

NORTHWESTERN REGIONAL JAIL AUTHORITY

WINCHESTER, VIRGINIA

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2014

NORTHWESTERN REGIONAL JAIL AUTHORITY

Winchester, Virginia

Financial Report
Year Ended June 30, 2014

Table of Contents

	Page
<u>INTRODUCTORY SECTION:</u>	
Letter of Transmittal	i-ii
<u>FINANCIAL SECTION:</u>	
Independent Auditors' Report	1-3
Management's Discussion and Analysis	4-5
<u>Basic Financial Statements:</u>	
Statement of Net Position	6
Statement of Revenues, Expenses and Changes in Net Position	7
Statement of Cash Flows	8
Notes to Financial Statements	9-26
<u>Required Supplementary Information:</u>	
Schedule of Pension Funding Progress - County of Frederick, Virginia	27
<u>Other Supplementary Information:</u>	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budgetary Basis	28
Reconciliation of the Schedule of Revenues, Expenditures and Changes in Fund Balance - Budgetary Basis to the Statement of Net Position and Statement of Revenues, Expenses and Changes in Net Position	29
Schedule of Revenues	30
Schedule of Expenditures	31
Schedule of Per Diem Rates and Per Diem Revenues	32
Demographic Information of the Service Area	33
Authority Inmate Population Statistics	34
Participating Jurisdictions - Other Jail Facilities	35
<u>COMPLIANCE SECTION:</u>	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	36-37

- INTRODUCTORY SECTION -

Northwestern Regional Adult Detention Center

James F. Whitley - Superintendent



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(540) 665-6374 (540) 665-1615 FAX

November 20, 2014

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 2014 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.

"Serving the Criminal Justice System Since 1991"

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. However, there has been a slight increase of state funding from FY13 to FY14 of about 6%. Although the Detention Center tried to remain at reduced expenses over the last few fiscal years, an increase to the healthcare premiums and rising inmate health care costs made it impossible for expenses to be reduced, causing 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 FY14 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 report 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.

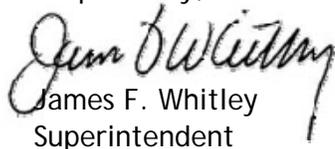
The Captain of Administrative Services oversees Inmate and Commissary Funds, and exercises control of the Inmate Benefit Program. Inmate funds include all monies accrued by inmates for their personal use, i.e. payment of their outside bills; family support; commissary purchases; and their telephone calls.

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Northwestern Regional Jail Authority, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedule of pension funding progress on pages 4-5 and 27 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, which 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 required supplementary information 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 information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

Report on Summarized Comparative Information

We have previously audited Northwestern Regional Jail Authority's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 3, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 5, 2015, on our consideration of 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northwestern Regional Jail Authority's internal control over financial reporting and compliance.

Robinson, Farnell, Cox Associates

Charlottesville, Virginia
February 5, 2015

Management's Discussion and Analysis

The following is a discussion and analysis of Northwestern Regional Jail Authority's financial performance for the fiscal year ended June 30, 2014. 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, Northwestern Regional Jail Authority ("the Jail") reported an ending net position balance of \$15,132,612, a decrease of \$214,766 from the prior year.

The Jail holds long-term debt of \$17,270,000; 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 Jail reported an ending fund balance of \$6,351,031, a decrease of \$27,845.

Overview:

Comparison of revenues and expenses from fiscal year 2013 to 2014 provide the following information:

Accrual Basis Statements

- Fiscal year 2014 revenues were \$18,059,482; fiscal year 2014 expenses were \$18,274,248, which included \$1,157,950 of depreciation expense, which is a noncash expense.
- Fiscal year 2013 revenues were \$16,889,229; fiscal year 2013 expenses were \$18,313,860, which included \$1,133,428 of depreciation expense, which is a noncash expense.

Modified Accrual and Budgetary Basis Statements

- In fiscal year 2014 the Jail's revenues were \$18,059,482, an increase of \$1,170,253 from 2013 revenues of \$16,889,229.
- In fiscal year 2014 the Jail's expenditures were \$18,087,327, an increase of \$339,539 from 2013 expenditures of \$17,747,788.
- In fiscal year 2014, the Jail's revenues of \$18,059,482 were under expenditures of \$18,087,327 by \$27,845.

Budgetary Overview

In fiscal year 2014 the Jail's revenues of \$18,059,482 were under budgeted revenues of \$18,170,091 by \$110,609. The Jail's expenditures of \$18,087,327 were under budgeted expenditures of \$18,709,375 by \$622,048.

Additional Analysis

Applying the annual inmate average daily population (ADP) rate to expenditures, an average per annum was derived for fiscal year 2013 and 2014 for comparison. With an ADP of 590 inmates per day in FY13, the per annum cost per inmate was approximately \$29,313. In FY14, the ADP was 580 and the per annum cost rose slightly to approximately \$30,310.

There was an increase in FY14 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 37 individuals in FY13 to 52 in FY14.

As occurred in FY13, fluctuations in the jurisdiction's use of the Detention Center over the previous three (3) years created changes in the distribution of locality shares. Frederick County's share of the cost of operations increased from 44.33% in FY13 to 44.68% in FY14. Clarke County's share increased from 4.91% to 5.43%, Fauquier County's share increased from 14.09% to 14.39%, and Winchester's share decreased from 36.69% to 35.50%.

