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**KAY COUNTY HOME FINANCE AUTHORITY**

**ANNUAL FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2012**

KAY COUNTY HOME FINANCE AUTHORITY  
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YEAR ENDED JUNE 30, 2012

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## Independent Auditor's Report

To the Trustees of  
Kay County Home Finance Authority

We have audited the accompanying financial statements of Kay County Home Finance Authority, as of and for the year ended June 30, 2012. These financial statements are the responsibility of Kay County Home Finance Authority's management. Our responsibility is to express opinions on these financial statements based on our audit.

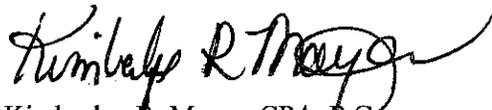
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kay County Home Finance Authority, as of June 30, 2012, and the changes in net assets and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 4, 2013 on our consideration of Kay County Home Finance Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants 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 read in conjunction with this report in considering the results of our audit.

Kay County Home Finance Authority has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board requires to supplement, although, not be a part of the basic financial statements. The omission of this information does not affect the opinion expressed on the financial statements as a whole.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements. The combining financial statements on pages 13 through 15 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.



Kimberlye R. Mayer, CPA, P.C.  
Blackwell, Oklahoma  
June 4, 2013

INDEPENDENT AUDITOR'S 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 Home Finance Authority

We have audited the financial statements of the Kay County Home Finance Authority as of and for the year ended June 30, 2012, and have issued our report thereon dated June 4, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Kay County Home Finance Authority has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board requires to supplement, although, not be a part of the basic financial statements.

Internal Control Over Financial Reporting

Management of Kay County Home Finance Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Kay County Home Finance Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness Kay County Home Finance Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Kay County Home Finance 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 combination of deficiencies, in internal control such that there is 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 weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Kay County Home Finance Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the board of trustees and others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.



Kimberlye R. Mayer, CPA, P.C.  
Blackwell, Oklahoma  
June 4, 2013

BASIC FINANCIAL STATEMENTS

AND

NOTES

KAY COUNTY HOME FINANCE AUTHORITY  
STATEMENT OF NET ASSETS  
JUNE 30, 2012

ASSETS

Current Assets:		
Cash and cash equivalents (Note 5)	\$	54,900
Certificate of Deposit		<u>235,237</u>
Total Assets	\$	<u><u>290,137</u></u>

LIABILITIES AND NET ASSETS

Liabilities:		
Net Assets:		
Unrestricted		290,137
Restricted		
Total Net Assets		<u>290,137</u>
Total Liabilities and Net Assets	\$	<u><u>290,137</u></u>

KAY COUNTY HOME FINANCE AUTHORITY  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2012

Revenues:	
Investment income	\$ 15,392
Increase in fair value of investments	
Total Revenues	<u>15,392</u>
Expenses:	
Interest on debt	328,139
Amortization of deferred charges	12,095
Service charges	5
Distribution to Kay County	<u>150,000</u>
Total Expenses	<u>490,239</u>
Revenues over (under) expenses	(474,847)
Net assets, beginning of year	<u>764,984</u>
Net assets, end of year	<u><u>\$ 290,137</u></u>

The accompanying report and notes are an integral part of these financial statements.

KAY COUNTY FINANCE AUTHORITY  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2012

Cash Flows From Operating Activities:	
Investment income received	\$ 5,223
Payments for expenses	(150,005)
Payment of bonds with interest	(11,054,275)
Proceeds from sale of investments	<u>11,054,000</u>
Net Cash Provided (Used) By Operating Activities	(145,057)
Cash flows from non-capital financing activities:	
Cash flows from capital and related financing activities:	
Cash Flows From Investing Activities:	
Reclass certificate of deposit	<u>(235,237)</u>
Net increase (decrease) in cash and cash equivalents	(380,294)
Beginning cash and cash equivalents	435,194
Ending cash and cash equivalents	<u><u>\$ 54,900</u></u>
Reconciliation of revenue (expenses) from operations to net cash provided (used) by operating activities:	
Revenues over (under) expenses	\$ (474,847)
Adjustments to reconcile revenue (expenses) from operations to net cash provided (used) by operating activities:	
Amortization	12,095
Changes in assets and liabilities:	
(Increase) decrease in receivables	1,860,200
(Increase) decrease in investments	9,183,630
Increase (decrease) in payables	<u>(10,726,135)</u>
Net cash provided (used) by operating activities	<u><u>\$ (145,057)</u></u>

The accompanying report and notes are an integral part of these financial statements.

