MIDDLE PENINSULA JUVENILE DETENTION COMMISSION

Basic Financial Statements

June 30, 2012 and 2011

(With Independent Auditors' Report Thereon)

DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

Table of Contents

DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

Independent Auditors' Report

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, 2012 and 2011, 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.

We conducted our audits 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 Authorities, Boards and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our 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, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated October 8, 2012, 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* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-7 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

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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 of 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
October 8, 2012

MIDDLE PENINSULA JUVENILE DETENTION COMMISSION

Management's Discussion and Analysis

June 30, 2012 and 2011

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, 2012 and 2011.

Financial Highlights for Fiscal Year 2012 and 2011

- The Commission had a decrease in net assets of $139,240 and $390,882 for fiscal years 2012 and 2011, respectively. The decrease in fiscal year 2012 is primarily due to the filling of two positions that were vacant during fiscal year 2011. The decrease in fiscal year 2011 was primarily due to the issuance of a note payable to Lancaster County.
- Net capital assets decreased by $83,521 and $106,137 for fiscal year 2012 and 2011, 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 assets; 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 assets, is one way to measure financial health or financial position. Over time, increases and decreases in net assets 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.

Balance Sheets

The following table reflects a summary of the balance sheets:

Table 1
Summary of Balance Sheets
As of June 30, 2012, 2011 and 2010

	2012	2011	2010
Current assets	$ 470,287	$ 572,647	$ 665,893
Capital assets, net	4,443,696	4,527,217	4,633,354
Total assets	$ 4,913,983	$ 5,099,864	$ 5,299,247
Current liabilities	$ 196,934	$ 220,223	$ 156,382
Noncurrent liabilities	112,306	135,658	8,000
Total liabilities	309,240	355,881	164,382
Net assets:			
Invested in capital assets, net of related debt	4,325,038	4,377,380	4,633,354
Unrestricted	279,705	366,603	501,511
Total net assets	4,604,743	4,743,983	5,134,865
Total liabilities and net assets	$ 4,913,983	$ 5,099,864	$ 5,299,247

Net assets (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 $4,604,743 at June 30, 2012. Current assets consist of cash and short-term investments and accounts receivable. Current liabilities consist of accounts payable, due to James City County, accrued benefits, current portion of a note payable, and deferred revenue.

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. 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 3.8% from 2010 to 2011. Capital assets decreased by 2.3% from 2010 to 2011, which was primarily due to an increase in accumulated depreciation.

Total liabilities increased by 116.5% from 2010 to 2011, which was primarily due to an increase in accounts payable and issuance of a note payable. Noncurrent liabilities in 2011 consisted of Other Post-Employment Benefits (OPEB) and a note payable, net of current portion. The Commission issued a note payable in the amount of $165,000 to Lancaster County to upgrade the security system.

Statements of Revenues, Expenses and Changes in Net Assets

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

Table 2
Summary of Revenues, Expenses and Changes in Net Assets
For the Fiscal Years Ended June 30, 2012, 2011 and 2010

	2012	2011	2010
Fees from member jurisdiction	$ 2,017,076	$ 1,730,645	$ 1,958,394
Other operating revenues	1,321,783	1,242,536	1,329,888
Total operating revenues	3,338,859	2,973,181	3,288,282
Salaries and wages	2,009,871	1,951,429	1,966,568
Other expenses	1,242,901	1,211,674	1,284,680
Total operating expenses before depreciation	3,252,772	3,163,103	3,251,248
Operating income (loss) before depreciation	86,087	(189,922)	37,034
Depreciation	198,285	192,771	189,660
Operating loss	(112,198)	(382,693)	(152,626)
Net nonoperating revenues (expenses)	(27,042)	(8,189)	2,537
Changes in net assets	(139,240)	(390,882)	(150,089)
Net assets, beginning of year	4,743,983	5,134,865	5,284,954
Net assets, end of year	$ 4,604,743	$ 4,743,983	$ 5,134,865

Total net assets decreased 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% from 2011 to 2012, 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 Department of Criminal Justice Services (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 expenses increased by $18,853. This increase resulted primarily from a loss on the disposal of the Commission's old security system.

Total net assets decreased by $390,882 for the fiscal year ended June 30, 2011. The primary source of revenue the Commission receives is fees from member jurisdictions for which they serve, which equaled $1,730,645 in fiscal year 2011. Included in other operating revenues are monies from the Commonwealth of Virginia that totaled $1,144,758 during 2011 (net of amount returned to the state of $65,815 as part of state budget cuts), as well as federal grant awards in the amount of $56,702 during 2011.

Salaries and wages account for 60.4% of the Commission's total operating expenses (excluding depreciation), during 2011 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 2010 to 2011, net nonoperating expenses increased by $10,726. This increase resulted primarily from a loss on disposal of capital assets.

