NORTHWESTERN REGIONAL JAIL AUTHORITY

WINCHESTER, VIRGINIA

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2016

NORTHWESTERN REGIONAL JAIL AUTHORITY

Winchester, Virginia

Financial Report
Year Ended June 30, 2016

Table of Contents

- INTRODUCTORY SECTION -

Northwestern Regional Adult Detention Center

James F. Whitley - Superintendent

141 Fort Collier Road, Winchester, VA 22603
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December 5, 2016

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 2016 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.

Northwestern Regional Adult Detention Center

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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.

Detention Center expenses have increased in part to the rising inmate population, causing the Annex building to be re-opened after being closed for a number of years. The opening of that building required an increase in Overtime and the need for more Correctional Officers to operate effectively, causing increases each year in the contributions required of the participating jurisdictions.

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.

Northwestern Regional Adult Detention Center

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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 -

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, 2016, 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 Northwestern Regional Jail Authority, as of June 30, 2016, 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.

Change in Accounting Principle

As described in Note 13 to the financial statements, in 2016, the Authority adopted new accounting guidance, GASB Statement No. 72, *Fair Value Measurement and Application*, No. 79, *Certain External Investment Pools and Pool Participants*, and No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules related to pension funding on pages 4-6 and 37-39 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 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 28, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, 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 January 4, 2017, 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, Farmer, Cox Associates

Charlottesville, Virginia
January 4, 2017

The following is a discussion and analysis of Northwestern Regional Jail Authority's financial performance for the fiscal year ended June 30, 2016. 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 $10,556,267, an increase of $1,064,638 from the prior year. Over time, increases and decreases in net position can serve as a useful indicator of whether the financial health of the Jail is improving or deteriorating.

The Jail holds long-term debt of $18,055,000; consisting of Revenue Bonds payable in annual installments for 30 years and VRA Bonds payable in annual installments for 15 years. The Jail also has a net pension liability of $5,451,457.

The following table shows a summary of the Statement of Net Position:

Table 1
Summary of Statement of Net Position
At June 30, 2016 and June 30, 2015

	June 30, 2016	June 30, 2015
Current assets	$ 10,522,133	$ 7,247,461
Capital assets	25,079,017	25,954,169
Total assets	$ 35,601,150	$ 33,201,630
Deferred outflows of resources	$ 2,313,138	$ 2,277,454
Total assets and deferred outflows	$ 37,914,288	$ 35,479,084
Current liabilities	$ 1,671,157	$ 1,439,377
Noncurrent liabilities	24,575,463	22,229,347
Total liabilities	$ 26,246,620	$ 23,668,724
Deferred inflows of resources	$ 1,111,401	$ 2,318,731
Net investment in capital assets	$ 9,602,868	$ 10,062,376
Unrestricted	953,399	(570,747)
Total net position	$ 10,556,267	$ 9,491,629
Total liabilities, deferred inflows, and net position	$ 37,914,288	$ 35,479,084

Modified Accrual and Budgetary Audit Statements

At the end of the fiscal year, the Jail reported an ending fund balance of $9,982,025, an increase of $3,125,607.

Overview:

Comparison of revenues and expenses from fiscal year 2015 to 2016 provide the following information:

Accrual Basis Statements

- Fiscal year 2016 revenues were $20,279,989; fiscal year 2016 expenses were $19,215,351, which included $1,134,553 of depreciation expense, which is a noncash expense.
- Fiscal year 2015 revenues were $18,972,121; fiscal year 2015 expenses were $18,202,101, which included $1,116,583 of depreciation expense, which is a noncash expense.

The following table shows a summary of the Statement of Revenues, Expenses, and Changes in Net Position:

Table 2
Summary of Statement of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2016 and June 30, 2015

	June 30, 2016	June 30, 2015
Local and other per diems	$ 11,685,065	$ 10,958,603
Commonwealth of Virginia jail costs	1,420,408	1,270,351
Other operating revenues	1,045,015	1,032,726
Commonwealth of Virginia State Compensation Board	5,506,358	5,193,855
Other nonoperating revenues	623,143	516,586
Total revenues	$ 20,279,989	$ 18,972,121
Personnel and fringes	$ 13,469,592	$ 12,886,685
Other operating expenses	5,106,358	4,749,851
Other nonoperating expenses	639,401	565,565
Total expenses	$ 19,215,351	$ 18,202,101
Change in net position	$ 1,064,638	$ 770,020
Net position, beginning of year	9,491,629	8,721,609
Net position, end of year	$ 10,556,267	$ 9,491,629

Modified Accrual and Budgetary Basis Statements

- In fiscal year 2016 the Jail's revenues were $22,927,016, an increase of $3,954,895 from 2015 revenues of $18,972,121.
- In fiscal year 2016 the Jail's expenditures were $19,801,409, an increase of $1,334,675 from 2015 expenditures of $18,466,734.
- In fiscal year 2016, the Jail's revenues of $22,927,016 exceeded expenditures of $19,801,409 by $3,125,607.

