

**GRADY COUNTY INDUSTRIAL AUTHORITY
And Component Unit
GRADY COUNTY CRIMINAL JUSTICE AUTHORITY**

**FINANCIAL STATEMENTS
and
INDEPENDENT AUDITOR'S REPORT**

June 30, 2012

GRADY COUNTY INDUSTRIAL AUTHORITY
June 30, 2012

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Grady County Industrial Authority
Chickasha, Oklahoma

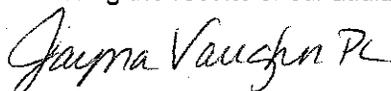
We have audited the accompanying financial statements of the business type activities of Grady County Industrial Authority (and component unit Grady County Criminal Justice Authority), a component unit of Grady County, Oklahoma, as of and for the year ended June 30, 2012 as listed in the Table of Contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic 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 basic financial statements referred to above present fairly, in all material respects, the financial position of the business type activities of Grady County Industrial Authority and component unit Grady County Criminal Justice Authority as of June 30, 2012, and the respective changes in financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Grady County Industrial Authority has not presented the management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2013 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



Jayna Vaughn, PC
January 10, 2013

GRADY COUNTY INDUSTRIAL AUTHORITY
Statement of Net Assets
June 30, 2012

ASSETS	<u>Jail Operations Fund</u>	<u>Financing Fund</u>	<u>Total</u>
Current Assets			
Cash and Cash Equivalents	\$ 1,106,390	\$ 428,388	\$ 1,534,778
Accounts Receivable	1,258,910		1,258,910
<i>Total Current Assets</i>	<u>2,365,300</u>	<u>428,388</u>	<u>2,793,688</u>
Non Current Assets			
Restricted Inmate Trust Fund Cash	71,382		71,382
Restricted Funds Held in Trust	2,482,041	4,954	2,486,995
Land	140,942	35,000	175,942
Property and Equipment, Net	250,191		250,191
Facilities Leasehold, Net	16,886,365		16,886,365
Bond Discount & Issue Costs	646,978		646,978
<i>Total Non Current Assets</i>	<u>20,477,899</u>	<u>39,954</u>	<u>20,517,853</u>
<i>Total Assets</i>	<u>\$ 22,843,199</u>	<u>\$ 468,342</u>	<u>\$ 23,311,541</u>
LIABILITIES			
Current Liabilities			
Accounts Payable and Accrued Expense	\$ 462,295	\$ 1,710	\$ 464,005
Inmate and Commissary Payable	71,382		71,382
Accrued Bond Interest	213,617		213,617
Current Portion Bonds Payable	145,000		145,000
<i>Total Current Liabilities</i>	<u>892,294</u>	<u>1,710</u>	<u>894,004</u>
Non Current Liabilities			
Due to Grady County Restricted Funds		4,954	4,954
2012 Bonds Payable, Net of Current Portion	18,165,000		18,165,000
<i>Total Non Current Liabilities</i>	<u>18,165,000</u>	<u>4,954</u>	<u>18,169,954</u>
<i>Total Liabilities</i>	<u>19,057,294</u>	<u>6,664</u>	<u>19,063,958</u>
NET ASSETS			
Invested in Capital Assets, Net of Related Debt	(1,032,502)	35,000	(997,502)
Unrestricted	4,818,407	426,678	5,245,085
<i>Total Liabilities and Net Assets</i>	<u>\$ 22,843,199</u>	<u>\$ 468,342</u>	<u>\$ 23,311,541</u>

GRADY COUNTY INDUSTRIAL AUTHORITY
Statement of Revenues, Expenses and Changes in Net Assets
Year ended June 30, 2012

