MIDDLE PENINSULA JUVENILE DETENTION COMMISSION

Basic Financial Statements

June 30, 2013 and 2012

(With Independent Auditors' Report Thereon)

DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

Table of Contents

Independent Auditors' Report

Commission Members
Middle Peninsula Juvenile Detention Commission

We have audited the accompanying basic financial statements of the ***Middle Peninsula Juvenile Detention Commission*** as of and for the years ended June 30, 2013 and 2012, as listed in the table of contents. These financial statements are the responsibility of the ***Middle Peninsula Juvenile Detention Commission's*** management. Our responsibility is to express an opinion on these financial statements based on our audits.

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.

Auditor's Responsibility

Our responsibility is to express opinions 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 auditor's 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 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 opinions.

Fountain Plaza One, 701 Town Center Drive, Suite 700, Newport News, VA 23606 | T 757.873.1033 | F 757.873.1106 | dhgllp.com

Opinions

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, 2013 and 2012, 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2013, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering ***Middle Peninsula Juvenile Detention Commission's*** internal control over financial reporting and compliance.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-6 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 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.

Dixon Hughes Goodman LLP

Newport News, Virginia
September 24, 2013

MIDDLE PENINSULA JUVENILE
DETENTION COMMISSION

Management's Discussion and Analysis

June 30, 2013 and 2012

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, 2013 and 2012.

Financial Highlights for Fiscal Year 2013 and 2012

- The Commission had an increase in net position of $85,134 for fiscal year 2013, and a decrease of $139,240 for fiscal year 2012. The increase in 2013 is primarily due to a $311,290 increase in revenue from nonmember jurisdictions. The decrease in fiscal year 2012 is primarily due to the filling of two positions that were vacant during fiscal year 2011, as well as a reduction in the number of juveniles housed.

- Net capital assets decreased by $160,658 and $83,521 for fiscal year 2013 and 2012, respectively, primarily due to an increase in accumulated depreciation.

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 a balance sheet; statement of revenues, expenses and changes in net position; statement of cash flows; and notes to financial statements. The Commission implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, during fiscal year 2003, which established new requirements and a new reporting model for the annual financial reports of state and local governments.

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

The difference between assets and liabilities, net position, is one way to measure financial health or financial position. Over time, increases and decreases in net position are one indicator of whether an entity's financial health is improving or deteriorating. However, one would also need to consider other nonfinancial factors, such as changes in economic conditions, population and service area growth, and new or changed legislation.

MIDDLE PENINSULA JUVENILE
DETENTION COMMISSION

Management's Discussion and Analysis

June 30, 2013 and 2012

Balance Sheets

The following table reflects a summary of the balance sheets:

Table 1
Summary of Balance Sheets
As of June 30, 2013, 2012 and 2011

		2013	2012	2011
Current assets	$	689,539	470,287	572,647
Capital assets, net		4,283,038	4,443,696	4,527,217
Total assets	$	4,972,577	4,913,983	5,099,864
Current liabilities	$	194,963	196,934	220,223
Noncurrent liabilities		87,737	112,306	135,658
Total liabilities		282,700	309,240	355,881
Net position:				
Net investment in capital assets		4,196,732	4,325,038	4,377,380
Unrestricted		493,145	279,705	366,603
Total net position		4,689,877	4,604,743	4,743,983
Total liabilities and net position	$	4,972,577	4,913,983	5,099,864

Net position (assets in excess of liabilities) may serve over time as a useful indicator of a government's financial position. In the case of the Commission, assets exceeded liabilities by $4,689,877 at June 30, 2013. Current assets consist of cash and short-term investments and accounts receivable. Current liabilities consist of accounts payable, accrued benefits, current portion of a note payable, and deferred revenue.

Total assets increased by 1.2% from 2012 to 2013, which was primarily due to an increase in the number of housed juveniles from the City of Richmond, which is a nonmember jurisdiction. Capital assets decreased by 3.6% from 2012 to 2013, which was primarily due to an increase in accumulated depreciation.

Total liabilities decreased by 8.6% from 2012 to 2013, which was primarily due to principal payments on the note payable. Noncurrent liabilities in 2013 consisted of Other Post-Employment Benefits (OPEB) and a note payable, net of current portion. The OPEB liability is a result of GASB Statement Number 45, which establishes standards for reporting the liability for non-pension postemployment benefits, in the Commission's case, such liability relates to health care premiums for retirees and the liability associated with allowing retirees to continue to participate in the plan after retirement.