Budgetary Overview

In fiscal year 2016 the Jail's revenues of $22,927,016 exceeded budgeted revenues of $19,338,814 by $3,588,202. This was caused primarily by proceeds from the issuance of debt which was not included in budgeted revenues. The Jail's expenditures of $19,801,409 were under budgeted expenditures of $20,116,966 by $315,557.

Additional Analysis

Applying the annual inmate average daily population (ADP) rate to expenditures, an average per annum was derived for fiscal year 2015 and 2016 for comparison. With an ADP of 638 inmates per day in FY15, the per annum cost per inmate was approximately $28,945. In FY16, the ADP was 674 and the per annum cost increased to approximately $29,379.

There was an increase in FY16 in the number of Out of Compliance inmates occupying beds in the Jail. Out of Compliance inmates, those state responsible inmates remaining in local custody 90 or more days after sentencing, increased from an average of 69 individuals in FY15 to 81 in FY16.

As occurred in FY15, fluctuations in the jurisdiction's use of the Jail over the previous three (3) years created changes in the distribution of locality shares. Frederick County's share of the cost of operations decreased from 44.39% in FY15 to 44.00% in FY16. Clarke County's share decreased from 5.21% to 4.49%, Fauquier County's share increased from 15.28% to 15.69%, and Winchester's share increased from 35.12% to 35.82%.

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 FY15 to FY16 due to depreciation expense. See Note 5 for details.

FY2016 assets	$25,079,017	FY2015 assets	$25,954,169

The long-term liabilities indicated in the audit are bonds payable and reserves held for payment of accrued compensated absences and net pension liability less deferred charge on refunding. These liabilities increased from FY15 to FY16, due to the issuance of VRA bonds in the amount of $2,210,000. See Note 6 for details.

FY2016 accrual	$24,924,007	FY2015 accrual	$22,449,146

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, 2016
(With Comparative Totals for 2015)

		2016		2015
ASSETS				
Current assets:				
Cash and cash equivalents	$	9,584,581	$	6,249,333
Accounts receivable		132,851		195,549
Due from other governments		804,701		802,579
Total current assets	$	10,522,133	$	7,247,461
Noncurrent assets:				
Land and construction in progress	$	600,375	$	600,375
Other capital assets, net of accumulated depreciation		24,478,642		25,353,794
Net capital assets	$	25,079,017	$	25,954,169
Total assets	$	35,601,150	$	33,201,630
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	$	782,505	$	828,535
Pension contributions after measurement date		1,512,778		1,448,919
Items related to measurement of net pension liability		17,855		-
Total deferred outflows of resources	$	2,313,138	$	2,277,454
Total assets and deferred outflows of resources	$	37,914,288	$	35,479,084
LIABILITIES				
Current liabilities:				
Accounts payable	$	540,108	$	391,043
Compensated absences, current portion		282,121		283,036
Bonds payable, current portion		740,000		725,000
Bond premium, current portion		108,928		40,298
Total current liabilities	$	1,671,157	$	1,439,377
Noncurrent liabilities:				
Compensated absences, less current portion	$	1,128,485	$	1,132,143
Bonds payable, less current portion		17,315,000		15,845,000
Bond premium, less current portion		680,521		352,422
Net pension liability		5,451,457		4,899,782
Total noncurrent liabilities	$	24,575,463	$	22,229,347
Total liabilities	$	26,246,620	$	23,668,724
DEFERRED INFLOWS OF RESOURCES				
Items related to measurement of net pension liability	$	1,111,401	$	2,318,731
NET POSITION				
Net investment in capital assets	$	9,602,868	$	10,062,376
Unrestricted		953,399		(570,747)
Total net position	$	10,556,267	$	9,491,629
Total liabilities, deferred inflows of resources, and net position	$	37,914,288	$	35,479,084

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, 2016
(With Comparative Totals for 2015)

	2016	2015
Operating revenues:		
Care of prisoners:		
Local and other per diems	$ 11,685,065	$ 10,958,603
Commonwealth of Virginia jail costs	1,420,408	1,270,351
Federal	1,258	4,610
Work release	358,525	342,189
Other	685,232	685,927
Total operating revenues	$ 14,150,488	$ 13,261,680
Operating expenses:		
Personnel	$ 9,933,471	$ 9,364,549
Fringes	3,536,121	3,522,136
Contractual	1,100,708	704,379
Other charges	2,871,097	2,928,889
Depreciation	1,134,553	1,116,583
Total operating expenses	$ 18,575,950	$ 17,636,536
Net operating income (loss)	$ (4,425,462)	$ (4,374,856)
Nonoperating revenues (expenses):		
Commonwealth of Virginia State Compensation Board	$ 5,506,358	$ 5,193,855
Other State grants	522,632	502,012
Bond rebate	77,024	-
Interest income	23,487	14,574
Interest expense	(578,169)	(565,565)
Bond issuance costs	(61,232)	-
Net nonoperating revenues (expenses)	$ 5,490,100	$ 5,144,876
Change in net position	$ 1,064,638	$ 770,020
Net position, beginning of year	9,491,629	8,721,609
Net position, end of year	$ 10,556,267	$ 9,491,629

