

Bi-State Justice Center

Auditor's Reports and Financial Statements

December 31, 2012



Bi-State Justice Center
December 31, 2012

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Independent Auditor's Report

Intergovernmental Advisory Committee
Bi-State Justice Center
Texarkana, Arkansas-Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Bi-State Justice Center, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise Bi-State Justice Center's basic financial statements 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Bi-State Justice Center as of December 31, 2012, and its changes in financial position and the budgetary comparison for the General Fund, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2013, on our consideration of the Center's internal control over financial reporting and our tests of 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* in considering the Center's internal control over financial reporting and compliance.

BKD, LLP

Little Rock, Arkansas
July 31, 2013

Bi-State Justice Center
Governmental Fund Balance Sheet/Statement of Net Position
December 31, 2012

| | Governmental Fund Balance Sheet | Adjustments | Statement of Net Position |
|---|--|--------------------|--------------------------------------|
| Assets | | | |
| Cash | \$ 215,310 | \$ - | \$ 215,310 |
| Other receivables | 35,478 | - | 35,478 |
| Due from federal and state governments | 1,016,967 | - | 1,016,967 |
| Prepaid expense | 125,082 | - | 125,082 |
| Capital assets, net | - | 2,654,094 | 2,654,094 |
| | <u>1,392,837</u> | <u>2,654,094</u> | <u>4,046,931</u> |
| Total assets | | | |
| Liabilities | | | |
| Accounts payable | 224,081 | - | 224,081 |
| Accrued expenses | 10,917 | 29,051 | 39,968 |
| Deferred revenue | 34,157 | (34,157) | - |
| Due to other local governments: | 834,168 | - | 834,168 |
| Long-term liabilities: | | | |
| Due within one year: | | | |
| Tax and revenue certificates of obligations | - | 145,000 | 145,000 |
| Accrued compensated absences | - | 654 | 654 |
| Due after one year: | | | |
| Tax and revenue certificates of obligations | - | 1,760,000 | 1,760,000 |
| Accrued compensated absences | - | 181,816 | 181,816 |
| | <u>1,103,323</u> | <u>2,082,364</u> | <u>3,185,687</u> |
| Total liabilities | | | |
| Fund Balances/Net Position | | | |
| Fund Balances | | | |
| Nonspendable | 125,082 | (125,082) | |
| Unassigned | 164,432 | (164,432) | |
| | <u>289,514</u> | <u>(289,514)</u> | |
| Total fund balances | | | |
| Total liabilities and fund balances | <u>\$ 1,392,837</u> | | |
| Net position | | | |
| Net investment in capital assets | | 720,043 | 720,043 |
| Unrestricted | | 141,201 | 141,201 |
| | | <u>861,244</u> | <u>861,244</u> |
| Total net position | | | |

Bi-State Justice Center
Statement of Governmental Fund Revenues, Expenditures and
Changes in Fund Balances/Statement of Activities
Year Ended December 31, 2012

| | Governmental Fund | Adjustments | Statement of Activities |
|---|------------------------------|--------------------|------------------------------------|
| Revenues | | | |
| Intergovernmental: | | | |
| Bowie County, Texas | \$ 1,975,497 | \$ - | \$ 1,975,497 |
| City of Texarkana, Arkansas | 1,733,706 | - | 1,733,706 |
| City of Texarkana, Texas | 1,533,274 | - | 1,533,274 |
| State insurance turnback | 4,035 | - | 4,035 |
| Interest | 117 | - | 117 |
| Rental | 93,543 | - | 93,543 |
| Miscellaneous | 186,149 | (869) | 185,280 |
| | <u>5,526,321</u> | <u>(869)</u> | <u>5,525,452</u> |
| Total revenues | | | |
| Expenditures/Expenses | | | |
| Current | | | |
| Building administration | 1,083,571 | 1,413 | 1,084,984 |
| Central records and communications | 2,666,851 | 6,585 | 2,673,436 |
| Detention | 1,571,928 | - | 1,571,928 |
| Depreciation | - | 184,411 | 184,411 |
| Debt service: | | | |
| Principal | 135,000 | (135,000) | - |
| Interest | 72,194 | (2,059) | 70,135 |
| | <u>5,529,544</u> | <u>55,350</u> | <u>5,584,894</u> |
| Total expenditures/expenses | | | |
| Change in Fund Balances/Net Position | (3,223) | (56,219) | (59,442) |
| Fund Balances/Net Position | | | |
| Beginning of the year | <u>292,737</u> | <u>627,949</u> | <u>920,686</u> |
| End of year | <u>\$ 289,514</u> | <u>\$ 571,730</u> | <u>\$ 861,244</u> |