KAY COUNTY HOME FINANCE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2012

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

Reporting Entity

The Kay County Home Finance Authority, created on December 4, 1978, and amended March 8, 1982, was originated under provisions of Title 60 of the Oklahoma Statutes, 1971, as amended, the Oklahoma Trust Act, and the laws of the State of Oklahoma. The Authority operates under the management of a Board of Trustees.

Basis of Accounting

The accrual basis of accounting is utilized by the Authority. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

Investments

Investments are carried at fair market value with unrealized changes being recorded in the statement of activities. Short-term investments and cash deposits are reported at cost. Management's intent is to hold all investments to maturity. A detailed schedule of investments is on page 8.

Budget

No formal annual operating budget is prepared by the Authority. According to the Oklahoma Statutes, Title 60, Section 176(g), public trusts must prepare and file a budget annually with its beneficiary.

Income Taxes

As provided in Title 60, Oklahoma Statutes, the Kay County Home Finance Authority is a tax-exempt Public Trust. Consequently, no provision has been made for income taxes.

Net Assets

Net Assets present the difference between assets and liabilities in the statement of net assets. Net assets invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by Authority legislation or external restrictions by creditors, grantors, laws or regulations of other governments.

**NOTE 2 – DEPOSITS, INVESTMENTS AND COLLATERAL:**

A. Oklahoma State Law, Title 62, Section 348.1 allows for investment of funds in the following:

1. Direct obligations of the United States Government to the payment of which the full faith and credit of the Government of the United States or of this state is pledged.
2. Certificates of deposit of savings and loan associations, banks, trust companies when the certificates of deposit are secured by acceptable collateral as in the deposit of other public monies.
3. Savings accounts or savings certificates of savings and loan associations, banks and trust companies, to the extent that the accounts or certificates are fully insured by the Federal Savings and Loan Insurance Corporation or the Federal Deposit Insurance Corporation.
4. Public Trusts (Authorities) and Pension Trust Funds may invest in the above noted securities in addition to marketable equity securities.

KAY COUNTY FINANCE AUTHORITY  
 NOTES TO FINANCIAL STATEMENTS  
 YEAR ENDED JUNE 30, 2012

**NOTE 2 – DEPOSITS, INVESTMENTS AND COLLATERAL (continued):**

The Authority's investments and deposits held by the Trustee bank were government investments. The deposits in the excess fund are collateralized by securities held by the pledging financial institution in the Authority's name. The following is a detail of the deposits in the excess funds at June 30, 2012:

Cash funds	\$ 54,900
Certificates of deposit	235,237
Total	\$ 290,137

**GOVERNMENT FIXED INCOME INVESTMENTS:**

The government investments matured October 15, 2011 at their maturity values. A detail of the reserved government fund investments were as follows.

MATURITY VALUE	MATURITY DATE	COST	FAIR VALUE 06/30/12
<b>1992 Escrow Fund:</b>			
\$ 8,554,000	10/15/11	\$ 2,250,985	\$ <u>          </u>
 <b>1993 Escrow Fund:</b>			
\$ 2,500,000	10/15/11	\$ 637,500	\$
Accrued interest			<u>          </u>
			<u>\$</u>

KAY COUNTY HOME FINANCE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2012

**NOTE 3 – CURRENT LIABILITIES:**

1992 Single Family Mortgage Revenue Refunding Bonds

In December, 1979, \$26,770,000 Single Family Mortgage Revenue Bonds were issued. The bonds were issued for the purpose of providing the Authority with money to make mortgage loans secured by mortgages on single family residences in Kay County, Oklahoma, owned and occupied as the principal place of residence by persons of low to moderate income. The mortgage loans were originated and serviced by mortgage lending institutions which have no obligation with respect to the bonds. In April, 1992, the Single Family Mortgage Revenue Refunding Bonds, Series 1992, were issued for the purpose of refunding the 1979 Single Family Mortgage Revenue Bonds.

