

Kay County
Justice Facilities Authority
Newkirk, Oklahoma

Financial Statements

June 30, 2011 and 2010
(With Independent Auditors' Report Thereon)



**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Kay County Justice Facilities Authority
Newkirk, Oklahoma

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Kay County Justice Facilities Authority (the "Authority"), which is a component unit of the Kay County, Oklahoma, financial reporting entity, as of and for the years ended June 30, 2011 and 2010, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States 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 audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information for the Authority as of June 30, 2011 and 2010, and the respective changes in financial position thereof for the years then ended, in conformity with accounting principles generally accepted in the United States.

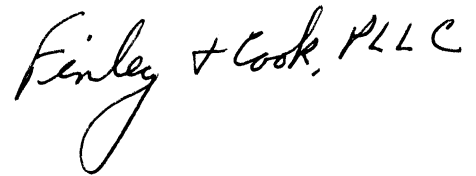
Effective July 1, 2010, the Authority implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). As more fully discussed in Note 2, the effect of implementing GASB 54 resulted in certain changes to the presentation of fund balances, and certain 2010 fund balances were reclassified to conform to the 2011 presentation.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

In accordance with *Government Auditing Standards*, we have issued our report dated June 19, 2012, on our consideration of the Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has omitted the management's discussion and analysis that the Governmental Accounting Standard Board requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

A handwritten signature in black ink that reads "Finley & Cook, PLLC". The signature is written in a cursive, flowing style.

Shawnee, Oklahoma
June 19, 2012

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

STATEMENTS OF NET ASSETS

<i>June 30,</i>	<i>2011</i>	<i>2010</i>
	<u>Governmental Activities</u>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 395,698	2,019,596
Receivable from Kay County	308,035	266,147
Advances to Kay County	1,808,157	30,138
Prepaid expenses	23,808	-
Total current assets	<u>2,535,698</u>	<u>2,315,881</u>
Noncurrent assets:		
Cash and cash equivalents restricted for:		
Debt service	1,192,448	967,018
Construction of detention facility	221,206	2,544,236
Total restricted cash and cash equivalents	<u>1,413,654</u>	<u>3,511,254</u>
Receivable from Kay County, restricted for debt service	306,769	265,612
Debt issuance costs	447,959	472,845
Total noncurrent assets	<u>2,168,382</u>	<u>4,249,711</u>
Capital assets:		
Property and equipment, net	<u>18,623,899</u>	<u>18,168,120</u>
Total capital assets	<u>18,623,899</u>	<u>18,168,120</u>
Total assets	<u>\$ 23,327,979</u>	<u>24,733,712</u>

(Continued)

See Independent Auditors' Report.
See accompanying notes to financial statements.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

STATEMENTS OF NET ASSETS, CONTINUED

<i>June 30,</i>	<i>2011</i>	<i>2010</i>
	<u>Governmental Activities</u>	
Liabilities and Net Assets		
Current liabilities:		
Accounts payable—Sedalco, Inc.	\$ -	1,307,297
Accounts payable—other	36,803	12,434
Accrued interest payable	403,865	418,294
Accrued payroll	69,401	-
Current portion of long-term debt	697,114	667,262
Total current liabilities	<u>1,207,183</u>	<u>2,405,287</u>
Noncurrent liabilities:		
Notes payable	<u>17,978,798</u>	<u>18,675,912</u>
Total liabilities	<u>19,185,981</u>	<u>21,081,199</u>
Net assets:		
Invested in capital assets, net of related debt	169,193	61,885
Restricted	1,095,352	814,336
Unrestricted	<u>2,877,453</u>	<u>2,776,292</u>
Total net assets	<u>4,141,998</u>	<u>3,652,513</u>
Total liabilities and net assets	<u>\$ 23,327,979</u>	<u>24,733,712</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

STATEMENTS OF ACTIVITIES

Year Ended June 30, 2011

		REVENUE			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue</u>
Governmental activities:					
Public safety	\$ (2,552,469)	312,356	-	1,491	(2,238,622)
Interest expense	<u>(815,023)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(815,023)</u>
Total governmental activities	<u>\$ (3,367,492)</u>	<u>312,356</u>	<u>-</u>	<u>1,491</u>	<u>(3,053,645)</u>
General revenues:					
Contractual revenues from Kay County— dedicated sales taxes					3,531,748
Interest					<u>11,382</u>
Total general revenues					<u>3,543,130</u>
Change in net assets					489,485
Net assets, beginning of year					<u>3,652,513</u>
Net assets, end of year					<u>\$ 4,141,998</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

