

RSW REGIONAL JAIL AUTHORITY

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2014

RSW
REGIONAL JAIL AUTHORITY
FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

**RSW
REGIONAL JAIL AUTHORITY**

AUTHORITY MEMBERS

Chairman

Douglas P. Stanley, County Administrator
County of Warren, Virginia

Vice Chairman

Dr. Conrad A. Helsley, Board of Supervisors
County of Shenandoah, Virginia

Secretary/Treasurer

John W. McCarthy, County Administrator
County of Rappahannock, Virginia

Roger A. Welch
Board of Supervisors
County of Rappahannock

Connie C. Smith
Sheriff
County of Rappahannock

Mary T. Price
County Administrator
County of Shenandoah

Timothy C. Carter
Sheriff
County of Shenandoah

Daniel J. Murray, Jr.
Board of Supervisors
County of Warren

Daniel McEathron
Sheriff
County of Warren

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1-2
Basic Financial Statements:	
Exhibit 1 Statement of Net Position.....	3
Exhibit 2 Statement of Revenues, Expenses and Changes in Net Position.....	4
Exhibit 3 Statement of Cash Flows	5
Notes to Financial Statements	6-12
Compliance:	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	13-14

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF THE RSW REGIONAL JAIL AUTHORITY FRONT ROYAL, VIRGINIA

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express our opinions 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 respective financial position of the business-type activities of RSW Regional Jail Authority, as of June 30, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted management's discussion and analysis, budgetary comparison information, and historical pension information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2015, on our consideration of the RSW 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 the RSW Regional Jail Authority's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Staunton, Virginia
January 30, 2015

BASIC FINANCIAL STATEMENTS

RSW REGIONAL JAIL AUTHORITY

Statement of Net Position
June 30, 2014

ASSETS

Current assets:

Restricted assets:

Cash and cash equivalents	\$ 14,873,988
Total current assets	<u>\$ 14,873,988</u>

Noncurrent assets:

Capital assets (net of accumulated depreciation):

Land	\$ 2,065,314
Construction in progress	<u>69,564,493</u>
Total noncurrent assets	<u>\$ 71,629,807</u>
Total assets	<u>\$ 86,503,795</u>

LIABILITIES

Current liabilities:

Accounts payable	\$ 5,061,530
Retainage payable	50,000
Accrued interest payable	<u>1,014,933</u>
Total current liabilities	<u>\$ 6,126,463</u>

Noncurrent liabilities:

Grant anticipation notes (Note 6)	\$ 32,840,850
Revenue bond (Note 6)	45,240,000
Unamortized bond premium	<u>4,992,732</u>
Total noncurrent liabilities	<u>\$ 83,073,582</u>
Total liabilities	<u>\$ 89,200,045</u>

NET POSITION

Restricted for:

Debt service	\$ 1,955,665
Capital projects	7,806,793
Unrestricted (deficit)	<u>(12,458,708)</u>
Total net position	<u>\$ (2,696,250)</u>

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

RSW REGIONAL JAIL AUTHORITY

Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2014

Operating expenses:

Salaries and wages	\$ 1,300,441
Fringe benefits	537,313
Contractual services	31,414
Office supplies	14,899
Telecommunications	9,448
Materials and supplies	117,421
Officer supplies	79,911
Uniforms	131,988
Travel	2,485
Miscellaneous	<u>15,319</u>
 Total operating expenses	 \$ <u>2,240,639</u>
 Operating loss	 \$ <u>(2,240,639)</u>

Nonoperating revenues (expenses):

Interest income	\$ 109,363
Unrealized gain on investment	<u>5,602</u>
 Nonoperating revenues (expenses), net	 \$ <u>114,965</u>
 Change in net position	 \$ (2,125,674)
 Net position, beginning of year	 <u>(570,576)</u>
 Net position, end of year	 \$ <u><u>(2,696,250)</u></u>

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

RSW REGIONAL JAIL AUTHORITY

Statement of Cash Flows
For the Year Ended June 30, 2014

Cash flows from operating activities:	
Payments to suppliers	\$ (402,885)
Payments to employees	<u>(394,935)</u>
Net cash provided by (used for) operating activities	<u>\$ (797,820)</u>
Cash flows from capital and related financing activities:	
(Decrease) increase in accounts payable	\$ (4,620,285)
(Decrease) increase in retainage payable	(1,999,407)
(Decrease) increase in accrued interest payable	507,481
Purchase of property, plant, and equipment	(20,185,579)
Unrealized gain on investment	<u>5,602</u>
Net cash provided by (used for) capital and related financing activities	<u>\$ (26,292,188)</u>
Cash flows from investing activities:	
Interest income	<u>\$ 109,363</u>
Net cash provided by (used for) investing activities	<u>\$ 109,363</u>
Increase (decrease) in cash and cash equivalents	<u>\$ (26,980,645)</u>
Cash and cash equivalents at beginning of year, including restricted funds of \$41,854,602	<u>\$ 41,854,633</u>
Cash and cash equivalents at end of year, including restricted cash of \$14,873,988	<u><u>\$ 14,873,988</u></u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	\$ (2,240,639)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Changes in operating assets and liabilities:	
(Decrease) increase in accounts payable	<u>1,442,819</u>
Net cash provided by (used for) operating activities	<u><u>\$ (797,820)</u></u>

