

**WASHINGTON COUNTY
CORRECTIONAL FACILITIES
AUTHORITY**

June 30, 2013

WASHINGTON COUNTY
CORRECTIONAL FACILITIES AUTHORITY

June 30, 2013

BASIC FINANCIAL STATEMENTS

Independent Auditors' Report	1
Management's Discussion and Analysis	3
Statement of Net Position and Governmental Fund Balance Sheet.....	7
Statement of Activities and Governmental Fund	
Revenues, Expenditures, and Changes in Fund Balance	8
Reconciliation of Governmental Fund Statements to Government-Wide Statements.....	9
Notes to the Basic Financial Statements.....	10

REPORT REQUIRED BY *GOVERNMENT AUDITING STANDARDS*

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 <i>Government Auditing Standards</i>	19
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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, 2013, 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 reasonable 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, 2013, 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 March 13, 2014 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
March 13, 2014

Management's Discussion and Analysis
Washington County Correctional Facilities Authority
June 30, 2013

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, 2013.

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.

Management's Discussion and Analysis--Continued
Washington County Correctional Facilities Authority
June 30, 2013

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

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.

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, 2013 and 2012.

Condensed Statement of Net Position

	June 30, 2013	June 30, 2012
ASSETS		
Current assets	\$ 14,057,523	\$ 5,802,847
Noncurrent assets	10,751,681	11,290,640
TOTAL ASSETS	\$ 24,809,204	\$ 17,093,487
 LIABILITIES AND NET POSITION		
LIABILITIES		
Current liabilities	\$ 12,752,740	\$ 1,570,297
Noncurrent liabilities	9,263,959	11,961,431
TOTAL LIABILITIES	22,016,699	13,531,728
 NET POSITION		
Restricted for debt service	2,792,505	1,763,027
Restricted for capital projects	-	1,798,732
TOTAL NET POSITION	\$ 2,792,505	\$ 3,561,759

Management's Discussion and Analysis--Continued
Washington County Correctional Facilities Authority
June 30, 2013

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

The Authority's changes in net position for the years ended June 30, 2013 and 2012 are reported as follows:

	<u>Year Ended</u> <u>June 30, 2013</u>	<u>Year Ended</u> <u>June 30, 2012</u>
REVENUES		
Sales tax revenue	\$ 3,067,460	\$ 2,965,706
Investment income	<u>61,524</u>	<u>77,941</u>
TOTAL REVENUES	3,128,984	3,043,647
EXPENSES		
Interest expense	446,690	391,735
Amortization of bond issuance costs	19,714	33,796
Depreciation expense	519,246	349,353
Other expenses	<u>130,669</u>	<u>33,575</u>
TOTAL EXPENDITURES/EXPENSES	<u>1,116,319</u>	<u>808,459</u>
Excess of revenues over expenditures/expenses	2,012,665	2,235,188
OTHER FINANCING USES		
Transfers out	<u>(2,781,919)</u>	<u>(2,560,186)</u>
CHANGE IN NET POSITION	(769,254)	(324,998)
NET POSITION AT BEGINNING OF YEAR	<u>3,561,759</u>	<u>3,886,757</u>
NET POSITION AT END OF YEAR	<u><u>\$ 2,792,505</u></u>	<u><u>\$ 3,561,759</u></u>

FINANCIAL HIGHLIGHTS

- The Authority began operations in February 2010. Sales tax revenues earned during fiscal year 2013 totaled \$3,067,460 compared to \$2,965,706 for 2012.
- The Authority paid the third principal payment of \$1,435,000 on the special, limited obligation 2010 revenue bonds during fiscal year 2013. In addition, 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.
- Investment income decreased from \$77,941 to \$61,524 from fiscal year 2012 to 2013 while interest expense increased from \$391,735 to \$446,690.
- Transfers out increased from \$2,560,186 to \$2,781,919 from fiscal year 2012 to 2013.

Management's Discussion and Analysis--Continued
Washington County Correctional Facilities Authority
June 30, 2013

CAPITAL ASSETS

As of June 30, 2013, the Authority had invested approximately \$10,515,000 in capital assets, net of accumulated depreciation, consisting of land, buildings and improvements, equipment, and software. As of November 1, 2011, the Authority's capital assets were placed in service and became subject to depreciation. Depreciation expense for the year ended June 30, 2013 was \$519,246.