Bi-State Justice Center
Statement of Revenues, Expenditures and Changes in Fund Balances –
Budget and Actual
Year Ended December 31, 2012

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance with Final Budget</u> |
|------------------------------------|-------------------------|-------------------|-------------------|---------------------------------------|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues | | | | |
| Intergovernmental | \$ 5,298,035 | \$ 5,298,035 | \$ 5,246,512 | \$ (51,523) |
| Interest | 600 | 600 | 117 | (483) |
| Rental | 93,543 | 93,543 | 93,543 | - |
| Miscellaneous | 181,100 | 181,100 | 186,149 | 5,049 |
| | <u>5,573,278</u> | <u>5,573,278</u> | <u>5,526,321</u> | <u>(46,957)</u> |
| Expenditures | | | | |
| Building administration | | | | |
| Current | <u>1,093,964</u> | <u>1,093,964</u> | <u>1,083,571</u> | <u>(10,393)</u> |
| Central records and communications | | | | |
| Current | <u>2,706,148</u> | <u>2,706,148</u> | <u>2,666,851</u> | <u>(39,297)</u> |
| Detention | | | | |
| Current | <u>1,707,520</u> | <u>1,707,520</u> | <u>1,571,928</u> | <u>(135,592)</u> |
| Debt service | | | | |
| Principal | 135,000 | 135,000 | 135,000 | - |
| Interest | <u>72,194</u> | <u>72,194</u> | <u>72,194</u> | <u>-</u> |
| Total debt service | <u>207,194</u> | <u>207,194</u> | <u>207,194</u> | <u>-</u> |
| Total expenditures | <u>5,714,826</u> | <u>5,714,826</u> | <u>5,529,544</u> | <u>(185,282)</u> |
| Net change in fund balances | (141,548) | (141,548) | (3,223) | 138,325 |
| Fund balances at beginning of year | <u>292,737</u> | <u>292,737</u> | <u>292,737</u> | <u>-</u> |
| Fund balances at end of year | <u>\$ 151,189</u> | <u>\$ 151,189</u> | <u>\$ 289,514</u> | <u>\$ 138,325</u> |

Bi-State Justice Center
Notes to Financial Statements
December 31, 2012

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Bi-State Justice Center (Center) is jointly occupied by the law enforcement and criminal justice agencies of the City of Texarkana, Arkansas; the City of Texarkana, Texas; and Bowie County, Texas. The facility is located on the state line, fifty percent in Texarkana, Arkansas and fifty percent in Texarkana, Texas. The Intergovernmental Advisory Committee is responsible for the operations of the Center. This ten member committee is comprised of the two City Managers, the Bowie County Judge, two members from the City of Texarkana, Arkansas Board of Directors, two members from the City of Texarkana, Texas City Council, two members of the Bowie County Commissioners Court, and one independent member. The Center, which began operations in October 1985 accounts only for the operations of the facility itself. Each participating entity separately accounts for the operations of its own law enforcement and criminal justice agencies. The Center is reported as a joint venture in each of the participating entity's financial statements.

Measurement Focus, Basis of Accounting and Presentation

The Center has one fund, the General Fund, which is the Center's operating fund.

The General Fund is accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Center considers revenues to be available if they are collectable within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

In addition to presenting information for the General Fund, the statements present information for the Center using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Contributions and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenues include operating contributions. Internally dedicated resources are reported as general revenues rather than as program revenues.

When both restricted and unrestricted resources are available for use, it is the Center's policy to use restricted resources first, then unrestricted resources as they are needed.

Bi-State Justice Center
Notes to Financial Statements
December 31, 2012

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses and other changes in net position during the reporting period. Actual results could differ from those estimates.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The following estimated useful lives are being used by the Center:

| | |
|-------------------------|-------------|
| Building improvements | 20-40 years |
| Other structures | 20 years |
| Furniture and equipment | 5-10 years |
| Radio equipment | 5-10 years |
| Shop equipment | 10 years |
| Vehicles | 5 years |

Compensated Absences

The Center allows employees to accumulate earned but unused vacation and sick pay benefits. Vested or accumulated vacation and sick leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the general fund. Amounts of vested or accumulated vacation and sick leave that is not expected to be liquidated with expendable available financial resources is reported in the government-wide statements as a long term liability. In governmental funds, compensated absences are reported only if they have matured (*i.e.* unused reimbursable leave still outstanding following an employee's resignation or retirement).