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

RSW REGIONAL JAIL AUTHORITY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1—BASIS OF PRESENTATION:

A. Organization and Purpose:

The Counties of Warren, Rappahannock, and Shenandoah entered into an agreement dated July 22, 2010, to operate a regional jail facility created pursuant to the provisions of Section 52.1-91, *Code of Virginia* (1950), as amended, to construct, own and provide an adequate regional jail and to provide jail services to local governments participating in the Authority, which was created by Resolution of the participating local governments. Each of the three localities appoints two members to the Authority Board. In addition to locality appointed members, the Sheriff of each participating locality is required to be appointed.

B. Financial Reporting Entity:

The RSW Regional Jail Authority is not presented as a discretely presented component unit of any of the participating jurisdictions in accordance with Governmental Accounting Standards Board Statement Nos. 14 and 39. The Authority is not fiscally dependent on any one particular Member Jurisdiction, and none of the Member Jurisdictions appoints a voting majority. The Authority is a legally separate entity from the jurisdictions.

The RSW Regional Jail Authority was nearing completion of the development and construction phase at June 30, 2014. Construction began in June 2012 with completion expected early in fiscal year 2015. The Jail opened in July 2014 at which time the participating localities began sending inmates to the facility. The regional jail will bill each locality a per diem rate based upon the number of inmates sent to the facility. The per diem rates will include components for both operating and debt service expenses.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Basic Financial Statements

Since the Authority is only engaged in business-type activities, it is required to present only the financial statements required for enterprise funds. For the Authority, the basic financial statements and required supplementary information consist of:

- Management's discussion and analysis (Management has elected not to prepare the MD&A in the current year)
- Enterprise fund financial statements
 - Statement of Net Position
 - Statement of Revenues, Expenses, and Changes in Net Position
 - Statement of Cash Flows
 - Notes to Financial Statements
- Schedule of Pension Funding Progress (Not applicable in these fiscal years)
- Schedule of OPEB Funding Progress (Not applicable in these fiscal years)

RSW REGIONAL JAIL AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 (CONTINUED)**

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

B. Basis of Accounting

The accounting policies of the Authority conform to generally accepted accounting principles. Accordingly, the Authority uses the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when liabilities are incurred.

Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to member jurisdictions and bed rentals. Operating expenses include the cost of services and administrative expenses.

All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

C. Capital Assets

Capital assets of the Authority that are purchased are stated at historical cost. Donated capital assets are stated at their fair value on the date donated. Capital assets are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Vehicles	3-5
Furniture, fixtures, and equipment	5-15

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets is included as part of the capitalized value of the assets constructed. Interest in the amount of \$2,706,447 was capitalized during the year. Construction-in-progress will be depreciated upon completion.

D. 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.

E. Investments

Investments for the Authority are reported at fair value. The Authority has SNAP External Investment Pool accounts, a U.S. Treasury Bond and Money Market Funds at June 30, 2014.

F. Cash and Cash Equivalents

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

RSW REGIONAL JAIL AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 (CONTINUED)**

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

G. Inventory

The Authority expenses all materials and supplies when purchased. Any items on hand at year-end are not material in amount and therefore are not shown in the financial statements.

H. 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.

I. Net Position Flow Assumption

Sometimes the Authority will fund outlays for a particular purpose from both restricted (e.g. restricted bond and grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the 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.

J. 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 does not have any deferred outflows of resources as of June 30, 2014.

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 does not have any deferred inflows of resources as of June 30, 2014.

NOTE 3—FISCAL AGENT:

The Budget Manager of the County of Shenandoah, Virginia is the fiscal agent for the RSW Regional Jail Authority.

RSW REGIONAL JAIL AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 (CONTINUED)**

NOTE 4—DEPOSITS AND INVESTMENTS:

Deposits

Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the “Act”) Section 2.2-4400 et. seq. of the Code of Virginia. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Investments

Statutes authorize the Authority to invest in obligations of the United State or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, prime quality commercial paper and certain corporate notes, banker’s acceptances, repurchase agreements, and State Treasurer’s Local Government Investment Pool (LGIP).

Credit Risk of Debt Securities

The Authority’s debt investments as of June 30, 2014 were rated by Standard & Poor’s and the rating are presented below using the Standard & Poor’s rating scale.

