

**Northwestern Regional Jail Authority**

**Winchester, Virginia**

**Financial Report**  
**Year Ended June 30, 2011**

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Northwestern Regional Jail Authority

Financial Report  
Year Ended June 30, 2011

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## **INTRODUCTORY SECTION**

# Northwestern Regional Adult Detention Center

Bruce R. Conover – Superintendent

141 Fort Collier Road, Winchester, VA 22603  
(540) 665-6374 (540) 665-1615 FAX



December 5, 2011

Northwestern Regional Jail Authority  
Regional Adult Detention Center  
141 Fort Collier Road  
Winchester, VA 22603

Dear Jail Authority Members:

The Northwestern Regional Adult Detention Center Annual Financial Report for fiscal year 2011 is attached. To the best of our knowledge the data is accurate and accurately represents the financial position of the Regional Adult Detention Center in a fair and objective manner.

Beginning with the June 30, 2002 Comprehensive Financial Statement, Frederick County, Virginia implemented Governmental Accounting Standards Board (GASB) Statement Number 34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments. GASB Statement Number 34 requires management to provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of a Management Discussion and Analysis (MD&A). The Detention Center complies with the provisions of the Standard as a government entity under Frederick County, the Center's fiscal agent. This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it.

## THE REPORTING ENTITY

The Northwestern Regional Adult Detention Center is a regional governmental agency, with representation from each participating jurisdiction, and is considered to be a jointly governed organization.

## ECONOMIC CONDITIONS AND OUTLOOK

The Northwestern Regional Adult Detention Center is located in the Fort Collier Industrial Park, just northwest of Winchester, Virginia. Situated on a 33-acre parcel of land, the Detention Center complex consists of a Main Jail, an Annex Facility and a Community Corrections Center. Detention Center operations are funded by the four (4) participating jurisdictions based upon their individual utilization of facility beds over the three (3) previous complete years. Local contributions are augmented by state assistance in the area of salaries and inmate per diem. In addition, some fees are collected from inmates and their associated activities.

**"Serving the Criminal Justice System Since 1991"**

## Northwestern Regional Jail Annual Financial Report

Economic conditions at the state level continue to impact negatively upon state assistance levels. Since FY08, state salary assistance and inmate per diems have been reduced by 9.5%. Although the Detention Center reduced expenses during the same period, those reductions were not sufficient to avoid increases each year in the contributions required of the participating jurisdictions.

Although conditions are expected to improve it is unlikely that state assistance will return to FY08 levels. As a consequence, the increased financial burden imposed upon the jurisdictions will remain at the FY11 or higher level for the foreseeable future.

### FINANCIAL INFORMATION

Frederick County serves as the Jail's Fiscal Agent and the Jail's activities are included in the County's annual appropriated budget. The facility's internal control structure consists of a Captain of Administrative Services, with four accounting personnel, who oversee accounting operations and reports financial data to Frederick County, the State of Virginia, and the Regional Jail Authority.

Open encumbrances are reported as reservations of fund balances since they do not constitute expenditures or liabilities. Encumbrances generally are re-appropriated as part of the following year's budget.

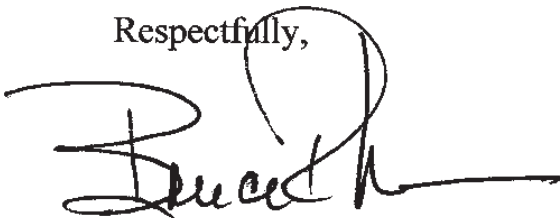
The Captain of Administrative Services oversees Inmate and Commissary Funds, and exercises control of the Inmate Benefit Program. Inmate funds include all monies accrued by inmates for their personal use, i.e. payment of their outside bills; family support; commissary purchases; and their telephone calls.

Commissary funds are profits accrued from inmate commissary purchases and are used to benefit inmates and their activities. These benefits include communal newspapers, television, microwaves, books, law library materials, games, sports equipment, exercise equipment, special rewards, programs designed to train, inform, or educate inmates, and a myriad of other programs.

### ACKNOWLEDGEMENTS

The sound financial condition enjoyed by the Regional Detention Center results, in part, from the dedication and commitment of the Detention Center accounting staff, the Frederick County Finance Department, the Regional Jail Authority, and the support of the participating jurisdictions and their governing bodies.

Respectfully,

A handwritten signature in black ink, appearing to read "Bruce R. Conover", with a large, stylized initial "B" and "C".

