



**Middle Peninsula Juvenile  
Detention Commission**

**Basic Financial Statements  
(With Independent Auditors' Report Thereon)**

**June 30, 2017 and 2016**

## Middle Peninsula Juvenile Detention Commission

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## **Independent Auditors' Report**

Commission Members  
Middle Peninsula Juvenile Detention Commission  
Williamsburg, Virginia

We have audited the accompanying basic financial statements of the Middle Peninsula Juvenile Detention Commission as of and for the years ended June 30, 2017 and 2016 and the related notes to the financial statements, as listed in the table of contents. These financial statements are the responsibility of the Middle Peninsula Juvenile Detention Commission's management.

### ***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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *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 audits 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 Middle Peninsula Juvenile Detention Commission as of June 30, 2017 and 2016, and the changes in net position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 - 5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the 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 audits 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 Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2017, on our consideration of the Middle Peninsula Juvenile Detention Commission'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 Middle Peninsula Juvenile Detention Commission's internal control over financial reporting and compliance.

*Dixon Hughes Goodman LLP*

**Newport News, Virginia  
October 3, 2017**

**Middle Peninsula Juvenile Detention Commission**  
Management's Discussion and Analysis  
June 30, 2017 and 2016

This section of the Middle Peninsula Juvenile Detention Commission's (the Commission) annual financial report presents our discussion and analysis of the Commission's financial performance during the fiscal years ended June 30, 2017 and 2016.

**Financial Highlights**

The Commission had a decrease of (\$78,339) and (\$90,260) in net position for fiscal years 2017 and 2016, respectively. The decrease in both fiscal years was primarily attributable to higher personnel costs. In fiscal year 2017, the Commission provided a 2% raise, hired 5 new employees, had more overtime hours due to leave and workers compensation claims, and provided a one-time merit bonus. In fiscal year 2016, the Commission hired 12 additional employees.

**Overview of the Financial Statements**

The financial section of this report has two components - Management's Discussion and Analysis (this section) and the basic financial statements. The basic financial statements are comprised of the Statements of Net Position, Statements of Revenues, Expenses, and Changes in Net Position, Statements of Cash Flows, and Notes to the Financial Statements. The Statement of Net Position presents information on the Authority's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between these two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. However, it is also important to consider other nonfinancial factors, such as changes in economic conditions, population and service area growth, and new or changed legislation. The Statement of Revenues, Expenses and Changes in Net Position presents information showing how net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods. Notes to the financial statements are an integral part of the statements and should be read in conjunction with the financial statements and the Management's Discussion and Analysis.

The Commission is accounted for under the economic resources measurement focus and the accrual basis of accounting similar to an enterprise fund. Accordingly, revenues are recognized in the period earned and expenses are recognized when they are incurred. Enterprise funds are used to account for the ongoing activities that are financed and operated similar to those often found in the private sector.

**Financial Analysis**

**Summary of Statement of Net Position**

	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>
Current assets	\$ 2,056,501	\$ 1,537,366	\$ 1,068,120
Capital assets, net of accumulated depreciation	3,604,692	3,729,092	3,880,163
<b>Total assets</b>	<u>\$ 5,661,193</u>	<u>\$ 5,266,458</u>	<u>\$ 4,948,283</u>
Current liabilities	\$ 1,174,215	\$ 716,141	\$ 321,706
Noncurrent liabilities	88,000	73,000	59,000
<b>Total liabilities</b>	<u>1,262,215</u>	<u>789,141</u>	<u>380,706</u>
Net investment in capital assets	3,604,692	3,729,092	3,862,259
Unrestricted	794,286	748,225	705,318
<b>Total net position</b>	<u>4,398,978</u>	<u>4,477,317</u>	<u>4,567,577</u>
<b>Total liabilities and net position</b>	<u>\$ 5,661,193</u>	<u>\$ 5,266,458</u>	<u>\$ 4,948,283</u>

**Middle Peninsula Juvenile Detention Commission**  
Management's Discussion and Analysis  
June 30, 2017 and 2016

Total assets increased by 7.5% and 6.4% in fiscal years 2017 and 2016, respectively, primarily due to a higher cash balance due to monies advanced by the State for next year's services (unearned revenue).