Total assets decreased by 3.6% from 2011 to 2012, which was primarily due to a reduction in the number of housed juveniles during the first three quarters of fiscal year 2012 compared to fiscal year 2011. Capital assets decreased by 1.8% from 2011 to 2012, which was primarily due to an increase in accumulated depreciation.

Total liabilities decreased by 13.1% from 2011 to 2012, which was primarily due to principal payments on the note payable. Noncurrent liabilities in 2012 consisted of Other Post-Employment Benefits (OPEB) and a note payable, net of current portion.

Statements of Revenues, Expenses and Changes in Net Position

The following table reflects the condensed statements of revenues, expenses and changes in net position:

Table 2
Summary of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2013, 2012 and 2011

		2013	2012	2011
Fees from member jurisdictions	$	2,069,832	2,017,076	1,730,645
Other operating revenues		1,729,408	1,321,783	1,242,536
Total operating revenues		3,799,240	3,338,859	2,973,181
Salaries and wages		2,160,777	2,009,871	1,951,429
Other expenses		1,341,532	1,242,901	1,211,674
Total operating expenses before depreciation		3,502,309	3,252,772	3,163,103
Operating income (loss) before depreciation		296,931	86,087	(189,922)
Depreciation		211,510	198,285	192,771
Operating income (loss)		85,421	(112,198)	(382,693)
Net nonoperating expenses		(287)	(27,042)	(8,189)
Changes in net position		85,134	(139,240)	(390,882)
Net position, beginning of year		4,604,743	4,743,983	5,134,865
Net position, end of year	$	4,689,877	4,604,743	4,743,983

Total net position increased by $85,134 for the fiscal year ended June 30, 2013. The primary source of revenue the Commission receives is fees from member jurisdictions for which they serve, which equaled $2,069,832 in fiscal year 2013. Fees collected from member jurisdictions increased by 2.6% 2012 to 2013, which was primarily due to a $10 increase in daily per diems. There was also an increase in nonmember revenues, which was primarily due to higher counts of housed juveniles from nonmember jurisdictions and a new entry program offered by the Virginia Department of Criminal Justice Services. Included in other operating revenues are monies from the Commonwealth of Virginia that totaled $1,247,269 during 2013 (net of amount returned to the state of $59,986 as part of state budget cuts), as well as federal grant awards in the amount of $61,800 during 2013.

Salaries and wages account for 61.7% of the Commission's total operating expenses (excluding depreciation), during 2013 while employee benefits and utilities make up the majority of other expenses.

Net nonoperating revenues (expenses) are comprised of the interest earned on the Commission's short-term investments, interest expense for the note payable, and loss on disposal of capital assets. From 2012 to 2013, net nonoperating expenses decreased by $26,755. This decrease resulted primarily from a gain on disposal of capital assets.

Total net assets increased by $139,240 for the fiscal year ended June 30, 2012. The primary source of revenue the Commission receives is fees from member jurisdictions for which they serve, which equaled $2,017,076 in fiscal year 2012. Fees collected from member jurisdictions increased by 16.6% 2011 to 2012, which was primarily due to a $25 increase in daily per diems. There was also an increase in nonmember revenues, which was primarily due to higher counts of housed juveniles from nonmember jurisdictions and a new entry program offered by DCJS. Included in other operating revenues are monies from the Commonwealth of Virginia that totaled $1,153,399 during 2012 (net of amount returned to the state of $66,580 as part of state budget cuts), as well as federal grant awards in the amount of $58,537 during 2012.

Salaries and wages account for 61.8% of the Commission's total operating expenses (excluding depreciation), during 2012 while employee benefits and utilities make up the majority of other expenses.

Net nonoperating revenues (expenses) are comprised of the interest earned on the Commission's short-term investments, interest expense for the note payable, and loss on disposal of capital assets. From 2011 to 2012, the net nonoperating revenues decreased by $18,853. This increase resulted primarily from a loss on the disposal of the Commission's old security system.

Capital Assets

At the end of fiscal years 2013 and 2012, the Commission's net capital assets totaled $4,283,038 and $4,443,696, respectively. Included in those assets are land, building, machinery and equipment, and improvements other than building. The decrease during 2013 is primarily due to an increase in accumulated depreciation.

Debt Administration

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 current security system. The Commission is required to pay $3,016 per month until December 2015.

Contacting the Commission's Financial Management

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.

