
SOUTHSIDE REGIONAL JAIL AUTHORITY
FINANCIAL REPORT
YEAR ENDED JUNE 30, 2015

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY CERTIFIED PUBLIC ACCOUNTANTS

CHARLOTTESVILLE □ RICHMOND □ FREDERICKSBURG □ STAUNTON □ BLACKSBURG □ LOUISA



SOUTHSIDE REGIONAL JAIL AUTHORITY

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TABLE OF CONTENTS

| | Page |
|---|-------|
| Independent Auditors' Report | 1-2 |
| Management's Discussion and Analysis | 3-6 |
| <u>Basic Financial Statements</u> | |
| Statement of Net Position | 7 |
| Statement of Revenues, Expenses and Change in Net Position | 8 |
| Statement of Cash Flows | 9 |
| Notes to Financial Statements | 10-38 |
| <u>Required Supplementary Information</u> | |
| Schedule of Components of and Changes in Net Pension Liability and Related Ratios | 39 |
| Schedule of Employer Contributions | 40 |
| Notes to Required Supplementary Information | 41 |
| Schedule of OPEB Funding Progress | 42 |
| <u>Compliance</u> | |
| 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> | 43-44 |

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

To the Board of Directors
Southside Regional Jail Authority
Emporia, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Southside Regional Jail Authority, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Southside Regional Jail Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Southside Regional Jail Authority, as of June 30, 2015, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 14 to the financial statements, in 2015, the Authority adopted new accounting guidance, GASB Statement Nos. 68 *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules related to pension and OPEB funding on pages 3-6 and 39-42 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2015, on our consideration of Southside 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 Southside Regional Jail Authority's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
November 24, 2015

SOUTHSIDE REGIONAL JAIL AUTHORITY

Management's Discussion and Analysis Year Ended June 30, 2015

As management of Southside Regional Jail we offer this narrative overview and analysis of the financial performance and overview of the Authority's financial activities for the fiscal year ended June 30, 2015. Please read this information in conjunction with the Authority's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS FOR FY 2015

The assets and deferred outflow of resources of the Authority exceeded its liabilities at the close of the most recent fiscal year by \$3,884,139.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. Since the Authority is engaged only in business-type activities, its basic financial statements are comprised of only two components: 1) enterprise fund financial statements and 2) notes to the financial statements.

Enterprise fund financial statements. The enterprise fund financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The statement of net position presents information on the Authority's assets, deferred outflow of resources, and liabilities, with the difference between the components reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statement of revenues, expenses and changes in net position presents information showing how the Authority's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (i.e. earned but unused vacation leave).

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements.

The Authority implemented Statement of Governmental Accounting Standards (GASB Statement) Nos. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. Accordingly, the net pension asset and related information are reported on the statement of net position along with a more comprehensive measure of pension expense and enhanced, note disclosures and required supplementary information. The Authority's net pension liability was \$341,356 whereby the assets of the Authority's pension plan exceeded the total pension liability.

FINANCIAL SUMMARY

Financial Position. A comparative summary schedule of Southside Regional Jail Authority's Statement of Net Position for 2015 and 2014 is presented below:

| Condensed Statement of Net Position | | |
|---|--------------|--------------|
| | 2015 | 2014 |
| Current and other assets | \$ 1,919,899 | \$ 1,906,945 |
| Capital assets | 5,901,038 | 6,140,693 |
| Total assets | \$ 7,820,937 | \$ 8,047,638 |
| Deferred outflows of resources | \$ 498,700 | \$ 263,206 |
| Total assets and deferred outflows of resources | \$ 8,319,637 | \$ 8,310,844 |
| Other liabilities | \$ 91,301 | \$ 131,109 |
| Long-term liabilities outstanding | 4,039,555 | 4,086,828 |
| Total liabilities | \$ 4,130,856 | \$ 4,217,937 |
| Deferred inflows of resources | \$ 304,642 | \$ 263,206 |
| Net position: | | |
| Net investment in capital assets | \$ 2,632,996 | \$ 2,481,299 |
| Unrestricted | 1,251,143 | 1,611,608 |
| Total net position | \$ 3,884,139 | \$ 4,092,907 |
| Total liabilities and net position | \$ 8,319,637 | \$ 8,310,844 |