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, 2016
(With Comparative Totals for 2015)

	2016	2015
Cash flows from operating activities:		
Receipts from customers	$ 14,211,064	$ 13,182,748
Payments to suppliers	(3,822,740)	(3,717,980)
Payments to and for employees	(14,211,534)	(13,488,415)
Net cash flows provided by (used for) operating activities	$ (3,823,210)	$ (4,023,647)
Cash flows from noncapital and related financing activities:		
Government grants	$ 6,106,014	$ 5,695,867
Cash flows from capital and related financing activities:		
Purchase of capital assets	$ (259,401)	$ (73,075)
Proceeds from issuance of long-term debt	2,647,027	-
Principal payments on debt	(725,000)	(700,000)
Issuance costs	(61,232)	-
Interest paid on debt	(572,437)	(571,976)
Net cash flows provided by (used for) capital and related financing activities	$ 1,028,957	$ (1,345,051)
Cash flows from investing activities:		
Interest income	$ 23,487	$ 14,574
Net increase (decrease) in cash and cash equivalents	$ 3,335,248	$ 341,743
Cash and cash equivalents, beginning of year	6,249,333	5,907,590
Cash and cash equivalents, end of year	$ 9,584,581	$ 6,249,333
Reconciliation of net operating income (loss) to net cash provided by (used for) operating activities:		
Net operating income (loss)	$ (4,425,462)	$ (4,374,856)
Adjustments to reconcile net operating income (loss) to cash used in operations:		
Depreciation	1,134,553	1,116,583
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
Accounts receivable and due from other governments	60,576	(78,932)
Pension contributions after measurement date	(63,859)	(382)
Items related to measurement of net pension liability (outflow)	(17,855)	-
Accounts payable	149,065	(84,712)
Compensated absences	(4,573)	39,679
Net pension liability	551,675	(2,959,758)
Items related to measurement of net pension liability (inflow)	(1,207,330)	2,318,731
Net cash flows provided by (used for) operating activities	$ (3,823,210)	$ (4,023,647)

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

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:

   External investment pools are measured at amortized cost in accordance with GASB 79. All other investments are reported at fair value.

4. Capital Assets:

   Capital assets are recorded at cost. Donated capital assets are recorded at their acquisition 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.

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.

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.

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

9. Comparative Totals:

Comparative totals are presented for informational purposes only.

10. Deferred Outflows/Inflows 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) until then. The Authority has three items that qualify for reporting in this category. One item is the deferred charge on refunding, which 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. One other item is comprised of contributions to the pension plan made during the current year and subsequent to the net pension liability measurement date, which will be recognized as a reduction of the net pension liability next fiscal year. The final item is the change in proportion and differences between employer contributions and proportionate share of contributions. For more detailed information on these items, reference the pension note.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Authority has one item that qualifies for reporting in this category. Certain items related to the measurement of the net pension liability are reported as deferred inflows of resources. These include differences between expected and actual experience, change in assumptions, and the net difference between projected and actual earnings on pension plan investments. For more detailed information on these items, reference the pension note.

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. It is the Authority's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

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

13. Pensions:

    For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Authority's Retirement Plan and the additions to/deductions from the Authority's Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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. In previous years, the Authority issued long-term debt and received funds for a jail expansion project. The remaining 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 $5,752,179. The bank balances are not separately determinable. Deposits held by the City of Winchester in a State Non-Arbitrage Program (SNAP) account were $1,245,152, and deposits in the Authority's SNAP account were $2,587,250.

At June 30, 2016, 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, 2016.

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 3 - DEPOSITS AND INVESTMENTS: (Continued)

Credit Risks:

Credit risk is the risk that a borrower will not be able to make payments and default on debt. The Authority's policy is to follow the statutes of the Commonwealth of Virginia and invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank) and Asian Development Bank, commercial paper rated A-1 by Standard and Poor's Corporation or P-1 by Moody's Commercial Paper Record, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool and the Commonwealth of Virginia State Non-Arbitrage Program. Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The Authority currently has no formal policy relating to interest rate risk.

The Authority's only cash equivalent or investment as of June 30, 2016 is $2,587,250 held in a SNAP account. This does not include the $1,245,152 which, as previously mentioned, is held on the Authority's behalf in a SNAP account by the City of Winchester. SNAP accounts have a quality rating of AAAm and investment maturities of less than twelve months.