Bruce R. Conover  
Superintendent

## FINANCIAL SECTION

# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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## INDEPENDENT AUDITORS' REPORT

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**To the Members of the Board  
Northwestern Regional Jail Authority  
Winchester, Virginia**

We have audited the accompanying financial statements of the business-type activities of the Northwestern Regional Jail Authority, as of and for the year ended June 30, 2011, which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Northwestern Regional Jail Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year comparative information has been derived from the Authority's 2010 financial statements, and in our report dated January 4, 2011, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Northwestern Regional Jail Authority, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2011, on our consideration of the Northwestern Regional Jail Authority'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of pension funding progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the management's discussion and analysis and schedule of funding progress in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the management's discussion and analysis and schedule of funding progress because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Northwestern Regional Jail Authority's financial statement as a whole. The other supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Robinson, Jarner, Cox Associates*

Charlottesville, Virginia  
December 5, 2011

## Management's Discussion and Analysis

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The following is a discussion and analysis of the Northwestern Regional Jail Authority's financial performance for the fiscal year ended June 30, 2011. This information is in conjunction with the Superintendent's transmittal letter and included with the annual audit report.

### Financial Highlights:

#### Accrual Basis Statements

At the end of the fiscal year, the Northwestern Regional Jail reported an ending net assets balance of \$17,869,826, a decrease of \$663,509 from the prior year.

The Northwestern Regional Jail holds long-term debt of \$15,635,000; consisting of Revenue Bonds payable in annual installments for 30 years and VRA Bonds payable in annual installments for 15 years.

#### Modified Accrual and Budgetary Audit Statements

At the end of the fiscal year, the Northwestern Regional Jail reported an ending fund balance of \$5,672,922, an increase of \$534,482.

### Overview:

Comparison of revenues and expenses from fiscal year 2010 to 2011 provide the following information:

#### Accrual Basis Statements

- Fiscal year 2010 revenues were \$15,355,562; fiscal year 2010 expenses were \$16,657,194, which included \$1,080,929 of depreciation expense, which is a noncash expense.
- Fiscal year 2011 revenues were \$15,770,750; fiscal year 2011 expenses were \$16,434,259, which included \$1,077,530 of depreciation expense, which is a noncash expense.

#### Modified Accrual and Budgetary Basis Statements

- In fiscal year 2011 the Jail's revenues were \$16,544,800, an increase of \$1,012,631 from 2010 revenues of \$15,532,169.
- In fiscal year 2011 the Jail's expenditures were \$16,010,318, a decrease of \$154,082 in from 2010 expenditures of \$16,164,400.
- In fiscal year 2011, the Jail's revenues of \$16,544,800 exceed expenditures of \$16,010,318 by \$534,482.

### Budgetary Overview:

In fiscal year 2011 the Jail's revenues of \$16,544,800 exceed budgeted revenues of \$15,864,159 by \$680,641. \$567,284 of this was due to bond proceeds received from debt issued in FY 11. The Jail's expenditures of \$16,010,318 were under budgeted expenditures of \$16,974,365 by \$964,047.

Additional Analysis:

Applying the annual inmate average daily population (ADP) rate to expenditures, an average per annum was derived for fiscal year 2010 and 2011 for comparison. With an ADP of 555 inmates per day in FY10, the per annum cost per inmate was approximately \$30,013. In FY11, consistent with a significant increase in the inmate population and reduced expenditures, the per annum cost per inmate fell to approximately \$27,990.

FY11 represented the first growth in the inmate ADP since fiscal year 2008. The FY11 inmate ADP grew to 572, or about 4% over the FY10 average daily population of 555. Over 41% of the increase in ADP in FY11 resulted from growth in the number of Out of Compliance inmates occupying beds in the Detention Center. Out of Compliance inmates, those state responsible inmates remaining in local custody 90 or more days after sentencing, increased from an average of 14.8 individuals in FY10 to 21.5 in FY11.

As occurred in FY 10, fluctuations in the jurisdiction's use of the Detention Center over the previous three (3) years created significant changes in the distribution of locality shares. In FY11, Frederick County's share of the cost of operations increased from 34.78% in FY10 to 38.58 in FY11 while the shares of the remaining three (3) jurisdictions decreased. Fauquier County saw the greatest reduction (1.54%) following closely by Winchester whose share fell by 1.21%.

Although the ADP in FY11 increased, the increase was not enough to necessitate re-opening of the Jail's Annex building. Maintaining the Annex in a mothball status during the year reduced the Detention Center's operating cost by approximately \$800,000 throughout the year.

The Frederick County Government (fiscal agent) application and method of determining capital assets changed in 2003 to include only those capital equipment expenses exceeding \$5,000. Accumulated depreciation, representative of assets removed and new additions, between FY10 and FY11 was minimal.

FY2010 assets	\$30,069,697	FY2011 assets	\$28,992,167
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The long-term liabilities indicated in the audit are reserves held for payment of accrued compensated absences. These liabilities reflect a slight increase from FY10 to FY11.

FY2010 accrual	\$971,416	FY2011 accrual	\$1,001,752
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Additional information contained in this report applies to funds held for inmates and canteen operations. Northwestern Regional Jail Authority is the fiduciary custodian of all funds received from inmates or on behalf of inmates. Such funds are deposited and controlled on behalf of the inmate. Accountability methods adhere to generally accepted accounting practices and are subject to annual audit. Practical internal controls are established in the form of clearly detailed policies and procedures that provide a system of checks and balances to protect fiduciary funds from theft or fraud.

