	<b>166,950</b>	<b>14,228,633</b>
Excess of revenues over (under) expenditures	293,955	(146,590)	591,925	739,290
<b>Other financing sources (uses):</b>				
Operating transfers in	45,375	46,584	193,259	285,218
Operating transfers out	(225,913)	(752,751)	(751,503)	(1,730,167)
Bond proceeds		56,602,746		56,602,746
Capitalized lease agreements		117,802		117,802
<b>Total other financing sources (uses)</b>	<b>(180,538)</b>	<b>56,014,381</b>	<b>(558,244)</b>	<b>55,275,599</b>
Excess of revenues and other sources over (under) expenditures and other uses	113,417	55,867,791	33,681	56,014,889
Beginning fund balances	3,531,077	26,727,812	1,653,333	31,912,222
<b>Ending fund balances</b>	<b>\$ 3,644,494</b>	<b>\$ 82,595,603</b>	<b>\$ 1,687,014</b>	<b>\$ 87,927,111</b>

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



**PAYNE 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 County Health Department		
	Budget	Actual	Variance	Budget	Actual	Variance
	Beginning fund balances, budgetary basis	\$ 2,286,975	\$ 3,049,225	\$ 762,250	\$ 283,695	\$ 345,895
Revenues:						
Ad valorem taxes	2,348,630	2,468,814	120,184	469,725	493,762	24,037
Sales tax	1,967,877	2,262,523	294,646			
Charges for services	241,456	264,415	22,959	21,337	64,470	43,133
Intergovernmental revenues	281,142	470,749	189,607		10	10
Miscellaneous revenues	108,338	324,146	215,808		7,482	7,482
Total revenues, budgetary basis	<u>4,947,443</u>	<u>5,790,647</u>	<u>843,204</u>	<u>491,062</u>	<u>565,724</u>	<u>74,662</u>
Expenditures:						
Current operating:						
General government	3,459,697	2,726,777	732,920			
Public safety	1,014,702	992,214	22,488			
Culture and recreation	445,815	284,654	161,161			
Education	490,236	160,395	329,841			
Health and welfare				774,757	522,857	251,900
Roads and highways	1,823,968	1,357,314	466,654			
Total expenditures, budgetary basis	<u>7,234,418</u>	<u>5,521,354</u>	<u>1,713,064</u>	<u>774,757</u>	<u>522,857</u>	<u>251,900</u>
Excess of revenues and beginning fund balances over (under) expenditures, budgetary basis	<u>-</u>	<u>3,318,518</u>	<u>3,318,518</u>	<u>-</u>	<u>388,762</u>	<u>388,762</u>
Other financing sources (uses):						
Operating transfers in		45,375	45,375			
Operating transfers (out)		(225,913)	(225,913)			
Total other financing sources (uses)	<u>-</u>	<u>(180,538)</u>	<u>(180,538)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues, other sources, and beginning fund balances over expenditures and other uses	<u>\$ -</u>	<u>3,137,980</u>	<u>\$ 3,137,980</u>	<u>\$ -</u>	<u>388,762</u>	<u>\$ 388,762</u>
Reconciliation to Statement of Revenues, Expenditures, and Changes in Fund Balances						
Add: Ad valorem taxes receivable		23,419			4,684	
Sales tax receivable		194,408				
Accrued interest		3,107			5,128	
Due from other governments		8,043				
Reserved for encumbrances		<u>277,537</u>			<u>93,437</u>	
Ending fund balances		<u>\$ 3,644,494</u>			<u>\$ 492,011</u>	

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

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

	Component Units		Total Memorandum Reporting Entity
	Primary Government Payne County Facilities Authority Enterprise	Discretely Presented Payne County Home Finance Authority Enterprise	
Operating revenues:			
Sales tax	\$ 76,062	\$	\$ 76,062
Miscellaneous revenue			
Interest income		195,495	195,495
Total operating revenue	<u>76,062</u>	<u>195,495</u>	<u>271,557</u>
Operating expenses:			
Bond interest	88,056	174,728	262,784
Fees and insurance		17,313	17,313
Amortization expense	7,158	24,000	31,158
Total operating expenses	<u>95,214</u>	<u>216,041</u>	<u>311,255</u>
Operating income (loss) from operations	<u>(19,152)</u>	<u>(20,546)</u>	<u>(39,698)</u>
Other activities:			
Adjustments to prior year mortgages		(554)	(554)
Transfers in	736,751		736,751
Total other activities	<u>736,751</u>	<u>(554)</u>	<u>736,197</u>
Total changes in net assets	717,599	(21,100)	696,499
Beginning retained earnings		<u>(102,191)</u>	<u>(102,191)</u>
Ending retained earnings (deficit)	<u>\$ 717,599</u>	<u>\$ (123,291)</u>	<u>\$ 594,308</u>

