

NORTHWESTERN REGIONAL JAIL AUTHORITY

WINCHESTER, VIRGINIA

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2012

Northwestern Regional Jail Authority
Winchester, Virginia

Financial Report
Year Ended June 30, 2012

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- INTRODUCTORY SECTION -

Northwestern Regional Adult Detention Center

James F. Whitley – Superintendent

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



February 6, 2013

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 2012 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”

ECONOMIC CONDITIONS AND OUTLOOK (CONTINUED)

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.

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 FY12 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,



James F. Whitley
Superintendent

- FINANCIAL SECTION -

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

INDEPENDENT AUDITORS' REPORT

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, 2012, 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 2011 financial statements, and in our report dated December 5, 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, 2012, 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 February 6, 2013, 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 statements 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
February 6, 2013

Management's Discussion and Analysis

The following is a discussion and analysis of the Northwestern Regional Jail Authority's financial performance for the fiscal year ended June 30, 2012. 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 \$17,194,478, a decrease of \$675,348 from the prior year.

The Northwestern Regional Jail holds long-term debt of \$15,195,000; 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 \$5,140,594, a decrease of \$532,328.

Overview:

Comparison of revenues and expenses from fiscal year 2011 to 2012 provide the following information:

Accrual Basis Statements

- 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.
- Fiscal year 2012 revenues were \$15,904,770; fiscal year 2012 expenses were \$16,580,118, which included \$1,106,512 of depreciation expense, which is a noncash expense.

Modified Accrual and Budgetary Basis Statements

- In fiscal year 2012 the Jail's revenues were \$16,277,925, an increase of \$300,409 from 2011 revenues of \$15,977,516.
- In fiscal year 2012 the Jail's expenditures were \$16,810,253, an increase of \$799,935 from 2011 expenditures of \$16,010,318.
- In fiscal year 2012, the Jail's revenues of \$16,277,925 are under expenditures of \$16,810,253 by \$532,328.

Budgetary Overview

In fiscal year 2012 the Jail's revenues of \$16,277,925 exceed budgeted revenues of \$15,971,109 by \$306,816. The Jail's expenditures of \$16,810,253 are under budgeted expenditures of \$16,956,880 by \$146,627.

Additional Analysis

Applying the annual inmate average daily population (ADP) rate to expenditures, an average per annum was derived for fiscal year 2011 and 2012 for comparison. With an ADP of 572 inmates per day in FY11, the per annum cost per inmate was approximately \$27,990. In FY12, the ADP was 569 and the per annum cost rose slightly too approximately \$28,137.

There was an increase in FY12 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 21.5 individuals in FY11 to 37 in FY12.

As occurred in FY11, 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 FY12, Frederick County’s share of the cost of operations increased from 38.58% in FY11 to 41.97% in FY12 while the shares of the remaining three (3) jurisdictions decreased. Fauquier County saw the greatest reduction (1.54%) followed closely by Winchester whose share fell by (1.21%).

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 FY11 and FY12 was minimal.

FY2011 assets	\$28,992,167	FY2012 assets	\$28,438,385
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The long-term liabilities indicated in the audit are bonds payable and reserves held for payment of accrued compensated absences. These liabilities reflect a slight decrease from FY11 to FY12.

FY2011 accrual	\$17,238,152	FY2012 accrual	\$16,806,970
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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, 2012
(With Comparative Totals for 2011)

	2012	2011
ASSETS		
Assets:		
Current assets:		
Cash and cash equivalents	\$ 4,669,770	\$ 5,144,664
Accounts receivable	70,652	69,893
Due from other governments	733,238	724,085
Total current assets	\$ 5,473,660	\$ 5,938,642
Noncurrent assets:		
Land	\$ 600,375	\$ 600,375
Other capital assets, net of accumulated depreciation	27,838,010	28,391,792
Net capital assets	\$ 28,438,385	\$ 28,992,167
Bond issuance cost, less accumulated amortization	\$ 422,469	\$ 442,889
Total noncurrent assets	\$ 28,860,854	\$ 29,435,056
Total assets	\$ 34,334,514	\$ 35,373,698
LIABILITIES		
Liabilities:		
Current liabilities:		
Accounts payable	\$ 333,066	\$ 265,720
Accrued compensated absences, current portion	211,121	200,350
Bonds payable, current portion	455,000	440,000
Bond premium, current portion	44,785	45,034
Total current liabilities	\$ 1,043,972	\$ 951,104
Noncurrent liabilities:		
Accrued compensated absences, less current portion	\$ 844,484	\$ 801,402
Bonds payable, less current portion	14,740,000	15,195,000
Bond premium, less current portion	511,580	556,366
Total noncurrent liabilities	\$ 16,096,064	\$ 16,552,768
Total liabilities	\$ 17,140,036	\$ 17,503,872
NET ASSETS		
Net Assets:		
Invested in capital assets, net of related debt	\$ 12,687,020	\$ 13,323,051
Unrestricted	4,507,458	4,546,775
Total net assets	\$ 17,194,478	\$ 17,869,826