## **BASIC FINANCIAL STATEMENTS**

**NORTHWESTERN REGIONAL JAIL AUTHORITY**

**Statement of Net Assets**

**At June 30, 2011**

**(With Comparative Totals for 2010)**

	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
<b>Assets:</b>		
Current assets:		
Cash and cash equivalents	\$ 5,144,664	\$ 4,621,057
Accounts receivable	69,893	75,983
Due from other governments	724,085	713,701
Total current assets	<u>\$ 5,938,642</u>	<u>\$ 5,410,741</u>
Noncurrent assets:		
Land	\$ 600,375	\$ 600,375
Other capital assets, net of accumulated depreciation	28,391,792	29,469,322
Net capital assets	<u>\$ 28,992,167</u>	<u>\$ 30,069,697</u>
Bond issuance cost, less accumulated amortization	\$ 442,889	\$ 409,800
Total noncurrent assets	<u>\$ 29,435,056</u>	<u>\$ 30,479,497</u>
Total assets	<u>\$ 35,373,698</u>	<u>\$ 35,890,238</u>
<b>LIABILITIES</b>		
<b>Liabilities:</b>		
Current liabilities:		
Accounts payable	\$ 265,720	\$ 272,301
Accrued compensated absences, current portion	200,350	194,283
Bonds payable, current portion	440,000	-
Bond premium, current portion	45,034	39,070
Total current liabilities	<u>\$ 951,104</u>	<u>\$ 505,654</u>
Noncurrent liabilities:		
Accrued compensated absences, less current portion	\$ 801,402	\$ 777,133
Bonds payable, less current portion	15,195,000	15,545,000
Bond premium, less current portion	556,366	529,116
Total noncurrent liabilities	<u>\$ 16,552,768</u>	<u>\$ 16,851,249</u>
Total liabilities	<u>\$ 17,503,872</u>	<u>\$ 17,356,903</u>
<b>NET ASSETS</b>		
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	\$ 13,323,051	\$ 13,956,511
Unrestricted	4,546,775	4,576,824
Total net assets	<u>\$ 17,869,826</u>	<u>\$ 18,533,335</u>

The accompanying notes to financial statements are an integral part of this statement.

NORTHWESTERN REGIONAL JAIL AUTHORITY

Statement of Revenues, Expenses and Changes in Net Assets  
Year Ended June 30, 2011  
(With Comparative Totals for 2010)

	<u>2011</u>	<u>2010</u>
Operating revenues:		
Care of prisoners:		
Local and other per diems	\$ 8,835,139	\$ 7,662,456
Commonwealth of Virginia jail costs	1,048,087	1,345,106
Federal	2,209	363,517
Work release	403,175	403,871
Other	<u>278,915</u>	<u>337,321</u>
Total operating revenues	\$ <u>10,567,525</u>	\$ <u>10,112,271</u>
Operating expenses:		
Personnel	\$ 8,074,569	\$ 8,292,729
Fringes	3,630,364	3,762,875
Contractual	646,927	839,317
Other charges	2,219,559	1,960,882
Depreciation	<u>1,077,530</u>	<u>1,080,929</u>
Total operating expenses	\$ <u>15,648,949</u>	\$ <u>15,936,732</u>
Net operating income (loss)	\$ <u>(5,081,424)</u>	\$ <u>(5,824,461)</u>
Nonoperating revenues (expenses):		
Commonwealth of Virginia State Compensation Board	\$ 4,909,789	\$ 595,857
Other State grants	266,228	278,793
Justice Assistance Grant - ARRA	-	322,679
State Fiscal Stabilization Fund - ARRA	-	3,981,695
Interest and investment earnings	27,208	64,267
Interest expense	<u>(785,310)</u>	<u>(720,462)</u>
Net nonoperating revenues (expenses)	\$ <u>4,417,915</u>	\$ <u>4,522,829</u>
Change in net assets	\$ (663,509)	\$ (1,301,632)
Net assets, beginning of year	<u>18,533,335</u>	<u>19,834,967</u>
Net assets, end of year	\$ <u><u>17,869,826</u></u>	\$ <u><u>18,533,335</u></u>

The accompanying notes to financial statements are an integral part of this statement.