Capital Assets

At the end of fiscal years 2012 and 2011, the Commission's capital assets totaled $4,443,696 and $4,527,217, respectively. Included in those assets are land, building, machinery and equipment, and improvements other than building. The decrease during 2012 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, 2012 and 2011

		2012		2011
Assets				
Current assets				
Cash and short-term investments (note 2)	$	380,984	$	462,226
Accounts receivable		89,303		110,421
Total current assets		470,287		572,647
Capital assets (note 3)				
Land		118,354		118,354
Building		6,169,996		6,169,996
Machinery and equipment		642,094		582,790
Improvements other than building		117,107		117,107
Total capital assets		7,047,551		6,988,247
Less accumulated depreciation		2,603,855		2,461,030
Net capital assets		4,443,696		4,527,217
Total assets	$	4,913,983	$	5,099,864
Liabilities and Net Assets				
Current liabilities				
Accounts payable	$	28,543	$	14,521
Due to James City County		1,765		45,024
Accrued benefits		96,730		85,789
Current portion of note payable		32,352		31,179
Deferred revenue		37,544		43,710
Total current liabilities		196,934		220,223
Noncurrent liabilities				
Note payable, net of current portion (note 4)		86,306		118,658
OPEB liability (note 7)		26,000		17,000
Total noncurrent liabilities		112,306		135,658
Total liabilities		309,240		355,881
Net assets				
Invested in capital assets, net of related debt		4,325,038		4,377,380
Unrestricted		279,705		366,603
Total net assets		4,604,743		4,743,983
Total liabilities and net assets	$	4,913,983	$	5,099,864

See accompanying notes to financial statements.

MIDDLE PENINSULA JUVENILE DETENTION COMMISSION

Statements of Revenues, Expenses and Changes in Net Assets

Years ended June 30, 2012 and 2011

	2012	2011
Operating revenues		
Fees from member jurisdictions	$ 2,017,076	$ 1,730,645
Commonwealth of Virginia	1,153,399	1,144,758
Fees from nonmember jurisdictions	79,348	25,944
Federal grants	58,537	56,702
Other	30,499	15,132
Total operating revenues	3,338,859	2,973,181
Operating expenses		
Salaries and wages	2,009,871	1,951,429
Employee benefits	773,148	735,342
Utilities	110,934	110,693
Grants	92,985	64,800
Supplies	91,627	103,534
Service contracts (note 5)	70,190	80,399
Professional services	41,360	35,294
Miscellaneous	40,163	44,020
Insurance	13,508	14,054
Minor equipment purchases	5,426	12,387
Training	3,560	3,751
Purchase of bedspace	-	7,400
Total operating expenses before depreciation	3,252,772	3,163,103
Operating income (loss) before depreciation	86,087	(189,922)
Depreciation	198,285	192,771
Operating loss	(112,198)	(382,693)
Nonoperating revenues (expenses)		
Loss on disposal of capital assets	(22,414)	(6,397)
Interest expense	(5,019)	(2,936)
Interest revenue	391	1,144
Net nonoperating expenses	(27,042)	(8,189)
Change in net assets	(139,240)	(390,882)
Net assets at beginning of year	4,743,983	5,134,865
Net assets at end of year	$ 4,604,743	$ 4,743,983

See accompanying notes to financial statements.

MIDDLE PENINSULA JUVENILE DETENTION COMMISSION

Statements of Cash Flows

Years ended June 30, 2012 and 2011

	2012	2011
Cash flows provided (used) by operating activities		
Cash received from customers	$ 3,353,811	$ 3,017,989
Cash payments to suppliers for goods and services	(498,990)	(503,205)
Cash payments for personnel services	(2,763,078)	(2,689,795)
Net cash provided (used) by operating activities	91,743	(175,011)
Cash flows provided (used) by capital and related financing activities		
Proceeds from note issued	-	165,000
Proceeds from sale of capital assets	1,355	555
Proceeds from sale of equipment	159	-
Principal payments on note payable	(31,179)	(15,162)
Interest paid on note payable	(5,019)	(2,936)
Acquisition and construction of capital assets	(138,692)	(93,587)
Net cash provided (used) by capital and related financing activities	(173,376)	53,870
Cash flows provided by investment activities - interest received	391	1,144
Decrease in cash and short-term investments	(81,242)	(119,997)
Cash and short-term investments at beginning of year	462,226	582,223
Cash and short-term investments at end of year	$ 380,984	$ 462,226

	2012	2011
Reconciliation of operating income to net cash provided (used) by operating activities:		
Operating loss	$ (112,198)	$ (382,693)
Adjustments to reconcile operating income to cash provided (used) by operating activities:		
Depreciation expense	198,285	192,771
Changes in operating assets and liabilities:		
Accounts receivable	21,118	(26,751)
Accounts payable	14,022	(6,082)
Accrued benefits	10,941	(12,024)
Deferred revenue	(6,166)	5,744
OPEB liability	9,000	9,000
Due to James City County	(43,259)	45,024
Total adjustments	203,941	207,682
Net cash provided (used) by operating activities	$ 91,743	$ (175,011)

See accompanying notes to financial statements.

MIDDLE PENINSULA JUVENILE DETENTION COMMISSION

Notes to Financial Statements

June 30, 2012 and 2011

(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.

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.

