Kay County
Justice Facilities Authority
Newkirk, Oklahoma

Financial Statements

June 30, 2012 and 2011
(With Independent Auditors' Report Thereon)

KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA

FINANCIAL STATEMENTS

Table of Contents

FINLEY & COOK
CERTIFIED PUBLIC ACCOUNTANTS

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, 2012 and 2011, 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, 2012 and 2011, and the respective changes in financial position thereof for the years then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have issued our report dated December 28, 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.

(Continued)

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INDEPENDENT AUDITORS' REPORT, CONTINUED

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.

Finley & Cook, PLLC

Shawnee, Oklahoma
December 28, 2012

KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA

STATEMENTS OF NET ASSETS

June 30,		*2012*	*2011*
		Governmental Activities	
Assets			
Current assets:			
Cash and cash equivalents	$	491,740	395,698
Receivable from Kay County		340,894	308,035
Advances to Kay County		1,682,434	1,808,157
Prepaid expenses		40,540	23,808
Total current assets		2,555,608	2,535,698
Noncurrent assets:			
Cash and cash equivalents restricted for:			
Debt service		1,608,663	1,192,448
Construction of detention facility		-	221,206
Total restricted cash and cash equivalents		1,608,663	1,413,654
Receivable from Kay County, restricted for debt service		340,191	306,769
Debt issuance costs, net		423,072	447,959
Total noncurrent assets		2,371,926	2,168,382
Capital assets:			
Property and equipment, net		18,127,743	18,623,899
Total capital assets		18,127,743	18,623,899
Total assets	$	23,055,277	23,327,979

(Continued)

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

KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA

STATEMENTS OF NET ASSETS, CONTINUED

June 30,	*2012*	*2011*
	Governmental Activities	
Liabilities and Net Assets		
Current liabilities:		
Accounts payable—other	$ 27,202	36,803
Accrued interest payable	388,790	403,865
Accrued payroll	69,224	69,401
Current portion of long-term debt	728,302	697,114
Total current liabilities	1,213,518	1,207,183
Noncurrent liabilities:		
Notes payable	17,250,496	17,978,798
Total liabilities	18,464,014	19,185,981
Net assets:		
Invested in capital assets, net of related debt	148,945	169,193
Restricted	1,560,064	1,095,352
Unrestricted	2,882,254	2,877,453
Total net assets	4,591,263	4,141,998
Total liabilities and net assets	$ 23,055,277	23,327,979

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

KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA

STATEMENTS OF ACTIVITIES

Year Ended June 30, 2012

		REVENUE			
	Expenses	Charges for Services	Capital Grants and Contributions	Operating Grants and Contributions	Net (Expenses) Revenues
Governmental activities:					
Public safety	$ (3,327,603)	654,298	-	112	(2,673,193)
Interest expense	(785,200)	-	-	-	(785,200)
Total governmental activities	$ (4,112,803)	654,298	-	112	(3,458,393)
General revenues:					
Contractual revenues from Kay County— dedicated sales taxes					3,899,428
Interest					8,230
Total general revenues					3,907,658
Change in net assets					449,265
Net assets, beginning of year					4,141,998
Net assets, end of year					$ 4,591,263

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, 2011

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

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

KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA

BALANCE SHEETS—GOVERNMENTAL FUNDS

June 30, 2012

	General Fund	Capital Projects Fund	Debt Service Fund	Governmental Total
Assets				
Cash and cash equivalents	$ 491,740	-	1,608,663	2,100,403
Receivable from Kay County	340,894	-	340,191	681,085
Advances to Kay County	1,682,434	-	-	1,682,434
Total assets	$ 2,515,068	-	1,948,854	4,463,922
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	$ 96,426	-	388,790	485,216
Fund balances:				
Restricted	-	-	1,560,064	1,560,064
Unassigned	2,418,642	-	-	2,418,642
Total fund balances	2,418,642	-	1,560,064	3,978,706
Total liabilities and fund balances	$ 2,515,068	-	1,948,854	4,463,922

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

KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA

BALANCE SHEETS—GOVERNMENTAL FUNDS, CONTINUED

June 30, 2011

	General Fund	Capital Projects Fund	Debt Service Fund	Governmental Total
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	1,808,157	-	-	1,808,157
Total assets	$ 2,511,890	221,206	1,499,217	4,232,313
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	$ 106,204	-	403,865	510,069
Fund balances:				
Restricted	-	221,206	1,095,352	1,316,558
Unassigned	2,405,686	-	-	2,405,686
Total fund balances	2,405,686	221,206	1,095,352	3,722,244
Total liabilities and fund balances	$ 2,511,890	221,206	1,499,217	4,232,313