The financial position of Southside Regional Jail Authority continues to remain strong. This is evidenced by our strong liquidity, with a Quick Ratio (Current Assets/Current Liabilities) of 3:1. The Authority's unrestricted net position represents a significant percentage, 32.2%, of the total net position.

CHANGE IN NET POSITION

Change in Net Position. A comparative summary schedule of Southside Regional Jail Authority's Statement of Revenues, Expenses and Changes in Net Position for 2015 and 2014 is presented below:

| Condensed Statement of Revenues, Expenses and Changes in Net Position | | |
|--|--------------|--------------|
| | 2015 | 2014 |
| Operating revenues | \$ 4,093,252 | \$ 4,069,522 |
| Operating expenses | (3,751,624) | (3,928,067) |
| Net operating income (loss) | \$ 341,628 | \$ 141,455 |
| Nonoperating revenues | 2,402 | 3,098 |
| Nonoperating expenses | (130,081) | (142,859) |
| Change in net position | \$ 213,949 | \$ 1,694 |
| Net position, beginning of year | 4,092,907 | 4,091,213 |
| Restatement for GASB 68 | (422,717) | - |
| Net position, beginning of year, as restated | \$ 3,670,190 | \$ 4,091,213 |
| Net position, end of year | \$ 3,884,139 | \$ 4,092,907 |

The net position as of July 1, 2014 was restated to implement GASB Statement No. 68. Additional details can be found in Note 14 to the financial statements.

CHANGE IN NET POSITION (CONTINUED)

Operating revenues are defined as charges for services to participant localities, outside localities and the Commonwealth based upon prisoner days. Operating revenues also include other outside revenue sources.

Operating expenses are comprised of the direct expenses of operating the Authority. These include salaries and benefits, contractual services and other inmate related jail operating costs.

Nonoperating revenues (expenses) consist of interest and investment earnings and interest expense.

CASH FLOWS

Cash Flows. A comparative summary schedule of Southside Regional Jail Authority's Statement of Cash Flows for 2015 and 2014 is presented below:

| Condensed Statement of Cash Flows | | |
|--|---------------------|---------------------|
| | 2015 | 2014 |
| Cash flows from operating activities | \$ 512,802 | \$ 509,706 |
| Cash flows from capital and related financing activities | (541,445) | (482,025) |
| Cash flows from investing activities | 2,402 | 3,098 |
| Net increase (decrease) in cash and cash equivalents | \$ (26,241) | \$ 30,779 |
| Cash and cash equivalents, beginning of year | 1,522,076 | 1,491,297 |
| Cash and cash equivalents, end of year | <u>\$ 1,495,835</u> | <u>\$ 1,522,076</u> |

Cash flows from operating activities are comprised of operating revenues combined with expenditures for personnel, benefits and payments to operating suppliers. Cash flows from noncapital transactions are comprised of funds received from nonoperating sources.

Cash flows from capital and related financing activities include the purchase of capital assets and principal and interest paid on capital debt. Cash flows from investing activities include interest and investment earnings.

The difference in cash and cash equivalents from the beginning to the end of the year was a net decrease of \$26,241.

LONG-TERM OBLIGATIONS

At the end of the fiscal year, the Authority had \$4,039,555 in long-term obligations. Compensated absences accounted for \$178,299 of the long-term obligations. Outstanding bonds at June 30, 2015 were \$3,519,900.

Additional information on the Authority's long-term obligations can be found in Note 5 of this report.

