

Kay County
Justice Facilities Authority
Newkirk, Oklahoma

Financial Statements

June 30, 2015 and 2014
(With Independent Auditors' Report Thereon)



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

FINANCIAL STATEMENTS

Table of Contents

	<u>Page</u>
<u>Independent Auditors' Report</u>	1
<u>Basic Financial Statements:</u>	
<i>Government-Wide Financial Statements:</i>	
Statements of Net Position.....	4
Statements of Activities	6
<i>Fund Financial Statements:</i>	
Balance Sheets—Governmental Funds.....	8
Reconciliation of Balance Sheet Fund Balances—Governmental Funds to Net Position per Statements of Net Position.....	10
Statements of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds.....	11
Reconciliation of Statements of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds to Statements of Activities	13
Statements of Fiduciary Net Position.....	14
Notes to Financial Statements	15
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on `` an Audit of Financial Statements Performed in <u>Accordance with Government Auditing Standards</u>	38
<u>Supplementary Information Required by Governmental Accounting Standards Board Statement No. 68:</u>	
Schedule of the Authority's Proportionate Share of the Net Pension Liability (Exhibit I)	40
Schedule of the Authority's Contributions (Exhibit II).....	41



INDEPENDENT AUDITORS' REPORT

Board of Trustees
Kay County Justice Facilities Authority
Newkirk, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Kay County Justice Facilities Authority (the "Authority"), a component unit of Kay County, Oklahoma, as of and for the years ended June 30, 2015 and 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Authority's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

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 of the Authority as of June 30, 2015 and 2014, and the respective changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States.

Emphasis of Matters

Authority-Only Financial Statements

As discussed in Note 1, the financial statements of the Authority are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of Kay County, Oklahoma, that is attributable to the transactions of the Authority. They do not purport to, and do not, present fairly the financial position of Kay County, Oklahoma, as of June 30, 2015 and 2014, the changes in its financial position, or where applicable, its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States. Our opinion is not modified with respect to this matter.

Adoption of New Accounting Pronouncements

As discussed in Notes 1 and 2 to the financial statements, in 2015 the Authority adopted new accounting guidance, Statement No. 68 of the Governmental Accounting Standards Board, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* (GASB 68), and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* (GASB 71). The implementation of GASB 68 and GASB 71 resulted in a cumulative adjustment to restate the beginning net position of the Authority as of July 1, 2014. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States require 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.

(Continued)

INDEPENDENT AUDITORS' REPORT, CONTINUED

Other Matters, Continued

Required Supplementary Information, Continued

Accounting principles generally accepted in the United States require that the schedule of the Authority's proportionate share of the net pension liability and the schedule of the Authority's contributions on pages 40 and 41, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

The Authority is not required by statute to prepare a line-item budget. Accordingly, a schedule of revenues, expenditures, and changes in fund balance—budget to actual is not presented herein.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2015, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

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

Shawnee, Oklahoma
December 29, 2015

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

STATEMENTS OF NET POSITION

<i>June 30,</i>	<i>2015</i>	<i>2014</i>
	<u>Governmental Activities</u>	
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,595,985	1,164,135
Receivable from Kay County	621,087	709,714
Advances to Kay County	2,654,420	3,164,843
Prepaid expenses	20,714	40,957
Total current assets	<u>4,892,206</u>	<u>5,079,649</u>
Noncurrent assets:		
Restricted for debt service:		
Cash and cash equivalents	<u>750,110</u>	<u>749,713</u>
Total noncurrent assets	<u>750,110</u>	<u>749,713</u>
Capital assets:		
Property and equipment, net	<u>16,660,219</u>	<u>17,140,062</u>
Total capital assets	<u>16,660,219</u>	<u>17,140,062</u>
Total assets	<u>22,302,535</u>	<u>22,969,424</u>
Deferred Outflows of Resources		
Deferred pension items	<u>238,664</u>	-
Total deferred outflows of resources	<u>238,664</u>	-
Total assets and deferred outflows of resources	<u>\$ 22,541,199</u>	<u>22,969,424</u>

(Continued)

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

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

STATEMENTS OF NET POSITION, CONTINUED

<i>June 30,</i>	<i>2015</i>	<i>2014</i>
	<u>Governmental Activities</u>	
Liabilities		
Current liabilities:		
Accrued interest payable	\$ 339,397	356,587
Current portion of notes payable	830,491	794,927
Total current liabilities	<u>1,169,888</u>	<u>1,151,514</u>
Noncurrent liabilities:		
Notes payable	14,864,193	15,694,684
Net pension liability	142,234	-
Total liabilities	<u>16,176,315</u>	<u>16,846,198</u>
Deferred Inflows of Resources		
Deferred pension items	<u>522,436</u>	-
Total deferred inflows of resources	<u>522,436</u>	-
Net Position		
Net investment in capital assets	965,535	650,451
Restricted	410,713	393,126
Unrestricted	<u>4,466,200</u>	<u>5,079,649</u>
Total net position	<u>5,842,448</u>	<u>6,123,226</u>
 Total liabilities, deferred inflows of resources, and net position	 <u>\$ 22,541,199</u>	 <u>22,969,424</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, 2015