Total liabilities increased by 60.0% and 107.3% in fiscal years 2017 and 2016, respectively. The increase in 2017 was primarily due to unearned revenue for money received from the State for the Community Placement Program for next year's services. Another contributing factor in 2017 was an increase in Accounts Payable, which was due to the Commission approving a refund to its member jurisdictions for a portion of its budget surplus. The increase in 2016 was primarily due to unearned revenue for payments received from the Department of Juvenile Justice for next year's services and an increase in the Other Post-Employment Benefits (OPEB) liability, which relates to health care premiums for retirees and the cost associated with allowing retirees to continue to participate in the plan after retirement.

At June 30, 2017 and 2016, assets exceeded liabilities by \$4,398,978 and \$4,477,317 respectively.

**Summary of Statement of Revenues, Expenses and Changes in Net Position for the Year Ended**

	<u>6/30/2017</u>	<u>6/30/2016</u>	<u>6/30/2015</u>
Fees from member jurisdictions	\$ 1,739,384	\$ 1,993,893	\$ 2,215,714
Other operating revenues	<u>2,692,327</u>	<u>2,018,556</u>	<u>1,485,294</u>
<b>Total operating revenues</b>	<u>4,431,711</u>	<u>4,012,449</u>	<u>3,701,008</u>
Salaries, wages and benefits	3,597,979	3,199,729	2,978,068
Other expenses	<u>915,684</u>	<u>903,032</u>	<u>693,741</u>
<b>Total operating expenses</b>	<u>4,513,663</u>	<u>4,102,761</u>	<u>3,671,809</u>
<b>Operating income (loss)</b>	<u>(81,952)</u>	<u>(90,312)</u>	<u>29,199</u>
Net nonoperating revenues (expenses)	<u>3,613</u>	<u>52</u>	<u>(2,543)</u>
<b>Change in net position</b>	<u>(78,339)</u>	<u>(90,260)</u>	<u>26,656</u>
<b>Net position, beginning of year</b>	<u>4,477,317</u>	<u>4,567,577</u>	<u>4,540,921</u>
<b>Net position, end of year</b>	<u>\$ 4,398,978</u>	<u>\$ 4,477,317</u>	<u>\$ 4,567,577</u>

One of the primary sources of revenue for the Commission consist of fees from the member jurisdictions for which they serve. For fiscal years 2017 and 2016, fees from member jurisdiction decreased by 12.7% and 10.0%, respectively. The usage was up from 10,007 days in 2016 to 10,752 in 2017, however due to higher than anticipated revenue from the Commonwealth of Virginia, the Commission issued refunds to the member jurisdictions in the amount of \$325,000, resulting in a decrease in fees from member jurisdictions. Usage decreased in 2016 (10,007 days) compared to 2015 (11,899 days), which was the primary driver behind the decrease in member jurisdiction fees in 2016.

Other operating revenues consist primarily of funds from the state and federal governments and increased by 33.3% from 2016 due to the new state assessment program being in place for a full year in 2017. The state assessment program is designed to assess state ward juveniles to see if they would benefit from the Community Placement Program. The Commission is paid daily by the State to conduct these assessments. Other operating revenues in 2016 increased by 35.9% from 2015, due to additional funds received from the state for a cost of living adjustment, a new state ward assessment program and higher usage in the community placement program.

Salaries, wages and benefits accounted for 79.7% and 78.0% of the Commission's total operating expenses in fiscal years 2017 and 2016, respectively. Personnel costs increased by 12.4% in 2017 and was attributable to several factors, including a 2% raise, hiring 5 additional employees, more overtime hours due to leave and workers compensation claims, and a one-time merit bonus. Personnel costs increased by 7.4% in 2016 and was attributable to providing a 4% raise as well as a market adjustment to employees, 4 counselor promotions to be in compliance with the Prison Rape Elimination Act, the hiring of a registered nurse due to regulatory requirements and overtime attributable to employees on leave and a high degree of turnover during the year.

**Middle Peninsula Juvenile Detention Commission**  
Management's Discussion and Analysis  
June 30, 2017 and 2016

Other expenses increased by \$12,652 from 2016 due to food purchases, receipt of a block grant and additional bedspace for juveniles. Other expenses increased in 2016 by \$209,291 from 2015 due to a new maintenance agreement on the security system; temporary services for cooks, custodial and administrative services; counseling services; roof repairs; and additional bedspace for juveniles needing placement at another facility for safety purposes.