**NORTHWESTERN REGIONAL JAIL AUTHORITY**

**Statement of Cash Flows**  
**Year Ended June 30, 2011**  
**(With Comparative Totals for 2010)**

	<u>2011</u>	<u>2010</u>
Cash flows from operating activities:		
Receipts from customers	\$ 10,563,231	\$ 10,252,554
Payments to suppliers	(2,873,067)	(2,941,332)
Payments to and for employees	<u>(11,674,597)</u>	<u>(12,049,450)</u>
Net cash flows provided by (used in) operating activities	\$ <u>(3,984,433)</u>	\$ <u>(4,738,228)</u>
Cash flows from noncapital and related financing activities:		
Government grants	<u>\$ 5,176,017</u>	<u>\$ 5,179,024</u>
Cash flows from capital and related financing activities:		
Proceeds for issuance of long-term debt	\$ 567,284	\$ -
Principal payments on debt	(405,000)	(395,000)
Issuance cost for issuance of debt	(50,164)	-
Interest paid on debt	<u>(807,305)</u>	<u>(743,144)</u>
Net cash flows provided by (used in) capital and related financing activities	\$ <u>(695,185)</u>	\$ <u>(1,138,144)</u>
Cash flows from investing activities:		
Interest income	<u>\$ 27,208</u>	<u>\$ 64,267</u>
Net increase (decrease) in cash and cash equivalents	\$ 523,607	\$ (633,081)
Cash and cash equivalents, beginning of year	<u>4,621,057</u>	<u>5,254,138</u>
Cash and cash equivalents, end of year	<u>\$ 5,144,664</u>	<u>\$ 4,621,057</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ (5,081,424)	\$ (5,824,461)
Adjustments to reconcile excess (deficiency) of revenues over expenses to cash used in operations:		
Depreciation	1,077,530	1,080,929
Changes in assets and liabilities:		
Accounts receivable and due from other governments	(4,294)	140,283
Accounts payable	(6,581)	(141,133)
Compensated absences	<u>30,336</u>	<u>6,154</u>
Net cash flows provided by (used in) operating activities	\$ <u>(3,984,433)</u>	\$ <u>(4,738,228)</u>

The accompanying notes to financial statements are an integral part of this statement.

# NORTHWESTERN REGIONAL JAIL AUTHORITY

Notes to Financial Statements  
At June 30, 2011

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## **NOTE 1—REPORTING ENTITY:**

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The Northwestern Regional Jail Authority was organized on May 26, 2005 pursuant to provisions of Chapter 3 of Title 53.1 of the *Code of Virginia* (1950), as amended. The Authority serves as a regional jail for the Counties of Clarke, Fauquier, and Frederick and the City of Winchester. The Authority is considered a jointly governed organization of the participant localities. The Authority is the successor organization to the former Clark, Fauquier, Frederick, Winchester Regional Adult Detention Center.

## **NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

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### Financial Statement Presentation:

The accompanying financial statements are prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board (GASB). The principles prescribed by GASB represent generally accepted accounting principles applicable to governmental units.

#### 1. Enterprise Fund Accounting:

The Authority utilizes the enterprise fund method of accounting for financial reporting purposes. Enterprise fund accounting uses the accrual basis of accounting where revenues are recorded when earned and expenses are recorded when incurred, regardless of when the cash flows occur.

Operating revenues and expenses are defined as those items that result from providing services and include all transactions and events which are not capital and related financing, noncapital financing or investing activities. Nonoperating revenues are defined as grants, investment and other income. Nonoperating expenses are defined as capital and noncapital related financing and other expenses.

The Authority applies all GASB pronouncements as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989 unless these pronouncements conflict with or contradict GASB pronouncements.

#### 2. Cash and Cash Equivalents:

Cash and cash equivalents are stated at cost, which approximates market value. Cash and cash equivalents include cash on hand, checking and savings accounts, and short-term, highly liquid investments (including repurchase agreements) with original maturities of three months or less. The Authority maintains cash accounts with financial institutions in accordance with the Virginia Security for Public Deposits Act of the *Code of Virginia*. The Act requires financial institutions to meet specific collateralization requirements.

#### 3. Investments:

Investments are reported at fair value.

# NORTHWESTERN REGIONAL JAIL AUTHORITY

Notes to Financial Statements  
At June 30, 2011 (Continued)

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## NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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### 4. Capital Assets:

Capital assets are recorded at cost. Donated capital assets are recorded at their estimated fair market value at the date of gift. The Authority's capitalization threshold is \$5,000.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Costs of construction include legal, bond and loan closing costs, plus interest costs less interest earned on construction funds during the period of construction. There was no interest capitalized during the year.

Depreciation is provided using the straight-line method over the estimated useful lives of each asset class as follows:

Building and improvements	40 to 50 years
Equipment	5 to 10 years
Vehicles	5 to 7 years

Maintenance, repairs, and minor equipment are charged to operations when incurred. Expenses that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings, and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the results of operations.

### 5. Accrued Leave:

The Authority's employees earn annual leave (vacation pay) in varying amounts and can accumulate annual leave based on length of service. All employees earn the same sick pay rate regardless of the length of service. Maximum annual leave accumulation hours are the hours allowable at the time of separation or at the end of any calendar year.

Employees terminating their employment are paid, by the Authority, their accumulated annual leave up to the maximum limit. Unused sick leave is paid at the date of separation, but is limited to 25% of amounts unused upon termination up to \$2,500.

The liabilities for annual and sick leave have been recorded in accordance with the provisions of GASB No. 16, *Accounting for Compensated Absences*. Accordingly, the amount of leave recognized as expense is the amount earned during the year.