	<u>Expenses</u>	<u>Revenues</u>			<u>Net (Expenses) Revenues</u>
		<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:					
Public safety	\$ (3,541,191)	448,589	-	34	(3,092,568)
Interest expense	<u>(687,483)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(687,483)</u>
 Total governmental activities	 <u>\$ (4,228,674)</u>	 <u>448,589</u>	 <u>-</u>	 <u>34</u>	 <u>(3,780,051)</u>
General revenues:					
Contractual revenues from Kay County— dedicated sales taxes					4,144,568
Interest					<u>1,553</u>
Total general revenues					<u>4,146,121</u>
Change in net position					366,070
Net position, beginning of year, as previously reported					6,123,226
Cumulative change in net position to adopt GASB 68 and GASB 71 (see Note 2)					<u>(646,848)</u>
Net position, beginning of year, restated					<u>5,476,378</u>
Net position, end of year					<u>\$ 5,842,448</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, 2014

	<u>Expenses</u>	<u>Revenues</u>			<u>Net (Expenses) Revenues</u>
		<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>	<u>Operating Grants and Contributions</u>	
Governmental activities:					
Public safety	\$ (3,264,650)	629,730	-	33	(2,634,887)
Interest expense	<u>(721,491)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(721,491)</u>
Total governmental activities	<u>\$ (3,986,141)</u>	<u>629,730</u>	<u>-</u>	<u>33</u>	<u>(3,356,378)</u>
General revenues:					
Contractual revenues from Kay County—dedicated sales taxes					4,172,315
Interest					<u>2,055</u>
Total general revenues					<u>4,174,370</u>
Change in net position					817,992
Net position, beginning of year					<u>5,305,234</u>
Net position, end of year					<u>\$ 6,123,226</u>

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

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

BALANCE SHEETS—GOVERNMENTAL FUNDS

June 30, 2015

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Governmental Total</u>
Assets			
Cash and cash equivalents	\$ 1,595,985	750,110	2,346,095
Receivable from Kay County	621,087	-	621,087
Advances to Kay County	<u>2,654,420</u>	<u>-</u>	<u>2,654,420</u>
 Total assets	 <u>\$ 4,871,492</u>	 <u>750,110</u>	 <u>5,621,602</u>
Liabilities and Fund Balances			
Liabilities:			
Interest payable	<u>\$ -</u>	<u>339,396</u>	<u>339,396</u>
Fund balances:			
Unassigned	<u>4,871,492</u>	<u>410,714</u>	<u>5,282,206</u>
Total fund balances	<u>4,871,492</u>	<u>410,714</u>	<u>5,282,206</u>
 Total liabilities and fund balances	 <u>\$ 4,871,492</u>	 <u>750,110</u>	 <u>5,621,602</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, 2014

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Governmental Total</u>
Assets			
Cash and cash equivalents	\$ 1,164,135	749,713	1,913,848
Receivable from Kay County	709,714	-	709,714
Advances to Kay County	<u>3,164,843</u>	<u>-</u>	<u>3,164,843</u>
 Total assets	 <u>\$ 5,038,692</u>	 <u>749,713</u>	 <u>5,788,405</u>
Liabilities and Fund Balances			
Liabilities:			
Interest payable	<u>\$ -</u>	<u>356,587</u>	<u>356,587</u>
Fund balances:			
Unassigned	<u>5,038,692</u>	<u>393,126</u>	<u>5,431,818</u>
Total fund balances	<u>5,038,692</u>	<u>393,126</u>	<u>5,431,818</u>
 Total liabilities and fund balances	 <u>\$ 5,038,692</u>	 <u>749,713</u>	 <u>5,788,405</u>

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

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

**RECONCILIATION OF BALANCE SHEET FUND BALANCES—GOVERNMENTAL FUNDS
TO NET POSITION PER STATEMENTS OF NET POSITION**

<i>June 30,</i>	<i>2015</i>	<i>2014</i>
Total fund balances	\$ 5,282,206	5,431,818
Amounts reported in the statements of net position are different because:		
Prepaid expenses reported in the statements of net position are not current financial resources and therefore are not reported in the fund	20,713	40,957
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the fund:		
Property and equipment, net	16,660,219	17,140,062
Deferred outflows related to the pension are not financial resources and therefore are not reported in the funds	238,664	-
Certain liabilities are not due and payable in the current period and therefore are not reported in the fund:		
Long-term debt	(15,694,684)	(16,489,611)
Net pension liability	(142,234)	-
Deferred inflows related to the pension are not due and payable in the current period and therefore are not reported in the fund	(522,436)	-
Net position, per statements of net position	<u>\$ 5,842,448</u>	<u>6,123,226</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, 2015