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

June 30,	*2012*	*2011*
Total fund balances	$ 3,978,706	3,722,244
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	40,540	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	18,127,743	18,623,899
Debt issuance costs reported in the statements of net assets are not current financial resources and therefore are not reported in the fund	423,072	447,959
Certain liabilities are not due and payable in the current period and therefore are not reported in the fund:		
Long-term debt	(17,978,798)	(18,675,912)
Net assets, per statements of net assets	$ 4,591,263	4,141,998

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, 2012

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
Revenues:				
Contractual revenues from				
Kay County—dedicated sales taxes	$ 1,949,714	-	1,949,714	3,899,428
Public safety	654,298	-	-	654,298
Interest	8,230	-	112	8,342
Total revenues	2,612,242	-	1,949,826	4,562,068
Expenditures:				
Current operating:				
Public safety	2,820,492	-	-	2,820,492
Trust fees	-	-	2,800	2,800
Debt service:				
Principal	-	-	697,114	697,114
Interest	-	-	785,200	785,200
Total expenditures	2,820,492	-	1,485,114	4,305,606
(Deficiency) excess of revenues over expenditures	(208,250)	-	464,712	256,462
Transfers	221,206	(221,206)	-	-
Net changes in fund balances	12,956	(221,206)	464,712	256,462
Fund balances, beginning of year	2,405,686	221,206	1,095,352	3,722,244
Fund balances, end of year	$ 2,418,642	-	1,560,064	3,978,706

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, 2011

	General Fund	Capital Projects Fund	Debt Service Fund	Total Governmental Funds
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	2,089,612	1,202	1,766,162	3,856,976
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	1,987,373	1,016,935	1,485,146	4,489,454
Excess (deficiency) of revenues over expenditures	102,239	(1,015,733)	281,016	(632,478)
Net changes in fund balances	102,239	(1,015,733)	281,016	(632,478)
Fund balances, beginning of year	2,303,447	1,236,939	814,336	4,354,722
Fund balances, end of year	$ 2,405,686	221,206	1,095,352	3,722,244

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

Years Ended June 30,		*2012*	*2011*
Net changes in fund balances—governmental funds	$	256,462	(632,478)
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		41,697	890,850
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)	(24,886)
Depreciation expense		(537,853)	(435,071)
Principal payments on Series 2008 and Series 2009 notes payable		697,114	667,262
Prepaid expenses		16,731	23,808
Change in net assets, per statements of activities	$	449,265	489,485

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

KAY COUNTY JUSTICE FACILITIES AUTHORITY
NEWKIRK, OKLAHOMA

STATEMENTS OF FIDUCIARY NET ASSETS

June 30,	*2012*	*2011*
	Agency Fund	
	Inmate Cash Fund	
Assets		
Cash	$ 28,090	34,179
Total assets	$ 28,090	34,179
Liabilities		
Payable to inmates	$ 28,090	34,179
Total liabilities	$ 28,090	34,179

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

(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 constructed 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 7) 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).

(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.

(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:

	2012	2011
Cash restricted for construction of the detention facility	$ -	221,206
Total capital assets	18,127,743	18,623,899
Long-term debt	(17,978,798)	(18,675,912)
	$ 148,945	169,193

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

	2012	2011
Cash restricted for debt service	$ 1,608,663	1,192,448
Receivable from Kay County, restricted for debt service	340,191	306,769
Accrued interest payable	(388,790)	(403,865)
	$ 1,560,064	1,095,352

Unrestricted—Represents the remaining net assets.

See Independent Auditors' Report.

(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 fund
- Capital projects fund
- Debt service fund

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 $28,000 and $34,000 as of June 30, 2012 and 2011, respectively.

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

(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 balance—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 7, 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 balance.

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.

(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.

(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 December 28, 2012, the date which the financial statements were available to be issued, and determined that no subsequent events have occurred that require adjustment to or disclosure in the financial statements.

Recent Accounting Pronouncements

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

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Recent Accounting Pronouncements, Continued

The requirements in GASB 62 will improve financial reporting by contributing 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.

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (GASB 63). The objective of GASB 63 is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position and related disclosures. The pronouncement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2011, and are to be applied retroactively for all prior periods.