CAPITAL ASSETS

The Authority's investment in capital assets as of June 30, 2015 amounted to \$5,901,038 (net of accumulated depreciation). Net investment in capital assets is calculated as capital assets (net of accumulated depreciation) less any related debt incurred for the purchase of those assets. Below is a comparative schedule of the amounts that comprise the capital assets as of June 30, 2015 and 2014:

| Capital Assets | | |
|--------------------------------|---------------|---------------|
| Classification | 2015 | 2014 |
| Land and land rights | \$ 125,376 | \$ 125,376 |
| Buildings and improvements | 9,641,043 | 9,641,043 |
| Vehicles | 235,218 | 235,218 |
| Office equipment | 523,384 | 472,234 |
| Radio equipment | 297,578 | 297,578 |
| Furniture and fixtures | 180,645 | 172,475 |
| Subtotal | \$ 11,003,244 | \$ 10,943,924 |
| Less: Accumulated depreciation | (5,102,206) | (4,803,231) |
| Total | \$ 5,901,038 | \$ 6,140,693 |

Additional information on the Authority's capital assets can be found in Note 4 of this report.

CONTACTING THE AUTHORITY'S MANAGEMENT

This financial report is designed to provide a general overview of the Authority's finances. Questions concerning any of the information provided in the report or requests for additional financial information should be directed to the Authority's Superintendent located at Southside Regional Jail, 244 Uriah Branch Way, Emporia, VA 23847.

- Basic Financial Statements -

SOUTHSIDE REGIONAL JAIL AUTHORITY

Statement of Net Position
As of June 30, 2015

| ASSETS | |
|---|--------------|
| Current assets: | |
| Cash and cash equivalents | \$ 1,397,204 |
| Cash held for others - inmate and commissary (Note 9) | 58,666 |
| Cash in custody of others | 39,965 |
| Accounts receivable | 7,793 |
| Prepaid Expenses | 13,168 |
| Due from other governments (Note 3) | 403,103 |
| Total current assets | \$ 1,919,899 |
| Noncurrent assets: | |
| Capital assets: | |
| Land and land rights | \$ 125,376 |
| Other capital assets, net of accumulated depreciation | 5,775,662 |
| Net capital assets | \$ 5,901,038 |
| Total noncurrent assets | \$ 5,901,038 |
| Total assets | \$ 7,820,937 |
| DEFERRED OUTFLOW OF RESOURCES | |
| Deferred amount on refunding | \$ 211,893 |
| Pension contributions subsequent to measurement dates | 286,807 |
| Total assets and deferred outflow of resources | \$ 8,319,637 |
| LIABILITIES | |
| Current liabilities: | |
| Accounts payable | \$ 26,886 |
| Accrued interest payable | 5,749 |
| Amounts held for others (Note 9) | 58,666 |
| Compensated absences, current portion (Note 6) | 17,830 |
| Bonds payable, current portion (Note 5) | 410,700 |
| Total current liabilities | \$ 519,831 |
| Noncurrent liabilities: | |
| Compensated absences, noncurrent portion (Note 6) | \$ 160,469 |
| Bonds payable, noncurrent portion (Note 5) | 3,109,200 |
| Net pension liability | 341,356 |
| Total noncurrent liabilities | \$ 3,611,025 |
| Total liabilities | \$ 4,130,856 |
| DEFERRED INFLOWS OF RESOURCES | |
| Items related to measurement of net pension liability | \$ 304,642 |
| Total assets and deferred outflow of resources | \$ 304,642 |
| NET POSITION | |
| Net investment in capital assets | \$ 2,632,996 |
| Unrestricted | 1,251,143 |
| Total net position | \$ 3,884,139 |
| Total liabilities and net position | \$ 8,319,637 |