	General Fund	Debt Service Fund	Total Governmental Funds
Revenues:			
Contractual revenues from			
Kay County—dedicated sales taxes	\$ 4,144,568	-	4,144,568
Public safety	448,589	-	448,589
Interest	1,553	34	1,587
Total revenues	<u>4,594,710</u>	<u>34</u>	<u>4,594,744</u>
Expenditures:			
Current operating:			
Public safety	3,259,147	-	3,259,147
Trust fees	-	2,799	2,799
Debt service:			
Principal	-	794,927	794,927
Interest	-	687,483	687,483
Total expenditures	<u>3,259,147</u>	<u>1,485,209</u>	<u>4,744,356</u>
Excess (deficit) of revenues over expenditures	<u>1,335,563</u>	<u>(1,485,175)</u>	<u>(149,612)</u>
Transfers:			
To debt service	<u>(1,502,763)</u>	<u>1,502,763</u>	<u>-</u>
Total transfers	<u>(1,502,763)</u>	<u>1,502,763</u>	<u>-</u>
Net changes in fund balances	(167,200)	17,588	(149,612)
Fund balances, beginning of year	<u>5,038,692</u>	<u>393,126</u>	<u>5,431,818</u>
Fund balances, end of year	<u>\$ 4,871,492</u>	<u>410,714</u>	<u>5,282,206</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, 2014

	General Fund	Debt Service Fund	Total Governmental Funds
Revenues:			
Contractual revenues from			
Kay County—dedicated sales taxes	\$ 4,172,315	-	4,172,315
Public safety	629,730	-	629,730
Interest	2,055	33	2,088
Total revenues	<u>4,804,100</u>	<u>33</u>	<u>4,804,133</u>
Expenditures:			
Current operating:			
Public safety	2,740,390	-	2,740,390
Trust fees	-	2,795	2,795
Debt service:			
Principal	-	760,886	760,886
Interest	-	721,491	721,491
Total expenditures	<u>2,740,390</u>	<u>1,485,172</u>	<u>4,225,562</u>
Excess (deficit) of revenues over expenditures	<u>2,063,710</u>	<u>(1,485,139)</u>	<u>578,571</u>
Transfers:			
To debt service	<u>(1,501,983)</u>	<u>1,501,983</u>	<u>-</u>
Total transfers	<u>(1,501,983)</u>	<u>1,501,983</u>	<u>-</u>
Net changes in fund balances	561,727	16,844	578,571
Fund balances, beginning of year	<u>4,476,965</u>	<u>376,282</u>	<u>4,853,247</u>
Fund balances, end of year	<u>\$ 5,038,692</u>	<u>393,126</u>	<u>5,431,818</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>2015</i>	<i>2014</i>
Net changes in fund balances—governmental funds	\$ (149,612)	578,571
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	87,035	33,660
Advances from debt agreements, principal repayments, and changes in certain other assets are not reflected as revenues and expenditures in the statements of activities:		
Depreciation expense	(566,879)	(555,542)
Principal payments on Series 2008 and Series 2009 notes payable	794,927	760,886
Prepaid expenses	(20,243)	417
Deferred outflows related to the pension are not financial resources and therefore are not reported in the General Fund	220,842	-
Change in net position, per statements of activities	\$ 366,070	817,992

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

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

STATEMENTS OF FIDUCIARY NET POSITION

<i>June 30,</i>	<i>2015</i>	<i>2014</i>
	Agency Fund	
	<u>Inmate Cash Fund</u>	
Assets		
Cash	\$ 16,301	18,749
Total assets	<u>\$ 16,301</u>	<u>18,749</u>
Liabilities		
Payable to inmates	\$ 16,301	18,749
Total liabilities	<u>\$ 16,301</u>	<u>18,749</u>

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

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

NOTES TO FINANCIAL STATEMENTS

June 30, 2015 and 2014

(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 five residents of Kay County. The five 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).

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 position 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 position reflect the following types of net position:

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>2015</u>	<u>2014</u>
Total capital assets	\$ 16,660,219	17,140,062
Long-term debt	<u>(15,694,684)</u>	<u>(16,489,611)</u>
	<u>\$ 965,535</u>	<u>650,451</u>

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

	<u>2015</u>	<u>2014</u>
Cash restricted for debt service	\$ 750,110	749,713
Accrued interest payable	<u>(339,397)</u>	<u>(356,587)</u>
	<u>\$ 410,713</u>	<u>393,126</u>

Unrestricted—Represents the remaining net position.

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 two active major funds:

- General 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 the dedicated sales taxes received by Kay County from the OTC that are transferred to the Authority.

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. All sales tax revenues are reflected in the general fund with transfers made to the debt service fund for debt service.

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. The capital projects fund is presently inactive.