External Investment Pool:

The State Non-Arbitrage Pool (SNAP) is an open-end management investment company registered with the Securities and Exchange Commission. In May 2016, SNAP's Board voted to convert the SNAP fund to an LGIP structure, which would be managed in conformity with GASB 79. On October 3, 2016, the Prime Series became a government money market fund and the name was changed to Government Select Series, which has a policy of investing at least 99.5% of its assets in cash, U.S. government securities (including securities issued or guaranteed by the U.S. government or its agencies or instrumentalities) and/or repurchase agreements that are collateralized fully.

The value of the position in the external investment pool is the same as the value of the pool shares. SNAP is an amortized cost basis portfolio under the provisions of GASB 79. There are no withdrawal limitations or restrictions imposed on participants.

NOTE 4 - ACCOUNTS RECEIVABLE AND DUE FROM OTHER GOVERNMENTS:

	Accounts Receivable	Due from Other Governments
Commonwealth of Virginia	$ -	$ 804,646
Federal government	-	55
Other	132,851	-
Total	$ 132,851	$ 804,701

NOTE 5 - CAPITAL ASSETS:

A summary of changes in capital assets is as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	$ 600,375	$ -	$ -	$ 600,375
Total capital assets not being depreciated	$ 600,375	$ -	$ -	$ 600,375
Capital assets being depreciated:				
Building and improvements	$ 39,831,073	$ 123,700	$ -	$ 39,954,773
Equipment and vehicles	1,735,258	135,701	90,079	1,780,880
Total capital assets being depreciated	$ 41,566,331	$ 259,401	$ 90,079	$ 41,735,653
Less: Accumulated depreciation:				
Building and improvements	$ 15,184,830	$ 1,046,306	$ -	$ 16,231,136
Equipment and vehicles	1,027,707	88,247	90,079	1,025,875
Total accumulated depreciation	$ 16,212,537	$ 1,134,553	$ 90,079	$ 17,257,011
Net capital assets being depreciated	$ 25,353,794	$ (875,152)	$ -	$ 24,478,642
Net capital assets	$ 25,954,169	$ (875,152)	$ -	$ 25,079,017

NOTE 6 – LONG-TERM DEBT:

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

	Balance June 30, 2015	Increases	Decreases	Balance June 30, 2016
Revenue Bonds	$ 16,140,000	$ -	$ 700,000	$ 15,440,000
VRA Bonds	430,000	2,210,000	25,000	2,615,000
Bond Premium	392,720	437,027	40,298	789,449
Total	$ 16,962,720	$ 2,647,027	$ 765,298	$ 18,844,449

NOTE 6 – LONG-TERM DEBT: (Continued)

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

	Revenue Bonds		VRA Bonds	
Fiscal Year	**Principal**	**Interest**	**Principal**	**Interest**
2017	$ 715,000	$ 514,025	$ 25,000	$ 121,379
2018	745,000	485,425	230,000	122,794
2019	765,000	463,075	240,000	112,075
2020	790,000	440,125	255,000	100,416
2021	820,000	408,525	265,000	87,441
2022-2026	4,510,000	1,648,400	1,600,000	208,549
2027-2031	4,955,000	874,675	-	-
2032-2033	2,140,000	113,050	-	-
Total	$ 15,440,000	$ 4,947,300	$ 2,615,000	$ 752,654

Details of long-term debt are as follows:

	Total	Amount Due Within One Year
$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%.	$ 405,000	$ 25,000
$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%.	15,440,000	715,000
$2,210,000, Virginia Resources Authority Infrastructure and State Moral Obligation Revenue bonds series 2016A, issued May 25, 2016, maturing in various annual installments through October 1, 2025, interest paid semiannually at rates from 4.506% to 5.125%.	2,210,000	-
Total long-term debt	$ 18,055,000	$ 740,000
Add: Bond premiums	789,449	108,928
Net long-term debt	$ 18,844,449	$ 848,928

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 $1,410,606 at June 30, 2016. This is a decrease of $4,573 from the prior year.

NOTE 8 - PENSION PLAN:

Plan Description

All full-time, salaried permanent employees of the Authority are automatically covered by the VRS Retirement Plan upon employment, through the County of Frederick, Virginia. This is an agent multiple-employer plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. However, several entities participate in the VRS plan through the County of Frederick, Virginia and the participating entities report their proportionate information on the basis of a cost-sharing plan. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and, Hybrid. Each of these benefit structures has different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

RETIREMENT PLAN PROVISIONS		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
About Plan 1 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 Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	**About Plan 2** 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 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.	**About the Hybrid Retirement Plan** 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 Plan 1 and 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.

NOTE 8 - PENSION PLAN: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
About Plan 1 (Cont.)	**About Plan 2 (Cont.)**	**About the Hybrid Retirement Plan (Cont.)** • 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.
Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013. **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 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.	**Eligible Members** Employees are in 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. **Hybrid Opt-In Election** Eligible 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 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.	**Eligible Members** Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • Political subdivision employees* • Members in Plan 1 or 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. ***Non-Eligible Members** Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.