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

SOUTHSIDE REGIONAL JAIL AUTHORITY

Statement of Revenues, Expenses and Change in Net Position Year Ended June 30, 2015

| | | |
|---|----|-------------------------|
| Operating revenues: | | |
| Purchase of services: | | |
| City of Emporia, Virginia | \$ | 1,217,526 |
| County of Greensville, Virginia | | 874,144 |
| Other Governments | | 13,831 |
| Commonwealth of Virginia jail costs | | 268,603 |
| Commonwealth of Virginia State Compensation Board | | 1,557,215 |
| Other | | 161,933 |
| | | <u>161,933</u> |
| Total operating revenues | \$ | <u>4,093,252</u> |
| Operating expenses: | | |
| Salaries | \$ | 1,896,820 |
| Fringe benefits | | 673,839 |
| Professional services | | 209,646 |
| Repairs and maintenance | | 33,450 |
| Advertising | | 397 |
| Laundry | | 720 |
| Fiscal services | | 26,460 |
| Utilities | | 189,072 |
| Communications | | 23,985 |
| Insurance | | 23,553 |
| Lease of equipment | | 5,226 |
| Conventions and education | | 23,268 |
| Dues and subscriptions | | 1,133 |
| Supplies | | 345,080 |
| Depreciation | | 298,975 |
| | | <u>298,975</u> |
| Total operating expenses | \$ | <u>3,751,624</u> |
| Net operating income (loss) | \$ | <u>341,628</u> |
| Nonoperating revenues (expenses): | | |
| Interest and investment earnings | \$ | 2,402 |
| Interest expense | | <u>(130,081)</u> |
| Net nonoperating revenues (expenses) | \$ | <u>(127,679)</u> |
| Change in net position | \$ | 213,949 |
| Net position, beginning of year | | 4,092,907 |
| Restatement for GASB 68 (Note 14) | \$ | <u>(422,717)</u> |
| Net position, beginning of year, as restated | \$ | <u>3,670,190</u> |
| Net position, end of year | \$ | <u><u>3,884,139</u></u> |

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

SOUTHSIDE REGIONAL JAIL AUTHORITY

Statement of Cash Flows Year Ended June 30, 2015

| | |
|---|----------------------------|
| Cash flows from operating activities: | |
| Receipts from customers and Commonwealth of Virginia State Compensation Board | \$ 4,059,025 |
| Payments to suppliers | (926,109) |
| Payments to and on behalf of employees | <u>(2,620,114)</u> |
| Net cash flows provided by (used for) operating activities | <u>\$ 512,802</u> |
| Cash flows from capital and related financing activities: | |
| Purchase of capital assets | \$ (59,320) |
| Principal paid on capital debt | (402,700) |
| Interest paid on capital debt | <u>(79,425)</u> |
| Net cash flows provided by (used for) capital and related financing activities | <u>\$ (541,445)</u> |
| Cash flows from investing activities: | |
| Interest and investment earnings | <u>\$ 2,402</u> |
| Net increase (decrease) in cash and cash equivalents | \$ (26,241) |
| Cash and cash equivalents, beginning of year | <u>1,522,076</u> |
| Cash and cash equivalents, end of year | <u><u>\$ 1,495,835</u></u> |
| Reconciliation of operating income (loss) to net cash provided by (used for) operating activities: | |
| Operating income (loss) | \$ 341,628 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | |
| Depreciation | 298,975 |
| Changes in assets and liabilities: | |
| (Increase) / decrease in due from other governments | (29,824) |
| (Increase) / decrease in accounts receivable | (4,403) |
| (Increase) / decrease in prepaid expenses | (4,968) |
| Increase / (decrease) in compensated absences | 14,071 |
| Increase / (decrease) in deferred inflows - pension related | 304,642 |
| (Increase) / decrease in deferred outflows - pension related | 35,232 |
| Increase / (decrease) in net pension liability | (403,400) |
| Increase / (decrease) in amounts held for others | (32,853) |
| Increase / (decrease) in accounts payable | <u>(6,298)</u> |
| Cash flows (used for) operating activities | <u><u>\$ 512,802</u></u> |

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

SOUTHSIDE REGIONAL JAIL AUTHORITY

Notes to Financial Statements As of June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Authority conform to generally accepted accounting principles (GAAP) applicable to governmental units promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant policies.