	Jail Operations Fund	Financing Fund	Total
Operating Revenues			
Incarceration	\$ 7,970,599	\$	\$ 7,970,599
Inmate Transportation	249,315		249,315
Inmate Telephone	365,856		365,856
Commissary Commissions	124,200		124,200
Other	26,344	42,559	68,903
<i>Total Operating Revenue</i>	8,736,314	42,559	8,778,873
Operating Expenses			
<u>Inmate Services</u>			
Meals	731,135		731,135
Medical & Dental (Net of reimbursements)	665,007		665,007
Transportation	98,020		98,020
Jail Supplies	163,474		163,474
	1,657,636	0	1,657,636
<u>Personnel</u>			
Salaries & Wages	2,738,803		2,738,803
Benefits, Taxes & Insurance	1,188,386		1,188,386
Uniforms, Payroll fees, Other	29,177		29,177
	3,956,366	0	3,956,366
<u>Facilities and Administration</u>			
Utilities & Communication	247,681		247,681
Insurance	261,451		261,451
Computer Equipment	54,180		54,180
Professional Services	253,272	11,395	264,667
Equipment Rental	58,719		58,719
Maintenance & Repairs	100,335		100,335
Office Expense	43,876	334	44,210
Depreciation & Amortization	68,268		68,268
Leasehold Amortization	239,863		239,863
Interest Expense	533,135		533,135
Other	41,645		41,645
	1,902,425	11,729	1,914,154
<i>Total Operating Expenses</i>	7,516,427	11,729	7,528,156
<i>Operating Revenues Less Expenses</i>	1,219,887	30,830	1,250,717
Non-Operating Revenues (Expenses)			
Debt Service on Industrial Authority Bonds	(1,159,087)		(1,159,087)
Rental Income	-	12,000	12,000
Interest Income	443	404	847
<i>Total Non-Operating Revenues (Expenses)</i>	(1,158,644)	12,404	(1,146,240)
Other: Funds Released by GCIA Bond Trustee	951,701		951,701
<i>Increase (Decrease) in Net Assets</i>	1,012,944	43,234	1,056,178
<i>Net Assets at Beginning of Year</i>	2,772,961	418,444	3,191,405
<i>Net Assets at End of Year</i>	\$ 3,785,905	\$ 461,678	\$ 4,247,583

GRADY COUNTY INDUSTRIAL AUTHORITY
Statement of Cash Flows
For the Year Ending June 30, 2012

	Jail Operations Fund	Financing Fund	Total
Cash Flows from Operating Activities			
Cash Receipts for Inmate Services	\$ 8,182,716	\$	\$ 8,182,716
Cash Receipts for Inmate Telephone	360,724		360,724
Cash Receipts for Commissary Commissions	120,498		120,498
Other Cash Receipts	26,344	42,559	68,903
Cash Payments for Professional Services	(253,272)	(11,395)	(264,667)
Cash Payments for Office Expenses	(43,876)	(334)	(44,210)
Cash Payments to Employees for Services	(2,903,788)		(2,903,788)
Cash Payments for Other Personnel Expenses	(1,176,299)		(1,176,299)
Cash Payments for Interest	(316,864)		(316,864)
Cash Payments to Other Suppliers of Goods or Services	(2,452,430)		(2,452,430)
	1,543,753	30,830	1,574,583
<i>Net Cash Provided by (Used in) Operating Activities</i>			
Cash Flows from Non-Capital and Related Financing Activities			
Debt Service on Industrial Authority Bonds	(1,159,087)		(1,159,087)
Additions to Restricted Funds in Trust	(996,373)		(996,373)
Repayment of Short-Term Loan	(43,968)		(43,968)
Short-Term Loan Proceeds	25,198		25,198
	(2,174,230)		(2,174,230)
<i>Net Cash Provided by (Used in) Financing Activities</i>			
Cash Flows from Investing Activities			
Purchase of Equipment	(84,221)		(84,221)
Rental income		12,000	12,000
Interest Received	443	404	847
	(83,778)	12,404	(71,374)
<i>Net Cash Provided by (Used in) Investing Activities</i>			
<i>Net Increase (Decrease) in Cash & Cash Equivalents</i>			
	(714,255)	43,234	(671,021)
<i>Cash and Cash Equivalents Beginning of Year</i>			
	1,820,645	385,154	2,205,799
<i>Cash and Cash Equivalents End of Year</i>			
	\$ 1,106,390	\$ 428,388	\$ 1,534,778
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities:			
Operating Revenues Less Expenses	\$ 1,219,887	\$ 30,830	\$ 1,250,717
Adjustments to reconcile operating income to net cash:			
Facilities Lease Amortization	239,863		239,863
Depreciation & Amortization	69,762		69,762
Change in Accounts Receivable	(46,032)		(46,032)
Change in Accounts Payable and Accrued Expenses	60,273		60,273
	1,543,753	30,830	1,574,583
<i>Net Cash Provided by Operating Activities</i>			
	\$ 1,543,753	\$ 30,830	\$ 1,574,583

