

# **Bi-State Justice Center**

Independent Auditor's Reports and Financial Statements

December 31, 2016



**Bi-State Justice Center**  
**December 31, 2016**

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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 the major fund of the Bi-State Justice Center as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the Center'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 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.

***Opinions***

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 the Bi-State Justice Center as of December 31, 2016, and the respective changes in financial position and the budgetary comparison for the General Fund, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

*Emphasis of Matter – Required Supplementary Information*

Management has omitted the management’s discussion and analysis information 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 Government 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 June 29, 2017, on our consideration of the Bi-State Justice 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 Bi-State Justice Center’s internal control over financial reporting and compliance.

**BKD, LLP**

Rogers, Arkansas  
June 29, 2017

**Bi-State Justice Center**  
**Governmental Fund Balance Sheet/Statement of Net Position**  
**December 31, 2016**

	<b>Governmental Fund Balance Sheet</b>	<b>Adjustments</b>	<b>Statement of Net Position</b>
<b>Assets</b>			
Cash	\$ 771,761	\$ -	\$ 771,761
Other receivables	84,712	-	84,712
Due from federal, state and city governments	391,181	-	391,181
Prepaid expense	162,980	-	162,980
Capital assets, net	-	2,914,247	2,914,247
	<u>1,410,634</u>	<u>2,914,247</u>	<u>4,324,881</u>
Total assets			
<b>Liabilities</b>			
Accounts payable	516,836	-	516,836
Accrued expenses	17,697	19,749	37,446
Due to other local governments:	509,021	-	509,021
Long-term liabilities:			
Due within one year:			
Tax and revenue certificates of obligation	-	165,000	165,000
Capital lease obligations	-	105,551	105,551
Accrued compensated absences	-	6,563	6,563
Due after one year:			
Tax and revenue certificates of obligation	-	1,130,000	1,130,000
Capital lease obligation	-	203,213	203,213
Accrued compensated absences	-	162,553	162,553
	<u>1,043,554</u>	<u>1,792,629</u>	<u>2,836,183</u>
Total liabilities			
<b>Deferred Inflow of Resources</b>			
Unavailable revenue	39,725	(39,725)	-
	<u>39,725</u>	<u>(39,725)</u>	<u>-</u>
<b>Fund Balances/Net Position</b>			
Fund Balances			
Nonspendable	162,980	(162,980)	
Unassigned	164,375	(164,375)	
	<u>327,355</u>	<u>(327,355)</u>	
Total fund balances			
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,410,634</u>		
Net position			
Net investment in capital assets		1,290,734	1,290,734
Unrestricted		197,964	197,964
		<u>1,488,698</u>	<u>1,488,698</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, 2016**

	<b>Governmental Fund</b>	<b>Adjustments</b>	<b>Statement of Activities</b>
<b>Revenues</b>			
Intergovernmental:			
Bowie County, Texas	\$ 2,710,902	\$ -	\$ 2,710,902
City of Texarkana, Arkansas	2,258,438	-	2,258,438
City of Texarkana, Texas	1,731,073	-	1,731,073
Rental	93,543	-	93,543
Miscellaneous	250,269	(1,880)	248,389
	<u>7,044,225</u>	<u>(1,880)</u>	<u>7,042,345</u>
Total revenues			
<b>Expenditures/Expenses</b>			
Current			
Building administration	1,191,816	(3,275)	1,188,541
Central records and communications	2,556,900	1,238	2,558,138
Detention	2,393,798	31,557	2,425,355
Depreciation	-	221,850	221,850
Capital outlay	517,556	(517,556)	-
Loss on disposal of capital assets	-	34,190	34,190
Debt service:			
Principal	306,792	(306,792)	-
Interest	77,363	(2,451)	74,912
	<u>7,044,225</u>	<u>(541,239)</u>	<u>6,502,986</u>
Total expenditures/expenses			
<b>Change in Fund Balances/Net Position</b>	-	539,359	539,359
<b>Fund Balances/Net Position</b>			
Beginning of the year	<u>327,355</u>	<u>621,984</u>	<u>949,339</u>
End of year	<u>\$ 327,355</u>	<u>\$ 1,161,343</u>	<u>\$ 1,488,698</u>