For 2017, net nonoperating revenues (expenses) consisted of interest earned on investments and a loss on the disposal of capital assets. For 2016, net nonoperating revenues (expenses) consisted of the same accounts and interest expense on the note payable that was paid in full by the end of the fiscal year.

Total net position decreased by \$78,339 and \$90,260 for the fiscal years ended June 30, 2017 and 2016, respectively, mainly due to the reasons enumerated above.

<b>Capital Assets</b>			
	<b>6/30/2017</b>	<b>6/30/2016</b>	<b>6/30/2015</b>
Nondepreciable	\$ 148,149	\$ 118,354	\$ 118,354
Depreciable	6,983,405	6,970,327	6,913,880
Less accumulated depreciation	3,526,862	3,359,589	3,152,071
<b>Capital assets, net</b>	<b>\$ 3,604,692</b>	<b>\$ 3,729,092</b>	<b>\$ 3,880,163</b>

During fiscal year 2017, the Commission purchased several new pieces of machinery and equipment, and was in the process of upgrading their security system. In addition, several capital assets were written off that did not meet the capitalization threshold. The net effect of the additions and disposals as well as current year's depreciation expense collectively comprise the decrease in capital assets from 2016. During 2016, the Commission purchased a water heater, a van and security cameras, which collectively comprise the increase in depreciable capital assets from 2015. Additional information can be found in Note 3 to the basic financial statements.

<b>Debt Administration</b>
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The Commission executed a \$165,000 promissory note with Lancaster County during fiscal year 2011. The proceeds from the note were used to upgrade the security system. The note was paid off in fiscal year 2016. Additional information can be found in Note 4 to the basic financial statements.

**Request for Financial Information**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Commission's finances and to demonstrate the Commission's accountability for the money it receives. Questions concerning this report or requests for additional information should be directed to the James City County Department of Financial and Management Services, 101-F Mounts Bay Road, P.O. Box 8784, Williamsburg, Virginia 23187-8784.

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**Middle Peninsula Juvenile Detention Commission**  
**Statements of Net Position**

	<u>06/30/17</u>	<u>06/30/16</u>
<b>Assets</b>		
<b>Current assets</b>		
Cash and short-term investments (Note 2)	\$ 1,812,119	\$ 1,425,305
Accounts receivable	242,659	112,061
Due from James City County	1,723	-
<b>Total current assets</b>	<u>2,056,501</u>	<u>1,537,366</u>
<b>Capital assets (Note 3)</b>		
Nondepreciable	148,149	118,354
Depreciable	6,983,405	6,970,327
Less accumulated depreciation	<u>(3,526,862)</u>	<u>(3,359,589)</u>
<b>Capital assets, net</b>	<u>3,604,692</u>	<u>3,729,092</u>
<b>Total assets</b>	<u><u>\$ 5,661,193</u></u>	<u><u>\$ 5,266,458</u></u>
<b>Liabilities and Net Position</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 376,573	\$ 19,508
Accrued payroll and benefits	167,442	148,512
Unearned revenue	<u>630,200</u>	<u>548,121</u>
<b>Total current liabilities</b>	<u>1,174,215</u>	<u>716,141</u>
<b>Noncurrent liabilities</b>		
Other post-employment benefits (Note 7)	<u>88,000</u>	<u>73,000</u>
<b>Total liabilities</b>	<u>1,262,215</u>	<u>789,141</u>
<b>Net position</b>		
Net investment in capital assets	3,604,692	3,729,092
Unrestricted	<u>794,286</u>	<u>748,225</u>
<b>Total net position</b>	<u>4,398,978</u>	<u>4,477,317</u>
<b>Total liabilities and net position</b>	<u><u>\$ 5,661,193</u></u>	<u><u>\$ 5,266,458</u></u>