GRADY COUNTY INDUSTRIAL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

Note 1: Summary of Significant Accounting Policies

The financial statements have been prepared on the accrual basis of accounting and, accordingly, include all significant receivables, payables and other liabilities. Generally accepted accounting principles include all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the fund financial statements for the proprietary fund, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied, to the extent they are applicable unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails.

1. A. Financial Reporting Entity

The Authority's financial reporting entity is composed of the following:

Primary Public Trust: Grady County Industrial Authority (GCIA)
Blended Component Unit: Grady County Criminal Justice Authority (GCCJA)

The Grady County Industrial Authority is a beneficial public trust created for the use and benefit of Grady County, Oklahoma (Beneficiary) under the provisions of Title 60, Oklahoma Statutes 1961, Sections 176 to 180, inclusive, the Oklahoma Trust Act and other applicable statutes of the State of Oklahoma. The purpose is to finance, operate, construct and administer any public works, improvements or facilities and other public purposes such as further the industrial development of Grady County, Oklahoma. Grady County Industrial Authority has issued bonds and industrial revenue notes and has obtained commercial bank financing to provide a portion of the funds for acquisition and construction of industrial buildings and equipment. These obligations have been assigned to other lenders.

GCIA generally does not acquire any assets or incur any liability when it issues and finances bonds and notes for eligible entities. It may earn and collect administrative fees however, and must be informed of the unpaid balances. If GCIA manages the assets and liabilities and does not assign them, the assets and liabilities would be recognized. In the supplemental information section additional information discloses the outstanding obligations, which the Authority has facilitated.

Grady County Industrial Authority is a component unit of the governmental entity of Grady County, Oklahoma. Grady County's financial information is not presented in these financial statements.

Blended Component Unit

The Grady County Criminal Justice Authority (GCCJA) is a beneficial public trust created under the authority of and pursuant to the provisions of Title 60, Oklahoma Statutes 2001, Sections 176-180.3, inclusive, as amended, and the Oklahoma Trust Act on August 12, 2002 for the use and benefit of Grady County, Oklahoma (Beneficiary). The purpose of the GCCJA is to operate and maintain buildings and facilities for public use or benefit, including jail facilities in Grady County, Oklahoma. The GCCJA began operating the jail facilities in December 2002. Operating revenues consist of incarceration fees and other service revenues related to operation of the correctional facilities.

GRADY COUNTY INDUSTRIAL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

The GCCJA is authorized, for the advancement of public purposes, to issue revenue notes and bonds to construct, improve, equip or acquire buildings, facilities or utilities which may be for the benefit of the Beneficiary County or for any other purpose which may enhance the accomplishment of the GCCJA's purposes. In no event do any bonds or other indebtedness of the GCCJA constitutes a debt of the State of Oklahoma, or of Grady County, but shall be paid solely from the Trust Estate. The GCCJA has no taxing power.

1.B. Basis of Presentation

Government-Wide Financial Statements – The financial statements display information about the reporting government as a whole. They include all funds of the reporting entity except for fiduciary funds. These statements generally distinguish between governmental and business-type activities. All activities of the Authority are business-type activities. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements – Fund financial statements of a reporting entity are organized into funds, each of which is considered to be separate accounting entities. Each fund is accounted for by providing a separate set of self-balancing accounts, which are comprised of each fund's assets, liabilities, net assets, revenues and expenses. The various funds are reported by generic classification within the financial statements. The Authority uses two funds categorized as proprietary funds, described below:

Proprietary Funds

Enterprise Funds – Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs (expenses) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges.