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, 2013

	Governmental Fund - <u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS			
Cash and cash equivalents	\$ 13,812,523	\$ -	\$ 13,812,523
Investments	<u>245,000</u>	<u>-</u>	<u>245,000</u>
TOTAL CURRENT ASSETS	14,057,523	-	14,057,523
Bond issuance cost, net of accumulated amortization	-	236,567	236,567
Nondepreciable capital assets	-	182,500	182,500
Depreciable capital assets, net	<u>-</u>	<u>10,332,614</u>	<u>10,332,614</u>
	<u>-</u>	<u>10,751,681</u>	<u>10,751,681</u>
TOTAL ASSETS	<u>\$ 14,057,523</u>	<u>\$ 10,751,681</u>	<u>\$ 24,809,204</u>
LIABILITIES AND FUND BALANCE/NET POSITION			
LIABILITIES			
Accrued interest payable	\$ 37,162	\$ -	\$ 37,162
Accounts payable	25,578	-	25,578
Revenue bonds payable, current portion	<u>-</u>	<u>12,690,000</u>	<u>12,690,000</u>
TOTAL CURRENT LIABILITIES	62,740	12,690,000	12,752,740
Revenue bonds payable, net of current portion	<u>-</u>	<u>9,263,959</u>	<u>9,263,959</u>
TOTAL LIABILITIES	62,740	21,953,959	22,016,699
FUND BALANCE			
Restricted for debt service	12,690,000	(12,690,000)	-
Unrestricted	<u>1,304,783</u>	<u>(1,304,783)</u>	<u>-</u>
TOTAL FUND BALANCE	<u>13,994,783</u>	<u>(13,994,783)</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 14,057,523</u>		
NET POSITION			
Restricted for:			
Debt service		<u>2,792,505</u>	<u>2,792,505</u>
TOTAL NET POSITION		<u>\$ 2,792,505</u>	<u>\$ 2,792,505</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, 2013

	Governmental Fund - <u>General Fund</u>	<u>Adjustments</u>	Statement of <u>Activities</u>
REVENUES			
Sales tax revenue	\$ 3,067,460	\$ -	\$ 3,067,460
Investment income	<u>61,524</u>	<u>-</u>	<u>61,524</u>
TOTAL REVENUES	3,128,984	-	3,128,984
EXPENDITURES/EXPENSES			
Interest expense	364,136	82,554	446,690
Debt repayment	1,435,000	(1,435,000)	-
Amortization of bond issuance costs	-	19,714	19,714
Depreciation expense	-	519,246	519,246
Other expenses	<u>130,669</u>	<u>-</u>	<u>130,669</u>
TOTAL EXPENDITURES/EXPENSES	<u>1,929,805</u>	<u>(813,486)</u>	<u>1,116,319</u>
Excess (deficiency) of revenues over expenditures/expenses	1,199,179	(813,486)	2,012,665
OTHER FINANCING SOURCES (USES)			
Bond issuances	9,909,973	(9,909,973)	-
Transfers out	<u>(2,781,919)</u>	<u>-</u>	<u>(2,781,919)</u>
Change in fund balance/net position	8,327,233	(10,723,459)	(769,254)
FUND BALANCE/NET POSITION, BEGINNING OF YEAR			
	<u>5,667,550</u>	<u>(3,694,590)</u>	<u>3,561,759</u>
FUND BALANCE/NET POSITION, END OF YEAR			
	<u>\$ 13,994,783</u>	<u>\$ (14,418,049)</u>	<u>\$ 2,792,505</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, 2013

RECONCILIATION OF FUND BALANCE TO NET POSITION:

FUND BALANCE	\$ 13,994,783
Capital assets reported in the statement of net position are not financial resources and, therefore, are not reported in the general fund.	10,515,114
Bond issuance costs reported in the statement of net position are not financial resources and, therefore, are not reported in the general fund.	236,567
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the general fund.	<u>(21,953,959)</u>
NET POSITION	<u>\$ 2,792,505</u>

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

CHANGE IN FUND BALANCE	\$ 8,327,233
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.	
This is the amount of depreciation expense:	(519,246)
Debt service principal retirement expensed in fund level financial statements but treated as reduction in outstanding debt in government-wide financial statements.	1,435,000
Bond proceeds reported in fund level financial statements but treated as an increase in outstanding debt in government-wide financial statements.	(9,909,973)
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>(102,268)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ (769,254)</u>

See accompanying notes to the basic financial statements.

