



Washington State Auditor's Office

Troy Kelley

Integrity • Respect • Independence

Financial Statements Audit Report

Martin Hall Juvenile Detention Facility

Lincoln County

For the period January 1, 2012 through December 31, 2013

Published December 22, 2014

Report No. 1013234





Washington State Auditor
Troy Kelley

December 22, 2014

Board of Directors
Martin Hall Juvenile Detention Facility
Davenport, Washington

Report on Financial Statements

Please find attached our report on the Martin Hall Juvenile Detention Facility's financial statements.

We are issuing this report in order to provide information on the Facility's financial condition.

Sincerely,

TROY KELLEY
STATE AUDITOR

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Schedule of Audit Findings and Responses

Martin Hall Juvenile Detention Facility Lincoln County January 1, 2012 through December 31, 2013

- 1. The Facility has not effectively managed its operations, resulting in a decline in its financial condition.**

Description of Condition

The Facility's financial position has declined over the past few years, resulting in an operating loss for fiscal year 2013 and an expected loss for 2014. A summary of the Facility's financial information includes:

Year Ended	Ending Cash	Net Operating Increase (Decrease)
December 31, 2010	\$ 187,574	(\$338,650)
December 31, 2011	\$ 553,112	\$ 366,838
December 31, 2012	\$ 605,102	\$ 53,489
December 31, 2013	\$ 562,442	(\$ 37,854)
September 30, 2014 (unaudited)	\$ 435,893	(\$126,550)

The Facility has worked under various funding formulas over the last five years. Typically this has included a requirement that each of the nine member counties pay a minimum monthly amount to establish a stable monthly cash flow. This amount is based on an estimated number of days each county will have juveniles in the facility known as "bed days." In 2013 the funding model was changed and only required payment for actual "bed days" used and one county was not required to send its juveniles to the Facility for incarceration. In 2014, the agreement returned to requiring minimum monthly payments except for one county.

Also, in 2013 the terms of the memorandum of understanding between the member counties decreased the payment per "bed day" from \$175 to \$155. It was also changed to include a clause to discontinue operations if ending cash fell below \$350,000 for two consecutive months.

Given the expected financial decline at the Facility for 2014, there is substantial doubt that it can continue to operate under the current funding model.

Cause of Condition

Although the Facility's governing Board and management company has attempted to restructure the funding model and operating terms to improve its financial condition, operating costs continue to exceed the revenues generated by the Facility.

Effect of Condition

Continued monthly operational losses could result in the Facility's ending cash exceeding the agreed upon threshold and require the Facility to close.

Recommendation

We recommend the Board of Directors:

- Continue to monitor the Facility's financial condition and develop an effective funding model to address cash flow issues.
- Monitor and evaluate actual results to ensure its financial condition improves.
- Revise the plan if expected improvements are not achieved.

Facility's Response

The Board Members of Martin Hall Juvenile Detention Facility are well aware of their facility's financial position. Financial stability is a constant topic on the agenda of each of their monthly board meetings.

The Board does agree that over the past several years there has been a decline in the Martin Hall Financial Condition. The Board has addressed the financial condition of Martin Hall, as it continuously does, and has adopted a 2015 budget that supports the necessary components for the future financial stability of Martin Hall Juvenile Detention Facility.

Auditor's Remarks

We appreciate the steps the Facility's Board is taking to resolve this issue. We will review the condition during our next audit.

**Independent Auditor's 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***

**Martin Hall Juvenile Detention Facility
Lincoln County
January 1, 2012 through December 31, 2013**

Board of Directors
Martin Hall Juvenile Detention Facility
Davenport, Washington

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 Martin Hall Juvenile Detention Facility, Lincoln County, Washington, as of and for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Facility's financial statements, and have issued our report thereon dated November 24, 2014. Our report includes information about the status of the Facility's financial condition. This information is more fully described in Finding 1 in the Schedule of Audit Findings and Responses. The Facility's response to the finding was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

We issued an unmodified opinion on the fair presentation of the Facility's financial statements in accordance with its regulatory basis of accounting. We issued an adverse opinion on the fair presentation with regard to accounting principles generally accepted in the United States of America (GAAP) because the financial statements are prepared by the Facility using accounting practices prescribed or permitted by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual described in Note 1, which is a basis of accounting other than GAAP. The effects on the financial statements of the variances between the basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audits of the financial statements, we considered the Facility'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 opinion on the financial

statements, but not for the purpose of expressing an opinion on the effectiveness of the Facility's internal control. Accordingly, we do not express an opinion on the effectiveness of the Facility'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 Facility'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 Facility's financial statements are free from material misstatement, we performed tests of the Facility's 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*.