STATEMENTS OF ACTIVITIES, CONTINUED

Year Ended June 30, 2010

		REVENUE			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue</u>
Governmental activities:					
Public safety	\$ (321,585)	-	-	15,328	(306,257)
Interest expense	<u>(843,570)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(843,570)</u>
Total governmental activities	<u>\$ (1,165,155)</u>	<u>-</u>	<u>-</u>	<u>15,328</u>	<u>(1,149,827)</u>
General revenues:					
Contractual revenues from Kay County— dedicated sales taxes					3,199,327
Interest					<u>11,042</u>
Total general revenues					<u>3,210,369</u>
Change in net assets					2,060,542
Net assets, beginning of year					<u>1,591,971</u>
Net assets, end of year					<u>\$ 3,652,513</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

BALANCE SHEETS—GOVERNMENTAL FUNDS

June 30, 2011

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Debt Service Fund</u>	<u>Governmental Total</u>
Assets				
Cash and cash equivalents	\$ 395,698	221,206	1,192,448	1,809,352
Receivable from Kay County	308,035	-	306,769	614,804
Advances to Kay County	<u>1,808,157</u>	<u>-</u>	<u>-</u>	<u>1,808,157</u>
Total assets	<u>\$ 2,511,890</u>	<u>221,206</u>	<u>1,499,217</u>	<u>4,232,313</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	<u>\$ 106,204</u>	<u>-</u>	<u>403,865</u>	<u>510,069</u>
Fund balances:				
Restricted	-	221,206	1,095,352	1,316,558
Unassigned	<u>2,405,686</u>	<u>-</u>	<u>-</u>	<u>2,405,686</u>
Total fund balances	<u>2,405,686</u>	<u>221,206</u>	<u>1,095,352</u>	<u>3,722,244</u>
Total liabilities and fund balances	<u>\$ 2,511,890</u>	<u>221,206</u>	<u>1,499,217</u>	<u>4,232,313</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

BALANCE SHEETS—GOVERNMENTAL FUNDS, CONTINUED

June 30, 2010

	General <u>Fund</u>	Capital Projects <u>Fund</u>	Debt Service <u>Fund</u>	Governmental <u>Total</u>
Assets				
Cash and cash equivalents	\$ 2,019,596	2,544,236	967,018	5,530,850
Receivable from Kay County	266,147	-	265,612	531,759
Advances to Kay County	<u>30,138</u>	<u>-</u>	<u>-</u>	<u>30,138</u>
Total assets	<u>\$ 2,315,881</u>	<u>2,544,236</u>	<u>1,232,630</u>	<u>6,092,747</u>
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	<u>\$ 12,434</u>	<u>1,307,297</u>	<u>418,294</u>	<u>1,738,025</u>
Fund balances:				
Restricted	-	1,236,939	814,336	2,051,275
Unassigned	<u>2,303,447</u>	<u>-</u>	<u>-</u>	<u>2,303,447</u>
Total fund balances	<u>2,303,447</u>	<u>1,236,939</u>	<u>814,336</u>	<u>4,354,722</u>
Total liabilities and fund balances	<u>\$ 2,315,881</u>	<u>2,544,236</u>	<u>1,232,630</u>	<u>6,092,747</u>

See Independent Auditors' Report.

See accompanying notes to financial statements.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

**RECONCILIATION OF BALANCE SHEETS—GOVERNMENTAL FUNDS TO
STATEMENTS OF NET ASSETS**

<i>June 30,</i>	<i>2011</i>	<i>2010</i>
Total fund balances	\$ 3,722,244	4,354,722
Amounts reported in the statements of net assets are different because:		
Prepaid expenses reported in the statements of net assets are not current financial resources and therefore are not reported in the fund	23,808	-
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund:		
Property and equipment, net	18,623,899	18,168,120
Debt issuance costs reported in the statements of net assets are not current financial resources and therefore are not reported in the fund	447,959	472,845
Certain liabilities are not due and payable in the current period and therefore are not reported in the fund:		
Long-term debt	<u>(18,675,912)</u>	<u>(19,343,174)</u>
Net assets, per statements of net assets	<u>\$ 4,141,998</u>	<u>3,652,513</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

**STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES—GOVERNMENTAL FUNDS**

Year Ended June 30, 2011

	General <u>Fund</u>	Capital Projects <u>Fund</u>	Debt Service <u>Fund</u>	Total Governmental <u>Funds</u>
Revenues:				
Contractual revenues from				
Kay County—dedicated sales taxes	\$ 1,765,874	-	1,765,874	3,531,748
Public safety	312,356	-	-	312,356
Interest	11,382	1,202	288	12,872
Total revenues	<u>2,089,612</u>	<u>1,202</u>	<u>1,766,162</u>	<u>3,856,976</u>
Expenditures:				
Current operating:				
Public safety	1,987,373	-	-	1,987,373
Capital expenditures	-	1,016,935	-	1,016,935
Trust fees	-	-	2,861	2,861
Debt service:				
Principal	-	-	667,262	667,262
Interest	-	-	815,023	815,023
Total expenditures	<u>1,987,373</u>	<u>1,016,935</u>	<u>1,485,146</u>	<u>4,489,454</u>
Excess (deficiency) of revenues over expenditures	<u>102,239</u>	<u>(1,015,733)</u>	<u>281,016</u>	<u>(632,478)</u>
Net changes in fund balances	102,239	(1,015,733)	281,016	(632,478)
Fund balances, beginning of year	<u>2,303,447</u>	<u>1,236,939</u>	<u>814,336</u>	<u>4,354,722</u>
Fund balances, end of year	<u>\$ 2,405,686</u>	<u>221,206</u>	<u>1,095,352</u>	<u>3,722,244</u>

See Independent Auditors' Report.