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, 2012
 (With Comparative Totals for 2011)

	2012	2011
Operating revenues:		
Care of prisoners:		
Local and other per diems	\$ 8,963,617	\$ 8,835,139
Commonwealth of Virginia jail costs	1,086,982	1,048,087
Federal	1,892	2,209
Work release	354,537	403,175
Other	321,159	278,915
Total operating revenues	\$ 10,728,187	\$ 10,567,525
Operating expenses:		
Personnel	\$ 8,084,558	\$ 8,074,569
Fringes	3,636,145	3,630,364
Contractual	1,073,595	646,927
Other charges	1,952,076	2,219,559
Depreciation	1,106,512	1,077,530
Total operating expenses	\$ 15,852,886	\$ 15,648,949
Net operating income (loss)	\$ (5,124,699)	\$ (5,081,424)
Nonoperating revenues (expenses):		
Commonwealth of Virginia State Compensation Board	\$ 4,906,055	\$ 4,909,789
Other State grants	249,097	266,228
Interest and investment earnings	21,431	27,208
Interest expense	(727,232)	(785,310)
Net nonoperating revenues (expenses)	\$ 4,449,351	\$ 4,417,915
Change in net assets	\$ (675,348)	\$ (663,509)
Net assets, beginning of year	17,869,826	18,533,335
Net assets, end of year	\$ 17,194,478	\$ 17,869,826

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, 2012
(With Comparative Totals for 2011)

	2012	2011
Cash flows from operating activities:		
Receipts from customers	\$ 10,718,275	\$ 10,563,231
Payments to suppliers	(2,958,325)	(2,873,067)
Payments to and for employees	(11,666,850)	(11,674,597)
Net cash flows provided by (used in) operating activities	<u>\$ (3,906,900)</u>	<u>\$ (3,984,433)</u>
Cash flows from noncapital and related financing activities:		
Government grants	<u>\$ 5,155,152</u>	<u>\$ 5,176,017</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	\$ (552,730)	\$ -
Proceeds for issuance of long-term debt	-	567,284
Principal payments on debt	(440,000)	(405,000)
Issuance cost for issuance of debt	-	(50,164)
Interest paid on debt	(751,847)	(807,305)
Net cash flows provided by (used in) capital and related financing activities	<u>\$ (1,744,577)</u>	<u>\$ (695,185)</u>
Cash flows from investing activities:		
Interest income	<u>\$ 21,431</u>	<u>\$ 27,208</u>
Net increase (decrease) in cash and cash equivalents	\$ (474,894)	\$ 523,607
Cash and cash equivalents, beginning of year	<u>5,144,664</u>	<u>4,621,057</u>
Cash and cash equivalents, end of year	<u><u>\$ 4,669,770</u></u>	<u><u>\$ 5,144,664</u></u>
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ (5,124,699)	\$ (5,081,424)
Adjustments to reconcile excess (deficiency) of revenues over expenses to cash used in operations:		
Depreciation	1,106,512	1,077,530
Changes in assets and liabilities:		
Accounts receivable and due from other governments	(9,912)	(4,294)
Accounts payable	67,346	(6,581)
Compensated absences	53,853	30,336
Net cash flows provided by (used in) operating activities	<u><u>\$ (3,906,900)</u></u>	<u><u>\$ (3,984,433)</u></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, 2012

NOTE 1 - REPORTING ENTITY:

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:

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, 2012 (Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

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 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, 2012 (Continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

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:

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 \$4,100,479. Deposits held by the City of Winchester in a State Non-Arbitrage Program account was \$569,291. The bank balances are not separately determinable.