*See accompanying notes to financial statements.*



**Middle Peninsula Juvenile Detention Commission**  
**Statements of Revenues, Expenses and Changes in Net Position**

	Years Ended	
	<u>06/30/17</u>	<u>06/30/16</u>
<b>Operating revenues</b>		
Fees from member jurisdictions	\$ 1,739,384	\$ 1,993,893
Commonwealth of Virginia	2,598,396	1,926,404
Federal government	75,195	63,643
Fees from nonmember jurisdictions	768	8,955
Other	17,968	19,554
<b>Total operating revenues</b>	<u>4,431,711</u>	<u>4,012,449</u>
<b>Operating expenses</b>		
Salaries and wages	2,593,241	2,284,908
Employee benefits	1,004,738	914,821
Supplies	209,297	185,329
Depreciation	203,791	207,846
Professional services (Note 5)	180,125	235,017
Utilities	109,880	105,524
Purchase of bedspace	80,839	57,300
Minor furniture and equipment	55,641	8,234
Miscellaneous	42,019	44,388
Insurance	15,288	14,221
Training	12,666	8,546
Capital improvements	6,138	36,627
<b>Total operating expenses</b>	<u>4,513,663</u>	<u>4,102,761</u>
<b>Operating loss</b>	<u>(81,952)</u>	<u>(90,312)</u>
<b>Nonoperating revenues (expenses)</b>		
Loss on disposal of capital assets	-	(735)
Interest expense	-	(194)
Interest revenue	3,613	981
<b>Total nonoperating revenue, net</b>	<u>3,613</u>	<u>52</u>
<b>Change in net position</b>	(78,339)	(90,260)
<b>Net position, beginning of year</b>	<u>4,477,317</u>	<u>4,567,577</u>
<b>Net position, end of year</b>	<u><u>\$ 4,398,978</u></u>	<u><u>\$ 4,477,317</u></u>

*See accompanying notes to financial statements.*

**Middle Peninsula Juvenile Detention Commission**  
**Statements of Cash Flows**

	Years Ended	
	<u>06/30/17</u>	<u>06/30/16</u>
<b>Cash flows from operating activities:</b>		
Cash received from customers	\$ 4,381,832	\$ 4,405,863
Cash payments to suppliers for goods and services	(345,153)	(696,214)
Cash payments for personnel services	(3,564,049)	(3,150,348)
<b>Net cash provided by operating activities</b>	<u>472,630</u>	<u>559,301</u>
<b>Cash flows from capital and related financing activities:</b>		
Acquisition and construction of capital assets	(89,066)	(57,510)
Principal payments on note payable	-	(17,904)
Interest paid on note payable	-	(194)
<b>Net cash used for capital and related financing activities</b>	<u>(89,066)</u>	<u>(75,608)</u>
<b>Cash flows from investment activities:</b>		
Interest received	<u>3,250</u>	<u>981</u>
<b>Increase in cash and short-term investments</b>	386,814	484,674
<b>Cash and short-term investments, beginning of year</b>	<u>1,425,305</u>	<u>940,631</u>
<b>Cash and short-term investments, end of year</b>	<u><u>\$ 1,812,119</u></u>	<u><u>\$ 1,425,305</u></u>
<b>Reconciliation of operating loss to net cash provided by operating activities:</b>		
Operating loss	\$ (81,952)	\$ (90,312)
Adjustments to reconcile operating loss to cash provided by operating activities:		
Depreciation	203,791	207,846
Disposal of assets under capitalization threshold	9,675	-
Changes in operating assets and liabilities:		
Accounts receivable	(130,235)	15,083
Due from James City County	(1,723)	345
Accounts payable	357,065	(1,028)
Accrued payroll and benefits	18,930	35,381
Unearned revenue	82,079	377,986
Other post-employment benefits	15,000	14,000
<b>Total adjustments</b>	<u>554,582</u>	<u>649,613</u>
<b>Net cash provided by operating activities</b>	<u><u>\$ 472,630</u></u>	<u><u>\$ 559,301</u></u>

*See accompanying notes to financial statements.*

## **Middle Peninsula Juvenile Detention Commission**

### **Notes to Financial Statements**

June 30, 2017 and 2016

#### **1) Summary of Significant Accounting Policies**

The Middle Peninsula Juvenile Detention Commission (Commission) was created as a political subdivision of the Commonwealth of Virginia by resolutions adopted in 1993. Member jurisdictions are as follows: Caroline County, Charles City County, Essex County, Gloucester County, Hanover County, James City County, King and Queen County, King William County, Lancaster County, Mathews County, Middlesex County, New Kent County, Northumberland County, City of Poquoson, Richmond County, Westmoreland County, City of Williamsburg, and York County.