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the columns for governmental activities.

Bi-State Justice Center
Notes to Financial Statements
December 31, 2012

Deferred Revenue

Resource inflows that do not yet meet the criteria for revenue recognition are deferred in all funds. Unearned amounts are always reported as deferred revenues. In the governmental funds, earned amounts are also reported as deferred if they are not received within 60 days of year-end.

Net Position

Net position of the Center is classified in two components. Net investment in capital assets consists of capital assets net of accumulated depreciation and related debt. Unrestricted net position is remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets.

Fund Balance – Governmental Funds

The fund balances for the Center’s governmental fund are displayed in two components:

Nonspendable – Nonspendable fund balances are not in a spendable form or are required to be maintained intact.

Unassigned – Unassigned fund balance is the residual classification for the general fund and includes all amounts not contained in the other classification.

Budgets and Budgetary Accounting

The annual budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP) for the General Fund. The annual budget is underwritten by the participating entities based on a formula which uses floor space occupied, number of records processed by Central Records and Communication and the number of prisoners in the detention facility for each entity. All budgeted annual appropriations lapse at year-end and are re-established in the succeeding year.

The legal level of budgetary control (*i.e.*, the lowest level at which expenditures may not legally exceed appropriation) is the fund level. No budgetary changes were made during the year.

Comparison of budgeted and actual amounts for the General Fund is included in the accompanying financial statements.

Bi-State Justice Center
Notes to Financial Statements
December 31, 2012

New Governmental Accounting Standards Board (GASB) Pronouncements

The GASB has issued the following statements which the Center has not yet adopted and which require adoption subsequent to December 31, 2012:

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, clarifies the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The provisions of GASB 65 are effective for periods beginning after December 15, 2012, and would be applied on a prospective basis. The effect of this statement on the Center has not been determined.

Allocation of Expenditures

For the three departments of the Center, the expenditures have been allocated as follows:

Building Administration – expenditures are allocated based on floor space utilized by each of the three participating entities, resulting in the following:

| | |
|-----------------------------|--------|
| Bowie County, Texas | 35.21% |
| City of Texarkana, Arkansas | 31.26% |
| City of Texarkana, Texas | 33.53% |

Central Records and Communication (CRC) – expenditures are allocated based on the number of records processed in 2012 for each of the three participating entities, resulting in the following:

| | |
|-----------------------------|--------|
| Bowie County, Texas | 30.57% |
| City of Texarkana, Arkansas | 32.11% |
| City of Texarkana, Texas | 37.32% |

Detention – expenditures are allocated based on the number of inmates housed for the three participating entities, resulting in the following:

| | |
|-----------------------------|--------|
| Bowie County, Texas | 52.62% |
| City of Texarkana, Arkansas | 39.27% |
| City of Texarkana, Texas | 8.11% |

Bi-State Justice Center
Notes to Financial Statements
December 31, 2012

Note 2: Reconciliation of Fund Financial Statements to Government-Wide Financial Statements

Total fund balances and the net change in fund balances of the Center's General Fund differs from net position and change in net position of the governmental activities reported in the statement of net position and statement of activities. These differences primarily result from the long-term economic focus of the statement of net position and statement of activities versus the current financial resources focus of the governmental fund balance sheet and the statement of revenues, expenditures, and changes in fund balances. The following are reconciliations of fund balances to net position and the net change in fund balances to the net change in net position:

| | |
|---|--------------------------|
| Total fund balances | \$ 289,514 |
| Amounts reported in the statement of net assets are different because: | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund. | 2,654,094 |
| Accrued interest not due and payable in the current period and therefore not reported in the fund. | (29,051) |
| Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the fund. | 34,157 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the fund. | <u>(2,087,470)</u> |
| Total net position | <u><u>\$ 861,244</u></u> |

Bi-State Justice Center
Notes to Financial Statements
December 31, 2012

| | |
|--|---------------------------|
| Change in fund balances | \$ (3,223) |
| Amounts reported in the statement of activities are different because: | |
| Governmental funds report capital outlays as expenditures. However, for government-wide statements, the costs of those assets are allocated over estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period. | (184,411) |
| Compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This amount is the net change in compensated absences this year. | (7,998) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the fund. | (869) |
| Accrued interest payable reported in the statement of activities does not require the use of current financial resources and therefore is not reported as expenditures in governmental fund. This amount is the net change in accrued interest this year. | 2,059 |
| The repayment of the principal of long term debt consumes the current financial resources of governmental funds; however, this has no effect on net position. | <u>135,000</u> |
| Change in net position | <u><u>\$ (59,442)</u></u> |

Note 3: Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it.