Southside Regional Jail Authority was established pursuant to the *Code of Virginia* (1950), as amended, and resolutions of the participating localities of the County of Greensville and the City of Emporia, Virginia in May 1995. The Authority is considered a jointly governed organization of the above localities because each locality is represented on the Board. However, the localities do not retain an ongoing financial interest or responsibility. The purpose of the Authority is to acquire, construct, equip, finance, operate and maintain the regional jail for the benefit of the member jurisdictions.

A. Management's Discussion and Analysis and Enterprise Fund Financial Statements

Management's Discussion and Analysis:

GASB Statement No. 34 requires the financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "Management's Discussion and Analysis" (MD&A).

Enterprise Fund Financial Statement:

Statement of Net Position: The Statement of Net Position is designed to display the financial position of the Authority. Governments will report all capital assets in the Statement of Net Position and will report depreciation expense - the cost of "using up" capital assets - in the Statement of Revenues, Expenses, and Changes in Net Position. The net position of a government will be broken down into three categories: 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

B. Basis of Accounting

Southside Regional Jail Authority operates as an enterprise activity and its accounts are maintained on the accrual basis of accounting. Under this method, revenues are recognized when earned, and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash.

C. Budgets and Budgetary Accounting

The Authority adopts an annual budget for informative and fiscal planning purposes only. The budget is not intended to be a legal control on expenses. Budgets are adopted on the accrual basis of accounting except that contributed capital, depreciation and amortization are not budgeted.

D. Operating and Nonoperating Revenues and Expenses

Operating revenues and expenses are defined as those items that result from providing services, and include all transactions and events which are not capital and related financing, noncapital financing or investing activities. Nonoperating revenues are defined as grant, investment and other income. Nonoperating expenses are defined as capital and noncapital related financing and other expenses.

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, then unrestricted resources as they are needed.

SOUTHSIDE REGIONAL JAIL AUTHORITY

Notes to Financial Statements As of June 30, 2015 (continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

E. Capital Assets

Property, plant and equipment are recorded at historical cost. Donated assets are recorded at their fair market value on the date donated. Depreciation is computed using the straight-line method over the assets' estimated useful lives as follows:

| | |
|--------------------------|---------------|
| Buildings and structures | 40 years |
| Equipment | 5 to 20 years |
| Vehicles | 5 years |

Depreciation applicable to operating facilities constructed with contributions is amortized by the straight-line method at rates sufficient to amortize the contributions over the estimated useful lives of the related plant. Maintenance and repairs are charged to expense as incurred; material renewals and betterments are capitalized. When assets are sold or retired, the related cost and accumulated depreciation are removed from the accounts and any gain or loss is included in income.

F. Interest on Indebtedness

Interest expense applicable to that portion of indebtedness which is used to construct new facilities is capitalized during the period of construction as part of the cost of such facilities. Other interest costs of the Authority are treated as nonoperating expenses.

G. Cash and Cash Equivalents

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term U.S. Governmental obligations, with original maturities of three months or less from the date of acquisition, all of which are readily convertible to known amounts of cash.

H. Fiscal Agent

The Treasurer of County of Greenville, Virginia is the fiscal agent for Southside Regional Jail Authority.

I. Investments

Investments are recorded at fair market value.

J. Use of Estimates

The preparation of financial statements in conformity with 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.

K. Prepaid Expenses

Certain payments to vendors represent costs applicable to future accounting periods and are recorded as prepaid expenses in the financial statements. The cost of prepaid expenses is recorded as expenses when consumed rather than when purchased.