FACILITY'S RESPONSE TO FINDINGS

The Facility's response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Responses. The Facility's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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

purpose. However, this report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

A handwritten signature in black ink that reads "Troy X. Kelley". The signature is written in a cursive style with a large, stylized 'T' and 'K'.

TROY KELLEY
STATE AUDITOR

November 24, 2014

Independent Auditor's Report on Financial Statements

Martin Hall Juvenile Detention Facility Lincoln County January 1, 2012 through December 31, 2013

Board of Directors
Martin Hall Juvenile Detention Facility
Davenport, Washington

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying financial statements of the Martin Hall Juvenile Detention Facility, Lincoln County, Washington, for the years ended December 31, 2013 and 2012, and the related notes to the financial statements, which collectively comprise the Facility's financial statements, as listed on page 12.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of Washington State statutes and the *Budgeting, Accounting and Reporting System* (BARS) manual prescribed by the State Auditor described in Note 1. This includes determining that the basis of accounting is acceptable for the presentation of the financial statements in the circumstances. Management is also responsible for 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 audits. We conducted our audits 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 Facility'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 Facility'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.

Unmodified Opinion on Regulatory Basis of Accounting (BARS Manual)

As described in Note 1, the Martin Hall Juvenile Detention Facility has prepared these financial statements using accounting practices prescribed or permitted by Washington State statutes and the State Auditor's *Budgeting, Accounting and Reporting System* (BARS) manual. Those accounting practices differ from accounting principles generally accepted in the United States of America (GAAP). The differences in these accounting practices are also described in Note 1.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position and results of operations of the Martin Hall Juvenile Detention Facility, for the years ended December 31, 2013 and 2012, on the basis of accounting described in Note 1.

Basis for Adverse Opinion on U.S. GAAP

Auditing standards issued by the American Institute of Certified Public Accountants (AICPA) require auditors to formally acknowledge when governments do not prepare their financial statements, intended for general use, in accordance with GAAP. The effects on the financial statements of the variances between GAAP and the accounting practices the Facility used, as described in Note 1, although not reasonably determinable, are presumed to be material. As a result, we are required to issue an adverse opinion on whether the financial statements are presented fairly, in all material respects, in accordance with GAAP.

Adverse Opinion on U.S. GAAP

The financial statements referred to above were not intended to, and in our opinion they do not, present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Martin Hall Juvenile Detention Facility, as of December 31, 2013 and 2012, or the changes in financial position or cash flows for the years then ended, due to the significance of the matter discussed in the above "Basis for Adverse Opinion on U.S. GAAP" paragraph.

Matters of Emphasis Regarding Fiscal Sustainability

As discussed in Note 9 to the financial statements and described in Finding 1 in the Schedule of Audit Findings and Responses, the Facility's financial position is unstable. The Facility's financial funding model has not resulted in revenues that exceed operating costs in a consistent manner. While the Facility adopted a new funding model in 2014 the Facility's overall financial position continues to decline. As a result, there exists uncertainty about the Facility's ability to maintain services at present levels under these conditions. Our opinion is not modified with respect to this matter.

Facility's Response to Finding

The Facility's response to the finding identified above is described in the accompanying Schedule of Audit Findings and Responses. The Facility's response was not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

OTHER REPORTING REQUIRED BY GOVERNMENT AUDITING STANDARDS

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2014 on our consideration of the Facility's internal control over financial reporting and on 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 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 Facility's internal control over financial reporting and compliance.



