

WASHINGTON COUNTY
CORRECTIONAL FACILITIES
AUTHORITY

June 30, 2014

WASHINGTON COUNTY CORRECTIONAL FACILITIES AUTHORITY

June 30, 2014

BASIC FINANCIAL STATEMENTS

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REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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Independent Auditors' Report

The Board of Trustees
Washington County Correctional Facilities Authority
Bartlesville, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of Washington County Correctional Facilities Authority (the "Authority") as of and for the year ended June 30, 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 of America; 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.

Auditor's Responsibility

Our responsibility is to express an opinion 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 auditor considers internal control relevant to the entity'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 entity'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of Washington County Correctional Facilities Authority as of June 30, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that management's discussion and analysis 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 of America, 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 evidence sufficient to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2015 on our consideration of the Authority's internal control over financial reporting and on its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Cole & Reed P.C.

Oklahoma City, Oklahoma
January 7, 2015

Management's Discussion And Analysis
Washington County Correctional Facilities Authority
June 30, 2014

OVERVIEW OF THE FINANCIAL STATEMENTS

As management of the Washington County Correctional Facilities Authority (the "Authority"), we offer readers of the financial statements this overview and analysis of the financial activities for the fiscal year ended June 30, 2014.

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

The government-wide financial statements and the governmental fund financial statements are presented on one page, with an adjustments column denoting the differences between the two.

Government-wide Financial Statements: The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the Authority's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statement of activities presents information showing how the Authority's net position changed during the most recent fiscal year presented. All changes in the net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in these statements for some items that will only result in cash flows in future periods.

Fund Financial Statements: Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. All activities of the Authority are reflected in the general fund. However, unlike the government-wide financial statements, governmental fund financial statements focus on the near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balance provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Authority maintains one governmental fund, which is the general fund. All transactions of the Authority are accounted for in the governmental fund statement of revenues, expenditures, and changes in fund balance.

**Management's Discussion And Analysis--Continued
Washington County Correctional Facilities Authority
June 30, 2014**

OVERVIEW OF THE FINANCIAL STATEMENTS--Continued

Government-Wide Financial Analysis

Our discussion and analysis of the Authority's financial performance provides an overview of the Authority's financial activities for the fiscal years ended June 30, 2014 and 2013.

CONDENSED STATEMENTS OF NET POSITION

	June 30,	
	2014	2013
ASSETS		
Current assets	\$ 2,151,585	\$ 14,057,523
Noncurrent assets	10,037,212	10,751,681
TOTAL ASSETS	\$ 12,188,797	\$ 24,809,204
LIABILITIES AND NET POSITION		
LIABILITIES		
Current liabilities	\$ 1,401,551	\$ 12,752,740
Noncurrent liabilities	7,932,616	9,263,959
TOTAL LIABILITIES	9,334,167	22,016,699
NET POSITION		
Restricted for debt service	2,854,630	2,792,505
TOTAL NET POSITION	2,854,630	2,792,505
TOTAL LIABILITIES AND NET ASSETS	\$ 12,188,797	\$ 24,809,204

The Authority's changes in net position for the years ended June 30, 2014 and 2013 are reported as follows:

	Years Ended June 30,	
	2014	2013
REVENUES		
Sales tax revenue	\$ 3,072,445	\$ 3,067,460
Investment income	1,961	61,524
TOTAL REVENUES	3,074,406	3,128,984
EXPENSES		
Interest expense	557,625	446,690
Amortization of bond issuance costs	-	19,714
Depreciation expense	519,402	519,246
Other expenses	18,325	130,669
TOTAL EXPENDITURES /EXPENSES	1,095,352	1,116,319
Excess of revenues over expenditures /expenses	1,979,054	2,012,665
OTHER FINANCING USES		
Transfers out	(1,916,929)	(2,781,919)
CHANGE IN NET POSITION	62,125	(769,254)
NET POSITION AT BEGINNING OF YEAR	2,792,505	3,561,759
NET POSITION AT END OF YEAR	\$ 2,854,630	\$ 2,792,505

Management's Discussion And Analysis--Continued
Washington County Correctional Facilities Authority
June 30, 2014

FINANCIAL HIGHLIGHTS

The Authority began operations in February 2010. Sales tax revenues earned during fiscal year 2014 totaled \$3,072,445 compared to \$3,067,460 for 2013.