SOUTHSIDE REGIONAL JAIL AUTHORITY

Notes to Financial Statements As of June 30, 2015 (continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

L. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Authority has two items that qualify for reporting in this category. One item is the deferred charge on refunding. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The other item is comprised of contributions to the pension plan made during the current year and subsequent to the net pension liability measurement date, which will be recognized as a reduction of the net pension liability next fiscal year. For more detailed information on this item, reference the pension note.

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

M. 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.

N. Pensions

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

SOUTHSIDE REGIONAL JAIL AUTHORITY

Notes to Financial Statements As of June 30, 2015 (continued)

NOTE 2 - 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 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.

The Authority has no formal deposit and investment policy.

Investments:

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

At June 30, 2015, the Authority had no investments.

NOTE 3 - DUE FROM OTHER GOVERNMENTS:

| | | |
|---------------------------|----|-----------------------|
| Commonwealth of Virginia: | | |
| Compensation Board | \$ | 137,028 |
| Jail Bed Days | | 88,436 |
| Local Governments | | <u>177,639</u> |
| Total | \$ | <u><u>403,103</u></u> |

SOUTHSIDE REGIONAL JAIL AUTHORITY

Notes to Financial Statements
As of June 30, 2015 (continued)

NOTE 4 - CAPITAL ASSETS:

A summary of additions and deletions to the Authority's capital assets for the year ended June 30, 2015 is as follows:

| | Balance June 30, 2014 | Additions | Deletions | Balance June 30, 2015 |
|---|-----------------------------|--------------|-----------|-----------------------------|
| Capital assets, not being depreciated: | | | | |
| Land and land rights | \$ 125,376 | \$ - | \$ - | \$ 125,376 |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | \$ 9,641,043 | \$ - | \$ - | \$ 9,641,043 |
| Vehicles | 235,218 | - | - | 235,218 |
| Office equipment | 472,234 | 51,150 | - | 523,384 |
| Radio equipment | 297,578 | - | - | 297,578 |
| Furniture and fixtures | 172,475 | 8,170 | - | 180,645 |
| Total capital assets being depreciated | \$ 10,818,548 | \$ 59,320 | \$ - | \$ 10,877,868 |
| Less: Accumulated depreciation for: | | | | |
| Buildings and improvements | \$ (3,723,828) | \$ (252,305) | \$ - | \$ (3,976,133) |
| Vehicles | (235,219) | - | - | (235,219) |
| Office equipment | (445,711) | (7,980) | - | (453,691) |
| Radio equipment | (231,144) | (35,313) | - | (266,457) |
| Furniture and fixtures | (167,329) | (3,377) | - | (170,706) |
| Total accumulated depreciation | \$ (4,803,231) | \$ (298,975) | \$ - | \$ (5,102,206) |
| Total capital assets being depreciated, net | \$ 6,015,317 | \$ (239,655) | \$ - | \$ 5,775,662 |
| Capital assets, net of accumulated depreciation | \$ 6,140,693 | \$ (239,655) | \$ - | \$ 5,901,038 |

SOUTHSIDE REGIONAL JAIL AUTHORITY

Notes to Financial Statements
As of June 30, 2015 (continued)

NOTE 5 - LONG-TERM OBLIGATIONS:

A. Changes in Long-term Obligations:

The following is a summary of long-term obligations transactions for the year ended June 30, 2015.

| | <u>Restated Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|-----------------------|---|-------------------|-----------------------|---------------------------|--------------------------------|
| Revenue bonds payable | \$ 3,922,600 | \$ - | \$ (402,700) | \$ 3,519,900 | \$ 410,700 |
| Compensated absences | 164,228 | 14,071 | - | 178,299 | 17,830 |
| Net pension liability | <u>744,756</u> | <u>691,843</u> | <u>(1,095,243)</u> | <u>341,356</u> | <u>-</u> |
| Total | <u>\$ 4,831,584</u> | <u>\$ 705,914</u> | <u>\$ (1,497,943)</u> | <u>\$ 4,039,555</u> | <u>\$ 428,530</u> |