### 6. Revenue Recognition:

Revenues for charges for services to participant localities are based on prisoner days for each locality and are recorded when due. Year-end settlements are made with each participant locality and amounts due are reported as receivables and amounts overpaid are reported as deferred revenues.

The Commonwealth of Virginia provides funding for operations and also provides funding for state prisoners held on a per-diem basis.

## NORTHWESTERN REGIONAL JAIL AUTHORITY

Notes to Financial Statements  
At June 30, 2011 (Continued)

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### NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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7. Use of Estimates:

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

8. Allowance for Uncollectible Accounts:

The Authority calculates its allowance for specific accounts using historical collection data and, in certain cases, specific account analysis. Historical collection data indicates that any uncollectible amounts would be negligible. Management believes that any accounts that may be written off would not be significant. Accordingly, no allowance for uncollectible accounts has been established.

9. Comparative Totals:

Comparative totals are presented for informational purposes only.

### NOTE 3—DEPOSITS AND INVESTMENTS:

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Frederick County acts as a fiscal agent and provides accounting for the general operating accounts of the Authority. The Authority's operating cash is included in the pooled cash and investments of Frederick County. The Authority is reported in the Frederick County Financial Report as an agency fund. In addition, the Authority maintains separate bank accounts for Canteen and Inmate funds. During the year, the Authority issued long-term debt and received funds for a jail expansion project. These funds are in the custody of the City of Winchester which is the fiscal agent for the jail expansion project.

Deposits:

At year-end, the carrying value of the Authority's deposits with banks and savings institutions as part of the Frederick County pooled cash and investments was \$4,057,709. Deposits held by the City of Winchester in a State Non-Arbitrage Program account was \$1,086,955. The bank balances are not separately determinable.

At June 30, 2011, all of the Authority's bank balances were covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans. Of the pooled bank balances, no funds were uninsured and uncollateralized in banks or savings and loans not qualifying under the Act at June 30, 2011.

**NORTHWESTERN REGIONAL JAIL AUTHORITY**

Notes to Financial Statements  
At June 30, 2011 (Continued)

**NOTE 3—DEPOSITS AND INVESTMENTS: (CONTINUED)**

Investments:

As described above, the Authority's cash is included in the Frederick County pooled cash and Frederick County utilizes the Local Government Investment Pool, which consists of highly liquid unclassified investments. The amount of the Authority's equity in the pooled investment funds is not separately determinable.

**NOTE 4—ACCOUNTS RECEIVABLE AND DUE FROM OTHER GOVERNMENTS:**

	<u>Accounts Receivable</u>	<u>Due from Other Governments</u>
Commonwealth of Virginia	\$ -	\$ 724,085
Other	69,893	-
	<u>69,893</u>	<u>-</u>
Total	\$ <u>69,893</u>	\$ <u>724,085</u>

**NOTE 5—CAPITAL ASSETS:**

A summary of changes in capital assets is as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets not being depreciated:				
Land	\$ 600,375	\$ -	\$ -	\$ 600,375
Total capital assets not being depreciated	<u>600,375</u>	<u>-</u>	<u>-</u>	<u>600,375</u>
Capital assets being depreciated:				
Building and improvements	\$ 39,244,035	\$ -	\$ -	\$ 39,244,035
Equipment and vehicles	905,224	-	19,787	885,437
Total capital assets being depreciated	<u>40,149,259</u>	<u>-</u>	<u>19,787</u>	<u>40,129,472</u>
Less: Accumulated depreciation	<u>10,679,937</u>	<u>1,077,530</u>	<u>19,787</u>	<u>11,737,680</u>
Net capital assets being depreciated	<u>29,469,322</u>	<u>(1,077,530)</u>	<u>-</u>	<u>28,391,792</u>
Net capital assets	<u>30,069,697</u>	<u>(1,077,530)</u>	<u>-</u>	<u>28,992,167</u>

**NORTHWESTERN REGIONAL JAIL AUTHORITY**

Notes to Financial Statements  
At June 30, 2011 (Continued)

**NOTE 6—LONG—TERM DEBT:**

The following is a summary of long-term debt activity for the year.

Balance payable, beginning of year	\$	15,545,000
Issuance of long-term debt:		
VRA bonds		495,000
Retirement of long-term debt:		
Revenue bonds		<u>(405,000)</u>
Balance payable, end of year	\$	<u><u>15,635,000</u></u>

The amounts required to amortize long-term debt are as follows:

<u>Fiscal Year</u>	<u>Revenue Bonds</u>		<u>VRA Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 425,000	\$ 714,106	\$ 15,000	\$ 21,334
2013	440,000	699,231	15,000	23,041
2014	455,000	683,831	15,000	22,622
2015	470,000	667,338	20,000	21,875
2016	485,000	649,713	25,000	20,772
2017-2021	2,780,000	2,908,712	155,000	82,903
2022-2026	3,505,000	2,187,750	250,000	33,194
2027-2031	4,465,000	1,219,750	-	-
2032-2035	2,115,000	160,000	-	-
Total	\$ <u><u>15,140,000</u></u>	\$ <u><u>9,890,431</u></u>	\$ <u><u>495,000</u></u>	\$ <u><u>225,741</u></u>