In addition to the major funds listed above, the Authority has one fiduciary fund assumed during fiscal year 2013 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 \$16,000 and \$19,000 as of June 30, 2015 and 2014, respectively.

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 position prior to the use of unrestricted net position when an expense is incurred for purposes for which both restricted and unrestricted net position 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*, 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 composition of restricted assets is cash held by the trustee for debt service.

- 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.

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 position 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 position and financial positions. All assets and liabilities (whether current or noncurrent) associated with their activities are reported.

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

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 position 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.

Deferred Inflows and Outflows of Resources

Government-Wide Financial Statements

Deferred inflows and outflows of resources represent amounts associated with pension differences between expected and actual experience, differences between projected and actual earnings on pension fund investments, and changes in assumptions. Note 8 details the components of these items.

See Independent Auditors’ Report.

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Pension Plan

The Authority participates in a cost-sharing, multiple-employer defined benefits pension plan administered by the Oklahoma Public Employees Retirement System (the “System”). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Oklahoma Public Employees Retirement Plan (OPERS) and additions to/deductions from the System’s fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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.

Recent Accounting Pronouncements

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* (GASB 68). The primary objective of GASB 68 is to improve accounting and financial reporting for pensions by state and local governments. GASB 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expenses/expenditures. For defined benefit pensions, GASB 68 identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. The Authority adopted this statement effective July 1, 2014. The adoption of GASB 68 resulted in the restatement of beginning net assets of the Authority.

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 January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations* (GASB 69). GASB 69 establishes accounting and financial reporting standards related to governmental combinations and disposals of government operations. Generally, governmental combinations include mergers, acquisitions and transfers of operations. This statement improves financial reporting by providing guidance for business combinations in the governmental environment. The Authority adopted this statement July 1, 2014. Presently, the Authority has no items to be reported, and the adoption had no significant impact on the financial statements of the Authority.

In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68* (GASB 71). GASB 71 amends GASB 68 by amending the transition provisions of GASB 68. At transition to GASB 68, employers that could not practically determine all of the deferred inflows and outflows related to pensions were provided guidance that no deferred inflows or outflows should be reported. GASB 71 amends this guidance to provide that a government recognize a beginning deferred outflow of resources for pension contributions made subsequent to the measurement date. GASB 71 will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of GASB 68. The Authority adopted this statement on July 1, 2014. The adoption of GASB 71 resulted in the restatement of the beginning net assets of the Authority.

In February 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application* (GASB 72). GASB 72 addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GASB 72 provides guidance for determining a fair value measurement for financial reporting purposes. GASB 72 also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of GASB 72 will enhance comparability of financial statements among governments by requiring measurement of certain assets and liabilities at fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. GASB 72 also will enhance fair value application guidance and related disclosures in order to provide information to financial statement users about the impact of fair value measurements on a government's financial position. GASB 72 is effective for financial statements for periods beginning after June 15, 2015. The Authority will adopt GASB 72 effective July 1, 2015, for the June 30, 2016, reporting year. GASB 72 will require additional and/or revised disclosures in the financial statements.

In August 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures* (GASB 77). The primary objective of GASB 77 is to require state and local governments to disclose information about property and other tax abatement agreements. This statement is effective for financial statements for periods beginning after December 15, 2015. The Authority has not determined the effects, if any, of implementing GASB 77.

See Independent Auditors' Report.

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Date of Management's Evaluation of Subsequent Events

Management has evaluated subsequent events through December 29, 2015, the date that the financial statements were available to be issued, and determined that no subsequent events have occurred which require adjustment to or disclosure in the financial statements, except as discussed in Note 12 to the financial statements.

(2) RESTATEMENT OF BEGINNING NET POSITION

The beginning net position of the Authority has been restated to effect the implementation of GASB 68 and GASB 71. GASB 68 denotes that during implementation if restatement of all prior years presented is not practical, the cumulative effect of applying GASB 68 should be reported as a restatement of beginning net position for the earliest period restated. As such, the beginning net position as of July 1, 2014, is being restated, as all information needed to restate the year ended June 30, 2014, is not available.

The cumulative adjustment to the July 1, 2014, beginning net position consists of the following:

Beginning July 1, 2014, net position, as previously reported	\$ 6,123,226
Adjustments:	
Record the Authority's proportionate share of the net pension liability of OPERS	(863,452)
Record the 2014 contributions by the Authority to OPERS as deferred outflows	<u>216,604</u>
Net effect of restatement	<u>(646,848)</u>
Beginning net position, as restated	<u>\$ 5,476,378</u>

(3) CASH AND CASH EQUIVALENTS

As of June 30, 2015 and 2014, \$750,110 and \$749,713, respectively, of cash and cash equivalents was restricted for debt service.

The majority of the Authority's cash is in collateralized interest-bearing deposit accounts. The accounts have variable interest rates ranging from approximately 0.08% to 0.13% as of June 30, 2015, and are collateralized with pledged securities.