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

**PAYNE COUNTY, OKLAHOMA  
COMBINED STATEMENT OF CASH FLOWS  
ALL PROPRIETARY FUND TYPES AND  
DISCRETELY PRESENTED COMPONENT UNITS  
FOR THE YEAR ENDED JUNE 30, 2001**

	Component Units		Total (Memorandum Only)
	Primary Government Payne County Facilities Authority Enterprise	Discretely Presented Payne County Home Finance Authority Enterprise	
Cash flows from operating activities:			
Operating income (loss)	\$ (19,152)	\$ (20,546)	\$ (39,698)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Increase (decrease) in payables	16,013	(12,567)	3,446
Amortization expense	7,158		7,158
Mortgages receivable		360,519	360,519
Net cash provided by operating activities	<u>4,019</u>	<u>327,406</u>	<u>331,425</u>
Cash flows from financing activities:			
Repayments of bonds payable		(335,000)	(335,000)
Accredited value		24,000	24,000
Net cash provided by financing activities		<u>(311,000)</u>	<u>(311,000)</u>
Cash flows from capital financing activities:			
Additions to fixed assets	(195,972)		(195,972)
Additions to intangible assets	(143,164)		(143,164)
Transfer from special revenue	736,751		736,751
Bonds issued	4,595,000		4,595,000
Net cash provided by capital financing activities	<u>4,992,615</u>		<u>4,992,615</u>
Net increase (decrease) in cash	4,996,634	16,406	5,013,040
Cash and cash equivalents at beginning of year		<u>625,177</u>	<u>625,177</u>
Cash and cash equivalents at end of year	<u>\$ 4,996,634</u>	<u>\$ 641,583</u>	<u>\$ 5,638,217</u>

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

**Notes to the Financial Statements**

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

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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. Financial 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 GASB Statement No. 14, *The Financial Reporting Entity*, the financial statements of the reporting entity include those of Payne County (the primary government) and its legally separate component units.

Discretely Presented Component Unit

The component unit column in the combined financial statements includes the financial data of the County's discretely presented component units. It is reported in a separate column to distinguish between the financial data of the primary government and that of the discretely presented component unit. The following component unit is included in the reporting entity because the primary government is financially accountable and is able to impose its will on the organization.

Payne County Home Finance Authority

The Payne County Home Finance Authority (the "Authority") is a public trust created under a Trust Indenture dated January 15, 1979. The purpose of the Authority is to promote the development of adequate residential use housing within Payne County, Oklahoma.

The reporting period for the Payne County Home Finance Authority is the twelve months ended December 31, 2000. Complete financial statements of this individual discretely presented component unit can be requested from the Payne County Clerk's office at 606 South Husband, Stillwater, Oklahoma 74074.

Blended Component Units

The following component units have been presented as blended component units because the governing bodies of the component units are the same as the governing body of the County.

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

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Summary of Significant Accounting Policies (continued)

Payne County Economic Development Authority

The Payne County Economic Development Authority (the "Authority") is a public trust created under a Trust Indenture dated July 8, 1998, under the provisions of Title 60 Oklahoma Statutes 1991, Sections 176 to 180.4, inclusive as amended and supplemental, the Oklahoma Trust Act and other applicable statutes and laws of the State of Oklahoma. The purpose of the Authority is to promote the economic growth and development of Payne County, Oklahoma.

Certain financial activity of the Payne County Economic Development Authority is included in the special revenue column on the combined statements. The reporting period for the Payne County Economic Development Authority is the twelve months ended December 31, 2000. Complete financial statements are available for this component unit by contacting the Payne County Clerk.

Payne County Facilities Authority

The Payne County Facilities Authority (the "Authority") is a public trust created under a Trust Indenture dated October 2, 2000, under the provisions of Title 60 Oklahoma Statutes, Sections 176 to 180.4, inclusive as amended and supplemental, the Oklahoma Trust Act and other applicable statutes and laws of the State of Oklahoma. The purpose of the Authority is to provide funds to design, contract, equip and furnish a new County administrative building and to make renovations to the existing County courthouse. Accordingly, on January 4, 2000, the Authority and Bank of Oklahoma (the "Trustee") approved a bond trust indenture (the "Original Indenture") providing for issuance of sales tax revenue bonds in the aggregate principal amount of \$4,975,000. The governing body of the Authority is governed by three trustees who are the persons constituting the members of the Payne County Board of County Commissioners. The Authority has the ability to issue "tax exempt" bonds directly to the public.

Certain financial activity of the Payne County Facilities Authority is included in the special revenue column on the combined financial statements. The remaining portion is reported as a proprietary fund in the enterprise column on the combined financial statements. The reporting period for the Payne County Facilities Authority is the twelve months ended June 30, 2001. Complete financial statements are available for this component unit by contacting the Payne County Clerk.

**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.

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

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Summary of Significant Accounting Policies (continued)

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 major 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.