MIDDLE PENINSULA JUVENILE DETENTION COMMISSION

Balance Sheets

June 30, 2013 and 2012

	2013	2012
Assets		
Current assets		
Cash and short-term investments (note 2)	$ 534,145	$ 380,984
Accounts receivable	155,394	89,303
Total current assets	689,539	470,287
Capital assets (note 3)		
Land	118,354	118,354
Building	6,169,996	6,169,996
Machinery and equipment	642,788	642,094
Improvements other than building	117,107	117,107
Total capital assets	7,048,245	7,047,551
Less accumulated depreciation	2,765,207	2,603,855
Net capital assets	4,283,038	4,443,696
Total assets	$ 4,972,577	$ 4,913,983
Liabilities and Net Position		
Current liabilities		
Accounts payable	$ 30,415	$ 28,543
Due to James City County	1,730	1,765
Accrued benefits	97,273	96,730
Current portion of note payable	33,569	32,352
Deferred revenue	31,976	37,544
Total current liabilities	194,963	196,934
Noncurrent liabilities		
Note payable, net of current portion (note 4)	52,737	86,306
OPEB liability (note 7)	35,000	26,000
Total noncurrent liabilities	87,737	112,306
Total liabilities	282,700	309,240
Net position		
Invested in capital assets, net of related debt	4,196,732	4,325,038
Unrestricted	493,145	279,705
Total net position	4,689,877	4,604,743
Total liabilities and net position	$ 4,972,577	$ 4,913,983

See accompanying notes to financial statements.

MIDDLE PENINSULA JUVENILE DETENTION COMMISSION

Statements of Revenues, Expenses and Changes in Net Position

Years ended June 30, 2013 and 2012

	2013	2012
Operating revenues		
Fees from member jurisdictions	$ 2,069,832	$ 2,017,076
Commonwealth of Virginia	1,247,269	1,153,399
Fees from nonmember jurisdictions	390,638	79,348
Federal grants	61,800	58,537
Other	29,701	30,499
Total operating revenues	3,799,240	3,338,859
Operating expenses		
Salaries and wages	2,160,777	2,009,871
Employee benefits	818,213	773,148
Professional services	127,256	111,550
Utilities	115,805	110,934
Supplies	107,041	91,627
Grants	84,630	92,985
Miscellaneous	40,435	40,163
Minor equipment purchases	23,138	5,426
Insurance	14,152	13,508
Purchase of bedspace	6,600	-
Training	4,262	3,560
Total operating expenses before depreciation	3,502,309	3,252,772
Operating income before depreciation	296,931	86,087
Depreciation	211,510	198,285
Operating gain (loss)	85,421	(112,198)
Nonoperating revenues (expenses)		
Gain (loss) on disposal of capital assets	3,139	(22,414)
Interest expense	(3,845)	(5,019)
Interest revenue	419	391
Net nonoperating expenses	(287)	(27,042)
Change in net assets	85,134	(139,240)
Net position at beginning of year	4,604,743	4,743,983
Net position at end of year	$ 4,689,877	$ 4,604,743

See accompanying notes to financial statements.

MIDDLE PENINSULA JUVENILE DETENTION COMMISSION

Statements of Cash Flows

Years ended June 30, 2013 and 2012

		2013		2012
Cash flows provided (used) by operating activities				
Cash received from customers	$	3,727,581	$	3,353,811
Cash payments to suppliers for goods and services		(521,482)		(498,990)
Cash payments for personnel services		(2,969,447)		(2,763,078)
Net cash provided by operating activities		236,652		91,743
Cash flows provided (used) by capital and related financing activities				
Proceeds from sale of capital assets		3,139		1,355
Proceeds from sale of equipment		-		159
Principal payments on note payable		(32,352)		(31,179)
Interest paid on note payable		(3,845)		(5,019)
Acquisition and construction of capital assets		(50,852)		(138,692)
Net cash used by capital and related financing activities		(83,910)		(173,376)
Cash flows provided by investment activities - interest received		419		391
Increase (decrease) in cash and short-term investments		153,161		(81,242)
Cash and short-term investments at beginning of year		380,984		462,226
Cash and short-term investments at end of year	$	534,145	$	380,984

		2013		2012
Reconciliation of operating income to net cash provided (used) by operating activities:				
Operating gain (loss)	$	85,421	$	(112,198)
Adjustments to reconcile operating income to cash provided (used) by operating activities:				
Depreciation expense		211,510		198,285
Changes in operating assets and liabilities:				
Accounts receivable		(66,091)		21,118
Accounts payable		1,872		14,022
Accrued benefits		543		10,941
Deferred revenue		(5,568)		(6,166)
OPEB liability		9,000		9,000
Due to James City County		(35)		(43,259)
Total adjustments		151,231		203,941
Net cash provided by operating activities	$	236,652	$	91,743

See accompanying notes to financial statements.