See Independent Auditors' Report.

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(3) 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, 2015 and 2014, the Authority's bank balances of \$2,346,095 and \$1,913,848, respectively, were exposed to custodial credit risk of \$1,846,095 and \$1,413,848, respectively (after FDIC insurance of \$250,000 per bank). The custodial credit risk by bank as of June 30 was as follows:

	<u>2015</u>	<u>2014</u>
Uninsured and collateralized with securities held by the pledging bank's safekeeping agent but not in the Authority's name:		
Bank of Oklahoma	\$ 500,110	499,713
Eastman National Bank	<u>1,345,985</u>	<u>914,135</u>
	<u>\$ 1,846,095</u>	<u>1,413,848</u>

(4) RECEIVABLE FROM KAY COUNTY

As of June 30, 2015 and 2014, \$621,087 and \$709,714, 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>2015</u>	<u>2014</u>
Portion of sales taxes collected by the OTC due to Kay County that have not been transferred to the Authority	\$ 314,158	372,764
Portion of sales taxes received by Kay County from the OTC which have not been transferred to the Authority	<u>306,929</u>	<u>336,950</u>
	<u>\$ 621,087</u>	<u>709,714</u>

See Independent Auditors' Report.

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(5) ADVANCES TO KAY COUNTY

During the years ended June 30, 2015 and 2014, the Authority advanced monies to Kay County to assist in the payment of salaries and operations of the detention center. As Kay County pays directly the majority of the Authority's expenses, monies must be on deposit with Kay County before an expense is paid. As of June 30, 2015 and 2014, \$2,654,420 and \$3,164,843, respectively, of the advances had not been expended by Kay County.

(6) CAPITAL ASSETS

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

	2015			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets:				
Land	\$ 18,794	-	-	18,794
Building	18,496,923	-	-	18,496,923
Equipment	288,591	22,567	-	311,158
Furniture and fixtures	169,683	10,189	-	179,872
Vehicles	153,970	23,534	-	177,504
Office equipment	88,784	32,230	(4,946)	116,068
Total capital assets	19,216,745	88,520	(4,946)	19,300,319
Less accumulated depreciation	(2,076,683)	(566,879)	3,462	(2,640,100)
	\$ 17,140,062	(478,359)	(1,484)	16,660,219

See Independent Auditors' Report.

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(6) CAPITAL ASSETS, CONTINUED

	2014			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
Capital assets:				
Land	\$ 18,794	-	-	18,794
Building	18,496,923	-	-	18,496,923
Equipment	276,907	11,684	-	288,591
Furniture and fixtures	169,683	-	-	169,683
Vehicles	132,643	21,327	-	153,970
Office equipment	88,135	649	-	88,784
Total capital assets	<u>19,183,085</u>	<u>33,660</u>	<u>-</u>	<u>19,216,745</u>
Less accumulated depreciation	<u>(1,521,141)</u>	<u>(555,542)</u>	<u>-</u>	<u>(2,076,683)</u>
	<u>\$ 17,661,944</u>	<u>(521,882)</u>	<u>-</u>	<u>17,140,062</u>

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 \$566,879 and \$555,542 of depreciation expense in public safety governmental activities for the years ended June 30, 2015 and 2014, respectively.

See Independent Auditors' Report.

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) NOTES PAYABLE

Notes payable of the Authority as of June 30, 2015 and 2014, 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 principal balance of the note payable was \$7,850,109 and \$8,248,510 as of June 30, 2015 and 2014, 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 principal balance of the note payable was \$7,844,575 and \$8,241,101 as of June 30, 2015 and 2014, 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 the Bank of Oklahoma, the trustee bank.

The Authority has assigned a security interest in the Sales Tax Agreement and in sales tax revenues that are derived from the agreement. 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, 2015:

<u>Applicable Fiscal Year Ended June 30,</u>	<u>Principal or Face Amount</u>	<u>Interest Amount</u>	<u>Total Amount</u>
2016	\$ 416,124	333,130	749,254
2017	434,635	315,040	749,675
2018	453,969	296,145	750,114
2019	474,163	276,410	750,573
2020	495,256	255,796	751,052
2021–2025	2,827,010	936,222	3,763,232
2026–2029	2,748,952	272,710	3,021,662
	<u>\$ 7,850,109</u>	<u>2,685,453</u>	<u>10,535,562</u>

See Independent Auditors' Report.