State law requires collateralization of all deposits of public funds with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the state of Arkansas.

The Center's deposit policy for custodial credit risk requires compliance with the provisions of state law. At December 31, 2012, the Center's bank balance was fully insured.

Bi-State Justice Center
Notes to Financial Statements
December 31, 2012

Note 4: Capital Assets

Capital assets activity for the year ended December 31, 2012, was:

| | Beginning Balance | Additions | Disposals | Ending Balance |
|-------------------------------|----------------------|---------------------|-------------|---------------------|
| Building improvements | \$ 2,863,454 | \$ - | \$ - | \$ 2,863,454 |
| Furniture and equipment | 1,062,750 | - | - | 1,062,750 |
| Radio equipment | 1,335,632 | - | - | 1,335,632 |
| Vehicles | 37,887 | - | - | 37,887 |
| | <u>5,299,723</u> | <u>-</u> | <u>-</u> | <u>5,299,723</u> |
| Less accumulated depreciation | | | | |
| Building improvements | 505,395 | 143,098 | - | 648,493 |
| Furniture and equipment | 651,720 | 33,894 | - | 685,614 |
| Radio equipment | 1,264,715 | 7,419 | - | 1,272,134 |
| Vehicles | 39,388 | - | - | 39,388 |
| | <u>2,461,218</u> | <u>184,411</u> | <u>-</u> | <u>2,645,629</u> |
| Capital assets, net | <u>\$ 2,838,505</u> | <u>\$ (184,411)</u> | <u>\$ -</u> | <u>\$ 2,654,094</u> |

Note 5: Long-term Liabilities

Changes in long-term liabilities for the year ended December 31, 2012, were as follows:

| Governmental Activities | Balance December 31, 2011 | Increases | Decreases | Balance December 31, 2012 | Amounts Due in One Year |
|--|---------------------------------|------------------|-------------------|---------------------------------|----------------------------|
| Combination Tax and Revenue | | | | | |
| Certificates of Obligations | \$ 2,040,000 | \$ - | \$ 135,000 | \$ 1,905,000 | \$ 145,000 |
| Compensated absences | 174,472 | 42,783 | 34,785 | 182,470 | 654 |
| Total governmental activity long-term liabilities | <u>\$ 2,214,472</u> | <u>\$ 42,783</u> | <u>\$ 169,785</u> | <u>\$ 2,087,470</u> | <u>\$ 145,654</u> |

Bi-State Justice Center
Notes to Financial Statements
December 31, 2012

Certificates outstanding at December 31, 2012, were as follows:

| | Interest Rate | Final Maturity Date | Principal at December 31, 2012 |
|--|------------------|------------------------|--------------------------------------|
| Combination Tax and Revenue Certificates of Obligation, Series 2008 | 3.66% | 2023 | <u>\$ 1,905,000</u> |

Combination Tax and Revenue Certificates of Obligation, Series 2008 – On February 1, 2008, the Center issued \$2,430,000 Combination Tax and Revenue Certificates of Obligation in the name of the City of Texarkana, Texas on behalf of the Center to pay contractual obligations for improvements to the Bi-State Criminal Justice Center and professional services rendered in connection therewith. The certificates are due in varying amounts through February 1, 2023. The payments are made by the Bi-State Justice Center directly to the paying agent. The City of Texarkana, Texas has no responsibility for the repayment of the debt beyond its participation in the Center.