1.C. Measurement Focus and Basis of Accounting

Measurement focus refers to how transactions are recorded within the various financial statements. Basis of accounting refers to when transactions are recorded regardless of the measurement focus applied.

In the financial statements, the business-type activities are presented using an "economic resources" measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position, and cash flows. All assets and liabilities (whether current or non current, financial, or non financial) associated with their activities are reported. Proprietary fund equity is classified as net assets.

1.D. Assets, Liabilities and Net Assets

Cash and Cash Equivalents – For the purpose of the statement of cash flows, the Authority considers all demand deposit accounts, interest bearing checking accounts and time deposits accounts including certificates of deposit, U.S. Treasury bills, and sinking fund accounts with maturities of three months or less to be cash and cash equivalents, with the exception of inmate trust fund cash and restricted cash held by bond Trustee.

GRADY COUNTY INDUSTRIAL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

Restricted Funds Held in Trust represents cash and certificates of deposit held by bond Trustee pursuant to terms of the 2012 Revenue Refunding Bonds Indenture, and can only be accessed according to terms of the Indenture.

Land held by Authority includes property donated to Grady County, December 28, 1995. Known as the Pavers property, it is a 10.37-acre tract located 1 mile south of Chickasha on US Highway 62. The donated property is carried at fair market value as of the date of donation.

Land owned by Grady County Criminal Justice Authority consists of city lots purchased March 24, 2011 at a cost of \$140,942 for the purpose of potential future jail expansion.

Equity Classifications – Equity is classified as net assets and displayed in three components:

Invested in capital assets, net of related debt
 Restricted net assets
 Unrestricted net assets

1.E. Estimates

The preparation of financial statements and disclosures 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.

Note 2: Restructuring 2012

On February 1, 2012, the Grady County Criminal Justice Authority issued Series 2012 Revenue Refunding Bonds in the amount of \$18,310,000 which were sufficient to retire all outstanding correctional facilities debt previously issued by Grady County Industrial Authority. Simultaneously, GCCJA entered into a facilities lease with Grady County to occupy and enjoy exclusive possession of the detention center through October, 2041 and so long as any part of the 2012 bond indebtedness is outstanding.

Accordingly, effective February 1, 2012, the GCIA was released from responsibility of supervising the activities of the detention center.

In connection with the GCIA debt refunding and issuance of new debt, the GCCJA obtained the exclusive right to possess and enjoy the detention center facilities, which has been capitalized as the Facilities Leasehold, reflected in the Statement of Net Assets:

Facilities Leasehold, Cost	\$17,126,228
Less Amortization 2012	<u>(239,863)</u>
Facilities Leasehold, Net	<u>16,886,365</u>

The leasehold is being amortized over the life of the lease under the straight-line method, which resulted in expense of \$239,863 during the year ended June 30, 2012. Upon retirement of the 2012 Bonds, GCCJA will pay an annual lease to Grady County in the amount of ten dollars in consideration for renewing the lease term in subsequent years.

GRADY COUNTY INDUSTRIAL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

The Indenture for the Grady County Criminal Justice Authority 2012 Revenue Refunding Bonds provides for semi-annual payment of interest on May 1 and November 1, and principal reduction annually on November 1. Interest is fixed at seven percent, with final maturity on November 1, 2041. Debt service requirements are as follows:

<u>Year Ended</u>	<u>Interest</u>	<u>Principal</u>	<u>Total</u>
2013	\$ 1,276,625	\$ 145,000	\$ 1,421,625
2014	1,264,375	205,000	1,469,375
2015	1,249,325	225,000	1,474,325
2016	1,233,225	235,000	1,468,225
2017	1,216,075	255,000	1,471,075
2018-2022	5,774,650	1,570,000	7,344,650
2023-2027	5,123,650	2,190,000	7,313,650
2028-2032	4,208,750	3,090,000	7,298,750
2033-2037	2,922,675	4,325,000	7,247,675
2038-2041	1,118,600	6,070,000	7,188,600
	<u>\$ 25,387,950</u>	<u>\$ 18,310,000</u>	<u>\$ 43,697,950</u>

