

KAY COUNTY HOME FINANCE AUTHORITY

ANNUAL FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2011

KAY COUNTY HOME FINANCE AUTHORITY
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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, 2011. 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, 2011, 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 December 21, 2011 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
December 21, 2011

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, 2011, and have issued our report thereon dated December 21, 2011. 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
December 21, 2011

BASIC FINANCIAL STATEMENTS

AND

NOTES

KAY COUNTY HOME FINANCE AUTHORITY
STATEMENT OF NET ASSETS
JUNE 30, 2011

ASSETS

Current Assets:	
Cash and cash equivalents (Note 5)	\$ 435,194
Accrued interest receivable	1,860,200
Total Current Assets	2,295,394
Government fund investments (Note 2)	9,183,630
Unamortized bond issuance costs (Note 4)	12,095
Total Assets	\$ 11,491,119

LIABILITIES AND NET ASSETS

Liabilities:	
Current Liabilities:	
Accrued interest payable	\$ 2,052,060
Revenue bonds payable	8,674,075
Total Current Liabilities	10,726,135
Total Liabilities	10,726,135
Net Assets:	
Unrestricted	434,544
Restricted	330,440
Total Net Assets	764,984
Total Liabilities and Net Assets	\$ 11,491,119

KAY COUNTY HOME FINANCE AUTHORITY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011

Revenues:	
Investment income	\$ 428,828
Increase in fair value of investments	
Total Revenues	428,828
Expenses:	
Interest on debt	782,342
Legal and professional fees	1,025
Amortization of deferred charges	36,331
Service charges	5
Decrease in fair value of investments	376,795
Total Expenses	1,196,498
Revenues over (under) expenses	(767,670)
Net assets, beginning of year	1,532,654
Net assets, end of year	\$ 764,984

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, 2011

Cash Flows From Operating Activities:	
Investment income received	\$ 8,432
Interest payments	(578,550)
Payments for expenses	(1,030)
Proceeds from sale of investments	578,000
Net Cash Provided (Used) By Operating Activities	<u>6,852</u>
Cash flows from non-capital financing activities:	
Cash flows from capital and related financing activities:	
Cash Flows From Investing Activities:	
<hr/>	
Net increase (decrease) in cash and cash equivalents	6,852
Beginning cash and cash equivalents	428,342
Ending cash and cash equivalents	<u>\$ 435,194</u>
Reconciliation of revenue (expenses) from operations	
to net cash provided (used) by operating activities:	
Revenues over (under) expenses	\$ (767,670)
Adjustments to reconcile revenue (expenses) from operations	
to net cash provided (used) by operating activities:	
Amortization	36,331
Changes in assets and liabilities:	
(Increase) decrease in receivables	(4,753)
(Increase) decrease in investments	539,152
Increase (decrease) in payables	<u>203,792</u>
Net cash provided (used) by operating activities	<u>\$ 6,852</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, 2011

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
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2011

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

The Authority's investments and deposits held by the Trustee bank are 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, 2011:

Cash funds	\$	55,140
Certificates of deposit		<u>380,054</u>
Total		<u><u>\$ 435,194</u></u>

A detail of the reserved government fund investments is as follows:

GOVERNMENT FIXED INCOME INVESTMENTS:

<u>MATURITY VALUE</u>	<u>MATURITY DATE</u>	<u>COST</u>	<u>FAIR VALUE</u>
1992 Escrow Fund:			
\$ 8,554,000	10/15/2011	\$ 2,250,985	<u>\$ 8,546,130</u>
1993 Escrow Fund:			
\$ 2,500,000	10/15/2011	\$ 637,500	\$ 637,500
Accrued interest			<u>1,860,200</u>
			<u><u>\$ 2,497,700</u></u>

KAY COUNTY HOME FINANCE AUTHORITY
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2011

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 have a term maturity date of November 2, 2011 and are not subject to redemption prior to maturity.