NOTE 8 - PENSION PLAN: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	**Hybrid Opt-In Election (Cont.)** Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	***Non-Eligible Members (Cont.)** 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 Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but 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.	**Retirement Contributions** Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.	**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.

NOTE 8 - PENSION PLAN: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
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.	**Creditable Service** Same as Plan 1.	**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 Contributions Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

NOTE 8 - PENSION PLAN: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
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.	**Vesting** Same as Plan 1.	**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. Plan 1 or 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 Contributions 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.

NOTE 8 - PENSION PLAN: (Continued)

Plan Description (Continued)

<table>
<tr><th colspan="3">RETIREMENT PLAN PROVISIONS (CONTINUED)</th></tr>
<tr><th>PLAN 1</th><th>PLAN 2</th><th>HYBRID RETIREMENT PLAN</th></tr>
<tr><td>Vesting (Cont.)</td><td>Vesting (Cont.)</td><td>Vesting (Cont.)
<u>Defined Contributions Component:</u> (Cont.)
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.
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.</td></tr>
<tr><td>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.</td><td>Calculating the Benefit
See definition under Plan 1.</td><td>Calculating the Benefit
<u>Defined Benefit Component:</u>
See definition under Plan 1.</td></tr>
</table>

NOTE 8 - PENSION PLAN: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Calculating the Benefit (Cont.) 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.	**Calculating the Benefit (Cont.)**	**Calculating the Benefit (Cont.)** **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.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier **VRS:** 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 1.70%. **Sheriffs and regional jail superintendents:** The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. **Political subdivision hazardous duty employees:** The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.	**Service Retirement Multiplier** **VRS:** 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. **Sheriffs and regional jail superintendents:** Same as Plan 1. **Political subdivision hazardous duty employees:** Same as Plan 1.	**Service Retirement Multiplier** **Defined Benefit Component:** **VRS:** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. **Sheriffs and regional jail superintendents:** Not applicable. **Political subdivision hazardous duty employees:** Not applicable. **Defined Contribution Component:** Not applicable.

NOTE 8 - PENSION PLAN: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Normal Retirement Age **VRS:** Age 65. **Political subdivisions hazardous duty employees:** Age 60.	**Normal Retirement Age** **VRS:** Normal Social Security retirement age. **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Normal Retirement Age** **Defined Benefit Component:** **VRS:** Same as Plan 2. **Political subdivisions hazardous duty employees:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility **VRS:** Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. **Political subdivisions hazardous duty employees:** Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	**Earliest Unreduced Retirement Eligibility** **VRS:** Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Earliest Unreduced Retirement Eligibility** **Defined Benefit Component:** **VRS:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. **Political subdivisions hazardous duty employees:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility **VRS:** Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.	**Earliest Reduced Retirement Eligibility** **VRS:** Age 60 with at least five years (60 months) of creditable service.	**Earliest Reduced Retirement Eligibility** **Defined Benefit Component:** **VRS:** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.

NOTE 8 - PENSION PLAN: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Earliest Reduced Retirement Eligibility (Cont.) **Political subdivisions hazardous duty employees:** 50 with at least five years of creditable service.	**Earliest Reduced Retirement Eligibility (Cont.)** **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Earliest Reduced Retirement Eligibility (Cont.)** **Political subdivisions hazardous duty employees:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
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%. **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.	**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%. **Eligibility:** Same as Plan 1.	**Cost-of-Living Adjustment (COLA) in Retirement** **Defined Benefit Component:** Same as Plan 2. **Defined Contribution Component:** Not applicable. **Eligibility:** Same as Plan 1 and Plan 2.

NOTE 8 - PENSION PLAN: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Cost-of-Living Adjustment (COLA) in Retirement (Cont.) **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.	**Cost-of-Living Adjustment (COLA) in Retirement (Cont.)** **Exceptions to COLA Effective Dates:** Same as Plan 1.	**Cost-of-Living Adjustment (COLA) in Retirement (Cont.)** **Exceptions to COLA Effective Dates:** Same as Plan 1 and Plan 2.

NOTE 8 - PENSION PLAN: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
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. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	**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. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	**Disability Coverage** Employees of political subdivisions (including Plan 1 and 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. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
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.	**Purchase of Prior Service** Same as Plan 1.	**Purchase of Prior Service** **Defined Benefit Component:** Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost. **Defined Contribution Component:** Not applicable.

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/2015-annual-report-pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

NOTE 8 - PENSION PLAN: (Continued)

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been 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 5.00% member contribution. This could be phased in over a period of 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.