See accompanying notes to financial statements.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

**STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES—GOVERNMENTAL FUNDS, CONTINUED**

Year Ended June 30, 2010

	General <u>Fund</u>	Capital Projects <u>Fund</u>	Debt Service <u>Fund</u>	Total Governmental <u>Funds</u>
Revenues:				
Contractual revenues from				
Kay County—dedicated sales taxes	\$ 1,599,664	-	1,599,663	3,199,327
Interest	<u>11,042</u>	<u>14,859</u>	<u>469</u>	<u>26,370</u>
Total revenues	<u>1,610,706</u>	<u>14,859</u>	<u>1,600,132</u>	<u>3,225,697</u>
Expenditures:				
Current operating:				
Public safety	294,311	-	-	294,311
Capital expenditures	527	15,141,130	-	15,141,657
Trust fees	-	-	1,400	1,400
Debt service:				
Principal	-	-	656,826	656,826
Interest	<u>-</u>	<u>-</u>	<u>843,570</u>	<u>843,570</u>
Total expenditures	<u>294,838</u>	<u>15,141,130</u>	<u>1,501,796</u>	<u>16,937,764</u>
Excess (deficiency) of revenues over expenditures	<u>1,315,868</u>	<u>(15,126,271)</u>	<u>98,336</u>	<u>(13,712,067)</u>
Net changes in fund balances	1,315,868	(15,126,271)	98,336	(13,712,067)
Fund balances, beginning of year	<u>987,579</u>	<u>16,363,210</u>	<u>716,000</u>	<u>18,066,789</u>
Fund balances, end of year	<u>\$ 2,303,447</u>	<u>1,236,939</u>	<u>814,336</u>	<u>4,354,722</u>

See Independent Auditors' Report.

See accompanying notes to financial statements.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

**RECONCILIATION OF STATEMENTS OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES—GOVERNMENTAL FUNDS TO
STATEMENTS OF ACTIVITIES**

<i>Years Ended June 30,</i>	<i>2011</i>	<i>2010</i>
Net changes in fund balances—governmental funds	\$ (632,478)	(13,712,067)
Amounts reported for governmental activities in the statements of activities are different because:		
Governmental funds report capital outlays as expenditures:		
Capital assets acquired and capitalized	890,850	15,141,658
Advances from debt agreements, principal repayments, and changes in certain other assets are not reflected as revenues and expenditures in the statements of activities:		
Amortization of debt issuance costs	(24,886)	(24,887)
Depreciation expense	(435,071)	(988)
Principal payments on Series 2008 and Series 2009 notes payable	667,262	656,826
Prepaid expenses	<u>23,808</u>	<u>-</u>
Change in net assets, per statements of activities	<u>\$ 489,485</u>	<u>2,060,542</u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2011

	<u>Agency Fund</u>
	<u>Inmate Cash Fund</u>
Assets	
Cash	\$ <u>34,179</u>
Total assets	\$ <u><u>34,179</u></u>
Liabilities	
Payable to inmates	\$ <u>34,179</u>
Total liabilities	\$ <u><u>34,179</u></u>

See Independent Auditors' Report.
See accompanying notes to financial statements.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Kay County Justice Facilities Authority (the “Authority”) is a public trust and an agency of the State of Oklahoma which was created on February 2, 2007, under provisions of Title 60, Oklahoma Statutes 2001, Sections 176 et seq., as amended and supplemented, the Oklahoma Trust Act, and other applicable statutes of the State of Oklahoma. The Trust Indenture named Kay County of Oklahoma (“Kay County”) as the beneficiary of the trust. The purposes of the Authority are set forth in the Trust Indenture.

The Authority is governed by a Board of Trustees, which consists of a member of the Board of County Commissioners, the current sheriff of Kay County or his/her designee, and seven residents of Kay County. The seven residents are nominated and elected to 3-year terms by the Commissioners. For financial reporting purposes, the Authority is a component unit of Kay County.

The Authority developed a new detention center and assumed operations of the detention facility on October 22, 2010. Construction and operation of the detention center have been funded through a levy by Kay County of two-thirds of one cent (0.6665) excise (sales) tax. A portion of the sales tax (one-third (0.33325) of one cent) has a limited duration of 20 years from the date of commencement or until principal and interest upon indebtedness incurred (see Note 8) on behalf of Kay County by the Authority is paid in full, whichever occurs earlier. The remaining one third (0.33325) of one cent is to continue until repealed by a majority of the qualified voters of Kay County. The sales tax was approved by a majority of the qualified voters of Kay County on May 13, 2008. The sales tax was implemented on October 1, 2008. Proceeds from the sales tax levy are designated to be used specifically for the acquisition, construction, and equipping of a new detention facility; existing jail renovations and operations of the previous detention facility (operations were discontinued during the fiscal year 2011); and operating and maintenance of the new detention facility, Kay County Detention Facility (control and operations assumed on October 22, 2010).