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) NOTES PAYABLE, CONTINUED

The following is a schedule of the future maturities of the Series 2009 note payable as of June 30, 2015:

<u>Applicable Fiscal Year Ended June 30,</u>	<u>Principal or Face Amount</u>	<u>Interest Amount</u>	<u>Total Amount</u>
2016	\$ 414,367	336,782	751,149
2017	433,012	318,557	751,569
2018	452,495	299,511	752,006
2019	472,855	279,609	752,464
2020	494,131	258,811	752,942
2021–2025	2,824,853	947,816	3,772,669
2026–2029	<u>2,752,862</u>	<u>276,350</u>	<u>3,029,212</u>
	<u>\$ 7,844,575</u>	<u>2,717,436</u>	<u>10,562,011</u>

The following is a combined schedule of the future maturities of the Series 2008 and Series 2009 notes payable as of June 30, 2015:

<u>Applicable Fiscal Year Ended June 30,</u>	<u>Principal or Face Amount</u>	<u>Interest Amount</u>	<u>Total Amount</u>
2016	\$ 830,491	669,912	1,500,403
2017	867,647	633,597	1,501,244
2018	906,464	595,656	1,502,120
2019	947,018	556,019	1,503,037
2020	989,387	514,607	1,503,994
2021–2025	5,651,863	1,884,038	7,535,901
2026–2029	<u>5,501,814</u>	<u>549,060</u>	<u>6,050,874</u>
	<u>\$ 15,694,684</u>	<u>5,402,889</u>	<u>21,097,573</u>

See Independent Auditors' Report.

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(7) NOTES PAYABLE, CONTINUED

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

	2015				
	Beginning <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	Ending <u>Balance</u>	Amount Due Within <u>1 Year</u>
Series 2008	\$ 8,248,510	-	(398,401)	7,850,109	416,124
Series 2009	<u>8,241,101</u>	<u>-</u>	<u>(396,526)</u>	<u>7,844,575</u>	<u>414,367</u>
	<u>\$ 16,489,611</u>	<u>-</u>	<u>(794,927)</u>	<u>15,694,684</u>	<u>830,491</u>
	2014				
	Beginning <u>Balance</u>	<u>Additions</u>	<u>Payments</u>	Ending <u>Balance</u>	Amount Due Within <u>1 Year</u>
Series 2008	\$ 8,629,943	-	(381,433)	8,248,510	398,401
Series 2009	<u>8,620,554</u>	<u>-</u>	<u>(379,453)</u>	<u>8,241,101</u>	<u>396,526</u>
	<u>\$ 17,250,497</u>	<u>-</u>	<u>(760,886)</u>	<u>16,489,611</u>	<u>794,927</u>

The Series 2008 and Series 2009 notes payable have financial and performance covenants. At June 30, 2015, the Authority was in compliance with the required covenants.

(8) PENSION PLAN

Plan Description

The Authority contributes to the Oklahoma Public Employees Retirement Plan (OPERS), a cost-sharing, multiple-employer public employee retirement system administered by the Oklahoma Public Employees Retirement System (the "System"). OPERS 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 OPERS 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 OPERS. That annual report may be obtained by writing to the Oklahoma Public Employees Retirement System, 5801 N. Broadway Extension, Suite 200, Oklahoma City, Oklahoma 73118 or by calling 1-800-733-9008, or can be obtained at www.opers.ok.gov/websites/opers/images/pdfs/CAFR-2014-OPERS.pdf.

See Independent Auditors' Report.

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) PENSION PLAN, CONTINUED

Benefits Provided

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

Normal retirement date is further qualified to require that all members employed on or after January 1, 1983, must have 6 or more years of full-time equivalent employment with a participating employer before being eligible to receive benefits. Credited service is the sum of participating and prior service. Prior service includes nonparticipating service before January 1, 1975, or the entry date of the employer and active wartime military service.

A member with a minimum of 10 years of participating service may elect early retirement with reduced benefits beginning at age 55 if the participant became a member prior to November 1, 2011, or age 60 if the participant became a member on or after November 1, 2011.

Disability retirement benefits are available for members having 8 years of credited service whose disability status has been certified as being within 1 year of the last day on the job by the Social Security Administration. Disability retirement benefits are determined in the same manner as retirement benefits, but payable immediately without an actuarial reduction.

For state, county, and local agency employees, benefits are determined at 2% of the average annual salary received during the highest 36 months of the last 10 years of participating service, but not to exceed the applicable annual salary cap, multiplied by the number of years of credited service. Members who join OPERS on or after July 1, 2013, will have their salary averaged over the highest 60 months of the last 10 years. Normal retirement age under the plan is 62 or Rule of 80/90 if the participant became a member prior to November 1, 2011, or age 65 or Rule of 90 if the participant became a member on or after November 1, 2011.

Members who elect to pay the additional contribution rate, which became available in January 2004, will receive benefits using a 2.5% computation factor for each full year the additional contributions are made. In 2004, legislation was enacted to provide an increased benefit to retiring members who were not yet eligible for Medicare. The Medicare Gap benefit option became available to members under age 65 who retired on or after May 1, 2006. Members may elect to receive a temporary increased benefit to cover the cost of health insurance premiums until the member is eligible to receive Medicare. After the member becomes eligible for Medicare, the retirement benefit will be permanently reduced by an actuarially determined amount. The option is irrevocable, must be chosen prior to retirement, and is structured to have a neutral actuarial cost to the plan.