The Authority's contractually required contribution rate for the year ended June 30, 2016 was 12.15% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were $1,512,778 and $1,448,919 for the years ended June 30, 2016 and June 30, 2015, respectively.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the Authority reported a liability of $5,451,457 for its proportionate share of the net pension liability. The Authority's net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015. The Authority's proportionate share of the same was calculated using creditable compensation as of June 30, 2015 and 2014 as a basis for allocation. At June 30, 2015 and 2014, the Authority's proportion was 34.73% and 34.57%, respectively.

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Authority's Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Inflation	2.5%
Salary increases, including inflation	3.5% – 5.35%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

NOTE 8 - PENSION PLAN: (Continued)

Actuarial Assumptions – General Employees (Continued)

Mortality rates: 14% of deaths are assumed to be service related

Largest 10 – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

All Others (Non 10 Largest) – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

NOTE 8 - PENSION PLAN: (Continued)

Actuarial Assumptions – Public Safety Employees

The total pension liability for Public Safety employees in the County of Frederick, Virginia's Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Inflation	2.5%
Salary increases, including inflation	3.5% – 4.75%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates: 60% of deaths are assumed to be service related

Largest 10 – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

All Others (Non 10 Largest) – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set back 2 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

NOTE 8 - PENSION PLAN: (Continued)

Actuarial Assumptions – Public Safety Employees (Continued)

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – LEOS:
- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – LEOS:
- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

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NOTE 8 - PENSION PLAN: (Continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S. Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	100.00%		5.83%
		Inflation	2.50%
		*Expected arithmetic nominal return	8.33%

* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

NOTE 8 - PENSION PLAN: (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the County Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Authority's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Authority's proportionate share of the net pension liability using the discount rate of 7.00%, as well as what the Authority's net pension liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	Rate		
	(6.00%)	(7.00%)	(8.00%)
Net Pension Liability (Asset)	$ 12,139,702	$ 5,451,457	$ (50,666)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2016, the Authority recognized pension expense of $737,369. Since there was a change in proportionate share between measurement dates, a portion of pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions. At June 30, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 109,241
Changes in proportion and differences between employer contributions and proportionate share of contributions	17,855	-
Net difference between projected and actual earnings on pension plan investments	-	1,002,160
Employer contributions subsequent to the measurement date	1,512,778	-
Total	$ 1,530,633	$ 1,111,401

NOTE 8 - PENSION PLAN: (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

$1,512,778 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30		
2017	$	(416,737)
2018		(416,737)
2019		(416,737)
2020		156,665

NOTE 9 - COMMITMENTS AND CONTINGENCIES:

At June 30, 2016 there were no matters of litigation involving the Authority that have an adverse material effect on the financial position of the Authority.

NOTE 10 - INMATE AND OTHER ACCOUNTS:

The Authority maintains accounting for inmate and canteen (commissary) activity funds. The balance of the inmate funds was $149,646.

The Canteen Fund activity is summarized below:

Cash balance, beginning of year	$	107,594
Receipts:		
Canteen sales	$	1,265,147
Interest		183
Total receipts	$	1,265,330
Disbursements:		
Inmate programs	$	1,223,278
Total disbursements	$	1,223,278
Cash balance, end of year	$	149,646

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, 2016 this fund totaled $2,259,116.

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 2016 are summarized below:

Revenues:		
Supervision fees	$	35,736
Miscellaneous		172
Revenue from the Commonwealth		252,286
Total revenues	$	288,194
Expenditures:		
Personnel	$	197,454
Fringes		70,165
Contractual		1,365
Other charges		22,451
Total expenditures	$	291,435
Excess of revenues over expenditures	$	(3,241)

NOTE 13 - ADOPTION OF ACCOUNTING PRINCIPLES:

Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application

The Authority implemented the provisions of the above Statement during the fiscal year ended June 30, 2016. The Statement generally requires investments to be measured at fair value. The Statement requires the Authority to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach or an income approach. The Statement establishes a hierarchy of inputs used to measure fair value. There was no material impact on the Authority's financial statement as a result of the implementation of Statement No. 72. All required disclosures are located in Note 3.

Governmental Accounting Standards Board Statement No. 79, *Certain External Investment Pools and Pool Participants*

The Authority implemented the provisions of the above Statement during the fiscal year ended June 30, 2016. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. There was no material impact on the Town's financial statement as a result of the implementation of Statement No. 79. All required disclosures are located in Note 3.

NOTE 13 - ADOPTION OF ACCOUNTING PRINCIPLES: (Continued)

Governmental Accounting Standards Board Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*

The Authority early implemented provisions of the above Statement during the fiscal year ended June 30, 2016. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans,* No. 68, *Accounting and Financial Reporting for Pensions,* and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. No restatement was required as a result of this implementation.

NOTE 14 – UPCOMING PRONOUNCEMENTS:

Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015.