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. Capital assets, net of accumulated depreciation, decreased from FY13 to FY14 due to depreciation expense. See Note 5 for details.

FY2014 assets	\$26,997,676	FY2013 assets	\$27,567,117
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The long-term liabilities indicated in the audit are bonds payable and reserves held for payment of accrued compensated absences less deferred charge on refunding. These liabilities decreased from FY13 to FY14, due to the payment of bond principal. See Note 6 for details.

FY2014 accrual	\$18,216,095	FY2013 accrual	\$18,598,615
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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 Position
At June 30, 2014
(With Comparative Totals for 2013)

ASSETS	2014	2013
Current assets:		
Cash and cash equivalents	\$ 5,907,590	\$ 6,173,112
Accounts receivable	168,074	77,272
Due from other governments	751,122	722,981
Total current assets	\$ 6,826,786	\$ 6,973,365
Noncurrent assets:		
Land and construction in progress	\$ 600,375	\$ 600,375
Other capital assets, net of accumulated depreciation	26,397,301	26,966,742
Net capital assets	\$ 26,997,676	\$ 27,567,117
Total noncurrent assets	\$ 26,997,676	\$ 27,567,117
Total assets	\$ 33,824,462	\$ 34,540,482
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	\$ 874,565	\$ 920,595
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 475,755	\$ 594,489
Compensated absences, current portion	275,100	246,605
Bonds payable, current portion	700,000	507,500
Bond premium, current portion	52,440	63,525
Total current liabilities	\$ 1,503,295	\$ 1,412,119
Noncurrent liabilities:		
Compensated absences, less current portion	\$ 1,100,400	\$ 986,422
Bonds payable, less current portion	16,570,000	17,270,000
Bond premium, less current portion	392,720	445,158
Total noncurrent liabilities	\$ 18,063,120	\$ 18,701,580
Total liabilities	\$ 19,566,415	\$ 20,113,699
NET POSITION		
Net investment in capital assets	\$ 10,461,374	\$ 11,427,361
Unrestricted	4,671,238	3,920,017
Total net position	\$ 15,132,612	\$ 15,347,378

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 Position
Year Ended June 30, 2014
(With Comparative Totals for 2013)

	2014	2013
Operating revenues:		
Care of prisoners:		
Local and other per diems	\$ 10,066,834	\$ 9,531,356
Commonwealth of Virginia jail costs	1,198,856	1,090,386
Federal	1,747	1,935
Work release	355,002	370,882
Other	562,272	408,880
Total operating revenues	\$ 12,184,711	\$ 11,403,439
Operating expenses:		
Personnel	\$ 8,972,265	\$ 9,171,212
Fringes	3,987,123	3,806,520
Contractual	964,972	885,607
Other charges	2,616,966	2,347,313
Depreciation	1,157,950	1,133,428
Total operating expenses	\$ 17,699,276	\$ 17,344,080
Net operating income (loss)	\$ (5,514,565)	\$ (5,940,641)
Nonoperating revenues (expenses):		
Commonwealth of Virginia State Compensation Board	\$ 5,340,141	\$ 4,973,170
Other State grants	515,549	484,597
Interest and investment earnings	19,081	28,023
Interest expense and bond issuance costs	(574,972)	(969,780)
Net nonoperating revenues (expenses)	\$ 5,299,799	\$ 4,516,010
Change in net position	\$ (214,766)	\$ (1,424,631)
Net position, beginning of year	15,347,378	16,772,009
Net position, end of year	\$ 15,132,612	\$ 15,347,378

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, 2014
(With Comparative Totals for 2013)

	<u>2014</u>	<u>2013</u>
Cash flows from operating activities:		
Receipts from customers	\$ 12,072,920	\$ 11,407,076
Payments to suppliers	(3,700,672)	(2,971,497)
Payments to and for employees	<u>(12,816,915)</u>	<u>(12,800,310)</u>
Net cash flows provided by (used for) operating activities	<u>\$ (4,444,667)</u>	<u>\$ (4,364,731)</u>
Cash flows from noncapital and related financing activities:		
Government grants	<u>\$ 5,855,690</u>	<u>\$ 5,457,767</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	\$ (595,661)	\$ (262,160)
Proceeds for issuance of long-term debt	-	16,824,523
Principal payments on debt	(507,500)	(15,195,182)
Issuance cost for issuance of debt	(2,500)	(303,596)
Interest paid on debt	<u>(589,965)</u>	<u>(681,302)</u>
Net cash flows provided by (used for) capital and related financing activities	<u>\$ (1,695,626)</u>	<u>\$ 382,283</u>
Cash flows from investing activities:		
Interest income	<u>\$ 19,081</u>	<u>\$ 28,023</u>
Net increase (decrease) in cash and cash equivalents	\$ (265,522)	\$ 1,503,342
Cash and cash equivalents, beginning of year	<u>6,173,112</u>	<u>4,669,770</u>
Cash and cash equivalents, end of year	<u><u>\$ 5,907,590</u></u>	<u><u>\$ 6,173,112</u></u>
Reconciliation of net operating income (loss) to net cash provided by (used for) operating activities:		
Net operating income (loss)	\$ (5,514,565)	\$ (5,940,641)
Adjustments to reconcile net operating income (loss) to cash used in operations:		
Depreciation	1,157,950	1,133,428
Loss on disposal of capital assets	7,152	-
Changes in assets and liabilities:		
Accounts receivable and due from other governments	(118,943)	3,637
Accounts payable	(118,734)	261,423
Compensated absences	<u>142,473</u>	<u>177,422</u>
Net cash flows provided by (used for) operating activities	<u><u>\$ (4,444,667)</u></u>	<u><u>\$ (4,364,731)</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, 2014