See Independent Auditors’ Report.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Organization, Continued

To facilitate the transfer of the assessed sales tax, the Authority and Kay County have entered into the Sales Tax Agreement, which provides for Kay County to collect and transfer monthly the sales taxes collected to the Authority. Contractual revenues from Kay County—dedicated sales taxes represent sales taxes that Kay County receives from the Oklahoma Tax Commission (OTC) that are transferred to the Authority.

In addition to the Sales Tax Agreement, the Authority entered into a Facilities Use and Operations Agreement that states Kay County shall budget funds sufficient in amount for all years that the Series 2008 and Series 2009 notes payable and the Facilities Use and Operations Agreement remain outstanding, consistent with its existing practices, to cover a portion of the costs of maintenance and operation of the detention facility.

Reporting Entity

These financial statements include only the activities of the Authority and not those of Kay County. The Authority's financial statements should be included in the financial statements of Kay County, as the Authority is a component unit of Kay County for financial reporting purposes. The Authority has no component units of its own.

Basis of Presentation

The Authority complies with accounting principles generally accepted in the United States. Accounting principles generally accepted in the United States include all relevant Governmental Accounting Standards Board (GASB) pronouncements. The accounting and reporting framework and the more significant accounting policies are discussed in subsequent sections of this note.

KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Basis of Presentation, Continued

Government-Wide Financial Statements

The statements of net assets and the statements of activities display information about the Authority as a whole. The Authority's activities are all governmental in nature and generally are financed primarily through sales taxes. The Authority has no business-type activities as defined by GASB Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments* (GASB 34). The statements of net assets reflect the following types of net assets:

Invested in capital assets, net of related debt—Represents the net investment in capital assets less debt (reduced by cash held for construction activities) associated with the capital assets. The June 30 balance was determined as follows:

	<u>2011</u>	<u>2010</u>
Cash restricted for construction of the detention facility	\$ 221,206	2,544,236
Total capital assets	18,623,899	18,168,120
Accounts payable—Sedalco, Inc.	-	(1,307,297)
Long-term debt	<u>(18,675,912)</u>	<u>(19,343,174)</u>
	<u>\$ 169,193</u>	<u>61,885</u>

Restricted—Represents net assets which have been restricted for debt service. The June 30 balance was determined as follows:

	<u>2011</u>	<u>2010</u>
Cash restricted for debt service	\$ 1,192,448	967,018
Receivable from Kay County, restricted for debt service	306,769	265,612
Accrued interest payable	<u>(403,865)</u>	<u>(418,294)</u>
	<u>\$ 1,095,352</u>	<u>814,336</u>

Unrestricted—Represents the remaining net assets.

See Independent Auditors' Report.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Basis of Presentation, Continued

Fund Financial Statements

Fund financial statements are normally organized into funds, each of which is considered to be a separate accounting entity. A fund is accounted for by providing a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues, and expenditures/expenses.

For the financial statement presentation, the Authority presently has three major funds:

- General
- Capital projects
- Debt service

Descriptions of the major funds are as follows:

General Fund—Accounts for general operations of the Authority, which primarily consists of public safety. Revenues of the general fund consist of half of the dedicated sales taxes received by Kay County from the OTC that are transferred to the Authority.

Capital Projects Fund—Accounts for the activity associated with the construction of the detention facility. Monies were originally received through the issuance of the Series 2008 and Series 2009 notes payable.

Debt Service Fund—Accounts for the activity associated with the issuance of the Series 2008 and Series 2009 notes payable, specifically repayment of principal and interest. Revenues of the debt service fund consist of half of the dedicated sales taxes received by Kay County from the OTC that are transferred to the Authority.

In addition to the major funds listed above, the Authority has one fiduciary fund assumed during fiscal year 2011 which is classified as an agency fund. The agency fund is used to account for monies held by the Authority for the benefit of inmates. The monies are typically used by the inmates for phone calls and to purchase food and miscellaneous toiletries. The balance of the agency fund for monies held for the benefit of inmates was approximately \$34,000 as of June 30, 2011.

The Authority has only governmental-type funds with no proprietary funds.

See Independent Auditors' Report.

KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

Basis of Presentation, Continued

Fund Financial Statements, Continued

It is the Authority's policy to first use restricted net assets prior to the use of unrestricted net assets when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Governmental fund equity is classified as fund balance. Fund balance, as it applies to the Authority and as required by GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54), is classified as restricted and unassigned. These classifications are defined as:

- a. Restricted fund balances—consists of fund balances with constraints placed on the use of resources that are either 1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or 2) imposed by law through constitutional provisions or enabling legislation.