- REQUIRED SUPPLEMENTARY INFORMATION -

NORTHWESTERN REGIONAL JAIL AUTHORITY

Schedule of Authority's Proportionate Share of the Net Pension Liability
Year Ended June 30, 2016

Measurement Date	Proportion of the Net Pension Liability (NPL)	Proportionate Share of the NPL	Covered Payroll	Proportionate Share of the NPL as a Percentage of Covered Payroll	Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability
June 30, 2015	34.7340%	$ 5,451,457	$ 8,872,450	61.4425%	88.1531%
June 30, 2014	34.5661%	4,899,782	8,438,994	58.0612%	88.6166%

This schedule is intended to show information for 10 years. However, information prior to the 2014 valuation is not available. Additional years will be included as they become available.

NORTHWESTERN REGIONAL JAIL AUTHORITY

Schedule of Employer Contributions
Year Ended June 30, 2016

Year	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2016	$ 1,512,778	$ 1,512,778	$ -	$ 9,110,219	16.6053%
2015	1,448,919	1,448,919	-	8,872,450	16.3305%

This schedule is intended to show information for 10 years. However, information prior to the 2014 valuation is not available. Additional years will be included as they become available.

In 2015, Covered Employee Payroll (as defined by GASB 68) included the total payroll for employees covered under the pension plan whether that payroll was subject to pension coverage or not. This definition was modified in GASB Statement No. 82, and now Covered Payroll is the payroll on which contributions to a pension plan are based. The ratios presented use the same measure.

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on liabilities as of the measurement date of June 30, 2015 is not material.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

Largest 10 – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Largest 10 – LEOS:
- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – LEOS:
- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

- OTHER SUPPLEMENTARY INFORMATION -

NORTHWESTERN REGIONAL JAIL AUTHORITY

Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budgetary Basis
Year Ended June 30, 2016

	Original Budget	Amended Budget	Actual	Variance Positive (Negative)
Operating revenues:				
Care of prisoners:				
Local and other per diems	$ 11,598,404	$ 11,598,404	$ 11,685,065	$ 86,661
Commonwealth of Virginia jail costs	1,097,197	1,097,197	1,420,408	323,211
Federal	-	-	1,258	1,258
Work release	355,828	355,828	358,525	2,697
Other	694,696	694,696	685,232	(9,464)
Total charges for services	$ 13,746,125	$ 13,746,125	$ 14,150,488	$ 404,363
Operating expenditures:				
Personnel	$ 9,574,678	$ 10,083,122	$ 9,937,719	$ 145,403
Fringes	4,808,038	4,426,127	4,273,815	152,312
Contractual	1,074,285	1,138,517	1,100,708	37,809
Other charges	3,268,381	3,088,690	2,871,096	217,594
Capital outlay	64,672	83,072	259,401	(176,329)
Total operating expenses	$ 18,790,054	$ 18,819,528	$ 18,442,739	$ 376,789
Net operating income (loss)	$ (5,043,929)	$ (5,073,403)	$ (4,292,251)	$ 781,152
Nonoperating revenues (expenses):				
Commonwealth of Virginia State Compensation Board	$ 5,090,140	$ 5,090,140	$ 5,506,358	$ 416,218
Other State grants	502,549	502,549	522,632	20,083
Proceeds from issuance of long-term debt	-	-	2,647,027	2,647,027
Bond rebate	-	-	77,024	77,024
Interest and investment earnings	-	-	23,487	23,487
Principal payment on long-term debt	(725,000)	(725,000)	(725,000)	-
Bond issuance costs	(548,797)	(572,438)	(633,670)	(61,232)
Net nonoperating revenues (expenses)	$ 4,318,892	$ 4,295,251	$ 7,417,858	$ 3,122,607
Excess (deficiency) of revenues over (under) expenditures	$ (725,037)	$ (778,152)	$ 3,125,607	$ 3,903,759
Change in fund balance	$ (725,037)	$ (778,152)	$ 3,125,607	$ 3,903,759
Fund balance, beginning of year	725,037	778,152	6,856,418	6,078,266
Fund balance, end of year	$ -	$ -	$ 9,982,025	$ 9,982,025

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

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, 2016

Fund balance, end of year	$	9,982,025
Capital assets, net of accumulated depreciation		25,079,017
Deferred charge on refunding		782,505
Pension contributions after measurement date		17,855
Long-term debt		(18,844,449)
Net pension liability		(5,451,457)
Compensated absences		(1,410,606)
Items related to measurement of net pension liability		(1,111,401)
Net position, per Statement of Net Position	$	9,043,489

Reconciliation of excess (deficiency) of revenues over (under) expenditures to change in net position per the Statement of Revenues, Expenses, and Changes in Net Position:

Change in fund balance	$	3,125,607
Purchase of capital assets		259,401
Depreciation expense		(1,134,553)
Issuance of long-term debt		(2,647,027)
Principal payment on long-term debt		725,000
Amortization of bond premium/refunding		(5,732)
Increase (decrease) in pension deferred outflows of resources		81,714
(Increase) decrease in compensated absences		4,573
(Increase) decrease in net pension liability		(551,675)
(Increase) decrease in pension deferred inflows of resources		1,207,330
Change in net position	$	1,064,638