B. Details of Long-term Obligations:

| | <u>Total Amount</u> | <u>Amount Due Within One Year</u> |
|---|-------------------------|---|
| Revenue bonds: | | |
| Regional Jail Facility Revenue Refunding Bonds, Series 2012 - On September 19, 2012, the Authority issued \$4,569,600 in Revenue Refunding Bonds with a fixed interest rate of 1.96% to advance refund \$6,335,900 of outstanding 2005 Series bonds with an interest rate of 4.08%. The net proceeds of \$4,498,054 (after payment of \$71,546 in underwriting and other issue costs) plus an additional \$174,708 of Debt Service Reserve and Bond Funds were transferred to the escrow agent. | | |
| The bond resolution provides a redemption schedule with principal due annually through June 1, 2023. The bonds bear interest at an annual rate of 1.96%. | \$ 3,519,900 | \$ 410,700 |
| Compensated Absences | 178,299 | 17,830 |
| Net pension liability | <u>341,356</u> | <u>-</u> |
| Total | <u>\$ 4,039,555</u> | <u>\$ 428,530</u> |

SOUTHSIDE REGIONAL JAIL AUTHORITY

Notes to Financial Statements
As of June 30, 2015 (continued)

NOTE 5 - LONG-TERM OBLIGATIONS: (CONTINUED)

C. Annual Amortization on Long-term Obligations:

The annual requirements to amortize long-term debt outstanding as of June 30, 2015 are as follows:

| Year Ending June 30, | Revenue Bonds | |
|-------------------------|---------------|------------|
| | Principal | Interest |
| 2016 | \$ 410,700 | \$ 68,990 |
| 2017 | 418,700 | 60,940 |
| 2018 | 426,900 | 52,734 |
| 2019 | 435,300 | 44,367 |
| 2020 | 443,900 | 35,835 |
| 2021 | 452,500 | 27,134 |
| 2022 | 461,400 | 18,265 |
| 2023 | 470,500 | 9,222 |
| Total | \$ 3,519,900 | \$ 317,487 |

NOTE 6 - COMPENSATED ABSENCES:

Jail employees earn vacation leave based on years of service. Sick leave is earned at a rate of eight hours per month. Accumulated unpaid vacation amounts are accrued when incurred. Sick leave is paid out only upon retirement or death, capped at \$2,500 or \$5,000 depending on years of service, and is not accrued. At June 30, 2015 the liability for accrued vacation was \$178,299.

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SOUTHSIDE REGIONAL JAIL AUTHORITY

Notes to Financial Statements As of June 30, 2015 (continued)

NOTE 7 - PENSION PLAN:

Plan Description

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

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

| RETIREMENT PLAN PROVISIONS | | |
|---|---|--|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> | <p>About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> | <p>About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members")</p> <ul style="list-style-type: none"> • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. |

SOUTHSIDE REGIONAL JAIL AUTHORITY

Notes to Financial Statements
As of June 30, 2015 (continued)

NOTE 7 - PENSION PLAN: (CONTINUED)

Plan Description (Continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|---|---|---|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| About Plan 1 (Cont.) | About Plan 2 (Cont.) | <p>About the Hybrid Retirement Plan (Cont.)</p> <ul style="list-style-type: none"> • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees. |
| <p>Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> | <p>Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> | <p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • Political subdivision employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014. <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees. |

SOUTHSIDE REGIONAL JAIL AUTHORITY

Notes to Financial Statements
As of June 30, 2015 (continued)

NOTE 7 - PENSION PLAN: (CONTINUED)

Plan Description (Continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|---|--|---|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p> | <p>Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p> | <p>*Non-Eligible Members (Cont.) Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p> |
| <p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p> | <p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.</p> | <p>Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p> |

SOUTHSIDE REGIONAL JAIL AUTHORITY

Notes to Financial Statements
As of June 30, 2015 (continued)

NOTE 7 - PENSION PLAN: (CONTINUED)