NOTE 1 - FINANCIAL REPORTING ENTITY:

Northwestern Regional Jail Authority ("the 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 Clarke, 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. Basis of 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.

2. Cash and Cash Equivalents:

Cash and cash equivalents are reported 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 maturities of three months or less from the date of acquisition. 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.

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.

NORTHWESTERN REGIONAL JAIL AUTHORITY

Notes to Financial Statements
At June 30, 2014 (Continued)

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

4. Capital Assets: (Continued)

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. Compensated Absences:

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. 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.

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.

NORTHWESTERN REGIONAL JAIL AUTHORITY

Notes to Financial Statements
At June 30, 2014 (Continued)

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

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.

10. Deferred Outflows of Resources:

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The Authority has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

11. Net Position:

Net Position is the difference between a) assets and deferred outflows of resources and b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

12. Net Position Flow Assumption:

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

13. Upcoming Pronouncements:

The Governmental Accounting Standards Board has issued Statement No. 68, *Accounting and Financial Reporting for Pensions; an amendment of GASB Statement No. 27*. This Statement replaces the requirements of Statements No. 27 and No. 50 related to pension plans that are administered through trusts or equivalent arrangements. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not administered as trusts or equivalent arrangements. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2014. The Authority has not determined the impact of this pronouncement on its financial statements.

NORTHWESTERN REGIONAL JAIL AUTHORITY

Notes to Financial Statements
At June 30, 2014 (Continued)

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 \$4,365,299. Deposits held by the City of Winchester in a State Non-Arbitrage Program account were \$1,542,291. The bank balances are not separately determinable.

At June 30, 2014, 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, 2014.

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	\$ -	\$ 750,884
Federal government	-	238
Other	168,074	-
Total	<u>\$ 168,074</u>	<u>\$ 751,122</u>

NORTHWESTERN REGIONAL JAIL AUTHORITY

Notes to Financial Statements
At June 30, 2014 (Continued)

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	\$ 587,038	\$ -	\$ 39,831,073
Equipment and vehicles	1,694,322	8,623	24,082	1,678,863
Total capital assets being depreciated	<u>\$ 40,938,357</u>	<u>\$ 595,661</u>	<u>\$ 24,082</u>	<u>\$ 41,509,936</u>
Less: Accumulated depreciation:				
Building and improvements	\$ 13,046,748	\$ 1,097,945	\$ -	\$ 14,144,693
Equipment and vehicles	924,867	60,005	16,930	967,942
Total accumulated depreciation	<u>\$ 13,971,615</u>	<u>\$ 1,157,950</u>	<u>\$ 16,930</u>	<u>\$ 15,112,635</u>
Net capital assets being depreciated	<u>\$ 26,966,742</u>	<u>\$ (562,289)</u>	<u>\$ 7,152</u>	<u>\$ 26,397,301</u>
Net capital assets	<u><u>\$ 27,567,117</u></u>	<u><u>\$ (562,289)</u></u>	<u><u>\$ 7,152</u></u>	<u><u>\$ 26,997,676</u></u>

NOTE 6 - LONG-TERM DEBT:

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

Balance payable, beginning of year	\$ 17,777,500
Issuance of long-term debt:	
Revenue and refunding bonds	-
Retirement of long-term debt:	
Revenue bonds	<u>(507,500)</u>
Balance payable, end of year	<u><u>\$ 17,270,000</u></u>

NORTHWESTERN REGIONAL JAIL AUTHORITY

Notes to Financial Statements
At June 30, 2014 (Continued)

NOTE 6 - LONG-TERM DEBT: (Continued)

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>
2015	\$ 680,000	\$ 549,850	\$ 20,000	\$ 21,875
2016	700,000	528,025	25,000	20,772
2017	715,000	514,025	25,000	19,541
2018	745,000	485,425	30,000	18,206
2019	765,000	463,075	30,000	16,744
2020-2024	4,225,000	1,927,650	205,000	56,034
2025-2029	4,860,000	1,189,275	115,000	5,572
2030-2034	4,130,000	367,850	-	-
Total	<u>\$ 16,820,000</u>	<u>\$ 6,025,175</u>	<u>\$ 450,000</u>	<u>\$ 158,744</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%.	\$ 470,000	\$ 470,000
\$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%.	450,000	20,000
\$16,400,000, Revenue and Refunding bonds series 2013, issued April 9, 2013, maturing in various annual installments through July 1, 2033, interest paid semiannually at rates from 2.00% to 4.00%.	<u>16,350,000</u>	<u>210,000</u>
Total long-term debt	\$ 17,270,000	\$ 700,000
Add: Bond premiums	<u>445,160</u>	<u>52,440</u>
Net long-term debt	<u>\$ 17,715,160</u>	<u>\$ 752,440</u>

The Authority is in compliance with federal arbitrage regulations.