Special Revenue Funds – Blended Component Units - Fund and Account Descriptions

Payne County Economic Development Authority

Revenue Fund: Monies in the Revenue Fund are derived from the revenues from the sale of bonds and are used for funding the various funds as required by the Trust Indenture.

Bond Fund: Monies in the Bond Fund are derived from interest and principal payments from outstanding mortgages and investment income, and are used for operating expenses with excesses applied to debt service. The Bond Fund will operate as a sinking fund.

Issuance Cost Fund: Monies in the Issuance Cost Fund are derived from transfers from the Revenue Fund and are used to pay bond issuance costs and Foundation fees.

Construction Fund: Monies in the Construction Fund are derived from transfers from the Revenue Fund and investment income and are used for project costs.

Debt Service Reserve Fund: Monies in the Debt Service Reserve Fund are derived from transfers from the Revenue Fund, payments under the loan agreement, and investment income and are used to meet minimum bond issue requirements and meet debt service requirements.

Repair and Replacement Fund: Monies in the Repair and Replacement Fund are derived from payments from the borrower under the loan agreement and are used for making repairs, replacements, additions, extensions, and improvements to the project and maintaining the Project.

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

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Summary of Significant Accounting Policies (continued)

Working Capital and Marketing Fund: Monies in the Working Capital and Marketing Fund are derived from the revenues from the sale of bonds and are used to provide for the working capital needs of the borrower and provide funds to pay the marketing costs relating to the project.

Payne County Facilities Authority

Limited Purpose Sales Tax Fund: Monies in the Limited Purpose Sales Tax Fund are derived from the limited purpose sales tax collected by Payne County and is used for funding the requirements of the Trust Indenture.

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.

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 for those that conflict with GASB pronouncements.

Proprietary Funds – Component Units– Fund and Account Descriptions

Discretely Presented Component Unit - Payne County Home Finance Authority

Bond Fund: Monies in the Bond Fund are derived from interest payments, outstanding mortgages, principal payments, and investment income and are used for operating expenses with excesses applied to debt service.

Prepayment Account: Monies in the Prepayment Account are derived from mortgage prepayments and investment income. The prepayment account is all inclusive of the bond fund and the monies are used for the redemption of bonds on each payment date.

Mortgage Reserve Fund: Monies in the Mortgage Reserve Fund are derived from bond proceeds and are maintained at 3% of outstanding mortgages. At December 31, 1999, the minimum mortgage reserve fund requirement was not met.



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

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Summary of Significant Accounting Policies (continued)

Capital Reserve Fund: Monies in the Capital Reserve Fund may be reduced unless required to meet debt service, under terms of the Refunding Indenture. At December 31, 1999, the minimum 10% of bonds outstanding capital reserve fund requirement was met.

Blended Component Unit - Payne County Facilities Authority (Proprietary Enterprise Fund)

Bond Fund: Monies used in the Bond Fund are derived from transfers from the limited Purpose Sales Tax Fund and investment income and are used for debt service. The Bond Fund will operate in a sinking fund.

Construction Fund: Monies in the Construction Fund are derived from the sale of bonds and investment income and are used for project costs.

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.

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

Summary of Significant Accounting Policies (continued)

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 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 the only funds required to adopt a formal budget. The budget presented for the general and special revenue (County Health Department only) funds includes 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.

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

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Summary of Significant Accounting Policies (continued)

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

Investments – Discretely Presented Component Unit - Payne County Home Finance Authority

The Refunding Indenture provides that investments from the Capital Reserve Fund Prepayment Account and the Bond Fund shall be made pursuant to the investment agreement between the trustee and Berkshire Hathaway, Inc. of Omaha, Nebraska.

Under the terms of the Berkshire Hathaway, Inc. Investment Agreement, monies in the Capital Reserve Fund earn 6.50% per annum and other monies invested under the agreement earn 5.50% per annum. All interest earned on the Berkshire Hathaway, Inc. Investment Agreement monies are deposited into the Bond Fund. Interest rates on the American Performance Treasury Fund Investments range from 2.24% to 2.82% per annum. Investments are adjusted as required by Internal Revenue Service Arbitrage rules.

Investments - Blended Component Unit - Payne County Economic Development Authority – Investments consist of Federal Home Loan Mortgage Corporation Discount Notes, Federal National Mortgage Association Discount Notes, and Federal Home Loan Bank Discount Notes with maturities greater than three months when purchased. All investments are presented at market value.

Summary of Significant Accounting Policies (continued)

F. Receivables

All receivables are reported at their gross value.

The Authority is constructing, furnishing and equipping a new administration building for Payne County located at Sixth and Duck Streets, in Stillwater, Oklahoma.

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. Depreciation of buildings, equipment, and vehicles in the proprietary fund types is computed using the straight-line method.

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to capitalize is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period.