See Independent Auditors' Report.

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) PENSION PLAN, CONTINUED

Benefits Provided, Continued

Members become eligible to vest fully upon termination of employment after attaining 8 years of credited service, or the members' contributions may be withdrawn upon termination of employment.

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

Benefits are payable to the surviving spouse of an elected official only if the elected official had at least 6 years of participating elected service and was married at least 3 years immediately preceding death. Survivor benefits are terminated upon death of the named survivor and, for elected officials, remarriage of the surviving spouse. Upon the death of a retired member, with no survivor benefits payable, the member's beneficiary(ies) are paid the excess, if any, of the member's accumulated contributions over the sum of all retirement benefit payments made.

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

Legislation was enacted in 1999 which provided a limited additional benefit for certain terminated members eligible to vest as of July 1, 1998. This limited benefit is payable as an additional \$200 monthly benefit upon the member's retirement up to the total amount of certain excess contributions paid by the participant to OPERS. In April 2001, limited benefit payments began for qualified retired members.

Contributions

The contribution rates for each member category of OPERS are established by the Oklahoma Legislature after recommendation by the Board of Trustees of the System based on an actuarial calculation, which is performed to determine the adequacy of such contribution rates.

Each member participates based on their qualifying gross salary earned, excluding overtime. There is no cap on the qualifying gross salary earned, subject to Internal Revenue Service (IRS) limitations on compensation.

See Independent Auditors' Report.

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) PENSION PLAN, CONTINUED

Contributions, Continued

For 2015, 2014, and 2013, state agency employers contributed 16.5% on all salary, and state employees contributed 3.5% on all salary.

Members have the option to elect to increase the benefit computation factor for all future service from 2.0% to 2.5%. The election is irrevocable, binding for all future employment under OPERS, and applies only to full years of service. Those who make the election pay the standard contribution rate plus an additional contribution rate, 2.91% which is actuarially determined. The election is available for all state, county, and local government employees, except for elected officials and hazardous duty members.

Contributions to OPERS by the Authority for 2015, 2014, and 2013 were approximately as follows:

	<u>2015</u>	<u>2014</u>	<u>2013</u>
\$	<u>231,000</u>	<u>194,000</u>	<u>155,000</u>

**Pension Liabilities, Pension Expense, and Deferred Outflows of
Resources and Deferred Inflows of Resources Related to Pensions**

At June 30, 2015, the Authority reported a liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2014. The Authority's proportion of the net pension liability was based on the Authority's contributions received by OPERS relative to the total contributions received by OPERS for all participating employers as of June 30, 2014. Based upon this information, the Authority's proportion was 0.077485426%.

See Independent Auditors' Report.

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) PENSION PLAN, CONTINUED

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions, Continued

For the year ended June 30, 2015, the Authority recognized pension expense of \$9,684. At June 30, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	47,090
Changes of assumptions	8,138	-
Net difference between projected and actual earnings on pension plan investments	-	475,346
Contributions subsequent to the measurement date	<u>230,526</u>	<u>-</u>
	<u>\$ 238,664</u>	<u>522,436</u>

Reported deferred outflows of resources of \$230,526 related to pensions resulting from the Authority contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2016. Any other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ended June 30:	
2016	\$ (107,474)
2017	(107,474)
2018	(107,474)
2019	(96,806)
2020	<u>(95,070)</u>
	<u>\$ (514,298)</u>

See Independent Auditors' Report.

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) PENSION PLAN, CONTINUED

Actuarial Methods and Assumptions

The total pension liability was determined on an actuarial valuation prepared as of July 1, 2014, using the following actuarial assumptions:

Investment return:	7.5% compounded annually net of investment expense and including inflation
Salary increases:	4.5% to 8.4% per year, including inflation
Mortality rates:	Active participants and nondisabled pensioners: RP-2000 Mortality Table projected to 2010 by Scale AA (disabled pensioners set forward 15 years)
Annual post-retirement benefit increases:	None
Assumed inflation rate:	3.0%
Payroll growth:	4.0% per year
Actuarial cost method:	Entry age
Select period for the termination of employment assumptions:	10 years

The actuarial assumptions used in the July 1, 2014, valuation are based on the results of the most recent actuarial experience study, which covers the 3-year period ending June 30, 2013. The experience study report is dated May 9, 2014.

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

See Independent Auditors' Report.