NORTHWESTERN REGIONAL JAIL AUTHORITY

Notes to Financial Statements
At June 30, 2014 (Continued)

NOTE 7 - COMPENSATED ABSENCES:

In accordance with GASB accounting principles, the Authority has accrued the liability arising from all compensated absences. The amount of accrued vacation, compensatory time and sick pay totaled \$1,375,500 at June 30, 2014. The estimated current portion of this liability is \$275,100.

NOTE 8 - PENSION PLAN:

A. Plan Description:

Name of Plan: Virginia Retirement System (VRS)
Identification of Plan: Agent Multiple-Employer 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. Members earn one month of service credit for each month they are employed and they and their employer are paying contributions to VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as service credit in their plan.

Within the VRS Plan, the System administers three different benefit plans for local government employees - Plan 1, Plan 2, and, Hybrid. Each plan has different eligibility and benefit structures as set out below:

VRS - PLAN 1

1. **Plan Overview** - VRS Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.
2. **Eligible Members** - Employees are in VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.
3. **Hybrid Opt-In Election** - VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Members who were eligible for an optional retirement plan (ORP) and had prior service under VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 1 or ORP.

NORTHWESTERN REGIONAL JAIL AUTHORITY

Notes to Financial Statements
At June 30, 2014 (Continued)

NOTE 8 - PENSION PLAN: (Continued)

A. Plan Description: (Continued)

VRS - PLAN 1 (Continued)

4. **Retirement Contributions** - Members contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.
5. **Creditable Service** - Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.
6. **Vesting** - Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.

Members are always 100% vested in the contributions that they make.

7. **Calculating the Benefit** - The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.

An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.

8. **Average Final Compensation** - A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.
9. **Service Retirement Multiplier** - The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.

10. **Normal Retirement Age** - Age 65.

NORTHWESTERN REGIONAL JAIL AUTHORITY

Notes to Financial Statements
At June 30, 2014 (Continued)

NOTE 8 - PENSION PLAN: (Continued)

A. Plan Description: (Continued)

VRS - PLAN 1 (Continued)

11. **Earliest Unreduced Retirement Eligibility** - Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.

Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.

12. **Earliest Reduced Retirement Eligibility** - Members may retire with a reduced benefit as early as age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.

13. **Cost-of-Living Adjustment (COLA) in Retirement** - The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.

14. **Eligibility** - For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.

For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.

15. **Exceptions to COLA Effective Dates** - The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:

- The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
- The member retires on disability.
- The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
- The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
- The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

NORTHWESTERN REGIONAL JAIL AUTHORITY

Notes to Financial Statements
At June 30, 2014 (Continued)

NOTE 8 - PENSION PLAN: (Continued)

A. Plan Description: (Continued)

VRS - PLAN 1 (Continued)

16. **Disability Coverage** - Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.

Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

17. **Purchase of Prior Service** - Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.

VRS - PLAN 2

1. **Plan Overview** - VRS Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.
2. **Eligible Members** - Employees are in VRS Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.
3. **Hybrid Opt-In Election** - VRS Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible VRS Plan 2 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Members who were eligible for an optional retirement plan (ORP) and have prior service under VRS Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 2 or ORP.

4. **Retirement Contributions** - Same as VRS Plan 1 - Refer to Section 4.

NORTHWESTERN REGIONAL JAIL AUTHORITY

Notes to Financial Statements
At June 30, 2014 (Continued)

NOTE 8 - PENSION PLAN: (Continued)

A. Plan Description: (Continued)

VRS - PLAN 2 (Continued)

5. **Creditable Service** - Same as VRS Plan 1 - Refer to Section 5.
6. **Vesting** - Same as VRS Plan 1 - Refer to Section 6.
7. **Calculating the Benefit** - Same as VRS Plan 1 - Refer to Section 7.
8. **Average Final Compensation** - A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.
9. **Service Retirement Multiplier** - Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.
10. **Normal Retirement Age** - Normal Social Security retirement age.
11. **Earliest Unreduced Retirement Eligibility** - Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.

Hazardous duty members are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.
12. **Earliest Reduced Retirement Eligibility** - Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.
13. **Cost-of-Living Adjustment (COLA) in Retirement** - The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.
14. **Eligibility** - Same as VRS Plan 1 - Refer to Section 14.
15. **Exceptions to COLA Effective Dates** - Same as VRS Plan 1 - Refer to Section 15.
16. **Disability Coverage** - Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.

Most state employees are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

17. **Purchase of Prior Service** - Same as VRS Plan 1 - Refer to Section 17.