NOTES TO FINANCIAL STATEMENTS

WASHINGTON COUNTY CORRECTIONAL FACILITIES AUTHORITY

June 30, 2013

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, 2013

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.

Investments: The Authority's investments consist solely of a certificate of deposit at June 30, 2013. The investment is carried at amortized cost.

Bond Issuance Costs: Costs incurred in connection with the issuance of bonds are amortized using the straight-line method over the life of the associated bonds. Costs are shown net of accumulated amortization of \$101,386 at June 30, 2013.

Net Position: Restricted net position includes resources in 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, operation, and equipping of the 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, 2013.

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, 2013 consist of land, buildings and improvements, software, and equipment that were placed in service on November 1, 2011. 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 \$519,246 for the year ended June 30, 2013.

NOTES TO FINANCIAL STATEMENTS--Continued

WASHINGTON COUNTY CORRECTIONAL FACILITIES AUTHORITY

June 30, 2013

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

Bonds Payable, Net: Series 2010 Bonds payable and 2013 Bonds payable are shown net of unamortized discounts. 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, 2013, the Authority has 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, 2013, the Authority has no deferred inflows of resources.

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 2010 and Series 2013 bond indentures. 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 2013, cash and cash equivalents were:

Cash	\$	548,525
Money market mutual funds		<u>13,263,998</u>
Total cash and cash equivalents	\$	<u>13,812,523</u>

NOTES TO FINANCIAL STATEMENTS--Continued

WASHINGTON COUNTY CORRECTIONAL FACILITIES AUTHORITY

June 30, 2013

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

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, 2013. Standard & Poor's credit ratings were AAA.

The Authority has a non-negotiable certificate of deposit totaling \$245,000 at June 30, 2013. The certificate of deposit matured on August 7, 2013 and had an interest rate of 2.00%. The certificate of deposit is stated at cost plus accrued interest, which approximates fair value.

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.

NOTES TO FINANCIAL STATEMENTS--Continued

WASHINGTON COUNTY CORRECTIONAL FACILITIES AUTHORITY

June 30, 2013

NOTE C--CAPITAL ASSETS

The Authority's depreciable capital assets were placed in service on November 1, 2011. The Authority's nondepreciable capital assets consist of land. The following is a summary of changes in capital assets during fiscal year 2013:

	Balance July 1, 2012	Additions	Transfers	Balance June 30, 2013
<u>Depreciable capital assets:</u>				
Building and improvements	\$ 10,082,764	\$ -	\$ -	\$ 10,082,764
Software	326,157	-	-	326,157
Equipment	792,292	-	-	792,292
Total depreciable capital assets	11,201,213	-	-	11,201,213
Less: accumulated depreciation	349,353	519,246	-	868,599
Total depreciable capital assets, net	<u>\$ 10,851,860</u>	<u>\$ (519,246)</u>	<u>\$ -</u>	<u>\$ 10,332,614</u>
<u>Nondepreciable capital assets:</u>				
Land	\$ 182,500	\$ -	\$ -	\$ 182,500
Total nondepreciable capital assets	<u>\$ 182,500</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 182,500</u>

There were no disposals during fiscal year 2013.

NOTE D--REVENUE BONDS PAYABLE

The Authority's 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 following table shows total outstanding principal and the related unamortized discount as of June 30, 2013:

Principal balance	\$ 12,000,000
Less: unamortized bond discounts	<u>(35,602)</u>
Principal balance, net of discounts	<u>\$ 11,964,398</u>

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

NOTES TO FINANCIAL STATEMENTS--Continued

WASHINGTON COUNTY CORRECTIONAL FACILITIES AUTHORITY

June 30, 2013

NOTE D--REVENUE BONDS PAYABLE--Continued

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.

The principal balance of the 2013 Series Revenue Refunding Bonds as of June 30, 2013 is \$9,945,000. Adjustments for the related discounts and premium net in the amount of \$35,027 resulted in bond proceeds of \$9,909,973, received in June 2013.