Blended Component Unit - Payne County Facilities Authority

Building Construction in Progress

The Authority is constructing, furnishing, and equipping a new administration building for Payne County located at Sixth and Duck Streets, in Stillwater, Oklahoma. The project was not completed as of June 30, 2001. Upon completion, the Authority will transfer the building to Payne County.

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

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Summary of Significant Accounting Policies (continued)

I. Risk Management

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

<u>Types of Loss</u>	<u>Method Managed</u>	<u>Risk of Loss Retained</u>
General Liability - Torts - Errors and Omissions - Law Enforcement Officers Liability	The County carries commercial insurance for these types of risk.	None
Physical Plant - Theft - Damage to Assets - Natural Disasters	The County carries commercial insurance for these types of risk.	None
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	The County carries commercial insurance for these types of risk.	None

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. Settled claims resulting from these risks have not exceeded commercial 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)

The County does not record any liability for sick leave. An employee earns up to one day per month and may accumulate up to 130 days. There is no history of sick leave usage from which to project future usage; hence, no liability for such has been recorded. Such an amount if recorded would not be material to the financial statements.

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.

Long-Term Obligations – Discretely Presented Component Unit - Payne County Home Finance Authority

On January 1, 1993, the Authority issued \$7,560,000 aggregate principal amount of its Single Family Mortgage Revenue Refunding Bonds, Series 1993A secured by the Pledged Revenues and other assets pledged therefore under the Trust Indenture date January 1, 1993, between the authority (the "Issuer") and the Bank of Oklahoma, National Association, as trustee. The Bonds being issued by the Issuer to refund the Issuer's Single Family Mortgage Revenue Bonds, 1980 Series A (the "1980 Bonds").

Also on January 1, 1993, the Authority issued \$151,117.51 Subordinate Single Family Mortgage Revenue Refunding Bonds, Series 1993B. The \$7,560,000 Single Family Mortgage Revenue Refunding Bonds, Series 1993A (the "Senior Bonds"), shall be paid prior to the payment of any principal and interest on the Subordinate Bonds, Series B. The Bonds bear interest at the rate of 8.8% per annum compounded semi-annually on March 1 and September 1 of each year commencing March 1, 1993. The Bonds will mature on September 11, 2011, in the maturity amount of \$750,000.

In January 1998, pursuant to Section 5.07 of the Governing Indenture, the Authority requested that \$201,461 held in the Mortgage Reserve Fund be released. In accordance with Section 5.07, the monies were released after written notice from Moody's Investment Services that the bonds would continue to carry an A rating.

L. Fund Equity

Retained earnings reflect the accumulated earnings of an enterprise or internal service fund. Contributed capital is recorded in proprietary funds that have received capital grants or contributions from developers, customers, or other funds. Reserves represent those portions of fund equity not appropriate for expenditure or legally segregated for a specific future use. Designated fund equity represents tentative plans for future use of financial resources.

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

Summary of Significant Accounting Policies (continued)

M. 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.

Operating transfers for the year ended June 30, 2001, consist of the following:

	Transfers In				Transfers Out
	General Fund	Special Revenue	Capital Projects	Payne County Facilities Authority	
General Fund		11,700	193,259		225,913
Special Revenue (Highway Fund)		16,000		736,751	752,751
Capital Projects					751,503
Other Trust and Agency	45,375	18,884			64,259
Total	45,375	46,584	193,259	736,751	1,794,426

Transfers do not balance since transfers in are not shown for the trust and agency funds.

N. 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, 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.

O. Grant Revenue

Revenues from federal and state grants are recognized when expenditures are incurred.

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

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2. Stewardship, Compliance, and Accountability

On or before May 31 of each year, each officer or department head submits its estimate of needs to the governing body. The budget is approved by fund, office, or department and object. Within weeks, the County Budget Board 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, § 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.

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

These restrictions do not apply to the proceeds of bonds issued by the Payne County Economic Development Authority or the revenues that service the debt in accordance with Title 62 O.S., § 72.4a.

Cash and investments for Payne County and its component units is as follows:



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

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Detailed Notes on Account Balances (continued)

	<u>Amount</u>	<u>Bank Balance</u>
Payne County	\$11,351,043	\$11,557,416
 <u>Blended Component Units:</u>		
Economic Development Authority – Special Revenue Fund	31,656,812	31,656,812
Facilities Authority – Special Revenue Fund	14,752	14,752
Facilities Authority – Enterprise Fund	4,996,634	4,996,634
 <u>Discretely Presented Component Unit:</u>		
Home Finance Authority – Enterprise Fund	<u>641,583</u>	<u>641,583</u>
 Total for Cash and Investments	 <u>\$48,660,824</u>	 <u>\$48,867,197</u>

Of the bank balance, all funds were covered by federal depository insurance or collateral held by the County or the Authority or agents of the County or Authority in the name of the County or Authority.