The general purpose of the Commission is to maintain and operate a detention center facility for youths. A 32-bed facility was completed and placed into operation in December 1997. An additional 16-bed facility was placed into operation in July 1998.

#### **Reporting Entity**

The Commission is a legally separate organization, and the member jurisdictions cannot impose their will on the Commission. There is no potential financial benefit or burden in the relationship. Accordingly, the Commission is not considered a component unit of any other entity. James City County (County) is the fiscal agent for the Commission.

#### **Basis of Accounting and Presentation**

The Commission utilizes the economic resources measurement focus and the accrual basis of accounting similar to an enterprise fund. Accordingly, revenues are recognized in the period earned and expenses are recognized when they are incurred. Enterprise funds are used to account for activities that are financed and operated similar to those often found in the private sector. Enterprise funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from the Commission's ongoing operations. Operating revenues include fees from member and nonmember jurisdictions, and intergovernmental revenues. Operating expenses include salaries and wages, employee benefits, and administrative expenses. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

#### **Cash Equivalents**

For purposes of the Statement of Cash Flows, cash equivalents are defined as short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash and (b) so near maturity that they present insignificant risk of changes in value because of changes in interest rates. The Commission considers all certificates of deposits, regardless of their maturity, and other investments with original maturities of three months or less to be cash equivalents.

#### **Capital Assets**

The Commission's policy is to capitalize capital assets with a historical cost or acquisition value at time of donation of five thousand dollars (\$5,000) or greater. The costs of major improvements are capitalized while the cost of maintenance and repairs, which do not improve or extend the life of an asset, are expensed. The Commission provides for depreciation of capital assets using the straight-line method at amounts estimated to amortize the cost or basis of the assets over their estimated useful lives. Useful lives for the Commission's depreciable assets are as follows:

Building	40 years
Improvements other than building	30 years
Machinery and equipment	3-12 years

When capital assets are sold or retired, the related asset and accumulated depreciation are removed from the accounts and any gain or loss is included in nonoperating revenues (expenses).

**Middle Peninsula Juvenile Detention Commission**  
Notes to Financial Statements  
June 30, 2017 and 2016

**1) Summary of Significant Accounting Policies, Continued**

**Fees Revenue**

Fees from member jurisdictions consist of charges billed for the per diem cost of bed space per youth. The per diem cost is calculated by dividing the total local cost, as defined, for the year by the estimated number of youth care days in that year. The total local cost is calculated by estimating the total cost included in the operating budget less estimated revenues from other sources. Accounts receivable reflected in the accompanying statement of net position is primarily comprised of such fees billed to member jurisdictions and management believes they are fully collectible. Therefore, no provision for doubtful accounts has been recorded.

The Commission has contractual agreements with the Virginia Department of Juvenile Justice to provide detention re-entry placement for juvenile offenders as well as to provide intake assessment services on state ward juveniles to determine if they would benefit from the Community Placement Program.

**Estimates**

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

**Adoption of New Accounting Statement**

Effective for the fiscal year ended June 30, 2016, the Commission adopted GASB Statement No. 72, *Fair Value Measurement and Application*. This statement requires the use of 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 consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security. Statement No. 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that was used for the fair value measurements.

**2) Cash and Short-Term Investments**

The Commission's cash and short-term investments consisted of:

	<u>6/30/2017</u>	<u>6/30/2016</u>
Bank deposits	\$ 1,208,470	\$ 1,024,749
Short-term investments	603,649	400,556
Total	<u>\$ 1,812,119</u>	<u>\$ 1,425,305</u>

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) or collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the *Code of Virginia*. The Commission's investments were as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Maturity</u>	<u>Amount</u>	<u>Maturity</u>
LGIP (amortized cost)	<u>\$ 603,649</u>	1 day	<u>\$ 400,556</u>	1 day

## **Middle Peninsula Juvenile Detention Commission**

### **Notes to Financial Statements**

June 30, 2017 and 2016

#### **2) Cash and Short-Term Investments, Continued**

The Commission utilizes the Investment Policy (Policy) of the James City County Treasurer. In accordance with the Code of Virginia and other applicable law, including regulations, the Commission's Policy permits investments in U.S. government obligations, municipal obligations, commercial paper, and certain corporate notes, bankers' acceptances, repurchase agreements, negotiable certificates of deposit, bank deposit notes, mutual funds, and the State Treasurer's Local Government Investment Pool (the Virginia LGIP, which measures its investments at amortized cost). The Treasury Board of the Commonwealth of Virginia has regulatory oversight of the LGIP.