TROY KELLEY
STATE AUDITOR

November 24, 2014

Financial Section

**Martin Hall Juvenile Detention Facility
Lincoln County
January 1, 2012 through December 31, 2013**

FINANCIAL STATEMENTS

Fund Resources and Uses Arising from Cash Transactions – 2013

Fund Resources and Uses Arising from Cash Transactions – 2012

Notes to Financial Statements – 2013

Notes to Financial Statements – 2012

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2013

BARS Code		001 Martin Hall
Beginning Cash and Investments		
30810	Beg Fund Bal-Reserved	0
30880	Beg Fund Bal-Unreserved	605,102
38800/58800	Prior Period Adjustments, net	0
Operating Revenues		
310	Taxes	0
320	Licenses & Permits	0
330	Intergovernmental Revenues	45,068
340	Charges for Goods and Services	1,005,052
350	Fines & Penalties	0
360	Miscellaneous Revenues	810,381
Total Operating Revenues:		1,860,500
Operating Expenditures		
510	General Government	0
520	Public Safety	1,898,354
530	Utilities	0
540	Transportation	0
550	Natural and Economic Environment	0
560	Social Services	0
570	Culture And Recreation	0
598	Intergovernmental Payments	0
Total Operating Expenditures:		1,898,354
Net Operating Increase (Decrease):		-37,854
Nonoperating Revenues		
370, 380, 395, 398	Other Financing Sources	0
391-393	Debt Proceeds	0
397	Transfers-In	0
Total Nonoperating Revenues:		0
Nonoperating Expenditures		
580, 596, 599	Other Financing Uses	0
591-593	Debt Service	0
594-595	Capital Expenditures	4,806
597	Transfers-Out	0
Total Nonoperating Expenditures:		4,806
Increase (Decrease) in Cash and Investments		-42,660
Ending Cash and Investments		
50810	End Fund Bal-Reserved	0
50880	End Fund Balance-Unreserved	562,442

The accompanying notes are an integral part of this Statement.

FUND RESOURCES AND USES ARISING FROM CASH TRANSACTIONS

For the Year Ended December 31, 2012

BARS Code		001 Martin Hall
Beginning Cash and Investments		
30810	Beg Fund Bal-Reserved	0
30880	Beg Fund Bal-Unreserved	553,112
38800/58800	Prior Period Adjustments, net	0
Operating Revenues		
310	Taxes	0
320	Licenses & Permits	0
330	Intergovernmental Revenues	1,734,600
340	Charges for Goods and Services	0
350	Fines & Penalties	0
360	Miscellaneous Revenues	245,488
Total Operating Revenues:		1,980,088
Operating Expenditures		
510	General Government	0
520	Public Safety	1,926,599
530	Utilities And Environment	0
540	Transportation	0
550	Economic Environment	0
560	Mental & Physical Health	0
570	Culture And Recreation	0
598	Intergovernmental Payments	0
Total Operating Expenditures:		1,926,599
Net Operating Increase (Decrease):		53,489
Nonoperating Revenues		
370, 380, 395, 398	Other Financing Sources	0
391-393	Debt Proceeds	0
397	Transfers-In	0
Total Nonoperating Revenues:		0
Nonoperating Expenditures		
580, 596, 599	Other Financing Uses	0
591-593	Debt Service	0
594-595	Capital Expenditures	1,500
597	Transfers-Out	0
Total Nonoperating Expenditures:		1,500
Increase (Decrease) in Cash and Investments		51,989
Ending Cash and Investments		
50810	End Fund Bal-Reserved	0
50880	End Fund Balance-Unreserved	605,102

The accompanying notes are an integral part of this Statement.

MARTIN HALL OPERATING
Notes to Financial Statements
January 1, 2013 through December 31, 2013

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES

Lincoln County entered into an Interlocal Agreement. Resolution 97-90 established the Martin Hall Operating fund and Lincoln County has agreed to act as the fiscal agent for the operations of Martin Hall.

The Martin Hall Juvenile Facility is a maximum-security juvenile detention center that houses offenders from various counties in eastern Washington and other contracted entities. The Facility is located in Medical Lake, Washington. The Facility began operation in November 1997 through an agreement among the Boards of County Commissioners in Adams, Asotin, Douglas, Ferry, Lincoln, Pend Oreille, Spokane, Stevens and Whitman counties.