NORTHWESTERN REGIONAL JAIL AUTHORITY

Notes to Financial Statements
At June 30, 2014 (Continued)

NOTE 8 - PENSION PLAN: (Continued)

A. Plan Description: (Continued)

HYBRID RETIREMENT PLAN

1. **Plan Overview** - The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window. (See "Eligible Members")
 - The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.
 - The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.
 - In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

2. **Eligible Members** - Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:
 - State employees*
 - School division employees
 - Political subdivision employees*
 - Judges appointed or elected to an original term on or after January 1, 2014
 - Members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014

3. ***Non-Eligible Members** - Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:
 - Members of the State Police Officers' Retirement System (SPORS)
 - Members of the Virginia Law Officers' Retirement System (VaLORS)
 - Political subdivision employees who are covered by enhanced benefits for hazardous duty employees

Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.

NORTHWESTERN REGIONAL JAIL AUTHORITY

Notes to Financial Statements
At June 30, 2014 (Continued)

NOTE 8 - PENSION PLAN: (Continued)

A. Plan Description: (Continued)

HYBRID RETIREMENT PLAN (Continued)

4. **Retirement Contributions** - A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

5. **Creditable Service**

Defined Benefit Component - Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

Defined Contribution Component - Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

6. **Vesting**

Defined Benefit Component - Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. VRS Plan 1 or VRS Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

Defined Contribution Component - Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.

Members are always 100% vested in the contributions that they make.

Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.

- After two years, a member is 50% vested and may withdraw 50% of employer contributions.

NORTHWESTERN REGIONAL JAIL AUTHORITY

Notes to Financial Statements
At June 30, 2014 (Continued)

NOTE 8 - PENSION PLAN: (Continued)

A. Plan Description: (Continued)

HYBRID RETIREMENT PLAN (Continued)

6. Vesting (Continued)

- After three years, a member is 75% vested and may withdraw 75% of employer contributions.
- After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.

Distribution is not required by law until age 70½.

7. Calculating the Benefit

Defined Benefit Component - Same as VRS Plan 1 - Refer to Section 7.

Defined Contribution Component - The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.

8. Average Final Compensation - Same as VRS Plan 2 - Refer to Section 8. It is used in the retirement formula for the defined benefit component of the plan.

9. Service Retirement Multiplier - The retirement multiplier is 1.0%.

For members that opted into the Hybrid Retirement Plan from VRS Plan 1 or VRS Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

10. Normal Retirement Age

Defined Benefit Component - Same as VRS Plan 2 - Refer to Section 10.

Defined Contribution Component - Members are eligible to receive distributions upon leaving employment, subject to restrictions.

11. Earliest Unreduced Retirement Eligibility

Defined Benefit Component - Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.

Defined Contribution Component - Members are eligible to receive distributions upon leaving employment, subject to restrictions.

NORTHWESTERN REGIONAL JAIL AUTHORITY

Notes to Financial Statements
At June 30, 2014 (Continued)

NOTE 8 - PENSION PLAN: (Continued)

A. Plan Description: (Continued)

HYBRID RETIREMENT PLAN (Continued)

12. Earliest Reduced Retirement Eligibility

Defined Benefit Component - Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.

Defined Contribution Component - Members are eligible to receive distributions upon leaving employment, subject to restrictions.

13. Cost-of-Living Adjustment (COLA) in Retirement

Defined Benefit Component - Same as VRS Plan 2 - Refer to Section 13.

Defined Contribution Component - Not Applicable.

14. Eligibility - Same as VRS Plan 1 and VRS Plan 2 - Refer to Section 14.

15. Exceptions to COLA Effective Dates - Same as VRS Plan 1 and VRS Plan 2 - Refer to Section 15.

16. Disability Coverage - Eligible political subdivision and school division members (including VRS Plan 1 and VRS Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.

State employees (including VRS Plan 1 and VRS Plan 2 opt-ins) participating in the Hybrid Retirement Plan are covered under the Virginia Sickness and Disability Program (VSDP), and are not eligible for disability retirement.

Hybrid members (including VRS Plan 1 and VRS Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

17. Purchase of Prior Service

Defined Benefit Component - Same as VRS Plan 1 and VRS Plan 2 - Refer to Section 17.

Defined Contribution Component - Not Applicable.

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2013-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, 2014 (Continued)

NOTE 8 - PENSION PLAN: (Continued)

B. Funding Policy:

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution. In addition, the Authority is required to contribute the remaining amounts necessary to fund its 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 2014 was 12.93% of annual covered payroll, which was the required rate given by VRS to the County of Frederick, Virginia, the Authority's fiscal agent.

C. Annual Pension Cost:

For fiscal year 2014, the Authority's annual pension cost of \$1,447,077 was equal to the Authority's required and actual contributions.

Three-Year Trend Information

<u>Fiscal Year Ending</u>	<u>Annual Pension Cost (APC)(1)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
June 30, 2012	\$ 1,026,545	100%	\$ -
June 30, 2013	1,431,577	100%	-
June 30, 2014	1,447,077	100%	-

(1) Employer portion only

The FY 2014 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees, 3.75% to 6.20% per year for teachers, 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 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the Authority'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 Authority's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2011 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.