Annual Debt Service Requirements

The following schedule shows the annual debt service requirements to pay principal and interest on combination tax and revenue certificates of obligation outstanding at December 31, 2012.

| Fiscal Year | Principal | Interest | Total |
|-------------|---------------------|-------------------|---------------------|
| 2013 | \$ 145,000 | \$ 67,070 | \$ 212,070 |
| 2014 | 150,000 | 61,671 | 211,671 |
| 2015 | 155,000 | 56,090 | 211,090 |
| 2016 | 160,000 | 50,325 | 210,325 |
| 2017 | 165,000 | 44,378 | 209,378 |
| 2018 - 2022 | 925,000 | 124,715 | 1,049,715 |
| 2023 | 205,000 | 3,751 | 208,751 |
| | <u>\$ 1,905,000</u> | <u>\$ 408,000</u> | <u>\$ 2,313,000</u> |

Bi-State Justice Center
Notes to Financial Statements
December 31, 2012

Note 6: Pension Plan

Some of the employees of the Center were formerly employed by Bowie County, the City of Texarkana, Texas, and the City of Texarkana, Arkansas Police Department. Retirement coverage for these transferred employees was continued by the former local government employer through December 26, 1998. All new employees of the Center were included in the Texarkana Arkansas Public Employees Retirement System (TAPERS) through December 26, 1998. Effective December 27, 1998, all non-civil service Central Records and Communications (CRC) employees are included in the Texas Municipal Retirement System (TMRS). Other employees of the Center, as well as the civil service employee in the CRC department, continued participating in TAPERS. Retirement plan disclosures and actuarial data for TMRS participants are included in the comprehensive annual financial report of the City of Texarkana, Texas. Retirement plan disclosures and actuarial data for other employees of the Center are included in the comprehensive annual financial report of the City of Texarkana, Arkansas.

Note 7: Cost Recovery

Payments received from outside entities which have been netted with reported expenditures include amounts considered to be cost recovery. For the year ended December 31, 2012, this amounted to \$23,484 and is recorded in central records and communication.

Note 8: Risk Management

The Center is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Center's employees are provided workers' compensation insurance through either the City of Texarkana, Arkansas or the City of Texarkana, Texas.

The City of Texarkana, Arkansas provides statutory workmen's compensation benefits under an insured plan of the Arkansas Municipal League Workers Compensation Trust. The cost of the program is charged to the general fund. Contributions are made by members and the funds are deposited in the Trust account managed by the Arkansas Municipal League and used to pay claims. Depending on the status of the fund at the end of the year, assessments are made or dividends declared.

Bi-State Justice Center
Notes to Financial Statements
December 31, 2012

The City of Texarkana, Texas workers' compensation insurance coverage is obtained through the Texas Municipal League Intergovernmental Risk Pool (TML Pool). The TML Pool was established by the various political subdivisions in Texas to provide self-insurance for its members and to obtain lower costs for insurance. Losses under a stated amount for workers' compensation that are incurred by TML members are paid with TML Pool funds. Claims in excess of this limit are paid under terms of insurance policies obtained by the TML Pool. TML Pool members pay annual contributions to obtain the insurance. Annual contribution rates are determined by the TML Pool Board or by the State Board of Insurance of Texas. Such rates are estimated to include all claims expected to occur during the policy period, including claims incurred but not reported. The TML has established claims reserves for each of the types of insurance offered. Thus, although the TML Pool is a self-insured risk pool, members are not contingently liable for claims filed above the amount of the fixed annual contributions. If losses incurred are significantly higher than actuarially estimated, the TML Pool adjusts the contributed rate for subsequent years. Members are also entitled to returns of contributions if actual results are more favorable than estimated.

Settled claims have not exceeded this commercial coverage in any of the three preceding years.

**Independent Auditor's Report on Internal Control Over
Financial Reporting and on Compliance and Other Matters Based on an
Audit of the Financial Statements Performed in Accordance with
Government Auditing Standards**

Intergovernmental Advisory Committee
Bi-State Justice Center
Texarkana, Arkansas-Texas

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, the financial statements of the governmental activities and each major fund of the Bi-State Justice Center, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the Bi-State Justice Center's basic financial statements and have issued our report thereon dated July 31, 2013.

Internal Control Over Financial Reporting

Management of the Center is responsible for establishing and maintaining effective internal control over financial reporting (internal control). In planning and performing our audit, we considered the Center's internal control to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Center's internal control. Accordingly, we do not express an opinion on the effectiveness of the Center'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 Center's basic 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses as defined above. However, material weaknesses may exist that have not been identified.

Compliance

As part of obtaining reasonable assurance about whether the Center's basic 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*.

The purpose of this communication 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 Center's internal control or compliance. This communication is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Center's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

BKD, LLP

Little Rock, Arkansas
July 31, 2013