The facility was renovated in 1997 and includes contact and non-contact visiting areas, booking and intake area, medical exam facility, food service area, outdoor and indoor recreation areas, as well as appropriate administrative and correctional programming space. It is a 63-bed capacity that includes single, double, and intensive management living areas suitable for both long- and short-term placement. The facility utilizes appropriate security equipment including observational cameras, staff radios, and internal communication system. It is ideally located for full utilization of emergency services as well as community support and treatment services.

Authority to operate the Facility including creation of programs for incarcerated juveniles and hiring of employees necessary to operate the Facility is based, in part, on the needs of the juvenile administrations of all the participating counties and RCW39.34.030. The full education system includes 3 classrooms equipped with computers, 1 vocational education classroom, and has complete education staff including 4 teachers and a school coordinator. Staffing includes juvenile correctional officers, administrative staff, registered nurse, contract physician, case manager, supervisory personnel, food service staff and maintenance/custodial personnel.

The agreement requires the Board of Directors to be composed of one Commissioner from each participating county. Each Director provides information to be used by the Board when making decisions. The Board is

responsible for entering into all contracts necessary for the Facility. Starting in 2013, the Board moved away from a funding policy based on number of beds, and moved to a pay-as-you go formula, where counties only pay for the number of beds they actually occupy.

The Martin Hall Operating fund is a special purpose entity and provides for the day to day operations of the facility. User fees support this fund.

The following is a summary of the significant policies, including identification of those policies, which result in material departures from generally accepted accounting principles (GAAP).

The Martin Hall Operating fund uses the revenue and expenditure classifications contained in the Budgeting, Accounting, and Reporting System (BARS) manual which is another comprehensive basis of accounting (OCBOA) which is in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

A. Fund Accounting

The accounts of Martin Hall are recorded and reported in one fund. The fund is accounted for with a set of single-entry accounts that comprises its cash, investments, revenues, and expenditures, as appropriate. Martin Hall's resources are allocated to and accounted for in this fund. The following is the fund type used by Martin Hall:

Governmental Fund Types

General Fund

This fund is the only operating fund of Martin Hall. It accounts for all financial resources and uses of Martin Hall.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. The Martin Hall Operating fund uses the cash basis of accounting, where revenues are recognized only when received, and expenses are recognized when paid.

In accordance with state law, the facility also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

C. Budgets

The facility adopts annual appropriated budgets are adopted for all funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures for the legally adopted budgets were as follow:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
Martin Hall Operating	1,903,160	1,903,159	1

Budgeted amounts are authorized to be transferred between departments within any fund/object classes within departments; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours or other conditions for employment must be approved by the Martin Hall Board.

D. Cash

Martin Hall Operating fund does not currently have an investment policy for the Facility, but there is an Investment Officer. The actual cash amount is included on the statement of revenues and expenses.

E. Deposits

The Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission cover the Martin Hall Operating fund's deposits and certificates of deposit.

F. Fixed Assets

Fixed assets, which include any construction costs and the machinery and equipment necessary for the operation of the facility are recorded as expenses when purchased. There is no capitalization of fixed assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

G. Investments See Note 3.

H. Compensated Absences

The Martin Hall Operating fund has no compensated absences.

I. Long-Term Debt

The Martin Hall Operating fund has no long-term debt.

J. Risk Management

The Martin Hall Operating fund obtains general liability and public official's liability insurance through Martin-Morris Insurance, Inc., P O Box 1000, Ephrata, WA 98823. The contractor responsible for the operations provides their own insurance.

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

- A. Pending Legal Matters. At this time, there are no pending legal matters.
- B. Appropriation and Fund Balances.

There have been no material violations of finance-related legal or contractual provisions. There have been no expenditures exceeding legal appropriations in any of the funds of the county.

NOTE 3 – INVESTMENTS

There were no investments for Martin Hall as of December 31, 2013.

NOTE 4 – PROPERTY TAXES

No taxes were levied for the Martin Hall Operating fund.