The 1987 Series A Capital Accumulator Bonds were issued to provide funds to be used by the Authority and its beneficiary, Kay County, Oklahoma, for governmental purposes and to pay the 1987 Series A Bond issuance costs. The net proceeds of the 1979 Bonds, which amounted to \$476,000, were made available to the Authority for various authorized governmental purposes and to pay administration and audit fees of the Authority and Trustees, and any expenses of Co-Bond Counsel to the Authority or Trustees. In April 1992, the Single Family Mortgage Revenue Refunding Bonds, Series 1992, were issued for the purpose of refunding the 1987 Series A Capital Accumulator Bonds.

In April 1992, \$13,335,000 Single Family Mortgage Revenue Refunding Bonds were issued. These bonds were issued in order to realize interest cost savings by refunding the 1979 Single Family Mortgage Revenue Bonds and the 1987 Series A Capital Accumulator Bonds, and issuing new bonds. The bonds are special limited obligations of the Authority upon issuance and were payable solely from the mortgage loans and certain other assets and pledged revenues. The bonds are subject to redemption on or after May 1, 2002, at the option of the Authority, in whole at any time or in part on any payment date from any legally available source of funds.

1992 Subordinate Single Family Mortgage Revenue Refunding Bonds

In April 1992, \$409,075 Subordinate Single Family Mortgage Revenue Refunding Bonds were issued. The bonds are limited obligations of the Authority and are subordinate to the 1992 Single Family Revenue Refunding Bonds. The subordinate bonds had a term maturity date of November 2, 2011 and were not subject to redemption prior to maturity.

The bonds carried interest at the rate of 9 ½%. Interest on the bonds was compounded semi-annually on May 1 and November 1 of each year, and was payable at maturity.

KAY COUNTY FINANCE AUTHORITY  
 NOTES TO FINANCIAL STATEMENTS  
 YEAR ENDED JUNE 30, 2012

**NOTE 3 – CURRENT LIABILITIES (continued):**

Sale of Mortgage Loans

The Authority had entered into sales and service agreements with various banks, savings and loan associations, mortgage companies and similar financial institutions to originate and service the mortgage loans being funded by the Authority. Originally, five hundred ninety-five loans aggregating \$22,336,487 were funded by the Authority. On June 29, 1994, the pool of mortgages was sold. From the proceeds of the sale, funds of \$7,932,967 were escrowed to secure the \$13,335,000 Single Family Mortgage Revenue Refunding Bonds Series 1992. The bonds matured November 1, 2011. A summary of the non-current liabilities of the Authority at June 30, 2012 is as follows:

	<u>1992 Single Family Mortgage Revenue Refunding Bonds</u>	<u>1992 Subordinate Single Family Mortgage Revenue Revenue Refunding Bonds</u>
Maturity Date	11/01/11	11/01/11
Interest Rate	7%	9.5%
Original Issue	\$ 13,335,000	\$ 409,075
Principle balance 06/30/11	\$ 8,265,000	\$ 409,075
Principle balance 06/30/12	\$	\$

**NOTE 4 – AMORTIZATION OF BONDS:**

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

KAY COUNTY HOME FINANCE AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
YEAR ENDED JUNE 30, 2012

**NOTE 5 – CASH AND CASH EQUIVALENTS:**

The Authority considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

**NOTE 6 – ESTIMATES:**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Accordingly, actual results could differ from those estimates.

**NOTE 7 – EVALUATION OF SUBSEQUENT EVENTS:**

The Authority has evaluated subsequent events through June 4, 2013, the date which the financial statements were available to be issued.