NORTHWESTERN REGIONAL JAIL AUTHORITY

Notes to Financial Statements
At June 30, 2014 (Continued)

NOTE 8 - PENSION PLAN: (Continued)

D. Funding Status and Progress:

As of June 30, 2013, the most recent actuarial valuation date, the plan of the Authority's fiscal agent, in which the Authority participates, was 76.51% funded. The actuarial accrued liability for benefits was \$115,989,690, and the actuarial value of assets was \$88,739,512, resulting in an unfunded actuarial accrued liability (UAAL) of \$27,250,178. The covered payroll (annual payroll of active employees covered by the plan) was \$31,493,616 and ratio of the UAAL to the covered payroll was 86.53%.

The schedule of funding progress, presented as Required Supplementary Information (RSI) 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:

As of June 30, 2014 there was a pending lawsuit against the Authority seeking \$37,200,000 in compensatory damages and \$350,000 in punitive damages. Subsequent to June 30, 2014, the case was settled within the Authority's insurance coverage limits.

NOTE 10 - INMATE AND OTHER ACCOUNTS:

The Authority maintains accounting for inmate and canteen (commissary) activity funds. The balance of the inmate funds was \$175,662.

The Canteen Fund activity is summarized below:

Cash balance, beginning of year	\$ <u>13,485</u>
Receipts:	
Canteen sales	\$ <u>1,049,995</u>
Total receipts	\$ <u>1,049,995</u>
Disbursements:	
Inmate programs	\$ <u>936,076</u>
Total disbursements	\$ <u>936,076</u>
Cash balance, end of year	\$ <u><u>127,404</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, 2014 this fund totaled \$2,082,810.

NORTHWESTERN REGIONAL JAIL AUTHORITY

Notes to Financial Statements
At June 30, 2014 (Continued)

NOTE 12 - PROBATION PROGRAM:

The financial activity for the Probation Program is included in the Authority's financial statements. The revenues and expenditures for the Probation Program for Fiscal Year 2014 are summarized below:

Revenues:	
Supervision fees	\$ 35,893
Drug testing fees	1,590
Revenue from the Commonwealth	<u>252,286</u>
Total revenues	<u>\$ 289,769</u>
Expenditures:	
Personnel	\$ 182,318
Fringes	76,475
Contractual	2,370
Other charges	<u>18,288</u>
Total expenditures	<u>\$ 279,451</u>
Excess of revenues over expenditures	<u><u>\$ 10,318</u></u>

- REQUIRED SUPPLEMENTARY INFORMATION -

NORTHWESTERN REGIONAL JAIL AUTHORITY

Schedule of Pension 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)
County of Frederick, Virginia:						
June 30, 2011	\$ 79,780,148	\$ 106,154,791	\$ 26,374,643	75.15%	\$ 30,561,457	86.30%
June 30, 2012	82,710,375	112,410,781	29,700,406	73.58%	30,272,787	98.11%
June 30, 2013	88,739,512	115,989,690	27,250,178	76.51%	31,493,616	86.53%

- OTHER SUPPLEMENTARY INFORMATION -

NORTHWESTERN REGIONAL JAIL AUTHORITY

Schedule of Revenues, Expenditures and Changes in Fund Balance
Budgetary Basis
Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Operating revenues:				
Care of prisoners:				
Local and other per diems	\$ 10,701,931	\$ 10,701,931	\$ 10,066,834	\$ (635,097)
Commonwealth of Virginia jail costs	997,975	997,975	1,198,856	200,881
Federal	-	-	1,747	1,747
Work release	384,616	384,616	355,002	(29,614)
Other	369,467	424,605	562,272	137,667
Total charges for services	<u>\$ 12,453,989</u>	<u>\$ 12,509,127</u>	<u>\$ 12,184,711</u>	<u>\$ (324,416)</u>
Operating expenditures:				
Personnel	\$ 9,095,867	\$ 9,318,860	\$ 8,839,601	\$ 479,259
Fringes	4,153,958	4,153,958	3,976,998	176,960
Contractual	1,107,915	1,128,638	964,972	163,666
Other charges	2,862,170	2,912,465	2,610,128	302,337
Capital outlay	19,000	19,000	595,662	(576,662)
Total operating expenses	<u>\$ 17,238,910</u>	<u>\$ 17,532,921</u>	<u>\$ 16,987,361</u>	<u>\$ 545,560</u>
Net operating income (loss)	<u>\$ (4,784,921)</u>	<u>\$ (5,023,794)</u>	<u>\$ (4,802,650)</u>	<u>\$ 221,144</u>
Nonoperating revenues (expenses):				
Commonwealth of Virginia State				
Compensation Board	\$ 4,947,976	\$ 4,947,976	\$ 5,340,141	\$ 392,165
Other State grants	491,988	491,988	515,549	23,561
Proceeds from issuance of long-term debt	-	221,000	-	(221,000)
Interest and investment earnings	-	-	19,081	19,081
Principal payment on long-term debt	(507,500)	(507,500)	(507,500)	-
Interest expense and bond issuance costs	(668,954)	(668,954)	(592,466)	76,488
Net nonoperating revenues (expenses)	<u>\$ 4,263,510</u>	<u>\$ 4,484,510</u>	<u>\$ 4,774,805</u>	<u>\$ 290,295</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (521,411)</u>	<u>\$ (539,284)</u>	<u>\$ (27,845)</u>	<u>\$ 511,439</u>
Change in fund balance	<u>\$ (521,411)</u>	<u>\$ (539,284)</u>	<u>\$ (27,845)</u>	<u>\$ 511,439</u>
Fund balance, beginning of year	<u>521,411</u>	<u>539,284</u>	<u>6,378,876</u>	<u>5,839,592</u>
Fund balance, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 6,351,031</u></u>	<u><u>\$ 6,351,031</u></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 Position and
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2014