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

KAY COUNTY FINANCE AUTHORITY
 NOTES TO FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2011

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. A summary of the non-current liabilities of the Authority at June 30, 2011 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	11/1/2011	11/1/2011
Interest Rate	7%	9.5%
Original Issue	\$ 13,335,000	409,075
Principle balance 6/30/2010	8,265,000	409,075
Principle balance 6/30/2011	8,265,000	409,075
Accrued interest 6/30/2011	96,689	1,956,714

The following is a schedule of the principle and interest requirements for the bonds payable:

	<u>Principle</u>	<u>Interest</u>
6/30/2012	\$ 8,674,075	\$ 2,053,403

NOTE 4 – AMORTIZATION OF BONDS:

The issuance costs of the bonds are being 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, 2011

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 December 21, 2011, 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, 2011

	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
ASSETS:				
Cash and cash equivalents	\$ 650	\$	\$ 434,544	\$ 435,194
Government fund investments	8,546,130	637,500		9,183,630
Accrued interest receivable		1,860,200		1,860,200
Unamortized bond issuance costs	5,108	6,987		12,095
Total Assets	<u>\$ 8,551,888</u>	<u>\$ 2,504,687</u>	<u>\$ 434,544</u>	<u>\$ 11,491,119</u>
LIABILITIES:				
Current Liabilities:				
Accrued interest payable	\$ 96,689	\$ 1,955,371		\$ 2,052,060
Revenue bonds payable	8,265,000	409,075		8,674,075
Total Current Liabilities	<u>8,265,000</u>	<u>409,075</u>		<u>8,674,075</u>
Total Liabilities	<u>8,361,689</u>	<u>2,364,446</u>		<u>10,726,135</u>
NET ASSETS:				
Unrestricted	190,199	140,241	434,544	434,544
Restricted	<u>190,199</u>	<u>140,241</u>	<u>434,544</u>	<u>330,440</u>
Total Net Assets	<u>\$ 8,551,888</u>	<u>\$ 2,504,687</u>	<u>\$ 434,544</u>	<u>\$ 11,491,119</u>

KAY COUNTY HOME FINANCE AUTHORITY
 COMBINING STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2011

	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	\$ 415,643	\$ 4,753	\$ 8,432	\$ 428,828
Change in fair value of investments				
Total Revenues	<u>415,643</u>	<u>4,753</u>	<u>8,432</u>	<u>428,828</u>
Expenses:				
Interest on debt	577,207	205,135		782,342
Legal and professional fees			1,025	1,025
Amortization of deferred charges	15,353	20,978		36,331
Service charges			5	5
Change in fair value of investments	376,795			376,795
Total Expenses	<u>969,355</u>	<u>226,113</u>	<u>1,030</u>	<u>1,196,498</u>
Revenues Over (Under) Expenses	(553,712)	(221,360)	7,402	(767,670)
Net Assets, Beginning of Year	<u>743,911</u>	<u>361,601</u>	<u>427,142</u>	<u>1,532,654</u>
Net Assets, End of Year	<u>\$ 190,199</u>	<u>\$ 140,241</u>	<u>\$ 434,544</u>	<u>\$ 764,984</u>

KAY COUNTY HOME FINANCE AUTHORITY
 COMBINING STATEMENT OF CASH FLOWS
 YEAR ENDED JUNE 30, 2011

	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
Cash Flows From Operating Activities:				
Investment income received	\$	\$	\$ 8,432	\$ 8,432
Interest payments	(578,550)		(1,030)	(578,550)
Payments for expenses				(1,030)
Proceeds from sale of investments	578,000			578,000
Net cash provided (used) by Operating Activities	<u>(550)</u>		<u>7,402</u>	<u>6,852</u>
Cash Flows From Non-Capital Financing Activities:				
Cash Flows From Capital and Related Financing Activities:				
Cash Flows From Investing Activities:				
Net increase (decrease) in cash and cash equivalents	(550)		7,402	6,852
Beginning cash and cash equivalents	1,200		427,142	428,342
Ending cash and cash equivalents	<u>\$ 650</u>	<u>\$</u>	<u>\$ 434,544</u>	<u>\$ 435,194</u>
Reconciliation of revenue (expenses) from operations to net cash provided (used) by operating activities:				
Revenues over (under) expenses	\$ (553,712)	\$ (221,360)	\$ 7,402	\$ (767,670)
Adjustments to reconcile revenues (expenses) from operations to net cash provided (used) by operating activities:				
Amortization	15,353	20,978		36,331
Changes in assets and liabilities:				
(Increase) decrease in receivables		(4,753)		(4,753)
(Increase) decrease in investments	539,152			539,152
Increase (decrease) in payables	<u>(1,343)</u>	<u>205,135</u>		<u>203,792</u>
Net cash provided (used) by operating activities	<u>\$ (550)</u>	<u>\$</u>	<u>\$ 7,402</u>	<u>\$ 6,852</u>