In accordance with Governmental Accounting Standards Board (GASB) Statement No. 20, Accounting *and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting,* proprietary funds follow all applicable GASB pronouncements, as well as those Financial Accounting Standards Board (FASB) pronouncements and predecessor Accounting Principles Board (APB) Opinions and Accounting Research Bulletins issued on or before November 30, 1989. Under paragraph 7 of GASB Statement No. 20, the Commission has elected not to apply FASB pronouncements issued after November 30, 1989.

In June 1999, GASB issued Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis - for State and Local Governments*. GASB Statement No. 34 established new requirements and a new reporting model for the annual financial reports of state and local governments. GASB Statement No. 34 requires that financial statements be accompanied by a narrative introduction and an analytical overview of the government's financial activities in the form of "management's discussion and analysis." This analysis is comparable to analysis the private sector provides in their annual reports and is considered required supplementary information. For enterprise funds, GASB Statement No. 34 also requires that the statement of cash flows be prepared using the direct method and the categories of net assets be changed. The net assets of a government are broken into three categories: 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted. Effective July 1, 2002, the Commission implemented the provisions of GASB Statement No. 34. Total equity of the Commission did not change as a result of this adoption.

Effective July 1, 2004, the Commission adopted the provisions of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. This statement modifies, establishes, and rescinds certain financial statement disclosure requirements. Accordingly, certain footnote disclosures have been revised to conform to the provisions of GASB Statement No. 40.

Effective July 1, 2009, the Commission adopted the provisions of GASB Statement Number 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement establishes standards for reporting the liability for nonpension postemployment benefits, chiefly the health care premiums for retirees.

(a) 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).

(b) 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.

(c) 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.

(d) Subsequent Events

In preparing these financial statements, the Commission has evaluated events and transactions for potential recognition or disclosure through October 8, 2012, 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 $123,849 and $5,483 at June 30, 2012 and 2011, respectively. The bank balances, which may differ from the carrying value of deposits due primarily 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, prime quality commercial paper, and certain corporate notes, bankers acceptances, repurchase agreements, negotiable certificates of deposit, bank deposit notes, mutual funds that invest exclusively in securities specifically permitted under the Policy, 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	25% 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, and Fitch Investor's Service. 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, 2012 and 2011, 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
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, 2012 and 2011, 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, 2012 and 2011, the fair values and maturities of the Commission's investments were as follows:

Investment Type	**Fair Value**	**Maturity**
2012 – Commonwealth of Virginia LGIP	$ 257,135	1 day
2011 – Commonwealth of Virginia LGIP	$ 456,743	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, 2012 and 2011, 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, 2012 and 2011:

	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

	Balances at July 1, 2010	Additions	Reductions	Balances at June 30, 2011
Capital assets not being depreciated - land	$ 118,354	$ -	$ -	$ 118,354
Capital assets being depreciated:				
Building	6,169,996	-	-	6,169,996
Machinery and equipment	514,664	93,586	25,460	582,790
Improvements other than building	117,107	-	-	117,107
Total capital assets being depreciated	6,801,767	93,586	25,460	6,869,893
Less accumulated depreciation for:				
Buildings	1,915,745	154,250	-	2,069,995
Machinery and equipment	344,372	34,571	18,508	360,435
Improvements other than building	26,650	3,950	-	30,600
Total accumulated depreciation	2,286,767	192,771	18,508	2,461,030
Total capital assets being depreciated, net	4,515,000	(99,185)	(6,952)	4,408,863
Net capital assets	$ 4,633,354	$ (99,185)	$ 18,508	$ 4,527,217

(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, 2012 and 2011:

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

Amount payable at July 1, 2010	Additions	Reductions	Amount payable at June 30, 2011	Amount due within one year
$ -	$ 165,000	$ 15,163	$ 149,837	$ 31,179

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

	Principal	Interest
Fiscal year ending June 30:		
2013	$ 32,352	$ 3,845
2014	33,569	2,628
2015	34,833	1,365
2016	17,904	194
	$ 118,658	$ 8,032

(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, 2012 and 2011 and are included in service contracts in the accompanying statements of revenues, expenses and changes in net assets.

(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, 2012 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		17,000
Net OPEB obligation, end of year	$	26,000

(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 27 years based on a level percent of payroll method. The actuarial accrued liability was $47,000. 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.

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MIDDLE PENINSULA JUVENILE DETENTION COMMISSION

Compliance Section

DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

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 the financial statements of ***Middle Peninsula Juvenile Detention Commission*** as of and for the year ended June 30, 2012, and have issued our report thereon dated October 8, 2012. We conducted our audit 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.

Internal Control over Financial Reporting

Management of ***Middle Peninsula Juvenile Detention Commission*** is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered ***Middle Peninsula Juvenile Detention Commission's*** internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of ***Middle Peninsula Juvenile Detention Commission's*** internal control over financial reporting.

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.

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 over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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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.*

This report is intended solely for the information and use of management, others within the Commission, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties.

Dixon Hughes Goodman LLP

Newport News, Virginia
October 8, 2012