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) PENSION PLAN, CONTINUED

Actuarial Methods and Assumptions, Continued

The target asset allocation and best estimates of geometric real rates of return for each major asset class as of June 30, 2014, are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. large cap equity	38.0%	5.3%
U.S. small cap equity	6.0%	5.6%
U.S. fixed income	25.0%	0.7%
International stock	18.0%	5.6%
Emerging market stock	6.0%	6.4%
TIPS	3.5%	0.7%
Rate anticipation	<u>3.5%</u>	1.5%
	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and the employers will be made at the current contribution rate as set out in state statute. Based on those assumptions, OPERS' fiduciary net position was projected through 2113 to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The discount rate determined does not use a municipal bond rate.

See Independent Auditors' Report.

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(8) PENSION PLAN, CONTINUED

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the employer calculated using the discount rate of 7.5%, as well as what the Authority’s net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.5%) or 1 percentage point higher (8.5%) than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
Net pension liability (asset)	\$ 885,524	142,234	(489,666)

Pension Plan Fiduciary Net Position

Detailed information about OPERS’ fiduciary net position is available in the separately issued financial report of OPERS, which can be located at www.opers.ok.gov.

(9) TRANSFERS

Transfers for 2015 consist of monies transferred from the general fund to the debt service fund to repay the debt. During 2015, \$1,502,763 was sent to the Bank of Oklahoma, the trustee bank. The debt agreements require specific monthly amounts to be transferred.

No transfers were made from the debt service fund to the general fund during 2015.

(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 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.

See Independent Auditors’ Report.

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

NOTES TO FINANCIAL STATEMENTS, CONTINUED

(11) COMMITMENTS AND CONTINGENCIES

Litigation

During 2014, a former employee filed an action claiming a violation of EEOC statutes. Management believes the outcome of the case will not result in any judgment against the Authority and will have no material effect on the Authority's financial statements.

Also during 2014, an inmate filed a case suing the Assistant Director of the Authority and other unnamed members of Kay County law enforcement. The inmate is seeking to pursue a Section 1983 action against the named individuals for violation of civil rights related to the failure of proper medical treatment, improper food and diet, and other unknown grievances. Management believes the outcome of the case will not have a material effect on the Authority's financial statements.

Regulation Compliance

In providing services to inmates, the Authority is subject to various state, federal, and contractual requirements. The Authority is presently not aware of unresolved violations which would have a material impact on its operations.

(12) SUBSEQUENT EVENT

Subsequent to June 30, 2015, the Authority purchased property that was adjacent to the detention center. The property was purchased for \$85,000 utilizing non-sales tax revenue monies.



**INDEPENDENT AUDITORS' 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, in accordance with the 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, 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"), a component unit of Kay County, Oklahoma, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated December 29, 2015. Our report includes an explanatory paragraph regarding the omission of management's discussion and analysis, an explanatory paragraph stating that the financial statements of the Authority are intended to present the financial position and changes in financial position of only that portion of the governmental activities of Kay County, Oklahoma, attributable to the transactions of the Authority, and an explanatory paragraph stating that the Authority is not required by statute to prepare a line-item budget. Our report also includes an explanatory paragraph noting the adoption of Governmental Accounting Standards Board Statements No. 68 and 71 by the Authority, requiring the restatement of beginning net position. In addition, our report includes an explanatory paragraph disclaiming an opinion on required supplementary information.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

(Continued)

**INDEPENDENT AUDITORS' 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**

Internal Control Over Financial Reporting, Continued

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free from 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*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

Shawnee, Oklahoma
December 29, 2015

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

**SUPPLEMENTARY INFORMATION REQUIRED BY
GOVERNMENTAL ACCOUNTING STANDARDS BOARD
STATEMENT NO. 68**

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

**SCHEDULE OF THE AUTHORITY'S PROPORTIONATE SHARE OF
NET PENSION LIABILITY
Oklahoma Public Employees Retirement Plan**

Current Fiscal Year

	<u>2015</u>
Authority's proportionate share of the net pension liability	0.0774854%
Authority's proportionate share of the net pension liability	\$ 142,234 *
Authority's covered-employee payroll	\$ 1,175,532 *
Authority's proportionate share of the net pension liability as a percentage of its covered payroll	12.10%
OPERS' fiduciary net position as a percentage of the total pension liability	97.90%

* The amounts presented for each year end were determined as of
June 30th of the prior year.

Only the current fiscal year is presented because data for the prior 4 fiscal years
since initial contributions were made to OPERS is not readily available.

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

**SCHEDULE OF THE AUTHORITY'S CONTRIBUTIONS
Oklahoma Public Employees Retirement Plan**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Contractually required contribution	\$ 230,526	193,963	155,365	174,335	88,295
Contributions in relation to the contractually required contributions	<u>230,526</u>	<u>193,963</u>	<u>155,365</u>	<u>174,335</u>	<u>88,295</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Authority's covered-employee payroll	\$ 1,397,130	1,175,532	941,606	1,056,576	569,645
Contributions as a percentage of covered-employee payroll	16.50%	16.50%	16.50%	16.50%	15.50%

Only the last 5 fiscal years are presented because 2011 was the first year of contributions to OPERS.