**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 \$ 247,224,234.

The County levied 10 mills for general fund operations and 2 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.

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

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Detailed Notes on Account Balances (continued)

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 98.4 percent of the tax levy.

Mortgages Receivable Collegiate Housing Foundation – Blended Component Unit - Payne County Economic Development Authority

1999 Student Revenue Bonds

Mortgages receivable represents money transferred to the Colonial Bank in accordance with the Loan Agreement.

Construction Fund:	Draws	\$21,281,772
Working Capital and Marketing Fund:	Draw	<u>104,134</u>
	Total	<u>\$21,385,906</u>

2000 Student Housing Bonds

Mortgage receivable represents money transferred to the Colonial Bank in accordance with the Loan Agreement.

Construction Fund:	Draws	<u>\$23,065,833</u>
	Total	<u>\$23,065,833</u>

Note Receivable Oklahoma State University Foundation

Note receivable represents money transferred to Oklahoma State University Foundation in accordance with the Project Loan Agreement.

Construction Fund:	Draws	<u>\$ 3,412,747</u>
	Total	<u>\$ 3,412,747</u>

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

Detailed Notes on Account Balances (continued)

Mortgages Outstanding – Discretely Presented Component Unit - Payne County Home Finance Authority

A review of outstanding delinquent loans was made and the following schedule summarizes the subsequent status of delinquent loans at December 31, 2000:

	<u>Number of Loans</u>	<u>Amount Outstanding</u>	<u>% of Loans Outstanding</u>	<u>% of Outstanding Balance</u>
30 days delinquent	8	\$ 171,434	13.33	11.46
120 days delinquent	2	42,994	3.33	2.87
Real Estate Owned (REO)	<u>1</u>	<u>15,125</u>	<u>1.67</u>	<u>1.01</u>
Total	<u>11</u>	<u>\$ 229,553</u>	<u>18.33</u>	<u>15.34</u>

The percentage of the number of total delinquent and REO loans increased from 5.64% at December 31, 1999 to 18.33% at December 31, 2000. The percentage of the outstanding balance of total delinquent and REO loans increased from 2.94% at December 31, 1999 to 15.34% at December 31, 2000.

C. Fixed Assets

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

	<u>Balance July 1, 2000</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2001</u>
Land	\$ 11,677,229	\$ -	\$ -	\$ 11,677,229
Buildings	1,245,598	379,790	-	1,625,388
Machinery and equipment	<u>4,824,719</u>	<u>309,970</u>	<u>285,009</u>	<u>4,849,680</u>
Total general fixed assets	<u>\$ 17,747,546</u>	<u>\$ 689,760</u>	<u>\$ 285,009</u>	<u>\$ 18,152,297</u>

Detailed Notes on Account Balances (continued)

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 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 \$318,371, \$289,255, and \$341,314, respectively, equal to the required contributions for 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., § 636.1 through § 636.7. Lease agreements entered into with the Oklahoma Department of Transportation (ODOT) are interest free. However, starting in 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 with accounting principles generally accepted in the United States of America. The unpaid portions of these 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:

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

Detailed Notes on Account Balances (continued)

<u>Year Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$149,621	\$28,996	\$178,617
2003	156,953	19,872	176,825
2004	160,657	10,186	170,843
2005	78,842	2,580	81,422
2006	<u>4,569</u>	<u>3,729</u>	<u>8,298</u>
Total	<u>\$550,642</u>	<u>\$65,363</u>	<u>\$616,005</u>

During the year, the County capitalized leases totaling \$117,802 and paid \$138,999 on the outstanding balances of lease-purchase agreements.

F. Long-term Debt – Revenue Bonds – Payne County Economic Development Authority, Payne County Home Finance Authority, and Payne County Facilities Authority

The Payne County Home Finance Authority, the Payne County Economic Development Authority, and the Payne County Facilities Authority, component units, also issue bonds that pledge income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding are as follows:

<u>Purpose</u>	<u>Interest Rate</u>	<u>Amount</u>
Payne County Home Finance Authority	8.625%	\$ 1,915,000
Payne County Economic Development Authority	5.5-7.35%	82,007,747
Payne County Facilities Authority	3.6-5.35%	<u>4,595,000</u>
Total		<u>\$88,517,747</u>

Payne County Home Finance Authority

Revenue bond debt service requirements to maturity, excluding interest, callable on March 1, 2003 to 2011, is \$1,915,000.

The bonds are subject to mandatory redemption in whole at any time, or in parts of at least \$100,000 by lot on any interest payment date to the extent there are deposits in the Prepayment Account from:

- (1) Prepayments on deposit in the Prepayment Account, plus
- (2) Decreases in the amount required to be maintained in the Mortgage Reserve Fund, plus

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

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Detailed Notes on Account Balances (continued)

- (3) Revenues accumulated in the Bond Fund in excess of monies required to be maintained under the Refunding Indenture the day after each bond principal payment date.