The Policy establishes limitations on the holdings of non-U.S. government obligations. The maximum percentage of the portfolio (book value at the date of acquisition) permitted in each security is as follows:

U.S. Treasury obligations	100% maximum
Federal Agency obligations	100% maximum
Registered money market mutual funds	100% maximum
Commonwealth of Virginia LGIP	100% maximum
Bank deposits	100% maximum
Repurchase agreements	50% maximum
Bankers' acceptances	40% maximum
Commercial paper	35% maximum
Negotiable certificates of deposit/bank notes	20% maximum
Municipal obligations	20% maximum
Corporate notes	15% maximum

#### **Credit Risk**

As required by state statute, the Policy requires commercial paper have a short-term debt rating of no less than "A-1" (or its equivalent) from at least two of the following: Moody's Investors Service, Standard & Poor's, Fitch Investor's Service, and Duff and Phelps. Corporate notes must have a minimum of "Aa" long-term debt rating by Moody's Investors Service and a minimum of "AA" long-term debt rating by Standard & Poor's. Negotiable certificates of deposit and bank deposit notes maturing in less than one year must have a short-term debt rating of at least "A-1" by Standard & Poor's and "P-1" by Moody's Investors Service. Notes having a maturity of greater than one year must be rated "AA" by Standard & Poor's and "Aa" by Moody's Investors Service. Although state statute does not impose credit standards on repurchase agreement counterparties, bankers' acceptances or money market mutual funds, the Commission has established credit standards for these investments to minimize portfolio risk.

As of June 30, 2017 and 2016, the Commission's investment in LGIP was rated AAAM by Standard & Poor's.

#### **Concentration of Credit Risk**

The Policy establishes limitations on portfolio composition by issuer in order to control concentration of credit risk. No more than 5% of the Commission's portfolio will be invested in the securities of any single issuer with following exceptions:

U.S. Treasury	100% maximum
Commonwealth of Virginia LGIP	100% maximum
Each bank deposit institution	100% maximum
Each money market mutual fund	50% maximum
Each federal agency	35% maximum
Each repurchase agreement counterparty	25% maximum

**Middle Peninsula Juvenile Detention Commission**  
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**2) Cash and Short-Term Investments, Continued**

**Interest Rate Risk**

As a means of limiting exposure to fair value losses arising from rising interest rates, the Commission's Policy limits the investment of short-term operating funds to an average weighted maturity of no more than 180 days, with a portion of the portfolio continuously invested in readily available funds. The operating fund core portfolio will be invested in permitted investments with a stated maturity of no more than five years from the date of purchase. To control the volatility of the core portfolio, the Treasurer will determine a duration target, not to exceed three years.

**Custodial Credit Risk**

The Policy requires that all investment securities purchased by the Commission or held as collateral on deposits or investments shall be held by the Commission or by a third-party custodial agent who may not otherwise be counterparty to the investment transaction. As of June 30, 2017 and 2016, all of the Commission's investments are held in a bank's trust department in the Commission's name.