At June 30, 2012, 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, 2012.

NORTHWESTERN REGIONAL JAIL AUTHORITY

Notes to Financial Statements
At June 30, 2012 (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	\$ -	\$ 724,057
Federal government	-	9,181
Other	70,652	-
Total	<u>\$ 70,652</u>	<u>\$ 733,238</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	885,437	552,730	6,005	1,432,162
Total capital assets being depreciated	\$ 40,129,472	\$ 552,730	\$ 6,005	\$ 40,676,197
Less: Accumulated depreciation	<u>11,737,680</u>	<u>1,106,512</u>	<u>6,005</u>	<u>12,838,187</u>
Net capital assets being depreciated	<u>\$ 28,391,792</u>	<u>\$ (553,782)</u>	<u>\$ -</u>	<u>\$ 27,838,010</u>
Net capital assets	<u>\$ 28,992,167</u>	<u>\$ (553,782)</u>	<u>\$ -</u>	<u>\$ 28,438,385</u>

NORTHWESTERN REGIONAL JAIL AUTHORITY

Notes to Financial Statements
At June 30, 2012 (Continued)

NOTE 6 - LONG-TERM DEBT:

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

Balance payable, beginning of year	\$	15,635,000
Retirement of long-term debt:		
Revenue bonds		<u>(440,000)</u>
Balance payable, end of year	\$	<u><u>15,195,000</u></u>

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

Fiscal Year	Revenue Bonds		VRA Bonds	
	Principal	Interest	Principal	Interest
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	505,000	630,312	25,000	19,541
2018-2022	2,910,000	2,782,650	170,000	74,800
2023-2027	3,680,000	2,012,500	210,000	21,755
2028-2032	4,685,000	996,500	-	-
2033	1,085,000	54,250	-	-
Total	<u>\$ 14,715,000</u>	<u>\$ 9,176,325</u>	<u>\$ 480,000</u>	<u>\$ 204,406</u>

Details of long-term debt are as follows:

	<u>Total</u>	<u>Amount Due Within One Year</u>
\$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%.	\$ 14,715,000	\$ 440,000
\$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>480,000</u>	<u>15,000</u>
Total long-term obligations	\$ 15,195,000	\$ 455,000
Add: Bond premiums	<u>556,365</u>	<u>44,785</u>
Net long-term obligations	<u><u>\$ 15,751,365</u></u>	<u><u>\$ 499,785</u></u>

The Authority is in compliance with federal arbitrage regulations.

NORTHWESTERN REGIONAL JAIL AUTHORITY

Notes to Financial Statements
At June 30, 2012 (Continued)

NOTE 7 - CLAIMS, JUDGMENTS AND COMPENSATED ABSENCES:

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 \$1,055,605 at June 30, 2012. The estimated current portion of this liability is \$211,121.

NOTE 8 - DEFINED BENEFIT PENSION PLAN:

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.

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 early at age 55 with at least 5 years of service credit or age 50 with at least 10 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.

NORTHWESTERN REGIONAL JAIL AUTHORITY

Notes to Financial Statements
At June 30, 2012 (Continued)

NOTE 8 - DEFINED BENEFIT PENSION PLAN: (Continued)

A. Plan Description: (Continued)

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 the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2011-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

B. Funding Policy:

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their annual salary to the VRS. This 5.00% 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, 2012 was 10.34% of annual covered payroll.

NORTHWESTERN REGIONAL JAIL AUTHORITY

Notes to Financial Statements
At June 30, 2012 (Continued)

NOTE 8 - DEFINED BENEFIT PENSION PLAN: (Continued)

C. Annual Pension Cost:

For fiscal year 2012, the Authority's annual pension cost of \$1,026,545 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, 2010	\$ 1,052,326	100%	\$ -
June 30, 2011	1,042,134	100%	-
June 30, 2012	1,026,545	100%	-

'Employer portion only

The FY2012 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 for Plan 1 members and 2.25% for Plan 2 members. Both the investment rate of return and projected salary increases include an inflation component of 2.50%.

D. Funded Status and Funding Progress:

As of June 30, 2011, the most recent actuarial valuation date, the Authority's plan was 75.15% funded. The actuarial accrued liability for benefits was \$106,154,791, and the actuarial value of assets was \$79,780,148, resulting in an unfunded actuarial accrued liability (UAAL) of \$26,374,643. The covered payroll (annual payroll of active employees covered by the plan) was \$30,561,457 and ratio of the UAAL to the covered payroll was 86.30%.