**NORTHWESTERN REGIONAL JAIL AUTHORITY**

Notes to Financial Statements  
At June 30, 2011 (Continued)

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**NOTE 6—LONG—TERM DEBT: (CONTINUED)**

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Details of long-term debt are as follows:

	Total	Amount Due Within One Year
\$16,560,000, Revenue bonds, issued June 23, 2005, maturing in various annual installments through July 1, 2033, interest at rates from 3.00% to 4.00%.	\$ 15,140,000	\$ 425,000
\$495,000, Virginia Resources Authority Infrastructure and State Moral Obligation Revenue bonds series 2011A, issued May 18, 2011, maturing in various annual installments through October 1, 2025, interest paid semiannually at rates from 2.125% to 5.125%.	<u>495,000</u>	<u>15,000</u>
Total long-term obligations	\$ 15,635,000	\$ 440,000
Add: Bond premiums	<u>601,400</u>	<u>45,034</u>
Net long-term obligations	<u>\$ 16,236,400</u>	<u>\$ 485,034</u>

The Authority is in compliance with federal arbitrage regulations.

**NOTE 7 —CLAIMS, JUDGMENTS AND COMPENSATED ABSENCES:**

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In accordance with GASB accounting principles, the Authority has accrued the liability arising from all outstanding claims, judgments and compensated absences. The amount of accrued vacation, compensatory time and sick pay totaled \$1,001,752 at June 30, 2011. The estimated current portion of this liability is \$200,350.

**NOTE 8—DEFINED BENEFIT PENSION PLAN:**

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A. Plan Description:

Name of Plan: Virginia Retirement System (VRS)  
Identification of Plan: Agent Multiple-Employer Defined Benefit Pension Plan  
Administering Entity: Virginia Retirement System (System)

All full-time, salaried permanent (professional) employees of public school divisions and employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

## NORTHWESTERN REGIONAL JAIL AUTHORITY

Notes to Financial Statements  
At June 30, 2011 (Continued)

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### NOTE 8—DEFINED BENEFIT PENSION PLAN:

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#### A. Plan Description: (Continued)

VRS administers two defined benefit plans for local government employees - Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who have service credits before July 1, 2010 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit as early as age 55 with at least 10 years of service credit or age 50 with at least five years of service credit.
- Members hired or rehired on or after July 1, 2010 and who have no service credits before July 1, 2010 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During the years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of that report may be obtained from the VRS website at <http://www.varetire.org/Pdf/publications/2010-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

**NORTHWESTERN REGIONAL JAIL AUTHORITY**

Notes to Financial Statements  
At June 30, 2011 (Continued)

**NOTE 8—DEFINED BENEFIT PENSION PLAN: (CONTINUED)**

**B. Funding Policy:**

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5% of their annual salary to the VRS. This 5% member contribution may be assumed by the employer. In addition, the Authority is required to contribute the remaining amounts necessary to fund participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Authority’s contribution rate for the fiscal year ended June 30, 2011 was 10.34% of annual covered payroll.

**C. Annual Pension Cost:**

For fiscal year 2011, the Authority’s annual pension cost of \$1,042,134 was equal to the Authority’s required and actual contributions.

**Three-Year Trend Information**

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)'</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2009	\$ 1,109,253	100%	\$ -
June 30, 2010	1,052,326	100%	-
June 30, 2011	1,042,134	100%	-

'Employer portion only

The FY2011 required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2009 included (a) an investment rate of return (net of administrative expenses) of 7.50%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year. Both the investment rate of return and projected salary increases include an inflation component of 2.50%. The actuarial value of the County’s and the County and School Board’s assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The County’s and School Board’s unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2009 for the Unfunded Actuarial Accrued Liability (UAAL) was 20 years.

**D. Funded Status and Funding Progress**

As of June 30, 2010, the most recent actuarial valuation date, the Authority’s plan was 75.10% funded. The actuarial accrued liability for benefits was \$99,780,026, and the actuarial value of assets was \$74,936,007, resulting in an unfunded actuarial accrued liability (UAAL) of \$24,844,019. The covered payroll (annual payroll of active employees covered by the plan) was \$31,058,541 and ratio of the UAAL to the covered payroll was 79.99%.

**NORTHWESTERN REGIONAL JAIL AUTHORITY**

Notes to Financial Statements  
At June 30, 2011 (Continued)

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**NOTE 8—DEFINED BENEFIT PENSION PLAN: (CONTINUED)**

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**D. Funded Status and Funding Progress: (Continued)**

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

**NOTE 9—COMMITMENTS AND CONTINGENCIES:**

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At June 30, 2011 there were no matters of litigation that have been filed involving the Authority that would have a material effect on the Authority's financial position.