**3) Capital Assets**

The following is a summary of the capital assets activity for the years ended June 30, 2017 and 2016:

	<b>Balance 7/1/2016</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance 6/30/2017</b>
Capital assets not being depreciated:				
Land and land improvements	\$ 118,354	\$ -	\$ -	\$ 118,354
Construction in progress	-	29,795	-	29,795
Total capital assets not being depreciated	118,354	29,795	-	148,149
Capital assets being depreciated:				
Building	6,180,161	-	-	6,180,161
Machinery and equipment	661,482	59,271	(42,444)	678,309
Improvements other than building	128,684	-	(3,749)	124,935
Total capital assets being depreciated	6,970,327	59,271	(46,193)	\$ 6,983,405
Less accumulated depreciation for:				
Building	2,841,287	154,758	-	2,996,045
Machinery and equipment	467,182	44,674	(33,687)	478,169
Improvements other than building	51,120	4,359	(2,831)	52,648
Total accumulated depreciation	3,359,589	203,791	(36,518)	3,526,862
Total capital assets being depreciated, net	3,610,738	(144,520)	(9,675)	3,456,543
Net capital assets	\$ 3,729,092	\$ (114,725)	\$ (9,675)	\$ 3,604,692
	<b>Balance 7/1/2015</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance 6/30/2016</b>
Capital assets not being depreciated:				
Land and land improvements	\$ 118,354	\$ -	\$ -	\$ 118,354
Capital assets being depreciated:				
Building	6,169,996	10,165	-	6,180,161
Machinery and equipment	615,200	47,345	(1,063)	661,482
Improvements other than building	128,684	-	-	128,684
Total capital assets being depreciated	6,913,880	57,510	(1,063)	6,970,327
Less accumulated depreciation for:				
Building	2,686,995	154,292	-	2,841,287
Machinery and equipment	418,486	49,024	(328)	467,182
Improvements other than building	46,590	4,530	-	51,120
Total accumulated depreciation	3,152,071	207,846	(328)	3,359,589
Total capital assets being depreciated, net	3,761,809	(150,336)	(735)	3,610,738
Net capital assets	\$ 3,880,163	\$ (150,336)	\$ (735)	\$ 3,729,092

**Middle Peninsula Juvenile Detention Commission**  
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**4) Note Payable**

On December 15, 2010, the Commission executed a promissory note for \$165,000 at 3.70% interest with Lancaster County, which was used to upgrade the security system. Monthly payments were \$3,016 until December 2015. The following is a summary of the note payable activity for the year ended June 30, 2016.

<b>Balance 7/1/2015</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance 6/30/2016</b>
\$ 17,904	\$ -	\$ 17,904	\$ -

**5) Transactions with Related Parties**

Certain financial management and accounting services are provided to the Commission by the County. The charges for these services amounted to \$29,000 during the years ended June 30, 2017 and 2016, respectively and are included in professional services in the accompanying statements of revenues, expenses and changes in net position.

**6) Pension Plan**

Employees of the Commission participate in the Virginia Retirement System (VRS) through the County. Therefore, employees of the Commission are not a separate cost pool of VRS and no separate actuarial information is available with regard to the Commission's participation in VRS. Detailed disclosures regarding the County's participation in VRS and related actuarial information can be found in the County's annual financial statements.

**7) Other Post-Employment Benefits (OPEB)**

In addition to providing the pension benefits described in Note 6, the Commission provides other post-employment health-care benefits for qualifying retired employees who are not yet eligible for Medicare through a single-employer defined benefit plan. The benefits, benefit levels, employee contributions and employer contributions are governed by the Commission and can be amended by the Commission through its personnel manual.

**Funding Policy**

The Commission does not intend to establish a trust to pre-fund the obligation. The anticipated growth in the net OPEB obligation is based on contributions to the benefit plan on a pay-as-you-go cost basis. The data has been projected into the future based on the assumption that the current active population remains constant. Retirees contribute towards their health insurance premiums based on a blended rate, and therefore, the Commission has an implicit rate obligation. The estimated contributions are based on the implicit rate subsidy payments made during the year by the retirees.

**Plan Description**

Covered full-time active employees who retire directly from the Commission and are at least 50 years of age with 15 years of service are eligible to receive post-employment health care benefits. Each year, retirees participating in the Commission's sponsored plans will be given the opportunity to change plans or drop coverage during an open enrollment period. The pre-Medicare retirees have a choice of three plans: Optima, Healthkeepers and KeyCare. The majority of the participants are in Healthkeepers. Dental plans are available at the retiree's cost and therefore, there is no employer obligation. There is no coverage for post-Medicare retirees. There were 39 active employee participants at the time of the actuarial study.