The Authority has identified unexpended sales tax revenue that is required by enabling legislation to be used for debt service payments as restricted fund balance. As discussed in Note 8, the Authority received loan proceeds restricted by the note agreements for the purpose of constructing the detention facility. The unexpended loan proceeds are identified as restricted fund balance.

- b. Unassigned fund balance—is the residual classification for the General Fund only and consists of fund balances that have not been classified as restricted fund balances.

Measurement Focus and Basis of Accounting

Measurement Focus

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded, regardless of the measurement focus applied.

See Independent Auditors' Report.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Measurement Focus and Basis of Accounting, Continued

Measurement Focus, Continued

On the government-wide financial statements, the Authority's activities are presented using the "economic resources" measurement focus as defined below:

The statements of net assets and the statements of activities utilize an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of changes in net assets and financial positions. All assets and liabilities (whether current or noncurrent) associated with their activities are reported.

In the fund financial statements, the "current financial resources" measurement focus is used as defined below:

The governmental funds utilize a "current financial resources" measurement focus. Only current financial assets and liabilities are generally included on the balance sheets. The operating statements present sources and uses of available spendable financial resources during a given period. The funds use fund balances as the measure of available spendable financial resources at the end of the period.

Basis of Accounting

In the government-wide statements of net assets and statements of activities, the Authority's activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic assets are used.

In the fund financial statements, the governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period to pay current liabilities. Expenditures (including capital outlay) are recorded when the related fund liability is incurred, except for principal and interest which are reported when due.

See Independent Auditors' Report.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Annual Budget-to-Actual Comparison

The Authority is not legally required to prepare an annual budget. Therefore, an annual budget-to-actual comparison as required by GASB 34 is not presented.

Concentrations

The Authority relies on the transfer of dedicated sales taxes from Kay County to meet the interest and principal payments on the outstanding notes payable. If the dedicated sales taxes were insufficient, then the Authority may be unable to make the required payments on the outstanding notes payable.

Date of Management's Evaluation of Subsequent Events

Management has evaluated subsequent events through June 19, 2012, the date which the financial statements were available to be issued.

Recent Accounting Pronouncements

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65), the objective of which is to either:

1. Properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources, or
2. Recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues).

The requirements of this statement are effective for years beginning after December 15, 2012. The overall impact of implementing this statement has not been determined; however, GASB 65 would require that deferred debt costs, which is presently shown as an asset, to be expensed.

See Independent Auditors' Report.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989, FASB and AICPA Pronouncements* (GASB 62). The objective of GASB 62 is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

1. Financial Accounting Standards Board (FASB) Statements and Interpretations.
2. Accounting Principles Board Opinions.
3. Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedures.

The requirements in GASB 62 will improve financial reporting by contributing to GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. GASB 62 is effective for financial statements for periods beginning after December 15, 2011, with earlier application encouraged. The provisions of GASB 62 are required to be applied retroactively for all periods presented.

(2) RECLASSIFICATION OF FUND BALANCES

Effective July 1, 2010, the Authority implemented GASB 54, which provides guidance to governments to:

- Improve the consistency in reporting fund balance components;
- Enhance fund balance presentation;
- Improve the usefulness of fund balance information; and
- Clarify the definitions of the governmental fund types.

Implementation of GASB 54 resulted in renaming fund balances and reclassifying certain 2010 amounts to conform to the 2011 presentation. The overall effect of implementing GASB 54 upon the Authority's financial reporting was not material to the financial statements of the Authority.

See Independent Auditors' Report.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) CASH AND CASH EQUIVALENTS

As of June 30, 2011 and 2010, \$395,698 and \$2,019,596, respectively, of cash and cash equivalents was available for general operations.

As of June 30, 2011 and 2010, \$1,413,654 and \$3,511,254, respectively, of cash and cash equivalents was restricted for the following uses:

	<u>2011</u>	<u>2010</u>
Debt service	\$ 1,192,448	967,018
Construction of new detention facility	<u>221,206</u>	<u>2,544,236</u>
	<u>\$ 1,413,654</u>	<u>3,511,254</u>

Restricted cash as of June 30 was determined as follows:

	<u>2011</u>	<u>2010</u>
<u>Debt service:</u>		
Monies held at Bank of Oklahoma in debt service accounts (principal and interest, etc.)	\$ 748,671	749,151
Portion of sales taxes received (one-third (0.33325) of one cent) which has not been transferred to Bank of Oklahoma	443,777	217,867
<u>Construction of new detention facility:</u>		
Monies held at Bank of Oklahoma in construction accounts	<u>221,206</u>	<u>2,544,236</u>
	<u>\$ 1,413,654</u>	<u>3,511,254</u>

See Independent Auditors' Report.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) CASH AND CASH EQUIVALENTS, CONTINUED

The majority of the Authority's cash is in collateralized interest-bearing deposit accounts. The accounts have variable interest rates ranging from approximately 4.30% to 4.35% as of June 30, 2011, and are collateralized with pledged securities.