The Authority paid the final principal payment of \$12,000,000 on the special, limited obligation 2010 revenue bonds during fiscal year 2014. During fiscal year 2013 the Authority issued Sales Tax Revenue Refunding Bonds Series 2013 in the amount of \$9,945,000 for the purposes of refunding the Sales Tax Revenue Series 2010 bonds, funding a debt service reserve and to pay certain costs of issuance. The Authority paid the first principal payment of \$690,000 on the Sales Tax Revenue Refunding Bonds Series 2013 during fiscal year 2014.

Investment income decreased from \$61,524 to \$1,961 from fiscal year 2013 to 2014, and interest expense increased from \$446,690 to \$557,625.

Transfers out decreased from \$2,781,919 to \$1,916,929 from fiscal year 2013 to 2014.

CAPITAL ASSETS

As of June 30, 2014, the Authority had invested approximately \$10,037,212 in capital assets (net of accumulated depreciation) consisting of land, buildings and improvements, equipment and software. Depreciation expense for the year ended June 30, 2014 was \$519,402. Capital asset additions for the year ended June 30, 2014 included \$39,800 for the purchase of land to be used for future parking, and \$1,700 for improvements to current parking.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Washington County Correctional Facilities Authority, Washington County Courthouse, 420 S. Johnstone Ave., Bartlesville, Oklahoma, 74003.

STATEMENT OF NET POSITION AND GOVERNMENTAL FUND BALANCE SHEET

WASHINGTON COUNTY CORRECTIONAL FACILITIES AUTHORITY

June 30, 2014

	Governmental Fund - <u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 2,151,585	\$ -	\$ 2,151,585
TOTAL CURRENT ASSETS	<u>2,151,585</u>	<u>-</u>	<u>2,151,585</u>
NONCURRENT ASSETS			
Capital assets:			
Nondepreciable	-	222,300	222,300
Depreciable, net of depreciation	<u>-</u>	<u>9,814,912</u>	<u>9,814,912</u>
TOTAL NONCURRENT ASSETS	<u>-</u>	<u>10,037,212</u>	<u>10,037,212</u>
TOTAL ASSETS	<u>\$ 2,151,585</u>	<u>\$ 10,037,212</u>	<u>\$ 12,188,797</u>
LIABILITIES AND FUND BALANCE/NET POSITION			
CURRENT LIABILITIES			
Accrued interest payable	\$ 11,884	\$ -	\$ 11,884
Accounts payable	29,667	-	29,667
Revenue bonds payable, current portion	<u>-</u>	<u>1,360,000</u>	<u>1,360,000</u>
TOTAL CURRENT LIABILITIES	41,551	1,360,000	1,401,551
NONCURRENT LIABILITIES			
Revenue bonds payable, net of current portion	<u>-</u>	<u>7,932,616</u>	<u>7,932,616</u>
TOTAL NONCURRENT LIABILITIES	<u>-</u>	<u>7,932,616</u>	<u>7,932,616</u>
TOTAL LIABILITIES	41,551	9,292,616	9,334,167
FUND BALANCE			
Restricted for debt service	1,360,000	(1,360,000)	-
Unrestricted	<u>750,034</u>	<u>(750,034)</u>	<u>-</u>
TOTAL FUND BALANCE	<u>2,110,034</u>	<u>(2,110,034)</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 2,151,585</u>		
NET POSITION			
Restricted for debt service		<u>\$ 2,854,630</u>	<u>\$ 2,854,630</u>
TOTAL NET POSITION		<u>\$ 2,854,630</u>	<u>\$ 2,854,630</u>

See accompanying notes to the basic financial statements.