NOTE 5 – LONG-TERM DEBT AND CAPITAL LEASES

The Martin Hall Operating fund has no long-term debt.

NOTE 6 – CONSTRUCTION IN PROGRESS

There was no construction in progress.

NOTE 7 – PENSION PLANS

The Martin Hall Operating fund has no employees, therefore no pension plans.

NOTE 8 – CONTINGENCIES AND LITIGATIONS

There are no contingencies or litigation at this time.

NOTE 9 – OTHER DISCLOSURES

The Martin Hall Operating fund is currently operating at a loss. Management has discussed the financial condition of the facility and pin-pointed part of the cause. Spokane County stopped contributing their appropriated funding to Martin Hall in 2012. The 2015 Martin Hall Budget, approved by the consortium board, reflects all nine County members contributing based on their annual commitment. Spokane County has been directed to begin contributing at their budgeted rate. The Martin Hall Board believes the additional revenue from Spokane County will greatly change the financial condition of the fund. The Martin Hall Board will continue to diligently monitor cash flow. In addition, the Martin Hall Board is actively pursuing discussions with two additional non-member Counties to house their juvenile offenders.

There are no other disclosures at this time.

MARTIN HALL OPERATING
Notes to Financial Statements
January 1, 2012 through December 31, 2012

NOTE 1 – SUMMARY OF ACCOUNTING POLICIES

Lincoln County entered into an Interlocal Agreement. Resolution 97-90 established the Martin Hall Operating fund and Lincoln County has agreed to act as the fiscal agent for the operations of Martin Hall.

The Martin Hall Juvenile Facility is a maximum-security juvenile detention center that houses offenders from various counties in eastern Washington and other contracted entities. The Facility is located in Medical Lake, Washington. The Facility began operation in November 1997 through an agreement among the Boards of County Commissioners in Adams, Asotin, Douglas, Ferry, Lincoln, Pend Oreille, Spokane, Stevens and Whitman counties.

The facility was renovated in 1997 and includes contact and non-contact visiting areas, booking and intake area, medical exam facility, food service area, outdoor and indoor recreation areas, as well as appropriate administrative and correctional programming space. It is a 63-bed capacity that includes single, double, and intensive management living areas suitable for both long- and short-term placement. The facility utilizes appropriate security equipment including observational cameras, staff radios, and internal communication system. It is ideally located for full utilization of emergency services as well as community support and treatment services.

Authority to operate the Facility including creation of programs for incarcerated juveniles and hiring of employees necessary to operate the Facility is based, in part, on the needs of the juvenile administrations of all the participating counties and RCW39.34.030. The full education system includes 3 classrooms equipped with computers, 1 vocational education classroom, and has complete education staff including 4 teachers and a school coordinator. Staffing includes juvenile correctional officers, administrative staff, registered nurse, contract physician, case manager, supervisory personnel, food service staff and maintenance/custodial personnel.

The agreement requires the Board of Directors to be composed of one Commissioner from each participating county. Each Director provides information to be used by the Board when making decisions. The Board is

responsible for entering into all contracts necessary for the Facility. Each county has initially committed to be individually responsible for the costs of borrowing, operation and the right to place offenders in the Facility on a number of beds formula.

The Martin Hall Operating fund is a special purpose entity and provides for the day to day operations of the facility. User fees support this fund.

The following is a summary of the significant policies, including identification of those policies, which result in material departures from generally accepted accounting principles (GAAP).

The Martin Hall Operating fund uses the revenue and expenditure classifications contained in the Budgeting, Accounting, and Reporting System (BARS) manual which is another comprehensive basis of accounting (OCBOA) which is in accordance with methods prescribed by the State Auditor under the authority of Chapter 43.09 RCW. The basis of accounting and reporting is another comprehensive basis of accounting (OCBOA) that is prescribed by the State Auditor's Office under the authority of Washington State law, Chapter 43.09 RCW.