**Middle Peninsula Juvenile Detention Commission**  
Notes to Financial Statements  
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**7) Other Post-Employment Benefits (OPEB), Continued**

**Net OPEB Obligation**

The net OPEB obligation was calculated as follows:

	<u>6/30/2017</u>	<u>6/30/2016</u>
Annual required contribution	\$ 17,000	\$ 16,000
Amortization of net OPEB obligation	(4,000)	(3,000)
Interest on net OPEB obligation	3,000	2,000
Annual OPEB cost	16,000	15,000
Contributions made	(1,000)	(1,000)
Increase in net OPEB obligation	15,000	14,000
Net OPEB obligation, beginning of year	73,000	59,000
Net OPEB obligation, end of year	<u>\$ 88,000</u>	<u>\$ 73,000</u>

**Actuarial Methods and Assumptions**

For the actuarial valuations at June 30, 2017 and 2016, the projected unit credit actuarial cost method was used. Under this method, benefits provided by the substantive plan (the plan as understood by the Commission and the plan members) at the time of the actuarial study are projected and their present value is determined. The present value is divided into equal parts which are earned over the period from date of hire to the full eligibility date.

The actuarial assumptions included calculations based on a discount rate of 4% for the unfunded liability and amortization of the initial unfunded actuarial liability over 22 years based on a level percent of payroll method. At June 30, 2017 and 2016, the actuarial unfunded accrued liability was \$110,000 and \$96,000, respectively. Future increases for medical benefits are assumed to range from an initial rate of 7.5% and decreasing gradually with the ultimate rate being 5.04%. It should be noted actuarial calculations reflect a long-term perspective and, therefore, actuarially determined amounts are subject to revision as results are compared to past expectations and new estimates are made about the future.

All active employees who are expected to meet the plan's eligibility requirements on or before the ultimate assumed retirement age are included in the calculations. Retirees, spouses and spouse survivors who are entitled to a benefit under the provisions of the plan are also included.

\* \* \* \* \*



**Report of Independent Auditors' 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***

Commission Members  
Middle Peninsula Juvenile Detention Commission  
Williamsburg, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Middle Peninsula Juvenile Detention Commission as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Middle Peninsula Juvenile Detention Commission's basic financial statements, and have issued our report thereon dated October 3, 2017.

***Internal Control over Financial Reporting***

In planning and performing our audit of the financial statements, we considered Middle Peninsula Juvenile Detention Commission'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Middle Peninsula Juvenile Detention Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of Middle Peninsula Juvenile Detention Commission'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 Middle Peninsula Juvenile Detention Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

***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 purposes.

*Dixon Hughes Goodman LLP*

**Newport News, Virginia  
October 3, 2017**

## **Independent Auditors' Report on Compliance with Commonwealth of Virginia Laws, Regulations, Contracts and Grants**

Commission Members  
Middle Peninsula Juvenile Detention Commission  
Williamsburg, Virginia

We have audited the financial statements of the Middle Peninsula Juvenile Detention Commission, as of and for the year ended June 30, 2017, and have issued our report thereon date October 3, 2017.

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 *Specifications for Audits of Boards, Commissions and Authorities*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audit to obtain reasonable assurance about whether the general-purpose financial statements are free of material misstatement.

Compliance with Commonwealth of Virginia laws, regulations, contracts and grants applicable to the Middle Peninsula Juvenile Detention Commission, is the responsibility of the Middle Peninsula Juvenile Detention Commission's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Middle Peninsula Juvenile Detention Commission's compliance with certain provisions of the Commonwealth of Virginia's laws, regulations, contracts, and grants. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

Following is a summary of the Commonwealth of Virginia's laws, regulations, contracts and grants for which we performed tests of compliance:

### Code of Virginia

- Cash and Investments
- Conflicts of Interest
- Retirement Systems
- Procurement
- Unclaimed Property

The results of our tests disclosed no instances of noncompliance with the provisions referred to in the preceding paragraph. With respect to items not tested, nothing came to our attention that caused us to believe that the Middle Peninsula Juvenile Detention Commission had not complied, in all material respects, with those provisions.

This report is intended solely for the information and use of the Commission Members and management of Middle Peninsula Juvenile Detention Commission, and the Auditor of Public Accounts and all applicable state agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

*Dixon Hughes Goodman LLP*

**Newport News, Virginia  
October 3, 2017**