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE

WASHINGTON COUNTY CORRECTIONAL FACILITIES AUTHORITY

Year Ended June 30, 2014

	Governmental Fund - <u>General Fund</u>	<u>Adjustments</u>	Statement of Activities
REVENUES			
Sales tax revenue	\$ 3,072,445	\$ -	\$ 3,072,445
Investment income	1,961	-	1,961
TOTAL REVENUES	<u>3,074,406</u>	<u>-</u>	<u>3,074,406</u>
EXPENDITURES/EXPENSES			
Interest expense	292,401	265,224	557,625
Debt repayment	12,690,000	(12,690,000)	-
Capital outlay	41,500	(41,500)	-
Depreciation expense	-	519,402	519,402
Other expenses	18,325	-	18,325
TOTAL EXPENDITURES/EXPENSES	<u>13,042,226</u>	<u>(11,946,874)</u>	<u>1,095,352</u>
Excess (deficiency) of revenues over expenditures/expenses	(9,967,820)	11,946,874	1,979,054
OTHER FINANCING USES			
Transfers out	(1,916,929)	-	(1,916,929)
Change in fund balance/net position	(11,884,749)	11,946,874	62,125
FUND BALANCE/NET POSITION, BEGINNING OF YEAR			
	<u>13,994,783</u>	<u>(11,202,278)</u>	<u>2,792,505</u>
FUND BALANCE/NET POSITION, END OF YEAR			
	<u>\$ 2,110,034</u>	<u>\$ 744,596</u>	<u>\$ 2,854,630</u>

See accompanying notes to the basic financial statements.

RECONCILIATION OF GOVERNMENTAL FUND STATEMENTS
TO GOVERNMENT-WIDE STATEMENTS

WASHINGTON COUNTY CORRECTIONAL FACILITIES AUTHORITY

Year Ended June 30, 2014

RECONCILIATION OF FUND BALANCE TO NET POSITION:

Fund balance	\$ 2,110,034
Capital assets reported in the statement of net position are not financial resources and, therefore, are not reported in the general fund.	10,037,212
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the general fund	<u>(9,292,616)</u>
NET POSITION	<u>\$ 2,854,630</u>

RECONCILIATION OF CHANGE IN FUND BALANCE TO CHANGE IN NET POSITION:

Change in fund balance	\$ (11,884,749)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation expense	(519,402)
Capital outlays	41,500
Debt service principal retirement reported as an expenditure in fund level financial statements but treated as reduction in outstanding debt in government-wide financial statements	12,690,000
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	<u>(265,224)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 62,125</u>

See accompanying notes to the basic financial statements.

NOTES TO FINANCIAL STATEMENTS

WASHINGTON COUNTY CORRECTIONAL FACILITIES AUTHORITY

June 30, 2014

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity: Washington County Correctional Facilities Authority (the "Authority ") was created by a Declaration of Trust Indenture dated July 9, 2007, for the furtherance of public purposes and the benefit of Washington County, Oklahoma (the "County"), pursuant to the provisions of Title 60, Oklahoma Statutes 2001, Section 176 et seq., as amended; Title 60, Oklahoma Statutes 2001, Section 175.1 et seq., as amended and other applicable statutes and laws of the State of Oklahoma (the "State"). The Authority is a component unit of the County. The Washington County Sheriff's Department ("Sheriff's Department") moved into the facility on October 31, 2011, and inmates were received on December 29, 2011.

The purpose of the Authority is primarily to provide funds for the acquisition, construction and equipping of a new county correctional facility and certain improvements to the existing county courthouse, to fund a debt service reserve, and to pay certain costs of issuance. The Authority may also provide funds for the operations of the correctional facility including maintenance, salaries and other general operating costs.

Basis of Accounting: The government-wide financial statements (i.e., the statement of net position and the statement of activities) display information about the reporting entity as a whole. They report on all of the nonfiduciary activities of the government. The Authority's activities are primarily supported by sales tax revenue.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The governmental fund financial statements are reported using the current financial resources measurement focus and the modified-accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Modifications to the accrual basis of accounting include:

- Capital outlays are recorded as expenditures in the governmental fund financial statements.
- Debt service principal retirement is recorded as an expenditure in the governmental fund financial statements.

All operations of the Authority are recorded in the governmental fund type, in the general fund. Governmental funds are accounted for using a spending (or financial flow) measurement focus. Only current assets and current liabilities are included on the balance sheet. The operations statement presents sources and uses of available expendable resources during a given period of time. The general fund is used to account for the Authority's expendable financial resources and related liabilities.

NOTES TO FINANCIAL STATEMENTS--Continued

WASHINGTON COUNTY CORRECTIONAL FACILITIES AUTHORITY

June 30, 2014

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Cash and Cash Equivalents: Highly liquid investments with an original maturity of three months or less at the date of purchase are considered cash equivalents.