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:

At June 30, 2012 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.

NORTHWESTERN REGIONAL JAIL AUTHORITY

Notes to Financial Statements
At June 30, 2012 (Continued)

NOTE 10 - INMATE AND OTHER ACCOUNTS:

The Authority maintains accounting for inmate and canteen (commissary) activity funds. The balance of the inmate funds was \$114,606.

The Canteen Fund activity is summarized below:

Cash balance, beginning of year	\$	<u>128,667</u>
Receipts:		
Canteen sales	\$	809,486
Interest		<u>59</u>
Total receipts	\$	<u>809,545</u>
Disbursements:		
Inmate programs	\$	864,469
Books & subscriptions		76
Other		<u>758</u>
Total disbursements	\$	<u>865,303</u>
Cash balance, end of year	\$	<u><u>72,909</u></u>

NOTE 11 - OPERATING RESERVE FUND:

As a requirement of the jail expansion bond issue, the Authority is required to fund an operating reserve. At June 30, 2012 this fund totaled \$1,877,868.

- REQUIRED SUPPLEMENTARY INFORMATION -

NORTHWESTERN REGIONAL JAIL AUTHORITY

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

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

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%
June 30, 2011	79,780,148	106,154,791	26,374,643	75.15%	30,561,457	86.30%

- OTHER SUPPLEMENTARY INFORMATION -

NORTHWESTERN REGIONAL JAIL AUTHORITY

Schedule of Revenues, Expenditures and Changes in Fund Balance
Budgetary Basis
Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>
Operating revenues:			
Care of prisoners:			
Local and other per diems	\$ 8,945,664	\$ 8,945,664	\$ 8,963,617
Commonwealth of Virginia jail costs	1,013,820	1,013,820	1,086,982
Federal	-	-	1,892
Work release	414,064	414,064	354,537
Recovered costs	63,952	63,952	373,155
Other	<u>277,500</u>	<u>288,905</u>	<u>321,159</u>
Total charges for services	<u>\$ 10,715,000</u>	<u>\$ 10,726,405</u>	<u>\$ 11,101,342</u>
Operating expenditures:			
Personnel	\$ 8,087,295	\$ 8,184,007	\$ 8,034,532
Fringes	3,871,039	3,915,129	3,632,318
Contractual	948,914	1,128,992	1,073,595
Other charges	2,280,082	2,501,388	2,325,231
Capital outlay	<u>38,386</u>	<u>51,008</u>	<u>552,730</u>
Total operating expenses	<u>\$ 15,225,716</u>	<u>\$ 15,780,524</u>	<u>\$ 15,618,406</u>
Net operating income (loss)	<u>\$ (4,510,716)</u>	<u>\$ (5,054,119)</u>	<u>\$ (4,517,064)</u>
Nonoperating revenues (expenses):			
Commonwealth of Virginia State			
Compensation Board	\$ 4,960,521	\$ 4,995,153	\$ 4,906,055
Other State grants	249,551	249,551	249,097
Interest and investment earnings	-	-	21,431
Principal payment on long-term debt	(440,000)	(440,000)	(440,000)
Interest expense	<u>(759,356)</u>	<u>(736,356)</u>	<u>(751,847)</u>
Net nonoperating revenues (expenses)	<u>\$ 4,010,716</u>	<u>\$ 4,068,348</u>	<u>\$ 3,984,736</u>
Excess (deficiency) of revenues over expenditures	\$ (500,000)	\$ (985,771)	\$ (532,328)
Fund balance, beginning of year	<u>500,000</u>	<u>985,771</u>	<u>5,672,922</u>
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,140,594</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, 2012

Fund balance, end of year	\$	5,140,594
Add:		
Capital assets, net of accumulated depreciation		28,438,385
Bond issuance costs		422,469
Long-Term debt		(15,751,365)
Accrued leave		<u>(1,055,605)</u>
Net Assets, per Statement of Net Assets	\$	<u><u>17,194,478</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	\$	(532,328)
Increase in accrued leave		(53,853)
Principal payment on long-term debt		440,000
Acquisition of capital assets		552,730
Depreciation expense		(1,106,512)
Amortization of bond premium and bond issuance costs		<u>24,615</u>
Change in net assets	\$	<u><u>(675,348)</u></u>