Bonds in the amount of \$260,000 have been called for redemption, due to prepayment effective March 1, 2000, and funds for said redemption are listed in the above accounts at December 31, 2000.

Payne County Economic Development Authority

1999/2000 Student Housing Bonds

Bond issues have been issued by the Authority for Payne County economic development. These bonds are required to be fully paid serially over the next 40 years. General long-term debt of the Authority consists of bonds payable. Debt service requirements for bonds are payable solely from fund balance and future revenues of the Bond fund.

2000 Revenue Note Series

Revenue Notes have been issued by the Authority for Payne County economic development. These notes are required to be fully paid over the next ten years. General long-term debt of the Authority consists of notes payable. Debt service requirements for notes are payable solely from fund balance and future revenues of the Note Payment fund.

A summary of Payne County Economic Development Authority's long-term debt is as follows:

	<u>Bond Principle</u>	<u>Interest Payable</u>	<u>Total</u>
1999 Student Revenue Bonds	\$25,405,000	\$133,311	\$25,538,311
2000 Student Housing Bonds	53,155,000	143,074	53,298,074
2000 OSU Foundation Project	<u>3,447,747</u>	<u>12,242</u>	<u>3,459,989</u>
Total	<u>\$82,007,747</u>	<u>\$288,627</u>	<u>\$82,296,374</u>

The annual debt service requirements for retirements of bond principal and payment of interest are as follows:

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

Detailed Notes on Account Balances (continued)

Year	1999 Revenue Bonds		2000 Housing Bonds		2000 Authority Notes		Total
	Principal	Interest	Principal	Interest	Principal	Interest	
2001	\$ 0	\$ 0	\$ 0	\$ 0	\$ 304,926	\$148,886	\$ 453,812
2002	0	0	0	0	381,046	163,528	544,574
2003	110,000	28,298	140,000	25,200	399,121	145,452	848,071
2004	0	0	225,000	45,600	417,679	126,894	815,173
2005	270,000	111,375	345,000	73,313	1,944,975	19,558	2,764,221
Thereafter	25,025,000	49,678,556	52,445,000	49,005,687	0	0	176,154,243
Total	\$25,405,000	\$49,818,229	\$53,155,000	\$49,149,800	\$3,447,747	\$604,318	\$181,580,094

Payne County Facilities Authority

Bond issues in the amount of \$4,975,000 have been issued by the Authority for the Payne County construction project. These bonds are required to be fully paid serially over the next ten years. General long-term debt of the Authority consists of bonds payable. Debt service requirements for bonds are payable solely from fund balance and future revenues of the one-eighth on one percent (1/8%) sales tax imposed on Payne County. The Authority has created a security interest in the Sales Tax Revenue of Payne County.

Bond Issuance and Discount Costs – Bond issuance and discount costs are capitalized and amortized over the terms of the bonds using the straight line method of amortization.

A brief description of the outstanding revenue bond issues at June 30, 2001, is set forth below:

<u>Date</u> <u>Of</u> <u>Issue</u>	<u>Bond</u> <u>Interest</u> <u>Rate</u>	<u>Bond</u> <u>Due</u> <u>Date</u>	<u>Total</u> <u>Amount Outstanding</u>
1-1-01	3.60%	6-1-01	380,000.00
1-1-02	3.85%	6-1-02	335,000.00
1-1-03	4.00%	6-1-03	365,000.00
1-1-04	4.05%	6-1-04	395,000.00
1-1-05	4.10%	6-1-05	430,000.00
1-1-06	4.15%	6-1-06	465,000.00
1-1-07	4.20%	6-1-07	500,000.00
1-1-08	4.25%	6-1-08	540,000.00
1-1-09	4.30%	6-1-09	585,000.00
1-1-10	5.35%	6-1-10	<u>980,000.00</u>
		Total	4,975,000.00

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

Detailed Notes on Account Balances (continued)

The annual debt service requirements for retirements of bond principal and payment of interest are as follows:

Year ending <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	337,500.04	191,082.76	528,582.80
2003	367,500.04	178,043.30	545,543.34
2004	397,916.70	163,326.91	561,243.61
2005	432,916.63	147,193.31	580,109.94
2006	467,916.67	129,424.32	597,340.99
2007	503,333.37	109,985.00	613,318.37
2008	543,750.00	88,822.50	632,572.50
2009	617,916.67	65,688.75	683,605.42
2010	<u>898,333.21</u>	<u>39,077.50</u>	<u>937,410.71</u>
Total	<u>\$4,567,083.33</u>	<u>\$1,112,644.35</u>	<u>\$5,679,727.68</u>

Accrued interest payable on the general long-term debt incurred during the year ending June 30, 2001, was:

	<u>Total</u>
Accrued interest payable	<u>\$16,013.13</u>

Changes in Long-Term Liabilities

During the year ended June 30, 2001, the following changes occurred in capitalized lease obligations 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>\$571,839</u>	<u>\$117,802</u>	<u>\$138,999</u>	<u>\$550,642</u>
Total	<u>\$571,839</u>	<u>\$117,802</u>	<u>\$138,999</u>	<u>\$550,642</u>

Changes in Long-Term Liabilities – Proprietary Funds

The following is a summary of the long-term debt transactions of the blended and discretely presented component units of the County:



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

Detailed Notes on Account Balances (continued)

	Enterprise Funds		General Long-Term Debt Account Group
	Payne County Home Finance Authority	Payne County Facilities Authority	Payne County Economic Development Authority
Balance July 1, 2000	\$2,250,000	\$ 0	\$25,405,000
Additions	0	4,975,000	56,602,747
Retirements	335,000	380,000	0
Accrued interest	0	0	288,627
Balance June 30, 2000	\$1,915,000	\$4,595,000	\$82,296,374

Accrued interest is included for the Payne County Economic Development Authority as reported in their separate financial statements.

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. Designations of fund balance are used to show the amounts within unreserved fund balance, which are intended to be used for specific purposes but are not legally restricted. Specific reservations and designations of the fund balance accounts are summarized below.

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 Debt Service - A reserve for debt service was established to indicate that the fund balance or portion thereof is required by law to be used for the payment of any outstanding bonds, interest, or judgments against the County.

Designated for Capital Projects - The current fund balance in the capital projects fund is to be used to construct a new courthouse annex.

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

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Detailed Notes on Account Balances (continued)

Restatement of Fund Balance

Fund balance reported in an internal service fund in prior year's financial statements has been reclassified to the general fund as follows:

	<u>General Fund</u>
Fund balance, beginning of year, as previously stated	\$2,812,753
Increase to reclassify internal service fund to general fund	<u>718,324</u>
Fund balance, beginning of year, as restated	<u>\$3,531,077</u>

4. Sales Tax

The voters of Payne County approved a 3/8 of 1% sales tax extension effective January 1, 1999. This sales tax will expire December 31, 2003. The sales tax was established to provide revenue for:

Road and bridge improvements	53%
General fund purposes	16%
Expo center & fairboard	20%
Extension service	7%
Rural fire fighting	4%

The voters of Payne County approved an additional 1/8 of 1% sales tax effective April 1, 1998. This sales tax will expire March 31, 2008. The sales tax was established to provide for operating and maintaining the County jail and courthouse.

The following is a summary of the sales tax revenue and how it was spent for the fiscal year ended June 30, 2001:

General government	\$ 199,595
Highways	606,137
Fairboard	268,933
Extension	156,862
Rural fire	<u>59,799</u>
Total sales tax	<u>\$1,291,326</u>

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

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Sales Tax (continued)

The voters of Payne County approved a 1/8 of 1% sales tax effective April 1, 1998. This sales tax will expire March 31, 2010. The sales tax was established to construct a new administration building at 6<sup>th</sup> and Duck street. Said capital improvements will be financed by a public trust having Payne County as its beneficiary.

5. 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 roads 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."

6. 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.

7. Retained Earnings (Deficit)

The Payne County Home Finance Authority, a component unit, had a \$123,291 deficit in net assets for the year ending December 31, 2000. The deficit was caused by the accumulated adjustment from 1993 until 1998 for the Series B accredited value.

8. Related Party Transactions

A transfer in the amount of \$736,751 was made from the Payne County Limited Purpose Sales Tax Fund (a special revenue fund) to the Payne County Facilities Authority (a component unit) to be used for funding the requirements of the Trust Indenture.

**Schedule of Expenditures of Federal Awards**

PAYNE COUNTY, OKLAHOMA  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 JUNE 30, 2001

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<u>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</u>			
Passed through Oklahoma State Department of Commerce:			
Community Development Block Grant/State's Program	14.228	9327	<u>\$ 288,539</u>
<b>Total U.S. Department of Housing and Urban Development</b>			<u>288,539</u>
<u>U.S. DEPARTMENT OF JUSTICE</u>			
Direct from U.S. Department of Justice:			
Troops to COPS	16.711	98-UMWX1537	<u>46,122</u>
<b>Total U.S. Department of Justice</b>			<u>46,122</u>
<u>U.S. DEPARTMENT OF CIVIL EMERGENCY MANAGEMENT</u>			
Passed through State Department of Civil Emergency Management:			
Hazard Mitigation Grant	83.548	None	<u>198,000</u>
<b>Total U.S. Department of Civil Emergency Management</b>			<u>198,000</u>
<u>U.S. DEPARTMENT OF LABOR</u>			
Passed through State Department of Employment Security Commission:			
Workforce Investment Act	17.255	None	<u>38,359</u>
<b>Total U.S. Department of Labor</b>			<u>38,359</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 571,020</u>