Net Position: Restricted net position includes resources which the Authority is legally or contractually obligated to spend in accordance with restrictions imposed by the bond indenture.

Sales Tax Revenue: On June 9, 2009, voters in Washington County approved a proposition increasing their sales tax by ½ percent. The sales tax was voted specifically for the acquisition, construction and equipping of a new county jail facility (the "Facility"). The sales tax became effective October 1, 2009 and the County began receiving proceeds during December 2009. The term of the sales tax is for a period of 10 years or until the principal and interest on the Series 2010 Bonds are paid in full, whichever occurs first. Thereafter, the sales tax will be reduced to one-quarter of one percent and will be used, along with other moneys appropriated by the County, to operate and maintain the Facility. Sales tax revenue is recognized as earned.

Investment Income: Investment income includes interest income, realized gains and losses, and unrealized changes in fair value of investments. Interest income is recognized as earned.

Arbitrage Rebate: The proceeds from the Authority's tax exempt bond issues are subject to arbitrage rebate laws under the Internal Revenue Code. This arbitrage rebate limits the earnings on investment of tax exempt proceeds in non-purpose investments. The Authority had no arbitrage rebate liability at June 30, 2014.

Capital Assets, Net: Capital assets are carried at cost. The Authority capitalizes all property and equipment purchases of \$500 or more. The Authority's capital assets at June 30, 2014 consist of land, buildings and improvements, software and equipment. Routine repairs and maintenance are charged to expense in the year in which the expense was incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which currently range from three (3) to forty (40) years. Depreciation expense was \$519,402 for the year ended June 30, 2014.

Bonds Payable, Net: Series 2013 Bonds payable are shown net of unamortized discounts and premiums. Discounts on bonds payable are amortized to interest expense over the expected life of the bond issue.

Deferred Outflows of Resources: Deferred outflows are the consumption of net position by the Authority that are applicable to a future reporting period. At June 30, 2014, the Authority had no deferred outflows of resources.

Deferred Inflows of Resources: Deferred inflows are the acquisition of net position by the Authority that are applicable to a future reporting period. At June 30, 2014, the Authority had no deferred inflows of resources.

NOTES TO FINANCIAL STATEMENTS--Continued

WASHINGTON COUNTY CORRECTIONAL FACILITIES AUTHORITY

June 30, 2014

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES--Continued

Income Taxes: As a public trust, the income of the Authority, which is derived from the exercise of any essential government function, is not subject to federal or state income taxes.

Use of Estimates: Management has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare the financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from these estimates.

NOTE B--CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash equivalents represent short-term investment funds held by the Authority's trustee. The Authority's deposits are restricted according to the Series 2013 bond indenture. The cash equivalents held by the Authority's trustee are primarily money market mutual funds held in the bond trustee's name on the Authority's behalf. The Authority is authorized by the bond indenture to invest in repurchase and investment agreements, U.S. Treasury-based mutual funds, municipal obligations, certificates of deposit and general obligations of the U.S. Government and its agencies.

At June 30, 2014, cash and cash equivalents were:

Cash	\$ 549,293
Money market mutual funds	<u>1,602,292</u>
Total cash and cash equivalents	<u>\$ 2,151,585</u>

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging institution, or collateralized with securities held by the pledging institution's trust department or agency but not in the depositor-government's name. The Authority does not have a deposit policy for custodial credit risk. The Authority's cash is held by the County Treasurer. State statutes require financial institutions with which the County maintains funds to deposit collateral securities to secure the County's deposits. The amount of collateral securities to be pledged is established by the County Treasurer; this amount must be at least the amount of the deposit to be secured, less the amount, if any, insured by the FDIC. The Authority's money market mutual funds are not subject to custodial credit risk. The money market funds held by the Authority's trustee are held in the bond trustee's name on the Authority's behalf. The weighted average maturities of the Authority's money market mutual funds were less than one year at June 30, 2014. Standard & Poor's credit ratings were AAA.

The Authority had a non-negotiable certificate of deposit totaling \$245,000 at June 30, 2013, which matured August 7, 2013 and was redeemed. The redemption amount was the original \$245,000 and interest income of \$1,235 for a total of \$246,235. This amount was transferred out for the purpose of Washington County Courthouse renovations.