NORTHWESTERN REGIONAL JAIL AUTHORITY

Schedule of Revenues
Year Ended June 30, 2012
(With Comparative Totals for 2011)

	2012	2011
Sale of salvage and surplus	\$ -	\$ 835
Interest on investments and earnings	21,431	26,373
Commonwealth of Virginia jail costs	1,086,982	1,048,087
Commonwealth of Virginia State Compensation Board	4,906,055	4,909,789
Other State grants	249,097	266,228
Prisoner Housing:		
Federal	1,892	2,209
Work release	354,537	403,175
Miscellaneous	31,554	13,081
Telephone commissions	123,425	126,391
Food and staff reimbursements	103,638	96,370
Electronic monitoring fees	62,238	42,482
Employee meals supplement	304	591
Medical and health reimbursement	67,953	51,238
Recovered costs	373,155	206,766
Local Contributions:		
Clarke	376,287	427,776
Frederick	3,733,510	3,388,829
Winchester	3,495,106	3,557,480
Fauquier	1,290,761	1,409,816
Total revenues	\$ 16,277,925	\$ 15,977,516
% of Local Contributions:		
Clarke	4.23%	4.87%
Frederick	41.97%	38.58%
Winchester	39.29%	40.50%
Fauquier	14.51%	16.05%

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

NORTHWESTERN REGIONAL JAIL AUTHORITY

Schedule of Expenditures
Year Ended June 30, 2012
(With Comparative Totals for 2011)

	2012	2011
Personnel	\$ 8,034,532	\$ 8,046,389
Fringes	3,632,318	3,628,208
Professional Health Services	879,539	497,050
Professional Services	13,864	13,443
Repair and maintenance - equipment	27,806	46,896
Repair and maintenance - vehicle	10,761	5,432
Repair and maintenance - buildings and grounds	37,243	11,682
Repair and maintenance - security system	51,700	15,373
Maintenance service contracts	30,434	30,624
Printing and binding	3,687	4,643
Advertising	238	210
Contractual Services	18,323	21,574
Electrical Service	302,139	310,216
Heating Service	134,596	153,926
Water and Sewer	159,966	126,557
Postage and Telephone	38,561	45,783
Internet Access	6,210	-
Boiler Insurance	3,414	4,200
Fire Insurance	20,064	21,716
Motor Vehicle Insurance	5,925	5,988
Surety Bonds	735	735
General Liability Insurance	5,845	6,000
Line of Duty Program	28,560	-
Office Supplies	57,354	56,746
Food Supplies and Food Services	857,396	844,725
Food Service - Small Equipment	9,582	5,790
Agricultural Supplies	3,434	5,123
Medical and Laboratory	319,392	202,662
Laundry, Housekeeping, and Janitorial	103,901	91,286
Linen Supplies	18,737	15,705
Repair and Maintenance Supplies	41,511	43,129
Vehicle and Powered Equipment Supplies	601	1,135
Vehicle Tires and Parts	757	159
Vehicle Fuels and Lubricants	18,161	15,044
Police Supplies	28,830	17,049
Uniforms and Wearing Apparel	27,376	28,295
Inmate Uniforms and Wearing Apparel	21,274	25,738
Books and Subscriptions	717	443
Other Operating Supplies	25,745	26,436
Travel	64,822	59,550
Travel - Inmate Transports	334	455
Contributions	-	69,788
Contingency for Maintenance and Repairs	3,202	3,730
Dues and Memberships	978	833
Operating and Reserve Funding	-	206,766
Payment of Unemployment Claims	-	13,698
Machinery and Equipment	35,170	-
Building Improvements	517,560	-
Lease/Rent of Equipment	13,111	15,680
Other SNAP Disbursements	2,001	1,239
Debt Service Payments		
Principal	440,000	405,000
Interest and bond issuance cost	751,847	857,469
Total expenditures	\$ 16,810,253	\$ 16,010,318

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

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*

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, 2012, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated February 6, 2013. 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

Management of Northwestern Regional Jail Authority is responsible for establishing and maintaining effective 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, James, Cox Associates

Charlottesville, Virginia
February 6, 2013