A. Basis of Accounting

The accounts of Martin Hall are recorded and reported in one fund. The fund is accounted for with a set of single-entry accounts that comprises its cash, investments, revenues, and expenditures, as appropriate. Martin Hall's resources are allocated to and accounted for in this fund. The following is the fund type used by Martin Hall:

Governmental Fund Types

General Fund

This fund is the only operating fund of Martin Hall. It accounts for all financial resources and uses of Martin Hall.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. The Martin Hall Operating fund uses the cash basis of accounting, where revenues are recognized only when received, and expenses are recognized when paid.

In accordance with state law, the facility also recognizes expenditures paid during twenty days after the close of the fiscal year for claims incurred during the previous period.

C. Budgets

The facility adopts annual appropriated budgets are adopted for all funds. These budgets are appropriated at the fund level. The budget constitutes the legal authority for expenditures at that level. Annual appropriations for these funds lapse at the fiscal year end.

Annual appropriated budgets are adopted on the same basis of accounting as used for financial reporting.

The appropriated and actual expenditures for the legally adopted budgets were as follow:

Fund/Department	Final Appropriated Amounts	Actual Expenditures	Variance
Martin Hall Operating	2,036,272	1,928,099	158,004

Budgeted amounts are authorized to be transferred between departments within any fund/object classes within departments; however, any revisions that alter the total expenditures of a fund, or that affect the number of authorized employee positions, salary ranges, hours or other conditions for employment must be approved by the Martin Hall Board.

D. Cash

Martin Hall Operating fund does not currently have an investment policy for the Facility, but there is an Investment Officer. The actual cash amount is included on the statement of revenues and expenses.

E. Deposits

The Federal Deposit Insurance Corporation and/or the Washington Public Deposit Protection Commission cover the Martin Hall Operating fund's deposits and certificates of deposit.

F. Fixed Assets

Fixed assets, which include any construction costs and the machinery and equipment necessary for the operation of the facility are recorded as expenses when purchased. There is no capitalization of fixed assets, nor allocation of depreciation expense. Inventory is expensed when purchased.

G. Investments See Note 3.

H. Compensated Absences

The Martin Hall Operating fund has no compensated absences.

I. Long-Term Debt

The Martin Hall Operating fund has no long-term debt.

J. Risk Management

The Martin Hall Operating fund obtains general liability and public official's liability insurance through Martin-Morris Insurance, Inc., P O Box 1000, Ephrata, WA98823. The contractor responsible for the operations provides their own insurance.

NOTE 2 – COMPLIANCE AND ACCOUNTABILITY

- A. Pending Legal Matters. At this time, there are no pending legal matters.
- B. Appropriation and Fund Balances.

There have been no material violations of finance-related legal or contractual provisions. There have been no expenditures exceeding legal appropriations in any of the funds of the county.

NOTE 3 – INVESTMENTS

There were no investments for Martin Hall as of December 31, 2012. All beginning investments matured in January 2012.

NOTE 4 – PROPERTY TAXES

No taxes were levied for the Martin Hall Operating fund.

NOTE 5 – LONG-TERM DEBT AND CAPITAL LEASES

The Martin Hall Operating fund has no long-term debt

NOTE 6 – CONSTRUCTION IN PROGRESS

There was no construction in progress.

NOTE 7 – PENSION PLANS

The Martin Hall Operating fund has no employees, therefore no pension plans.

NOTE 8 – CONTINGENCIES AND LITIGATIONS

There are no contingencies or litigation at this time.

NOTE 9 – OTHER DISCLOSURES

There are no other disclosures at this time.

ABOUT THE STATE AUDITOR'S OFFICE

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

We work with our audit clients and citizens to achieve our vision of government that works for citizens, by helping governments work better, cost less, deliver higher value, and earn greater public trust.

In fulfilling our mission to hold state and local governments accountable for the use of public resources, we also hold ourselves accountable by continually improving our audit quality and operational efficiency and developing highly engaged and committed employees.

As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments as well as [fraud](#), state [whistleblower](#) and [citizen hotline](#) investigations.

The results of our work are widely distributed through a variety of reports, which are available on our [website](#) and through our free, electronic [subscription](#) service.

We take our role as partners in accountability seriously, and provide training and technical assistance to governments, and have an extensive quality assurance program.

Contact information for the State Auditor's Office	
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