NOTES TO FINANCIAL STATEMENTS--Continued

WASHINGTON COUNTY CORRECTIONAL FACILITIES AUTHORITY

June 30, 2014

NOTE B--CASH, CASH EQUIVALENTS AND INVESTMENTS--Continued

The Authority does not have a formal investment policy that limits investment maturities as a means of managing exposure to fair value losses arising from increasing interest rates. The bond indenture restricts the type of investments that the Authority may carry. The Authority has no investment policy that would further limit or restrict its investment choices. Additionally, the Authority places no limit on the amount the Authority may invest in any one issuer.

NOTE C--CAPITAL ASSETS

The following is a summary of changes in capital assets during fiscal year 2014:

	Balance July 1, 2013	Additions	Transfers	Balance June 30, 2014
<u>Depreciable capital assets:</u>				
Building and improvements	\$10,082,764	\$ 1,700	\$ -	\$10,084,464
Software	326,157	-	-	326,157
Equipment	792,292	-	-	792,292
Total depreciable capital assets	11,201,213	1,700	-	11,202,913
Less: accumulated depreciation:				
Building and improvements	420,115	252,225	-	672,340
Software	181,198	108,719	-	289,917
Equipment	267,286	158,458	-	425,744
Total accumulated depreciation	868,599	519,402	-	1,388,001
	<u>\$10,332,614</u>	<u>\$ (517,702)</u>	<u>\$ -</u>	<u>\$ 9,814,912</u>
<u>Nondepreciable capital assets:</u>				
Land	\$ 182,500	\$ 39,800	\$ -	\$ 222,300
Total nondepreciable capital assets	<u>\$ 182,500</u>	<u>\$ 39,800</u>	<u>\$ -</u>	<u>\$ 222,300</u>

NOTES TO FINANCIAL STATEMENTS--Continued

WASHINGTON COUNTY CORRECTIONAL FACILITIES AUTHORITY

June 30, 2014

NOTE D--REVENUE BONDS PAYABLE

The Authority's 2010 Series Revenue Bond Issue was issued during fiscal year 2010. The bonds are special, limited obligations of the Authority, payable solely out of the revenue receipts and lease receivables pledged under the indentures. The bonds do not constitute a general obligation or indebtedness of Washington County or the Authority, nor do they constitute a debt or obligation of the State of Oklahoma, or any political subdivision, agency or instrumentality thereof and shall not constitute a lien on or pledge of any property of the Authority except as provided in the indenture. The Authority has no taxing powers.

The Authority redeemed the 2010 Series Revenue Bond Issue on December 1, 2013.

During fiscal year 2013, the Authority issued the 2013 Series Revenue Refunding Bonds in the principal amount of \$9,945,000 for the purpose of refunding the 2010 Series Revenue Bond Issue, funding a debt service reserve and to pay certain costs of issuance. The bonds are special, limited obligations of the Authority, payable solely out of the revenue receipts and lease receivables pledged under the indentures. The bonds do not constitute a general obligation or indebtedness of Washington County or the Authority, nor do they constitute a debt or obligation of the State of Oklahoma, or any political subdivision, agency or instrumentality thereof and shall not constitute a lien on or pledge of any property of the Authority except as provided in the indenture. The Authority has no taxing powers.

Total pledged revenues in fiscal year 2014 were \$3,072,445. Debt service payments of \$765,285 were 24.9% of pledged revenues in fiscal year 2014.

The principal balance of the 2013 Series Revenue Refunding Bonds as of June 30, 2014 is \$9,255,000. The associated original issue discount and premium net to \$44,561, and the accumulated amortization is \$6,945 at June 30, 2014.