NORTHWESTERN REGIONAL JAIL AUTHORITY

Schedule of Revenues
Year Ended June 30, 2016
(With Comparative Totals for 2015)

	2016	2015
Interest on investments and earnings	$ 23,487	$ 14,574
Commonwealth of Virginia jail costs	1,420,408	1,270,351
Commonwealth of Virginia State Compensation Board	5,506,358	5,193,855
Other State grants	522,632	502,012
Bond proceeds	2,647,027	-
Bond rebate	77,024	-
Prisoner Housing:		
Federal	1,258	4,610
Work release	358,525	342,189
Miscellaneous	8,097	7,076
Telephone commissions	458,576	441,567
Food and staff reimbursements	72,565	112,108
Electronic monitoring fees	110,258	84,771
Drug testing fees	-	565
Client supervision fees	35,736	39,840
Medical and health reimbursement	86,661	76,565
Local Contributions:		
Clarke	520,768	566,954
Frederick	5,103,298	4,830,537
Winchester	4,154,548	3,821,772
Fauquier	1,819,790	1,662,775
Total revenues	$ 22,927,016	$ 18,972,121
% of Local Contributions:		
Clarke	4.49%	5.21%
Frederick	44.00%	44.39%
Winchester	35.82%	35.12%
Fauquier	15.69%	15.28%

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

NORTHWESTERN REGIONAL JAIL AUTHORITY

Schedule of Expenditures
Year Ended June 30, 2016
(With Comparative Totals for 2015)

	2016	2015
Personnel	$ 9,937,719	$ 9,327,136
Fringes	4,273,815	4,160,725
Professional Health Services	821,916	447,671
Professional Services	41,896	83,808
Repair and Maintenance	144,669	76,883
Maintenance Service Contracts	60,175	64,592
Printing and Binding	3,908	3,442
Advertising	1,749	3,304
Contractual Services	26,395	24,678
Gasoline	583	786
Electrical Service	300,143	296,976
Heating Service	75,354	108,984
Water and Sewer	236,758	185,309
Postage and Telephone	52,815	50,193
Internet Access	22,359	20,859
Boiler Insurance	4,945	4,945
Fire Insurance	26,374	26,918
Motor Vehicle Insurance	5,643	5,600
Surety Bonds and Public Officials Liability	5,128	740
General Liability Insurance	8,088	7,313
Line of Duty Program	32,850	31,460
Office Supplies	113,602	57,889
Food Supplies and Food Services	980,408	979,921
Agricultural Supplies	6,808	3,344
Medical and Laboratory	483,657	677,264
Laundry, Housekeeping, and Janitorial	113,528	109,999
Linen Supplies	8,292	12,720
Repair and Maintenance Supplies	46,528	50,663
Vehicle and Powered Equipment Supplies	11,793	13,017
Police Supplies	53,710	37,730
Uniforms and Wearing Apparel	84,137	74,394
Books and Subscriptions	560	355
Other Operating Supplies	52,491	32,340
Travel	103,260	86,456
Dues and Memberships	971	1,208
Machinery and Equipment	135,701	73,076
Building Improvements	123,700	-
Lease/Rent of Equipment	13,065	13,065
Other SNAP Disbursements	27,246	38,996
Debt Service Payments		
Principal	725,000	700,000
Interest and Bond Issuance Cost	633,670	571,975
Total expenditures	$ 19,801,409	$ 18,466,734

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)
2016	$ 79.32	$ 79.32
2015	79.32	79.32
2014	79.32	79.32
2013	79.32	79.32
2012	70.00	79.32

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
2016	$ 520,768	$ 1,819,790	$ 5,103,298	$ 4,154,548	$ 11,598,404	$ 1,258
2015	566,954	1,662,775	4,830,537	3,821,772	10,882,038	2,300
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

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.

Locality	1980	1990	2000	2010	Projected 2020
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	100,221	128,631	150,585	183,745	214,302

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

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
2016	10,180	43,529	93,129	96,183	3,813	7	246,841
2015	10,420	41,451	97,631	82,132	1,037	43	232,714
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

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
2016	28.0	119.0	255.0	264.0	10.0	0.2	676.2
2015	29.0	114.0	268.0	225.0	3.0	0.2	639.2
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

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.

Fauquier County Adult Detention Center

Fiscal Year Ending June 30,	Rated Prisoner Capacity	Average Daily Inmate Population
2016	56	84
2015	59	104
2014	56	103
2013	56	95
2012	56	106

- COMPLIANCE SECTION -

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 Members of the Board
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, 2016, 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 January 4, 2017.

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, Farmer, Cox Associates

Charlottesville, Virginia
January 4, 2017