The following is a listing of bonds outstanding and related activity for the year ended June 30, 2013:

Bond Issue	Maturity	Interest Rate At 6/30/2013	Principal Balance 6/30/2012	Issuance	Retirement	Principal Balance 6/30/2013
2010 Series Revenue Bond Issue	12/1/2019	2.50-3.25%	\$ 13,435,000	\$ -	\$ 1,435,000	\$ 12,000,000
2013 Series Revenue Bond Issue	12/1/2019	1.00-2.00%	-	9,945,000	-	9,945,000
			<u>\$ 13,435,000</u>	<u>\$ 9,945,000</u>	<u>\$ 1,435,000</u>	<u>\$ 21,945,000</u>

Debt service requirements for fiscal years 2014 through 2018 and thereafter to maturity for bonds payable as of June 30, 2013 are as follows:

Fiscal Year	2013 Series Revenue Refunding Bonds		2010 Series Revenue Bonds		Total
	Principal	Interest	Principal	Interest	
2014	\$ 690,000	\$ 75,285	\$ 12,000,000	\$ 150,000	\$ 12,915,285
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
2019-2020	3,670,000	99,550	-	-	3,769,550
	<u>\$ 9,945,000</u>	<u>\$ 613,635</u>	<u>\$ 12,000,000</u>	<u>\$ 150,000</u>	<u>\$ 22,708,635</u>

NOTES TO FINANCIAL STATEMENTS--Continued

WASHINGTON COUNTY CORRECTIONAL FACILITIES AUTHORITY

June 30, 2013

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, 2013, the Washington County Budget Board approved the following transfers of Authority sales tax revenue: transfers to the Washington County Sheriff's Department - \$1,247,460, and transfers to the Washington County Courthouse - \$1,534,459.

NOTE F--NEW ACCOUNTING PRONOUNCEMENTS

New Accounting Pronouncements Adopted in Fiscal Year 2013: The Authority adopted several new accounting pronouncements during the year ended June 30, 2013 as follows:

Fiscal Year Ended June 30, 2013

- *Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements*
GASB No. 60 addresses issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. This Statement applies only to those arrangements in which specific criteria determining whether a transferor has control over the facility are met. The Authority will only be required to adopt the provisions of GASB No. 60 if it enters into an SCA, and it currently has not entered into any such arrangements.
- *Statement No. 61, The Financial Reporting Entity: Omnibus - An Amendment of GASB Statements No. 14 and No. 34*
GASB No. 61 modifies certain requirements for inclusion of component units in the financial reporting entity and also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. Earlier application is encouraged. The adoption of GASB No. 61 did not have an impact on the Authority's financial statement presentation.
- *Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*
GASB No. 62 is intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain FASB and AICPA pronouncements. The adoption of GASB No. 62 did not have an impact on the Authority's financial position, activities or cash flows, or its financial statement presentation.

NOTES TO FINANCIAL STATEMENTS--Continued

WASHINGTON COUNTY CORRECTIONAL FACILITIES AUTHORITY

June 30, 2013

NOTE F--NEW ACCOUNTING PRONOUNCEMENTS--Continued

New Accounting Pronouncements Adopted in Fiscal Year 2013--Continued:

- Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*

GASB No. 63 provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Adoption of this statement has required the Authority to make changes in its financial statement presentation.

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

Fiscal Year Ended June 30, 2014

- Statement No. 65, *Items Previously Reported as Assets and Liabilities*

GASB No. 65 establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources certain items that were previously reported as assets and liabilities and recognizes as outflows of resources (expenses) or inflows of resources (revenues) certain items that were previously recognized as assets and liabilities. The adoption of GASB No. 65 will require the Authority to write off \$236,567 in bond issuance cost and restate its net position as of July 1, 2013.

- 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 provisions 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 Authority has not yet evaluated the effects that GASB No. 70 will have on its financial statements.

NOTES TO FINANCIAL STATEMENTS--Continued

WASHINGTON COUNTY CORRECTIONAL FACILITIES AUTHORITY

June 30, 2013

NOTE F--NEW ACCOUNTING PRONOUNCEMENTS--Continued

New Accounting Pronouncements Issued Not Yet Adopted--Continued:

Fiscal Year Ended June 30, 2015

- *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. Since the Authority has no employees, adoption of GASB 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, acquisitions 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.

**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, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated March 13, 2014.

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
March 13, 2014

Cole & Reed P.C.