**NOTE 10—INMATE AND OTHER ACCOUNTS:**

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The Authority maintains accounting for inmate and canteen (commissary) activity funds. The balance of the inmate funds was \$136,202.

The Canteen Fund activity is summarized below:

Cash balance, beginning of year	\$	<u>127,723</u>
<b>Receipts:</b>		
Canteen sales	\$	795,535
Interest		<u>157</u>
Total receipts	\$	<u>795,692</u>
<b>Disbursements:</b>		
Inmate programs	\$	791,870
Books & subscriptions		1,174
Other		<u>1,704</u>
Total disbursements	\$	<u>794,748</u>
Cash balance, end of year	\$	<u><u>128,667</u></u>

**NOTE 11—OPERATING RESERVE FUND:**

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As a requirement of the jail expansion bond issue, the Authority is required to fund an operating reserve. At June 30, 2011 this fund totaled \$1,871,308.

**REQUIRED SUPPLEMENTARY INFORMATION**

**NORTHWESTERN REGIONAL JAIL AUTHORITY**

**Required Supplementary Information  
Schedule of Funding Progress - County of Frederick, Virginia  
Last Three Fiscal Years**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (AVA) (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded Actuarial Accrued Liability (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a % of Covered Payroll ((b-a)/c)</b>
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County of Frederick, Virginia:

June 30, 2008	\$ 65,239,903	\$ 78,582,265	\$ 13,342,362	83.02%	\$ 31,695,052	42.10%
June 30, 2009	71,050,795	86,850,695	15,799,900	81.81%	32,339,777	48.86%
June 30, 2010	74,936,007	99,780,026	24,844,019	75.10%	31,058,541	79.99%

**OTHER SUPPLEMENTARY INFORMATION**

**NORTHWESTERN REGIONAL JAIL AUTHORITY**

**Schedule of Revenues, Expenditures and Changes in Fund Balance  
Budgetary Basis  
Year Ended June 30, 2011**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>
Operating revenues:			
Care of prisoners:			
Local and other per diems	\$ 8,840,753	\$ 8,840,753	\$ 8,835,139
Commonwealth of Virginia jail costs	840,320	840,320	1,048,087
Federal	-	-	2,209
Work release	399,675	399,675	403,175
Recovered costs	137,381	137,381	206,766
Other	309,665	309,665	278,915
Total charges for services	<u>\$ 10,527,794</u>	<u>\$ 10,527,794</u>	<u>\$ 10,774,291</u>
Operating expenditures:			
Personnel	\$ 8,352,140	\$ 8,383,889	\$ 8,046,389
Fringes	3,953,759	3,953,759	3,628,208
Contractual	1,009,310	959,246	646,927
Other charges	2,381,895	2,435,695	2,426,325
Total operating expenses	<u>\$ 15,697,104</u>	<u>\$ 15,732,589</u>	<u>\$ 14,747,849</u>
Net operating income (loss)	<u>\$ (5,169,310)</u>	<u>\$ (5,204,795)</u>	<u>\$ (3,973,558)</u>
Nonoperating revenues (expenses):			
Commonwealth of Virginia State			
Compensation Board	\$ 5,088,859	\$ 5,088,859	\$ 4,909,789
Other State grants	215,757	247,506	266,228
Proceeds from issuance of long-term debt	-	-	567,284
Interest and investment earnings	-	-	27,208
Bond issuance cost	-	-	(50,164)
Principal payment on long-term debt	(405,000)	(405,000)	(405,000)
Interest expense	(730,306)	(836,776)	(807,305)
Net nonoperating revenues (expenses)	<u>\$ 4,169,310</u>	<u>\$ 4,094,589</u>	<u>\$ 4,508,040</u>
Excess (deficiency) of revenues over expenditures	\$ (1,000,000)	\$ (1,110,206)	\$ 534,482
Fund balance, beginning of year	<u>1,000,000</u>	<u>1,110,206</u>	<u>5,138,440</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,672,922</u>

This schedule is presented on the budgetary basis of the Authority which is prepared on the modified accrual basis of accounting.

NORTHWESTERN REGIONAL JAIL AUTHORITY

**Reconciliation of the Schedule of Revenues, Expenditures and Changes in  
Fund Balance - Budgetary Basis to the Statement of Net Assets and  
Statement of Revenues, Expenses and Changes in Net Assets  
Year Ended June 30, 2011**

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Fund balance, end of year	\$	5,672,922
Add:		
Capital assets, net of accumulated depreciation		28,992,167
Bond issuance costs		442,889
Long-Term debt		(16,236,400)
Accrued leave		<u>(1,001,752)</u>
Net Assets, per Statement of Net Assets	\$	<u><u>17,869,826</u></u>
Reconciliation of excess (deficiency) of revenues over expenditures to changes in net assets per the Statement of Revenues, Expenses and Changes in Net Assets:		
Excess (deficiency) of revenues over expenditures	\$	534,482
Increase in accrued leave		(30,336)
Proceeds from the issuance of long-term debt		(567,284)
Principal payment on long-term debt		405,000
Depreciation expense		(1,077,530)
Bond issuance costs		50,164
Amortization of bond premium		<u>21,995</u>
Change in net assets	\$	<u><u>(663,509)</u></u>