(1) Organization and 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.

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.

(a) 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.

Effective June 30, 2013, the Commission adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.* This statement amends previous reporting requirements by incorporating the financial elements of deferred outflows of resources and deferred inflows of resources in the presentation of financial position. Under the provisions of this statement, net position, rather than net assets, represents the difference between all other elements in a government's statement of financial position. Accordingly, in the Commission's financial statements, the balance sheets have been updated with net position and total net position accordingly.

(b) Capital Assets

The Commission's policy is to capitalize capital assets with a cost or donated basis of one thousand dollars ($1,000) or greater. Capital outlays are capitalized at historical cost and contributed capital assets are recorded as capital assets at the estimated fair value at the time received. 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 - 10 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).

(c) 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 balance sheets are 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.

(d) 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 the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates and assumptions also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

(e) Reclassification

Certain reclassifications have been made to the June 30, 2012 financial statement presentation to correspond to the June 30, 2013 format. Total net position and change in net position are unchanged due to this reclassification.

(f) Subsequent Events

In preparing these financial statements, the Commission has evaluated events and transactions for potential recognition or disclosure through September 24, 2013, the date the financials were available to be issued.

(2) Cash and Short-Term Investments

(a) Cash

The carrying values of the Commission's deposits with banks were $276,591 and $123,127 at June 30, 2013 and 2012, respectively. The bank balances of $284,038 and $129,736 at June 30, 2013 and 2012, respectively, which differs from the carrying value of deposits primarily due to outstanding checks and deposits in transit, were fully covered by the Federal Deposit Insurance Corporation (FDIC) or collateralized in accordance with the Virginia Security for Public Deposits Act (Act). Under the Act, banks holding public deposits in excess of the amounts insured by FDIC must pledge collateral in the amount of 50% of the excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FDIC limits. If any member financial institution fails, the entire collateral becomes available to satisfy claims of the Commission. If the value of the pool's collateral is inadequate to cover a loss, additional amounts would be assessed on a pro rata basis to the members (banks) of the pool. Therefore, these deposits are considered collateralized and, as a result, are considered insured. 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.

(b) Investment Policy

The Commission utilizes the policies and procedures of the James City County Treasurer; therefore, the Investment Policy (Policy) of the County is used. 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, a 2a-7 like pool).

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:

Registered money market mutual funds	100% maximum
Commonwealth of Virginia LGIP	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
Bank deposits	100% maximum

(c) Credit Risk

As required by state statute, the Policy requires that 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, bankers' acceptances or money market mutual funds, the Commission has established credit standards for these investments to minimize portfolio risk.

As of June 30, 2013 and 2012, 100% of the Commission's portfolio was invested in the Commonwealth of Virginia LGIP account and is classified as short-term investments on the balance sheet.

(d) 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
Bank Deposits	100% maximum
Each money market mutual fund	50% maximum
Each federal agency	35% maximum
Each repurchase agreement counterparty	25% maximum

As noted above, as of June 30, 2013 and 2012, 100% of the Commission's portfolio was invested in the Commonwealth of Virginia LGIP account.

(e) 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.

As of June 30, 2013 and 2012, the fair values and maturities of the Commission's investments were as follows:

Investment Type	Fair Value	Maturity
2013 – Commonwealth of Virginia LGIP	$ 257,554	1 day
2012 – Commonwealth of Virginia LGIP	$ 257,135	1 day

(f) 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, 2013 and 2012, 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, 2013 and 2012:

		Balances at July 1, 2012	Additions	Reductions	Balances at June 30, 2013
Capital assets not being depreciated - land	$	118,354	-	-	118,354
Capital assets being depreciated:					
Building		6,169,996	-	-	6,169,996
Machinery and equipment		642,094	50,852	50,158	642,788
Improvements other than building		117,107	-	-	117,107
Total capital assets being depreciated		6,929,197	50,852	50,158	6,929,891
Less accumulated depreciation for:					
Buildings		2,224,245	154,250	-	2,378,495
Machinery and equipment		345,061	53,310	50,158	348,213
Improvements other than building		34,549	3,950	-	38,499
Total accumulated depreciation		2,603,855	211,510	50,158	2,765,207
Total capital assets being depreciated, net		4,325,342	(160,658)	-	4,164,684
Net capital assets	$	4,443,696	(160,658)	-	4,283,038