The GCCJA 2012 Bonds were sold at a discount of \$343,312 and cost of issuance amounted to \$306,492. These amounts are being amortized over the life of the bonds using the effective interest method. Amortization expense on issuance costs was \$1,334 and discount amortization (recognized as interest expense) was \$1,494 for the year ended June 30, 2012.

As part of the agreement to retire GCIA bonds and note payable, the sum of \$951,701 was released by the GCIA Bond Trustee to facilitate the GCCJA 2012 Bond Indenture. This addition to GCCJA Net assets is reflected in the Statement of Revenues, Expenses and Change in Net Assets.

GCCJA has assigned and pledged the Facilities Lease and any interest of Authority in the Facilities and any interest of Authority in the personal property, improvements and fixtures constituting the Facilities, and Criminal Justice Revenues and any other revenues and receipts receivable under the Facilities Lease to the Trustee pursuant to the Indenture as security for payment of the principal and interest on the Series 2012 Bonds and the County consents to such pledge and assignment.

Note 3: Detailed Notes on Transaction Classes/Accounts

Deposits and Investments – The Authority's investment policies are governed by the Board of Trustees and any restrictions in the Trust indenture.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. At June 30, 2012, the balances on deposit with financial institutions totaled \$4,139,149 and of that amount, \$1,728,719 was insured by the Federal Deposit Insurance Corporation (FDIC). Accordingly, \$2,410,429 was uninsured and uncollateralized at June 30, 2012. Deposits are placed with high quality financial institutions and management is in the process of restructuring cash deposits to ensure that deposits are adequately insured or collateralized.

GRADY COUNTY INDUSTRIAL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

Property and Equipment – Property and equipment consists of transport equipment, building improvements and other equipment used in the law enforcement center. Assets are depreciated using the straight-line method, over estimated useful lives of five to twenty years.

	<u>6/30/11</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/12</u>
Transport Equipment	\$ 252,386	\$ 29,459	\$ (5,550)	\$ 276,345
Facility Improvements	66,931			66,931
Other Equipment	35,789	54,762		90,551
	<u>355,106</u>	<u>84,221</u>		<u>433,827</u>
Less: Accum. Depreciation	<u>(122,202)</u>	<u>(66,934)</u>	<u>5,500</u>	<u>(183,636)</u>
	<u>232,904</u>	<u>17,287</u>	<u>0</u>	<u>250,191</u>

Other property and equipment is limited to items of computer and office equipment costing less than \$3,000, which are expensed as purchased. All other facilities used in the detention center are the property of Grady County, Oklahoma, and subject to the Facilities Lease, discussed above.

Inmate Trust Fund - The Authority administers a separate deposit account to receive and disburse funds which are the property of inmates while incarcerated (inmate trust fund). Prior to June, 2006, this account was maintained in-house and no activity from the inmate trust fund was reflected in the Authority's financial statements. At June 30, 2012, approximately \$8,910 remained in the old inmate trust fund account, which is not reflected in the financial statements.

Beginning in June, 2006, GCIA contracted with Tiger Commissary ("Tiger") to fulfill inmates' commissary needs. The Authority still maintains and administers a separate inmate trust fund. Inmate trust fund cash of \$71,382 is presented as restricted cash, and the related Inmate and Commissary Payable of \$71,382 is included in current liabilities on the Authority's statement of net assets. Monies received from and paid to inmates and the commissary is not reflected in the cash flow statements or recognized as income or expense by the Authority.

Accrued Payroll Liabilities – Accounts payable and accrued expenses includes \$40,939 in accrued employee vacation pay and accrued employee payroll in the amount of \$104,728.