Fund balance, end of year	\$	6,351,031
Add:		
Capital assets, net of accumulated depreciation		26,997,676
Deferred charge on refunding		874,565
Long-term debt		(17,715,160)
Compensated absences		(1,375,500)
		(1,375,500)
Net position, per Statement of Net Position	\$	15,132,612
Reconciliation of excess (deficiency) of revenues over (under) expenditures to changes in net position per the Statement of Revenues, Expenses and Changes in Net Position:		
Change in fund balance	\$	(27,845)
(Increase) decrease in compensated absences		(142,474)
Principal payment on long-term debt		507,500
Purchase of capital assets		595,661
Depreciation expense		(1,157,950)
Amortization of bond premium		17,494
Loss on disposition of capital assets		(7,152)
		(7,152)
Change in net position	\$	(214,766)

NORTHWESTERN REGIONAL JAIL AUTHORITY

Schedule of Revenues
Year Ended June 30, 2014
(With Comparative Totals for 2013)

	<u>2014</u>	<u>2013</u>
Interest on investments and earnings	\$ 19,081	\$ 28,023
Commonwealth of Virginia jail costs	1,198,856	1,090,386
Commonwealth of Virginia State Compensation Board	5,340,141	4,973,170
Other State grants	515,549	484,597
Prisoner Housing:		
Federal	1,747	1,935
Work release	355,002	370,882
Miscellaneous	63,572	44,852
Telephone commissions	217,645	135,791
Food and staff reimbursements	131,256	113,156
Electronic monitoring fees	112,274	64,516
Drug testing fees	1,590	5,768
Client supervision fees	35,893	44,797
Employee meals supplement	42	-
Medical and health reimbursement	69,067	57,118
Local Contributions:		
Clarke	542,879	465,137
Frederick	4,467,002	4,200,471
Winchester	3,549,207	3,473,847
Fauquier	1,438,679	1,334,783
	<u>18,059,482</u>	<u>16,889,229</u>
Total revenues	\$ <u>18,059,482</u>	\$ <u>16,889,229</u>
% of Local Contributions:		
Clarke	5.43%	4.91%
Frederick	44.68%	44.34%
Winchester	35.50%	36.67%
Fauquier	14.39%	14.09%

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

NORTHWESTERN REGIONAL JAIL AUTHORITY

Schedule of Expenditures
Year Ended June 30, 2014
(With Comparative Totals for 2013)

	2014	2013
Personnel	\$ 8,839,601	\$ 9,006,398
Fringes	3,976,998	3,793,912
Professional Health Services	694,771	542,154
Professional Services	25,889	25,899
Repair and Maintenance - Equipment	100,329	54,714
Repair and Maintenance - Vehicle	8,528	8,971
Repair and Maintenance - Buildings and Grounds	5,154	115,223
Repair and Maintenance - Security System	26,457	52,987
Maintenance Service Contracts	53,119	54,653
Printing and Binding	4,341	6,539
Advertising	2,865	165
Contractual Services	43,519	24,302
Gasoline	859	883
Electrical Service	273,224	270,919
Heating Service	114,989	108,959
Water and Sewer	147,020	140,448
Postage and Telephone	57,407	48,252
Internet Access	14,644	12,180
Boiler Insurance	4,921	-
Fire Insurance	25,395	23,495
Motor Vehicle Insurance	6,409	5,771
Surety Bonds	735	735
General Liability Insurance	6,585	6,096
Line of Duty Program	32,035	28,770
Office Supplies	88,709	78,721
Food Supplies and Food Services	941,624	897,914
Food Service - Small Equipment	6,595	4,680
Agricultural Supplies	3,120	1,289
Medical and Laboratory	395,377	263,064
Laundry, Housekeeping, and Janitorial	111,344	96,941
Linen Supplies	21,819	14,317
Repair and Maintenance Supplies	54,872	45,169
Vehicle and Powered Equipment Supplies	1,103	2,014
Vehicle Tires and Parts	198	976
Vehicle Fuels and Lubricants	18,348	19,969
Police Supplies	34,196	15,614
Uniforms and Wearing Apparel	33,541	41,951
Inmate Uniforms and Wearing Apparel	37,864	25,717
Books and Subscriptions	1,461	-
Other Operating Supplies	43,829	34,224
Travel	78,081	75,483
Travel - Inmate Transports	224	487
Miscellaneous	-	46,288
Contingency for Maintenance and Repairs	700	-
Dues and Memberships	1,008	1,083
Payment of Unemployment Claims	-	10,176
Machinery and Equipment	8,624	272,887
Building Improvements	587,038	-
Lease/Rent of Equipment	12,280	14,001
Other SNAP Disbursements	39,612	-
Debt Service Payments		
Principal	507,500	467,500
Interest and Bond Issuance Cost	592,466	984,898
Total expenditures	<u>\$ 18,087,327</u>	<u>\$ 17,747,788</u>