		Balances at July 1, 2011	Additions	Reductions	Balances at June 30, 2012
Capital assets not being depreciated - land	$	118,354	-	-	118,354
Capital assets being depreciated:					
Building		6,169,996	-	-	6,169,996
Machinery and equipment		582,790	138,693	79,389	642,094
Improvements other than building		117,107	-	-	117,107
Total capital assets being depreciated		6,869,893	138,693	79,389	6,929,197
Less accumulated depreciation for:					
Buildings		2,069,995	154,250	-	2,224,245
Machinery and equipment		360,435	40,086	55,460	345,061
Improvements other than building		30,600	3,949	-	34,549
Total accumulated depreciation		2,461,030	198,285	55,460	2,603,855
Total capital assets being depreciated, net		4,408,863	(59,592)	(23,929)	4,325,342
Net capital assets	$	4,527,217	(59,592)	(23,929)	4,443,696

(4) Note Payable

On December 15, 2010, the Commission executed a promissory note with Lancaster County, which was used to upgrade the existing security system. The promissory note was issued for $165,000 at 3.70% interest. The Commission is required to pay $3,016 per month until December 2015.

The following is a summary of the note payable activity for the year ended June 30, 2013 and 2012:

	Amount payable at July 1, 2012	Additions	Reductions	Amount payable at June 30, 2013	Amount due within one year
$	118,658	-	32,352	86,306	33,569

	Amount payable at July 1, 2011	Additions	Reductions	Amount payable at June 30, 2012	Amount due within one year
$	149,837	-	31,179	118,658	32,352

The annual requirements to repay the promissory note and related interest are as follows:

		Principal		Interest
Fiscal year ending June 30:				
2014	$	33,569	$	2,628
2015		34,833		1,365
2016		17,904		194
	$	86,306	$	4,187

(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, 2013 and 2012 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) Postretirement Benefits Other Than Pensions

The Commission adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Statement establishes standards for reporting the liability for the Commission's nonpension postemployment benefit, the health care plan for retirees.

(a) Plan Provisions

In addition to providing the pension benefits described in footnote 6, the Commission provides postemployment health care (OPEB) 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.

(b) Funding Policy

The Commission does not intend to establish a trust to prefund this liability. 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 the current active population remains constant. Also, the estimated contributions are based on the implicit rate subsidy payments made during the year by the retirees.

(c) Plan Description

Currently, 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 postretirement 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, have no GASB 45 liability. There is no coverage for post-Medicare retirees. There were 38 active employee participants at the time of the actuarial study. Since the retirees contribute towards their health insurance premiums based on a blended rate, the Commission has an implicit liability.

(d) Annual OPEB Costs and Net OPEB Obligation

The net OPEB obligation as of June 30, 2013 was calculated as follows:

Annual required contribution	$	9,000
Interest on net OPEB obligation		-
Actuarial adjustment		-
Annual OPEB cost		9,000
Contributions made		-
Increase in net OPEB obligation		9,000
Net OPEB obligation, beginning of year		26,000
Net OPEB obligation, end of year	$	35,000

(e) Actuarial Methods and Assumptions

Valuation Methods

The projected unit credit actuarial cost method was used to calculate all of the expense amounts and the funded status of the plan. The calculations were performed in accordance with the methodologies set forth in GASB Statement No. 45. Under these methods, 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.

Employees Included in the Calculations

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.

Actuarial Assumptions

In the July 1, 2011 actuarial valuation, the projected unit credit actuarial cost method was used. 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 26 years based on a level percent of payroll method. The actuarial accrued liability was $55,000. Future increases for medical benefits are assumed to range from an initial rate of 8% and gradually decrease to 5 % by 2050. 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.

****

Compliance Section

DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

Independent Auditor's 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

Board of Directors
Middle Peninsula Juvenile Detention Commission

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, 2013, 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 September 24, 2013.

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 over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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.

Fountain Plaza One, 701 Town Center Drive, Suite 700, Newport News, VA 23606 | T 757.873.1033 | F 757.873.1106 | dhgllp.com

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
September 24, 2013