The following is a listing of bonds outstanding and related activity for the year ended June 30, 2014:

<u>Bond Issue</u>	<u>Maturity</u>	<u>Interest Rate At 6/30/2014</u>	<u>Principal Balance 6/30/2013</u>	<u>Issuance</u>	<u>Retirement</u>	<u>Principal Balance 6/30/2014</u>
2010 Series Revenue Bond Issue	12/1/2019	2.50-3.25%	\$ 12,000,000	\$ -	\$ 12,000,000	\$ -
2013 Series Revenue Bond Issue	12/1/2019	1.00-2.00%	9,945,000	-	690,000	9,255,000
			<u>\$ 21,945,000</u>	<u>\$ -</u>	<u>\$ 12,690,000</u>	<u>\$ 9,255,000</u>

NOTES TO FINANCIAL STATEMENTS--Continued

WASHINGTON COUNTY CORRECTIONAL FACILITIES AUTHORITY

June 30, 2014

NOTE D--REVENUE BONDS PAYABLE--Continued

Debt service requirements for fiscal years 2015 through 2020 for bonds payable as of June 30, 2014 are as follows:

Fiscal Year	2013 Series Revenue Refunding Bonds		Total
	Principal	Interest	
2015	\$ 1,360,000	\$ 147,525	\$ 1,507,525
2016	1,390,000	120,325	1,510,325
2017	1,410,000	92,525	1,502,525
2018	1,425,000	78,425	1,503,425
2019	1,445,000	60,613	1,505,613
2020	2,225,000	38,938	2,263,938
	<u>\$ 9,255,000</u>	<u>\$ 538,351</u>	<u>\$ 9,793,351</u>

NOTE E--TRANSFERS

Upon written request from other Washington County Departments, the Washington County Budget Board has the authority to approve reappropriation requests of the Authority's sales tax revenue given that the requests are allowed under the bond indenture, applicable statutes, as well as the sales tax proposition. For the year ended June 30, 2014, the Washington County Budget Board approved the following transfers of Authority sales tax revenue: transfers to the Washington County Courthouse - \$348,484, and transfers to the Washington County Sheriff's Department - \$1,568,445.

NOTE F--NEW ACCOUNTING PRONOUNCEMENTS

New Accounting Pronouncements Adopted in Fiscal Year 2014: The Authority adopted the following new accounting pronouncement during the year ended June 30, 2014:

- *Statement No. 70, Accounting and Financial Reporting for Nonexchange Financial Guarantees*

GASB No. 70 requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. The government is required to report the guaranteed obligation until it is legally released as an obligor, and when it is legally released, it should recognize revenue as a result of this release. The provision of this statement are effective for reporting periods beginning after June 15, 2013. Earlier application is encouraged. Except for certain disclosure requirements which may be applied prospectively, the provisions of this Statement are required to be applied retroactively. The adoption of GASB No. 70 did not have an impact on the Authority's financial position, changes in financial position, or its financial statement presentation.

NOTES TO FINANCIAL STATEMENTS--Continued

WASHINGTON COUNTY CORRECTIONAL FACILITIES AUTHORITY

June 30, 2014

NOTE F--NEW ACCOUNTING PRONOUNCEMENTS--Continued

New Accounting Pronouncements Issued Not Yet Adopted: The GASB has also issued several new accounting pronouncements which will be effective to the Authority in the fiscal year ending June 30, 2015. A description of the new accounting pronouncements and the Authority's consideration of the impact of these pronouncements are described below:

- *Statement No. 68, Accounting and Financial Reporting for Pensions, an Amendment of GASB Statement No. 27*

GASB No. 68 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and pension expenses. GASB No. 68 also details the recognition and disclosure requirements for employers with liabilities to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. Defined benefit pensions are further classified by GASB No. 68 as single employer plans, agent employer plans and cost-sharing plans, and recognition and disclosure requirements are addressed for each classification. GASB No. 68 was issued in June 2012, and implementation guidance was issued in November 2013. Since the Authority has no employees, adoption of GASB No. 68 is not expected to have an impact on the Authority.

- *Statement No. 69, Government Combinations and Disposals of Government Operations*

GASB No. 69 was issued in January 2013 and establishes accounting and financial reporting standards related to government combinations and disposals of government operations. Government combinations can include a variety of transactions, including mergers, acquisition and transfers of operations. A disposal of a government's operations results in the removal of specific activities of a government. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Earlier application is encouraged. The Authority has not yet determined the impact that implementation of GASB No. 69 will have on its net position.

**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***

The Board of Trustees
Washington County Correctional Facilities Authority

We have audited, 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, the financial statements of the governmental activities and the major fund of Washington County Correctional Facilities Authority (the "Authority") as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated January 7, 2015.

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 entity'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.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Oklahoma City, Oklahoma
January 7, 2015

Cole & Reed P.C.