**Bi-State Justice Center**  
**Statement of Revenues, Expenditures and Changes in Fund Balances –**  
**Budget and Actual**  
**Year Ended December 31, 2016**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
<b>Revenues</b>				
Intergovernmental	\$ 6,648,469	\$ 6,648,469	\$ 6,700,413	\$ 51,944
Rental	93,543	93,543	93,543	-
Miscellaneous	210,500	210,500	250,269	39,769
Total revenues	<u>6,952,512</u>	<u>6,952,512</u>	<u>7,044,225</u>	<u>91,713</u>
<b>Expenditures</b>				
Building administration				
Current	1,277,262	1,277,262	1,191,816	(85,446)
Capital outlay	<u>170,000</u>	<u>170,000</u>	<u>335,261</u>	<u>165,261</u>
Total building administration	<u>1,447,262</u>	<u>1,447,262</u>	<u>1,527,077</u>	<u>79,815</u>
Central records and communications				
Current	2,819,515	2,819,515	2,556,900	(262,615)
Capital outlay	<u>97,000</u>	<u>97,000</u>	<u>182,295</u>	<u>85,295</u>
Total central records and communications	<u>2,916,515</u>	<u>2,916,515</u>	<u>2,739,195</u>	<u>(177,320)</u>
Detention				
Current	<u>2,383,500</u>	<u>2,383,500</u>	<u>2,393,798</u>	<u>10,298</u>
Total detention	<u>2,383,500</u>	<u>2,383,500</u>	<u>2,393,798</u>	<u>10,298</u>
Debt service				
Principal	270,107	270,107	306,792	36,685
Interest	<u>61,734</u>	<u>61,734</u>	<u>77,363</u>	<u>15,629</u>
Total debt service	<u>331,841</u>	<u>331,841</u>	<u>384,155</u>	<u>52,314</u>
Total expenditures	<u>7,079,118</u>	<u>7,079,118</u>	<u>7,044,225</u>	<u>(34,893)</u>
Net change in fund balances	(126,606)	(126,606)	-	126,606
Fund balances at beginning of year	<u>327,355</u>	<u>327,355</u>	<u>327,355</u>	<u>-</u>
Fund balances at end of year	<u>\$ 200,749</u>	<u>\$ 200,749</u>	<u>\$ 327,355</u>	<u>\$ 126,606</u>

**Bi-State Justice Center**  
**Notes to Financial Statements**  
**December 31, 2016**

**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 seven member committee is comprised of the two members from the City of Texarkana, Texas City Council, two members from the City of Texarkana, Arkansas Board of Directors, the Bowie County Judge, one Bowie County Commissioner, 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.



**Bi-State Justice Center**  
**Notes to Financial Statements**  
**December 31, 2016**

***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, liabilities and deferred inflows of resources 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 acquisition 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

***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, 2016**

***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.

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.

***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. The Board of Directors made several supplemental budgetary appropriations throughout 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, 2016**

***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	35.27%
City of Texarkana, Arkansas	31.28%
City of Texarkana, Texas	33.45%

*Central Records and Communication (CRC)* – expenditures are allocated evenly by one-third for each of the three participating entities, resulting in the following:

Bowie County, Texas	33.34%
City of Texarkana, Arkansas	33.33%
City of Texarkana, Texas	33.33%

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

Bowie County, Texas	51.51%
City of Texarkana, Arkansas	40.01%
City of Texarkana, Texas	8.48%

**Bi-State Justice Center**  
**Notes to Financial Statements**  
**December 31, 2016**

**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	\$ 327,355
Amounts reported in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the fund.	2,914,247
Accrued interest not due and payable in the current period and therefore not reported in the fund.	(19,749)
Other long-term assets, such as grants receivable are not available to pay for current period expenditures and therefore are presented as deferred inflows in the fund.	39,725
Long-term liabilities, including certificates of obligations, capital lease obligations and compensated absences are not due and payable in the current period and therefore are not reported in the fund.	<u>(1,772,880)</u>
Total net position	<u><u>\$ 1,488,698</u></u>

**Bi-State Justice Center**  
**Notes to Financial Statements**  
**December 31, 2016**

Change in fund balances	\$	-
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.		
Capital asset purchases		517,556
Depreciation expense		(221,850)
Loss on disposal of capital assets		(34,190)
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.		
		(29,520)
Unavailable revenue in the statement of activities that do not provide current financial resources are not reported in the funds. This amount is the net change in unavailable revenue this year.		
		(1,880)
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.		
		2,451
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>306,792</u>
Change in net position	\$	<u><u>539,359</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, 2016, the Center's bank balance was fully collateralized.