Interfund Transfers – Prior to February 1, 2012, personnel costs, insurance and certain other expenses were paid by the Grady County Criminal Justice Authority and revenues from the correctional facilities were received by the Grady County Industrial Authority, Jail Operations Fund. Transfers from the GCIA to the GCCJA were made on a regular basis to reimburse the GCCJA for those jail operating expenses.

Note 4: Related Parties and Common Control

The GCCJA and GCIA are related to Grady County, Oklahoma as the primary beneficiary of both Authorities. Additionally, certain facilities and personnel are shared by GCCJA and Grady County Sheriff's Department in operation of the jail. GCCJA leases and occupies facilities owned by Grady County, Oklahoma which are pledged on the 2012 Series Bonds issued by GCCJA.

GRADY COUNTY INDUSTRIAL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

Since inception of the GCCJA in 2002, various contracts and agreements have been executed by and among the above parties to provide for operation of the detention center and retirement of acquisition debt, issued originally by GCIA. Significant provisions of prior contracts and agreements, in effect prior to February 1, 2012 are as follows:

During 2004, the GCCJA, GCIA, County and Bond Trustee entered into an agreement which sets forth the terms and conditions of the resolution reached by all parties with respect to the ongoing operation of the detention center. Pursuant to the 2004 agreement, all revenues of the detention center are pledged as additional security for benefit of Trustee and bondholders. One of the primary objectives was to establish the requirement for GCIA's control over jail operations, which was accomplished in 2005.

In November, 2005 GCCJA and GCIA entered into an Operation and Maintenance Agreement whereby GCIA agreed to operate and maintain the detention center on behalf of the GCCJA. Because GCIA gained authority and superintending control over the operation and maintenance of the detention center, the GCCJA became a component unit of GCIA for financial reporting purposes, effective November 1, 2005.

On June 24, 2008 a new agreement was executed among the GCIA, GCCJA, Bond Trustee, First National Bank and Trust Company and MBIA Insurance Corporation to enable additional financing to complete the fourth floor of detention center. Lenders agreed to share lien priority with respect to financing detention center facilities and operations.

Effective February 1, 2012, the above contracts were superseded when all prior detention center debt was retired and new debt was issued by the GCCJA in the form of 2012 Series Revenue Refunding Bonds, as discussed in Note 2 above.

Note 5: Grady County Correctional Facilities Lease Revenue Bonds and Note

Prior to issuance of the Series 2012 Bonds by the Grady County Criminal Justice Authority, there were three separate issues of debt outstanding in connection with building and equipping the detention center as follows:

Series 1999

GCIA issued revenue bonds to fund the Grady County jail and work release center construction. GCIA is not liable for the bond debt; therefore, GCIA has not recorded the bond proceeds, debt or corresponding assets on the financial statements. The repayment of the revenue bonds relies on the ability of Grady County to make the payments, if unable to do so the ownership of the facilities would revert to the bondholders.

Series 2001

GCIA issued additional revenue bonds to provide supplemental funding for completion of the jail project. As with the original bond issue, the Authority is not liable for the bond debt, therefore, the Authority has not recorded the bond proceeds, debt or corresponding assets on the financial statements. The repayment of the revenue bonds relies on the ability of Grady County to make the payments; if unable to do so, the ownership of the facilities would revert to the bondholders.

GRADY COUNTY INDUSTRIAL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

Series 2008

During 2008, GCIA issued a lease revenue note to finance construction and equipment costs in completing the fourth floor of the law enforcement center. Additions were substantially complete and operational by June 30, 2009. As with the series 1999 and series 2001 debt, the authority is not liable for repayment on the 2008 debt; therefore, neither the debt nor the related property improvements were recorded in the financial statements. The repayment of the lease revenue note was secured by law enforcement facilities and a pledge of the net revenues from the law enforcement center to Grady County; repayment relies on the ability of Grady County to make the payments. If unable to do so, ownership of the facilities would revert to the bondholders.

The above Series 1999, 2001 and 2008 bonds and notes were retired on February 1, 2012. Prior to February 1, 2012, debt service payments made by the GCCJA have been reported as a non-operating expense in the Statement of Revenues, Expenses and Changes in Net Assets.