In March 2012, GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65). The objective of GASB 65 is to establish accounting and financial reporting standards that reclassify certain items that were previously reported as assets or liabilities as deferred outflows of resources or deferred inflows of resources; and recognize certain items that were previously reported as assets and liabilities as outflows of resources or inflows of resources. The provisions of this statement are effective for financial statements for periods beginning after December 15, 2012. In the first period that this statement is applied, changes made to comply with this statement will be treated as an adjustment of prior periods, and financial statements presented for the periods affected will be restated.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68). The primary objective of GASB 68 is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. GASB 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. This statement is effective for financial statements for periods beginning after June 15, 2014. In the first period that this statement is applied, changes made to comply with this statement will be treated as an adjustment of prior periods, and financial statements presented for the periods affected will be restated.

(2) CASH AND CASH EQUIVALENTS

As of June 30, 2012 and 2011, $491,740 and $395,698, respectively, of cash and cash equivalents was available for general operations.

As of June 30, 2012 and 2011, $1,608,663 and $1,413,654, respectively, of cash and cash equivalents was restricted for the following uses:

	2012	2011
Debt service	$ 1,608,663	1,192,448
Construction of new detention facility	-	221,206
	$ 1,608,663	1,413,654

Restricted cash as of June 30 was determined as follows:

	2012	2011
Debt service:		
Monies held at Bank of Oklahoma in debt service accounts (principal and interest, etc.)	$ 749,007	748,671
Portion of sales taxes received (one-third (0.33325) of one cent) which has not been transferred to Bank of Oklahoma	859,656	443,777
Construction of new detention facility:		
Monies held at Bank of Oklahoma in construction accounts	-	221,206
	$ 1,608,663	1,413,654

The majority of the Authority's cash is in collateralized interest-bearing deposit accounts. The accounts have variable interest rates ranging from approximately .30% to .35% as of June 30, 2012, and are collateralized with pledged securities.

(2) CASH AND CASH EQUIVALENTS, CONTINUED

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, 2012 and 2011, the Authority's bank balances of $2,100,403 and $1,809,352, respectively, were exposed to custodial credit risk of $1,600,403 and $1,309,352, respectively (after FDIC insurance of $250,000 per bank account). The custodial credit risk by bank as of June 30 is as follows:

	2012	2011
Uninsured and collateralized with securities held by the pledging bank's safekeeping agent but not in the Authority's name:		
Bank of Oklahoma	$ 499,007	719,877
Eastman National Bank	1,101,396	589,475
	$ 1,600,403	1,309,352

(3) RECEIVABLE FROM KAY COUNTY

As of June 30, 2012 and 2011, $681,085 and $614,804, 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:

	2012	2011
Portion of sales taxes collected by the OTC due to Kay County that have not been transferred to the Authority	$ 364,977	315,182
Portion of sales taxes received by Kay County from the OTC which have not been transferred to the Authority	315,405	298,356
Interest receivable from Kay County	703	1,266
	$ 681,085	614,804

See Independent Auditors' Report.

(3) RECEIVABLE FROM KAY COUNTY, CONTINUED

As of June 30, 2012, of the total receivable, $340,894 was available for general use and $340,191 was restricted for debt service. As of June 30, 2011, of the total receivable, $308,035 was available for general use and $306,769 was restricted for debt service.

(4) ADVANCES TO KAY COUNTY

During the years ended June 30, 2012 and 2011, the Authority advanced monies to Kay County to assist in the payment of salaries and operations of the detention center. As of June 30, 2012 and 2011, $1,682,434 and $1,808,157, respectively, of the advances had not been expended by Kay County.

(5) 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 lives 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 both of the years ended June 30, 2012 and 2011, $24,886 was amortized and is included in the public safety governmental activities. The unamortized cost was $423,072 and $447,959 as of June 30, 2012 and 2011, respectively.

(6) CAPITAL ASSETS

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

	2012			
	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets:				
Land	$ 18,794	-	-	18,794
Building	18,494,599	2,324	-	18,496,923
Equipment	178,936	39,373	-	218,309
Furniture and fixtures	169,115	-	-	169,115
Vehicles	112,840	-	-	112,840
Office equipment	85,674	-	-	85,674
Total capital assets	19,059,958	41,697	-	19,101,655
Less accumulated depreciation	(436,059)	(537,853)	-	(973,912)
	$ 18,623,899	(496,156)	-	18,127,743

See Independent Auditors' Report.

(6) CAPITAL ASSETS, CONTINUED

	2011			
	Beginning Balance	Additions	Deletions	Ending Balance
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	18,169,108	890,850	-	19,059,958
Less accumulated depreciation	(988)	(435,071)	-	(436,059)
	$ 18,168,120	455,779	-	18,623,899

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	3–15 years
Furniture and fixtures	7–20 years
Vehicles	5 years

The Authority recognized $537,853 and $435,071 of depreciation expense in public safety governmental activities for the years ended June 30, 2012 and 2011, respectively.