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits might not be recovered. The Authority does not have a deposit policy for custodial credit risk. As of June 30, 2011 and 2010, the Authority's bank balances of \$1,809,352 and \$5,530,850, respectively, were exposed to custodial credit risk of \$1,309,352 and \$5,030,850, respectively (after FDIC insurance of \$250,000 per bank account). The custodial credit risk by bank as of June 30 is as follows:

	<u>2011</u>	<u>2010</u>
Uninsured and collateralized with securities held by the pledging bank's safekeeping agent but not in the Authority's name:		
Bank of Oklahoma	\$ 719,877	3,043,387
Eastman National Bank	<u>589,475</u>	<u>1,987,463</u>
	<u>\$ 1,309,352</u>	<u>5,030,850</u>

See Independent Auditors' Report.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(4) RECEIVABLE FROM KAY COUNTY

As of June 30, 2011 and 2010, \$614,804 and \$531,759, respectively, was receivable from Kay County. The receivable primarily consists of 1) amounts that the OTC has collected from vendors that have not been remitted to Kay County and 2) amounts that Kay County has collected from the OTC that have not been transferred to the Authority. The receivable amounts as of June 30 were as follows:

	<u>2011</u>	<u>2010</u>
Portion of sales taxes collected by the OTC due to Kay County that have not been transferred to the Authority	\$ 315,182	258,092
Portion of sales taxes received by Kay County from the OTC which have not been transferred to the Authority	298,356	273,132
Interest receivable from Kay County	<u>1,266</u>	<u>535</u>
	<u>\$ 614,804</u>	<u>531,759</u>

As of June 30, 2011, of the total receivable, \$308,035 was available for general use and \$306,769 was restricted for debt service. As of June 30, 2010, of the total receivable, \$266,147 was available for general use and \$265,612 was restricted for debt service.

(5) ADVANCES TO KAY COUNTY

During the years ended June 30, 2011 and 2010, the Authority advanced approximately \$3,119,000 and \$85,000, respectively, to Kay County for support of the jail. The advances were primarily used to assist in the payment of salaries and operations of the jail. As of June 30, 2011 and 2010, \$1,808,157 and \$30,138, respectively, of the advances had not been expended by Kay County.

(6) DEBT ISSUANCE COSTS

In connection with the issuance of the Series 2008 and Series 2009 notes payable, \$497,732 of debt issuance costs were paid during 2009. The debt issuance costs are being amortized over the life of the notes (approximately 20 years). Amortization of the debt issuance costs began on July 1, 2009, the date of the first principal payment. For the years ended June 30, 2011 and 2010, \$24,886 and \$24,887, respectively, was amortized and is included in the public safety governmental activities. The unamortized cost was \$447,959 and \$472,845 as of June 30, 2011 and 2010, respectively.

See Independent Auditors' Report.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) CAPITAL ASSETS

Capital asset activity for the years ended June 30 was as follows:

	2011			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets:				
Land	\$ 18,794	-	-	18,794
Building	18,066,700	427,899	-	18,494,599
Equipment	46,715	132,221	-	178,936
Furniture and fixtures	33,619	135,496	-	169,115
Vehicles	-	112,840	-	112,840
Office equipment	3,280	82,394	-	85,674
Total capital assets	<u>18,169,108</u>	<u>890,850</u>	<u>-</u>	<u>19,059,958</u>
Less accumulated depreciation	<u>(988)</u>	<u>(435,071)</u>	<u>-</u>	<u>(436,059)</u>
	<u>\$ 18,168,120</u>	<u>455,779</u>	<u>-</u>	<u>18,623,899</u>
	2010			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets:				
Land	\$ 18,794	-	-	18,794
Building	3,005,903	15,060,797	-	18,066,700
Equipment	-	46,715	-	46,715
Furniture and fixtures	-	33,619	-	33,619
Office equipment	2,753	527	-	3,280
Total capital assets	<u>3,027,450</u>	<u>15,141,658</u>	<u>-</u>	<u>18,169,108</u>
Less accumulated depreciation	<u>-</u>	<u>(988)</u>	<u>-</u>	<u>(988)</u>
	<u>\$ 3,027,450</u>	<u>15,140,670</u>	<u>-</u>	<u>18,168,120</u>

See Independent Auditors' Report.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) CAPITAL ASSETS, CONTINUED

Capital assets which have an expected useful life of more than 1 year are recorded at cost when purchased. Depreciation expense is calculated on a straight-line basis as follows:

Building	40 years
Equipment	3–15years
Furniture and fixtures	7–20 years
Vehicles	5 years

The Authority recognized \$435,071 and \$988 of depreciation expense in public safety governmental activities for the years ended June 30, 2011 and 2010, respectively.