Note 6: Retirement Plan

Employees participate in the Oklahoma Public Employees Retirement System (OPERS), which is a defined benefit retirement plan for state and local government employees. The plan is qualified under section 401(a) of the Internal Revenue Code and participation is mandatory for all eligible employees. An employee is eligible when employment is permanent and requires at least 1000 hours per year, with certain minimum salary requirements. The OPERS plan requires employee contributions of 3.5 percent of gross wages, along with employer contributions of 16.5 percent of gross wages during fiscal year 2011- 2012. During the year ended June 30, 2012 employer contributions to the plan amounted to \$451,664. Additional plan information may be obtained by contacting Oklahoma Public Employees Retirement System at P.O. Box 53007, Oklahoma City, OK 73152-3007 by calling OPERS at (800) 733-9008, or online at www.opers.ok.gov.

Note 7: Concentrations

During the year ended June 30, 2012, approximately eighty-five percent of incarceration fees for the law enforcement center were derived from contracts with the federal government. If the federal government were to withdraw federal inmates from the facilities, it would severely impact the operations of the law enforcement center; however, management believes the need for federal inmate housing will continue to grow.

Note 8: Subsequent Events

Subsequent events were evaluated through January 10, 2013, which is the date the financial statements were available to be issued.

Note 9: Commitments and Contingencies

Grady County Criminal Justice Authority is Defendant in a class action claim involving alleged unpaid wages by current and former employees. The parties have reached a settlement agreement whereby GCCJA will pay approximately \$40,000 in wages and attorney fees combined. The matter was closed on December 17, 2012.

GRADY COUNTY INDUSTRIAL AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012

Other civil rights lawsuits are pending against Grady County Criminal Justice Authority for claims made by inmates. Management is vigorously contesting Plaintiff's claims and believes that any adverse judgments would be within the limits of the Authority's protection plan of insurance.

Grady County Criminal Justice Authority purchases property and liability insurance coverage through the Association of County Commissioners of Oklahoma Self-Insurance Group (ACCO-SIG). Policy deductibles are \$50,000 per claim, with a maximum deductible of \$100,000 per year. In addition to policy premiums, GCCJA is currently required to submit a \$100,000 deposit against potential claims each year. As of June 30, 2012, the amount on deposit with ACCO-SIG to settle future claim deductibles was \$49,256; however, all payments to ACCO-SIG for insurance premiums and deductibles are reflected as insurance expense in the Statement of Revenues, Expenses and Changes in Net Assets.

Note 10: Non-Cash Capital and Financing Activities

Transactions completed by Bond Trustee in connection with issuance of 2012 Series Bonds on February 1, 2012:

Sources of Funds

Principal Amount of the Bonds	\$18,310,000
Transfer of Prior Bond Funds	<u>951,705</u>
	<u>\$19,261,705</u>

Uses of Funds

Retirement of GCIA Indebtedness	\$17,127,001
Deposit to Debt Service Reserve Fund	1,484,900
Costs of Issuance	306,492
Underwriter's Discount	<u>343,312</u>
	<u>\$19,261,705</u>

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

To the Board of Trustees
Grady County Industrial Authority

We have audited the financial statements of the business type activities of Grady County Industrial Authority and blended component unit Grady County Criminal Justice Authority as of and for the year ended June 30, 2012, which collectively comprise the Authority's basic financial statements and have issued our report thereon dated January 10, 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.

Internal Control Over Financial Reporting

Management of Grady County Industrial Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Grady County Industrial 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 of Grady County Industrial Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Grady County Industrial Authority's internal control over financial reporting.

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

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

Compliance and other matters

As part of obtaining reasonable assurance about whether Grady County Industrial Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, and 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*.

We noted certain matters that we reported to management of Grady County Industrial Authority in a separate letter dated January 10, 2013.

This report is intended solely for the information and use of management, Trustees and others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Jayna Vaughn, PC
January 10, 2013