SUPPLEMENTAL INFORMATION

KAY COUNTY HOME FINANCE AUTHORITY  
 COMBINING STATEMENT OF NET ASSETS  
 YEAR ENDED JUNE 30, 2012

	1992 A Single Family Mortgage Revenue Refunding Bonds	1992 B Subordinate and 1993 Taxable Subordinate Single Family Mortgage Revenue Refunding Bonds	Excess Funds	Total Governmental Funds
<b>ASSETS:</b>				
Cash and cash equivalents	\$	\$	\$ 54,900	\$ 54,900
Certificate of deposit			235,237	235,237
Government fund investments				
Accrued interest receivable				
Unamortized bond issuance costs				
Total Assets	\$	\$	\$ 290,137	\$ 290,137
<b>LIABILITIES:</b>				
Current Liabilities:				
Accrued interest payable	\$	\$		\$
Revenue bonds payable				
Total Current Liabilities				
Total Liabilities				
<b>NET ASSETS:</b>				
Unrestricted			290,137	290,137
Restricted				
Total Net Assets			290,137	290,137
Total Liabilities and Net Assets	\$	\$	\$ 290,137	\$ 290,137

KAY COUNTY HOME FINANCE AUTHORITY  
 COMBINING STATEMENT OF ACTIVITIES  
 YEAR ENDED JUNE 30, 2012

	1992 A Single Family Mortgage Revenue Refunding Bonds	1992 B Subordinate and 1993 Taxable Subordinate Single Family Mortgage Revenue Refunding Bonds	Excess Funds	Total Governmental Funds
Revenues:				
Interest income	\$ 7,870	\$ 2,299	\$ 5,223	\$ 15,392
Change in fair value of investments				
Total Revenues	<u>7,870</u>	<u>2,299</u>	<u>5,223</u>	<u>15,392</u>
Expenses:				
Interest on debt	289,275	38,864		328,139
Amortization of deferred charges	5,108	6,987		12,095
Service charges			5	5
Distribution to Kay County			150,000	150,000
Total Expenses	<u>294,383</u>	<u>45,851</u>	<u>150,005</u>	<u>490,239</u>
Revenues Over (Under) Expenses	(286,513)	(43,552)	(144,782)	(474,847)
Net Assets, Beginning of Year	190,199	140,241	434,544	764,984
Transfer to excess funds	96,314	(96,689)	375	
Net Assets, End of Year	<u>\$</u>	<u>\$</u>	<u>\$ 290,137</u>	<u>\$ 290,137</u>

KAY COUNTY HOME FINANCE AUTHORITY  
 COMBINING STATEMENT OF CASH FLOWS  
 YEAR ENDED JUNE 30, 2012

	1992 A Single Family Mortgage Revenue Refunding Bonds	1992 B Subordinate and 1993 Taxable Subordinate Single Family Mortgage Revenue Refunding Bonds	Excess Funds	Total Governmental Funds
<b>Cash Flows From Operating Activities:</b>				
Investment income received	\$	\$	\$ 5,223	\$ 5,223
Payments for expenses			(150,005)	(150,005)
Payment of bonds with interest	(8,554,275)	(2,500,000)		(11,054,275)
Proceeds from sale of investments	8,554,000	2,500,000		11,054,000
Net cash provided (used) by Operating Activities	<u>(275)</u>		<u>(144,782)</u>	<u>(145,057)</u>
<b>Cash Flows From Non-Capital Financing Activities:</b>				
<b>Cash Flows From Capital and Related Financing Activities:</b>				
<b>Cash Flows From Investing Activities:</b>				
Reclass certificate of deposit			(235,237)	(235,237)
Net increase (decrease) in cash and cash equivalents	(275)		(380,019)	(380,294)
Beginning cash and cash equivalents	650		434,544	435,194
Transfer to excess funds	(375)		375	
Ending cash and cash equivalents	<u>\$</u>		<u>\$ 54,900</u>	<u>\$ 54,900</u>
<b>Reconciliation of revenue (expenses) from operations to net cash provided (used) by operating activities:</b>				
Revenues over (under) expenses	\$ (286,513)	\$ (43,552)	\$ (144,782)	\$ (474,847)
Adjustments to reconcile revenues (expenses) from operations to net cash provided (used) by operating activities:				
Amortization	5,108	6,987		12,095
Changes in assets and liabilities:				
(Increase) decrease in receivables		1,860,200		1,860,200
(Increase) decrease in investments	8,546,130	637,500		9,183,630
Increase (decrease) in payables	(8,265,000)	(2,461,135)		(10,726,135)
Net cash provided (used) by operating activities	<u>\$ (275)</u>	<u>\$</u>	<u>\$ (144,782)</u>	<u>\$ (145,057)</u>