(8) NOTES PAYABLE

Notes payable of the Authority as of June 30, 2011 and 2010, consisted of two notes payable to a financial institution:

Note 1

The first note (the Series 2008 note payable) was issued on September 11, 2008. The balance of the note payable was \$9,344,767 and \$9,679,512 as of June 30, 2011 and 2010, respectively. The Series 2008 note payable bears interest at 4.30% and matures on January 1, 2029. Principal and interest are due semiannually.

Note 2

The second note (the Series 2009 note payable) was issued on January 15, 2009. The balance of the note payable was \$9,331,145 and \$9,663,662 as of June 30, 2011 and 2010, respectively. The Series 2009 note payable bears interest at 4.35% and matures on January 1, 2029. Principal and interest are due semiannually.

Although principal and interest payments are due semiannually, monies are deposited monthly with Bank of Oklahoma, the trustee bank.

The Authority has assigned a security interest in the Sales Tax Agreement and sales tax revenues derived from the agreement as collected for the debt. In addition, collateral also consists of all funds and accounts created for the Sales Tax Agreement and the Facilities Use and Operations Agreement between the Authority and Kay County.

See Independent Auditors' Report.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) NOTES PAYABLE, CONTINUED

The following is a schedule of the future maturities of the Series 2008 note payable as of June 30, 2011:

<u>Applicable Fiscal Year Ended June 30,</u>	<u>Principal or Face Amount</u>	<u>Interest Amount</u>	<u>Total Amount</u>
2012	\$ 349,635	398,107	747,742
2013	365,189	382,908	748,097
2014	381,434	367,032	748,466
2015	398,401	350,450	748,851
2016	416,124	333,130	749,254
2017–2021	2,375,310	1,377,657	3,752,967
2022–2026	2,952,767	813,323	3,766,090
2027–2029	<u>2,105,907</u>	<u>161,342</u>	<u>2,267,249</u>
	<u>\$ 9,344,767</u>	<u>4,183,949</u>	<u>13,528,716</u>

The following is a schedule of the future maturities of the Series 2009 note payable as of June 30, 2011:

<u>Applicable Fiscal Year Ended June 30,</u>	<u>Principal or Face Amount</u>	<u>Interest Amount</u>	<u>Total Amount</u>
2012	\$ 347,479	402,168	749,647
2013	363,114	386,884	749,998
2014	379,452	370,913	750,365
2015	396,525	354,223	750,748
2016	414,367	336,782	751,149
2017–2021	2,368,857	1,393,565	3,762,422
2022–2026	2,951,957	823,568	3,775,525
2027–2029	<u>2,109,394</u>	<u>163,521</u>	<u>2,272,915</u>
	<u>\$ 9,331,145</u>	<u>4,231,624</u>	<u>13,562,769</u>

See Independent Auditors' Report.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) NOTES PAYABLE, CONTINUED

The following is a combined schedule of the future maturities of the Series 2008 and Series 2009 notes payable as of June 30, 2011:

<u>Applicable Fiscal Year Ended June 30,</u>	<u>Principal or Face Amount</u>	<u>Interest Amount</u>	<u>Total Amount</u>
2012	\$ 697,114	800,275	1,497,389
2013	728,303	769,792	1,498,095
2014	760,886	737,945	1,498,831
2015	794,926	704,673	1,499,599
2016	830,491	669,912	1,500,403
2017–2021	4,744,167	2,771,222	7,515,389
2022–2026	5,904,724	1,636,891	7,541,615
2027–2029	<u>4,215,301</u>	<u>324,863</u>	<u>4,540,164</u>
	<u>\$ 18,675,912</u>	<u>8,415,573</u>	<u>27,091,485</u>

A summary of changes in the notes payable for the years ended June 30 is as follows:

2011				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>
Series 2008	\$ 9,679,512	-	(334,745)	9,344,767
Series 2009	<u>9,663,662</u>	<u>-</u>	<u>(332,517)</u>	<u>9,331,145</u>
	<u>\$ 19,343,174</u>	<u>-</u>	<u>(667,262)</u>	<u>18,675,912</u>
2010				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Payments</u>	<u>Ending Balance</u>
Series 2008	\$ 10,000,000	-	(320,488)	9,679,512
Series 2009	<u>10,000,000</u>	<u>-</u>	<u>(336,338)</u>	<u>9,663,662</u>
	<u>\$ 20,000,000</u>	<u>-</u>	<u>(656,826)</u>	<u>19,343,174</u>

See Independent Auditors' Report.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) NOTES PAYABLE, CONTINUED

As of June 30, 2011 and 2010, approximately \$1,499,217 and \$1,232,630, respectively, of assets were restricted for debt service for the Series 2008 and Series 2009 notes payable. A summary of the amounts restricted for debt service as of June 30 is as follows:

	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	\$ 1,192,448	967,018
Receivable from Kay County	<u>306,769</u>	<u>265,612</u>
	<u>\$ 1,499,217</u>	<u>1,232,630</u>

The Series 2008 and Series 2009 notes payable have financial and performance covenants. At June 30, 2011 and 2010, the Authority was in compliance with the required covenants, with the exception of the submission of the 2011 audited financial statements within 270 days of the close of the fiscal year ending June 30, 2011. The Authority has plans to cure this item of noncompliance within allowable time frames.