Rated Debt Investments' Values	
Rated Debt Investments	Fair Quality Ratings
	AAAm
SNAP External Investment Pool	\$ 4,540,141
US Treasury Bonds	3,226,113
Total	\$ 7,766,254

External Investment Pool

The State Non-arbitrage Pool (SNAP) is an open-end management investment company registered with the Securities and Exchange Commission (SEC).

RSW REGIONAL JAIL AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 (CONTINUED)**

NOTE 5—CAPITAL ASSETS:

A summary of changes in capital assets for the fiscal year is as follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>June 30, 2014</u>
Capital assets not being depreciated:				
Land	\$ 2,065,314	\$ -	\$ -	\$ 2,065,314
Construction in progress	<u>49,378,914</u>	<u>20,185,579</u>	<u>-</u>	<u>69,564,493</u>
Total capital assets not being depreciated	<u>\$ 51,444,228</u>	<u>\$ 20,185,579</u>	<u>\$ -</u>	<u>\$ 71,629,807</u>

NOTE 6—LONG-TERM OBLIGATIONS:

The following is a summary of the Authority's long-term obligation transactions for the year ended June 30, 2014:

	<u>Balance</u> <u>July 1,</u> <u>2013</u>	<u>Issuances</u>	<u>Retirements</u>	<u>Balance</u> <u>June 30,</u> <u>2014</u>	<u>Amount</u> <u>Due</u> <u>Within</u> <u>One Year</u>
Grant anticipation note	\$ 32,840,850	\$ -	\$ -	\$ 32,840,850	\$ -
Revenue bond	45,240,000	-	-	45,240,000	-
Premium on bond issue	<u>4,992,732</u>	<u>-</u>	<u>-</u>	<u>4,992,732</u>	<u>-</u>
Total Long-term Obligations	<u>\$ 83,073,582</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 83,073,582</u>	<u>\$ -</u>

RSW REGIONAL JAIL AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 (CONTINUED)**

NOTE 6—LONG-TERM OBLIGATIONS: (CONTINUED)

Annual requirements to amortize long-term obligations and related interest are as follows:

Year Ending June 30,	Revenue Bond		Grant Anticipation Note	
	Principal	Interest	Principal	Interest
2015	\$ -	\$ 2,029,925	\$ -	\$ 676,522
2016	-	2,029,925	32,840,850	338,261
2017	975,000	2,019,566	-	-
2018	995,000	1,998,634	-	-
2019	1,020,000	1,977,225	-	-
2020 - 2024	5,515,000	9,458,022	-	-
2025 - 2029	6,690,000	8,288,055	-	-
2030 - 2034	8,385,000	6,588,435	-	-
2035 - 2039	10,795,000	4,179,391	-	-
2040 - 2043	10,865,000	1,118,179	-	-
Total	\$ <u>45,240,000</u>	\$ <u>39,687,357</u>	\$ <u>32,840,850</u>	\$ <u>1,014,783</u>

Details of Long-term Obligations:

	Total Amount	Amount Due Within One Year
Revenue bond:		
\$45,240,000 issued April 30, 2012 at a premium of \$4,992,732, due in varying annual principal installments, interest payable semi-annually at interest rates varying from 2.125% to 5.125% through April 1, 2043.	\$ <u>45,240,000</u>	\$ -
Grant anticipation note:		
\$32,840,850 issued June 1, 2012, principal due November 1, 2015, interest payable at 2.06% per annum.	\$ <u>32,840,850</u>	\$ -
Unamortized bond premium	\$ <u>4,992,732</u>	\$ -
Total long-term obligations	\$ <u><u>83,073,582</u></u>	\$ <u><u>-</u></u>

RSW REGIONAL JAIL AUTHORITY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2014 (CONTINUED)**

NOTE 7—CONSTRUCTION CONTRACTS OUTSTANDING:

The Authority had the following material contracts outstanding at June 30, 2014:

<u>Project</u>	<u>Original Contract Sum</u>	<u>Amount Spent as of June 30, 2014</u>	<u>Amount of Contract Remaining at Year End</u>
Jail Construction	\$ <u>82,452,834</u>	\$ <u>71,629,807</u>	\$ <u>10,823,027</u>

NOTE 8—LITIGATION:

At June 30, 2014, there were no matters of litigation involving the RSW Regional Jail Authority that would materially affect the Authority's financial position should any court decisions on pending matters not be favorable to the Authority.

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COMPLIANCE

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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 BOARD OF THE RSW REGIONAL JAIL AUTHORITY FRONT ROYAL, 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 the RSW Regional Jail Authority as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the RSW Regional Jail Authority's basic financial statements and have issued our report thereon dated January 30, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the RSW 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 the RSW Regional Jail Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the RSW 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 the RSW 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, Farnum, Cox Associates

Staunton, Virginia
January 30, 2015