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

NORTHWESTERN REGIONAL JAIL AUTHORITY

Schedule of Per Diem Rates and Per Diem Revenues
Last Five Fiscal Years

Per Diem Rates

Fiscal Year Ending June 30,	Non- Participating Jurisdictions (Local)	Non- Participating Jurisdictions (Federal)
2014	\$ 79.32	\$ 79.32
2013	79.32	79.32
2012	70.00	79.32
2011	70.00	70.00
2010	55.00	70.00

Per Diem Revenues

Fiscal Year Ending June 30,	Clarke County	Fauquier County	Frederick County	City of Winchester	Participating Jurisdictions Per Diem Total	Non- Participating Jurisdictions, Including Federal
2014	\$ 542,879	\$ 1,438,679	\$ 4,467,002	\$ 3,549,207	\$ 9,997,767	\$ 1,747
2013	465,137	1,334,783	4,200,471	3,473,847	9,474,238	2,193
2012	376,287	1,290,761	3,733,510	3,495,106	8,895,664	30,036
2011	427,776	1,409,816	3,388,829	3,557,480	8,783,901	17,941
2010	397,675	1,361,828	2,644,578	3,199,650	7,603,731	1,708,623

NORTHWESTERN REGIONAL JAIL AUTHORITY

Demographic Information of the Service Area

The Authority's service area is spread over the area covered by the Participating Jurisdictions, all of which are located in the northwestern part of Virginia, near Maryland and West Virginia.

The following table shows the total population of the Participating Jurisdictions during the thirty-year period of 1980 to 2010 and the projected population in the year 2020.

<u>Locality</u>	<u>1980</u>	<u>1990</u>	<u>2000</u>	<u>2010</u>	<u>Projected 2020</u>
Clarke County	9,965	12,101	12,652	14,034	15,025
Fauquier County	35,889	48,860	55,139	65,203	74,118
Frederick County	34,150	45,723	59,209	78,305	97,192
City of Winchester	20,217	21,947	23,585	26,203	27,967
Total	<u>100,221</u>	<u>128,631</u>	<u>150,585</u>	<u>183,745</u>	<u>214,302</u>

Sources: Weldon-Cooper Center for Public Service, University of Virginia, for years 1980, 1990, 2000 and 2010.
Virginia Employment Commission for 2020 projections.

NORTHWESTERN REGIONAL JAIL AUTHORITY

Authority Inmate Population Statistics
Last Five Fiscal Years

The tables below show the inmate population statistics for the last five fiscal years. The Authority accepts inmates from non-Participating Jurisdictions (including federal detainees) on a space-available basis.

Prisoner Man-Days

Fiscal Year Ending June 30,	From Clarke County	From Fauquier County	From Frederick County	From City of Winchester	Non- Participating Jurisdictions (other than Federal)	Federal	Total
2014	7,919	32,592	88,697	76,038	1,397	33	206,676
2013	7,802	36,473	96,705	78,445	2,290	21	221,736
2012	12,708	30,247	93,132	72,225	3,048	18	211,378
2011	12,505	30,039	91,154	71,643	3,327	30	208,698
2010	7,673	26,958	86,518	71,358	5,276	4,820	202,603

Average Daily Population (ADP)

Fiscal Year Ending June 30,	From Clarke County	From Fauquier County	From Frederick County	From City of Winchester	Non- Participating Jurisdictions (other than Federal)	Federal	Total
2014	21.7	89.3	243.0	208.3	3.8	0.1	566.2
2013	21.4	99.9	264.9	214.9	6.3	0.1	607.5
2012	34.7	82.8	254.3	197.3	8.3	0.0	577.4
2011	34.3	82.3	249.7	196.3	9.2	0.2	572.0
2010	21.1	73.9	237.0	195.6	14.4	13.3	555.3

NORTHWESTERN REGIONAL JAIL AUTHORITY

Participating Jurisdictions - Other Jail Facilities
Last Five Fiscal Years

As described in the Regional Jail Agreement, all of the Participating Jurisdictions, except Fauquier County, are required to commit their respective prisoners to the Authority for housing in the Jail Facilities. Fauquier County sends its prisoners to the Jail Facilities on an as-needed basis. Fauquier County maintains its own jail facilities which have a rated capacity of 56 beds. The average daily inmate population housed in the Fauquier County jail facilities for the last five fiscal years is set out in the table below.

<u>Fauquier County Adult Detention Center</u>		
<u>Fiscal Year Ending June 30,</u>	<u>Rated Prisoner Capacity</u>	<u>Average Daily Inmate Population</u>
2014	56	103
2013	56	95
2012	56	106
2011	56	111
2010	56	109

- COMPLIANCE SECTION -

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' 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 Honorable Members
Northwestern Regional Jail Authority
Winchester, Virginia

We have audited, in accordance with the 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, the financial statements of the business-type activities of Northwestern Regional Jail Authority as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Northwestern Regional Jail Authority's basic financial statements and have issued our report thereon dated February 5, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Northwestern Regional Jail Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Northwestern Regional Jail Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Northwestern Regional Jail Authority's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Robinson, Farnell, Cox Associates

Charlottesville, Virginia
February 5, 2015