(7) NOTES PAYABLE

Notes payable of the Authority as of June 30, 2012 and 2011, 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 $8,995,132 and $9,344,767 as of June 30, 2012 and 2011, 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 $8,983,666 and $9,331,145 as of June 30, 2012 and 2011, 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.

The following is a schedule of the future maturities of the Series 2008 note payable as of June 30, 2012:

Applicable Fiscal Year Ended June 30,	Principal or Face Amount	Interest Amount	Total Amount
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	434,635	315,040	749,675
2018–2022	2,480,973	1,274,395	3,755,368
2023–2027	3,084,118	684,958	3,769,076
2028–2029	1,434,258	77,930	1,512,188
	$ 8,995,132	3,785,843	12,780,975

See Independent Auditors’ Report.

(7) NOTES PAYABLE, CONTINUED

The following is a schedule of the future maturities of the Series 2009 note payable as of June 30, 2012:

Applicable Fiscal Year Ended June 30,	Principal or Face Amount	Interest Amount	Total Amount
2013	$ 363,113	386,884	749,997
2014	379,452	370,913	750,365
2015	396,526	354,223	750,749
2016	414,367	336,782	751,149
2017	433,011	318,557	751,568
2018–2022	2,475,444	1,289,373	3,764,817
2023–2027	3,084,781	693,729	3,778,510
2028–2029	1,436,972	78,995	1,515,967
	$ 8,983,666	3,829,456	12,813,122

The following is a combined schedule of the future maturities of the Series 2008 and Series 2009 notes payable as of June 30, 2012:

Applicable Fiscal Year Ended June 30,	Principal or Face Amount	Interest Amount	Total Amount
2013	$ 728,302	769,792	1,498,094
2014	760,886	737,945	1,498,831
2015	794,927	704,673	1,499,600
2016	830,491	669,912	1,500,403
2017	867,646	633,597	1,501,243
2018–2022	4,956,417	2,563,768	7,520,185
2023–2027	6,168,899	1,378,687	7,547,586
2028–2029	2,871,230	156,925	3,028,155
	$ 17,978,798	7,615,299	25,594,097

(7) NOTES PAYABLE, CONTINUED

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

	2012			
	Beginning Balance	Additions	Payments	Ending Balance
Series 2008	$ 9,344,767	-	(349,635)	8,995,132
Series 2009	9,331,145	-	(347,479)	8,983,666
	$ 18,675,912	-	(697,114)	17,978,798

	2011			
	Beginning Balance	Additions	Payments	Ending Balance
Series 2008	$ 9,679,512	-	(334,745)	9,344,767
Series 2009	9,663,662	-	(332,517)	9,331,145
	$ 19,343,174	-	(667,262)	18,675,912

As of June 30, 2012 and 2011, approximately $1,948,854 and $1,499,217, 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:

	2012	2011
Cash and cash equivalents	$ 1,608,663	1,192,448
Receivable from Kay County	340,191	306,769
	$ 1,948,854	1,499,217

The Series 2008 and Series 2009 notes payable have financial and performance covenants. At June 30, 2012, the Authority was in compliance with the required covenants.

(8) 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.

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 Authority are established and may be amended by the Oklahoma Legislature. The contribution rates are as follows:

Fiscal Year 2012	
State Employees	The Authority
All Salaries	All Salaries
3.5%	16.5%

Fiscal Year 2011	
State Employees	The Authority
All Salaries	All Salaries
3.5%	15.5%

The Authority's contribution to the Retirement Plan for the years ended June 30, 2012 and 2011, was $174,335 and $88,295, respectively, and was equal to its required contribution for each year.

(9) 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 the 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.

(10) COMMITMENTS AND CONTINGENCIES

Litigation

As of June 30, 2012 and 2011, there was no significant litigation outstanding against the Authority.

FINLEY & COOK
CERTIFIED PUBLIC ACCOUNTANTS

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, 2012, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated December 28, 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

Management of the Authority is responsible for establishing and maintaining effective 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)

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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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

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
December 28, 2012

SCHEDULE OF FINDINGS AND RESPONSES

Year Ended June 30, 2012

None noted.

FOLLOW-UP ON PRIOR YEAR FINDINGS

Year Ended June 30, 2012

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 detention center 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.

2012 Follow-up:

The June 30, 2011, audited financial statements were subsequently submitted to Bank of America, and procedures have been implemented to ensure that the June 30, 2012, audited financial statements will be submitted within the required timeframe.