**PAYNE COUNTY, OKLAHOMA**  
**NOTES TO THE SCHEDULE OF FEDERAL AWARDS**  
**JUNE 30, 2001**

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1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Payne County, Oklahoma, and is presented on the *cash basis of accounting*. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

**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

JEFF A. McMAHAN  
State Auditor and Inspector

**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  
PAYNE COUNTY, OKLAHOMA

We have audited the financial statements of Payne County, Oklahoma, as of and for the year ended June 30, 2001, and have issued our report thereon dated May 30, 2002. We did not audit the financial statements of the Payne County Home Finance Authority, which represents 100% of the assets and revenues of the discretely presented proprietary fund, or the financial statements of the Payne County Economic Development Authority, which represents 91% of the assets and 96% of the revenues of the special revenue fund or the Payne County Facilities Authority representing .02% of the assets and 1.16% of the revenues of the special revenue fund and 100% of the assets and 100% of the revenues of the enterprise proprietary fund. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units, are based on the reports of the other auditors. 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 Payne County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Payne 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 a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. 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. The reportable condition is described in the accompanying schedule of findings and questioned costs as item 98-2.

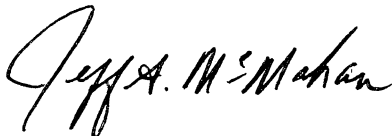
A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected 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 item 98-2 to be a material weakness.

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,

A handwritten signature in cursive script that reads "Jeff A. McMahon".

JEFF A. McMAHAN  
State Auditor and Inspector

May 30, 2002

**Report on Compliance With Requirements Applicable to Each Major Program  
and on Internal Control Over Compliance in Accordance With  
OMB Circular A-133**



STATE OF OKLAHOMA  
OFFICE OF THE AUDITOR AND INSPECTOR

JEFF A. McMAHAN  
State Auditor and Inspector

**Report on Compliance With Requirements Applicable to Each Major Program  
and on Internal Control Over Compliance in Accordance With  
OMB Circular A-133**

TO THE OFFICERS OF  
PAYNE COUNTY, OKLAHOMA

Compliance

We have audited the compliance of Payne County, Oklahoma with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2001. Payne County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Payne County's management. Our responsibility is to express an opinion on Payne County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Payne County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Payne County's compliance with those requirements.

In our opinion, Payne County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2001. The results of our auditing procedures disclosed no instances of noncompliance with those requirements that are required to be reported in accordance with OMB Circular A-133.

Internal Control Over Compliance

The management of Payne County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Payne County's internal control over compliance with

requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

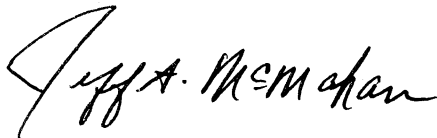
Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider 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, federal awarding agencies, and pass-through entities 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,

A handwritten signature in black ink that reads "Jeff A. McMAHAN". The signature is written in a cursive style with a large, stylized initial "J".

JEFF A. McMAHAN  
State Auditor and Inspector

May 30, 2002

**Schedule of Findings and Questioned Costs**

PAYNE COUNTY  
 SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED JUNE 30, 2001

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**SECTION I - Summary of Auditor's Results**

Financial Statements

Type of auditor's report issued: ..... Unqualified

Internal Control over financial reporting:

- Material weakness(es) identified? ..... Yes
- Reportable condition(s) identified that are not considered to be material weakness(es)? ..... None Reported

Noncompliance material to financial statements noted? ..... No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ..... No
- Reportable condition(s) identified that are not considered to be material weakness(es)? ..... None Reported

Type of auditors report issued on compliance for major programs: ..... Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? ..... No

Identification of Major Programs

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.228	Community Development Block Grant
83.548	Hazard Mitigation Grant

Dollar threshold used to distinguish between Type A and Type B programs: ..... \$300,000

Auditee qualified as low-risk auditee? ..... No

**PAYNE COUNTY**  
**SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED JUNE 30, 2001**

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**SECTION 2 - Financial Statement Findings**

**Finding 98-2 (Repeat Finding)**

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

**Condition:** Based on inquiries of County personnel, it was noted that the duties of recording, depositing, and reconciling collections were not adequately segregated.

**Cause:** This lack of segregation of duties is caused by the limited number of employees.

**Effect:** This condition could result in unrecorded transactions, misstated financial reports, undetected errors, or misappropriation of assets.

**Recommendation:** Management should be aware of this condition 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:** Bonita Stadler, County Treasurer

**Anticipated Completion Date:** Immediately.

**Corrective Action Planned:** We are aware of the need for more employees to staff each area. We are currently cross-training in each department in an effort to cover the staffing shortage.

**SECTION 3 - Federal Award Findings and Questioned Costs**

No matter reported.