**Bi-State Justice Center**  
**Notes to Financial Statements**  
**December 31, 2016**

**Note 4: Capital Assets**

Capital assets activity for the year ended December 31, 2016, was:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Ending Balance</b>
Building improvements	\$ 3,187,182	\$ 173,900	\$ -	\$ 3,361,082
Furniture and equipment	1,070,347	165,130	10,913	1,224,564
Radio equipment	742,183	-	73,267	668,916
Vehicles	37,887	-	-	37,887
Leased equipment	260,825	-	-	260,825
Construction in progress	-	178,526	-	178,526
	<u>5,298,424</u>	<u>517,556</u>	<u>84,180</u>	<u>5,731,800</u>
Less accumulated depreciation				
Building improvements	1,087,804	159,283	-	1,247,087
Furniture and equipment	739,645	29,157	10,913	757,889
Radio equipment	704,283	7,327	39,077	672,533
Vehicles	37,887	-	-	37,887
Leased equipment	76,074	26,083	-	102,157
	<u>2,645,693</u>	<u>221,850</u>	<u>49,990</u>	<u>2,817,553</u>
Capital assets, net	<u><u>\$ 2,652,731</u></u>	<u><u>\$ 295,706</u></u>	<u><u>\$ 34,190</u></u>	<u><u>\$ 2,914,247</u></u>

**Bi-State Justice Center**  
**Notes to Financial Statements**  
**December 31, 2016**

**Note 5: Long-term Liabilities**

Changes in long-term liabilities for the year ended December 31, 2016, were as follows:

<b>Governmental Activities</b>	<b>Balance December 31, 2015</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance December 31, 2016</b>	<b>Amounts Due in One Year</b>
Combination Tax and Revenue					
Certificates of Obligations	\$ 1,455,000	\$ -	\$ 160,000	\$ 1,295,000	\$ 165,000
Capital lease obligations	455,556	-	146,792	308,764	105,551
Compensated absences	<u>139,596</u>	<u>59,323</u>	<u>29,803</u>	<u>169,116</u>	<u>6,563</u>
Total governmental activity long-term liabilities	<u>\$ 2,050,152</u>	<u>\$ 59,323</u>	<u>\$ 336,595</u>	<u>\$ 1,772,880</u>	<u>\$ 277,114</u>

Certificates outstanding at December 31, 2016, were as follows:

	<b>Interest Rate</b>	<b>Final Maturity Date</b>	<b>Principal at December 31, 2016</b>
Combination Tax and Revenue Certificates of Obligation, Series 2008	3.66%	2023	<u>\$ 1,295,000</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.

**Bi-State Justice Center**  
**Notes to Financial Statements**  
**December 31, 2016**

***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, 2016.

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$ 165,000	\$ 44,378	\$ 209,378
2018	170,000	38,247	208,247
2019	180,000	31,842	211,842
2020	185,000	25,163	210,163
2021	190,000	18,300	208,300
2022 - 2023	405,000	14,915	419,915
	<u>\$ 1,295,000</u>	<u>\$ 172,845</u>	<u>\$ 1,467,845</u>

***Capital Leases*** – During 2013, the Bi-State Justice Center entered into a lease agreement for financing the acquisition of computer-aided dispatch software and equipment valued at \$260,825. The equipment has a ten year estimated useful life. This year, \$26,083 was included in depreciation expense. During 2015, the Center entered into an agreement for financing the acquisition of a boiler valued at \$315,589. The boiler has a twenty year estimated useful life. This year, \$15,779 was included in depreciation expense. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of future minimum lease payments as of the inception date.

The following schedule shows the annual debt service requirements to pay principal and interest on capital lease obligations outstanding at December 31, 2016.

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2017	\$ 105,551	\$ 15,964	\$ 121,515
2018	107,864	13,652	121,516
2019	95,349	11,253	106,602
	<u>\$ 308,764</u>	<u>\$ 40,869</u>	<u>\$ 349,633</u>



**Bi-State Justice Center**  
**Notes to Financial Statements**  
**December 31, 2016**

**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 and the City of Texarkana, Arkansas. 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. The associated liabilities and obligations related to these pension plans are the obligation of each City, respectively, and therefore, no liability has been recorded for the Center, as the Center is not responsible for funding or paying retirement benefits for either plan.

**Note 7: 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, 2016**

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 the major fund of the Bi-State Justice Center, as of and for the year ended December 31, 2016, 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 June 29, 2017, that contained an emphasis of matter paragraph regarding the omission of required supplementary information.

***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 of the financial statements, we considered the Center's 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 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 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 deficiencies. 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 Center'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 Center's internal control or compliance. This report 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**

Rogers, Arkansas  
June 29, 2017