(9) PENSION PLAN

Plan Description

During 2011, the Authority began to contribute to the Oklahoma Public Employees Retirement Plan (the "Retirement Plan"), a cost-sharing, multiple-employer public employee retirement system administered by the Oklahoma Public Employees Retirement System (the "System"). The Retirement Plan provides retirement, disability, and death benefits to plan members and beneficiaries. The benefit provisions are established and may be amended by the Oklahoma Legislature. Title 74 of the Oklahoma Statutes, Sections 901–943, as amended, assigns the authority for management and operation of the Retirement Plan to the Board of Trustees of the System. The System issues a publicly available annual financial report that includes financial statements and required supplementary information for the Retirement Plan. That annual report may be obtained by writing to the Oklahoma Public Employees Retirement System, 5801 N. Broadway Extension, Suite 400, Oklahoma City, Oklahoma 73118 or by calling 1-800-733-9008.

See Independent Auditors' Report.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(9) PENSION PLAN, CONTINUED

Funding Policy

Retirement Plan members and the Authority are required to contribute at a rate set by statute. The contribution requirements of Retirement Plan members and the Fund are established and may be amended by the Oklahoma Legislature. The contribution rates are as follows:

Fiscal Year 2011	
State Employees	The Authority
<u>All Salaries</u>	<u>All Salaries</u>
3.5%	15.5%

The Authority's contribution to the Retirement Plan for the year ended June 30, 2011, was \$88,295 and was equal to its required contribution for that year.

(10) RELATED PARTY

Kay County is a related party to the Authority, with financial and operating arrangements as follows:

Sales Tax Agreement—As discussed elsewhere, the Authority and Kay County have entered into the Sales Tax Agreement, which provides for Kay County to collect and transfer monthly the sales taxes collected to the Authority. Transfers of dedicated sales taxes represent sales taxes that Kay County receives from the OTC that are transferred to the Authority.

Facilities Use and Operations Agreement—As discussed elsewhere, the Authority entered into a Facilities Use and Operations Agreement that states Kay County shall budget funds sufficient in amount for all years that the Series 2008 and Series 2009 notes payable and the Facilities Use and Operations Agreement remain outstanding, consistent with its existing practices, to cover a portion of the costs of maintenance and operation of the detention facility.

(11) COMMITMENTS AND CONTINGENCIES

Litigation

As of June 30, 2011 and 2010, there was no significant litigation outstanding against the Authority.

See Independent Auditors' Report.



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

Board of Trustees
Kay County Justice Facilities Authority
Newkirk, Oklahoma

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Kay County Justice Facilities Authority (the "Authority"), which is a component unit of the Kay County, Oklahoma, financial reporting entity, as of and for the year ended June 30, 2011, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated June 19, 2012. Our report includes an explanatory paragraph noting that management's discussion and analysis was omitted. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

(Continued)

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as Finding 2011-1.

The Authority's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Responses. We did not audit the Authority's response and accordingly, we express no opinion on it.

We noted certain matters that we reported to management of the Authority in a separate letter dated June 19, 2012.

This report is intended solely for the information and use of the Board of Trustees of the Authority, the Kay County Commissioners, the management of the Authority, and the State of Oklahoma Office of the Auditor and Inspector and is not intended to be and should not be used by anyone other than these specified parties.

Finley + Cook, PLLC

Shawnee, Oklahoma
June 19, 2012

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended June 30, 2011

**FINDINGS RELATED TO THE FINANCIAL STATEMENTS WHICH ARE REQUIRED TO BE
REPORTED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

2011-1. Reporting Requirement

Auditors' Findings:

For the year ended June 30, 2011, the Authority was not in compliance with the reporting requirement outlined in Section 6.03 of the Supplemental Note Indentures dated September 11, 2008 and January 1, 2009. The default was present due to the Authority not furnishing audited financial statements to Bank of America within 270 days of the close of the fiscal year ending June 30, 2011.

During the fiscal year ended June 30, 2011, the operations of the jail were assumed by the Authority. This caused additional information to be required for the audit to be completed, which was not known until the audit began.

Auditors' Recommendation:

Procedures should be in place to ensure audited financial statements can be completed and submitted within the required timeframe.

Management's Response:

Procedures will be instituted to ensure that audited financial statements can be completed and submitted to Bank of America within 270 days of the close of the fiscal year ended June 30 of each year. Previous audits have been completed within 270 days of the close of the fiscal year.

**KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA**

FOLLOW-UP ON PRIOR YEAR FINDINGS

Year Ended June 30, 2011

No findings were noted for the year ended June 30, 2010.