NORTHWESTERN REGIONAL JAIL AUTHORITY

Schedule of Revenues  
Year Ended June 30, 2011  
(With Comparative Totals for 2010)

	2011	2010
Sale of salvage and surplus	\$ 835	\$ 230
Interest on investments and earnings	26,373	64,037
Commonwealth of Virginia jail costs	1,048,087	1,345,106
Commonwealth of Virginia State Compensation Board	\$ 4,909,789	\$ 595,857
Other State grants	266,228	278,793
Justice Assistance Grant - ARRA	-	322,679
State Fiscal Stabilization Fund - ARRA	-	3,981,695
Prisoner Housing:		
Federal	2,209	363,517
Work release	403,175	403,871
Miscellaneous	13,081	25,561
Telephone commissions	126,391	135,220
Food and staff reimbursements	96,370	94,789
Electronic monitoring fees	42,482	78,278
Employee meals supplement	591	3,473
Medical and health reimbursement	51,238	58,724
Recovered costs	206,766	176,607
Local Contributions:		
Clarke	427,776	397,675
Frederick	3,388,829	3,644,578
Winchester	3,557,480	3,199,650
Fauquier	1,409,816	1,361,829
Total revenues	<u>\$ 15,977,516</u>	<u>\$ 16,532,169</u>
% of Local Contributions:		
Clarke	4.87%	4.62%
Frederick	38.58%	42.36%
Winchester	40.50%	37.19%
Fauquier	16.05%	15.83%

The schedule has been prepared on the modified accrual basis of accounting.

NORTHWESTERN REGIONAL JAIL AUTHORITY

Schedule of Expenditures  
Year Ended June 30, 2011  
(With Comparative Totals for 2010)

	2011	2010
Personnel	\$ 8,046,389	\$ 8,287,012
Fringes	3,628,208	3,762,438
Professional Health Services	497,050	701,332
Professional Services	13,443	12,850
Repair and maintenance - equipment	46,896	52,078
Repair and maintenance - vehicle	5,432	5,193
Repair and maintenance - buildings and grounds	11,682	2,844
Repair and maintenance - security system	15,373	-
Maintenance service contracts	30,624	32,573
Printing and binding	4,643	5,565
Advertising	210	272
Contractual Services	21,574	26,611
Electrical Service	310,216	285,958
Heating Service	153,926	146,017
Water and Sewer	126,557	109,432
Postage and Telephone	45,783	45,472
Boiler Insurance	4,200	4,042
Fire Insurance	21,716	24,630
Motor Vehicle Insurance	5,988	6,322
Surety Bonds	735	735
General Liability Insurance	6,000	5,821
Office Supplies	56,746	28,472
Food Supplies and Food Services	844,725	790,963
Food Service - Small Equipment	5,790	4,215
Agricultural Supplies	5,123	1,101
Medical and Laboratory	202,662	171,157
Laundry, Housekeeping, and Janitorial	91,286	105,931
Linen Supplies	15,705	21,267
Repair and Maintenance Supplies	43,129	33,347
Vehicle and Powered Equipment Supplies	1,135	1,357
Vehicle Tires and Parts	159	1,795
Vehicle Fuels and Lubricants	15,044	11,913
Police Supplies	17,049	9,186
Uniforms and Wearing Apparel	28,295	17,519
Inmate Uniforms and Wearing Apparel	25,738	21,305
Books and Subscriptions	443	1,318
Other Operating Supplies	26,436	44,181
Travel	59,550	70,851
Travel - Inmate Transports	455	362
Contributions	69,788	75,489
Contingency for Maintenance and Repairs	3,730	22,918
Dues and Memberships	833	913
Operating and Reserve Funding	206,766	9,077
Payment of Unemployment Claims	13,698	1,497
Lease/Rent of Equipment	15,680	62,925
Other SNAP Disbursements	1,239	-
Debt Service Payments		
Principal	405,000	395,000
Interest and bond issuance cost	857,469	743,144
Total expenditures	<u>\$ 16,010,318</u>	<u>\$ 16,164,400</u>

The schedule has been prepared on the modified accrual basis of accounting.

## **COMPLIANCE SECTION**

# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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## 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

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To the Members of the Board  
Northwestern Regional Jail Authority  
Winchester, Virginia

We have audited the financial statements of the business-type activities of the Northwestern Regional Jail Authority, as of and for the year ended June 30, 2011, which collectively comprise of the Authority's basic financial statements, and have issued our report thereon dated December 5, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Northwestern Regional Jail Authority's internal control over financial reporting as a basis for designing our auditing procedures 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 Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Northwestern Regional Jail Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board of Directors and management, and is not intended to be and should not be used by anyone other than these specified parties.

*Robinson, Jarner, Cox Associates*  
Charlottesville, Virginia  
December 5, 2011