Plan Description (Continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|---|--|--|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> | <p>Creditable Service Same as Plan 1.</p> | <p>Creditable Service <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p> |

SOUTHSIDE REGIONAL JAIL AUTHORITY

Notes to Financial Statements
As of June 30, 2015 (continued)

NOTE 7 - PENSION PLAN: (CONTINUED)

Plan Description (Continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|--|---|---|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p> | <p>Vesting Same as Plan 1.</p> | <p>Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contributions Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> |

SOUTHSIDE REGIONAL JAIL AUTHORITY

Notes to Financial Statements
As of June 30, 2015 (continued)

NOTE 7 - PENSION PLAN: (CONTINUED)

Plan Description (Continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|---|---|---|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| Vesting (Cont.) | Vesting (Cont.) | <p>Vesting (Cont.) <u>Defined Contributions Component: (Cont.)</u> Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p> |
| <p>Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> | <p>Calculating the Benefit See definition under Plan 1.</p> | <p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1</p> |

SOUTHSIDE REGIONAL JAIL AUTHORITY

Notes to Financial Statements
As of June 30, 2015 (continued)

NOTE 7 - PENSION PLAN: (CONTINUED)

Plan Description (Continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|---|--|---|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>Calculating the Benefit (Cont.) An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p> | <p>Calculating the Benefit (Cont.)</p> | <p>Calculating the Benefit (Cont.) <u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p> |
| <p>Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p> | <p>Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p> | <p>Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p> |
| <p>Service Retirement Multiplier VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.</p> <p>Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.</p> <p>Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.</p> | <p>Service Retirement Multiplier VRS: Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p> <p>Sheriffs and regional jail superintendents: Same as Plan 1.</p> <p>Political subdivision hazardous duty employees: Same as Plan 1.</p> | <p>Service Retirement Multiplier <u>Defined Benefit Component:</u> VRS: The retirement multiplier for the defined benefit component is 1.00%.</p> <p>For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p> <p>Sheriffs and regional jail superintendents: Not applicable.</p> <p>Political subdivision hazardous duty employees: Not applicable.</p> <p>Defined Contribution Component: Not applicable.</p> |

SOUTHSIDE REGIONAL JAIL AUTHORITY

Notes to Financial Statements
As of June 30, 2015 (continued)

NOTE 7 - PENSION PLAN: (CONTINUED)

Plan Description (Continued)

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

SOUTHSIDE REGIONAL JAIL AUTHORITY

Notes to Financial Statements
As of June 30, 2015 (continued)

NOTE 7 - PENSION PLAN: (CONTINUED)

Plan Description (Continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|---|---|--|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p> | <p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p> | <p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p> |
| <p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> | <p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><u>Eligibility:</u> Same as Plan 1</p> | <p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p> |

SOUTHSIDE REGIONAL JAIL AUTHORITY

Notes to Financial Statements
As of June 30, 2015 (continued)

NOTE 7 - PENSION PLAN: (CONTINUED)

Plan Description (Continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|--|--|--|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. | <p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1</p> | <p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p> |

SOUTHSIDE REGIONAL JAIL AUTHORITY

Notes to Financial Statements
As of June 30, 2015 (continued)

NOTE 7 - PENSION PLAN: (CONTINUED)

Plan Description (Continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|--|--|--|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p> | <p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p> | <p>Disability Coverage Employees of political subdivisions (including Plan 1 and Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p> |
| <p>Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p> | <p>Purchase of Prior Service Same as Plan 1.</p> | <p>Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> •Hybrid Retirement Plan members are ineligible for ported service. •The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. •Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost. <p><u>Defined Contribution Component:</u> Not applicable.</p> |

SOUTHSIDE REGIONAL JAIL AUTHORITY

Notes to Financial Statements As of June 30, 2015 (continued)

NOTE 7 - PENSION PLAN: (CONTINUED)

Plan Description (Continued)

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2014-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Employees Covered by Benefit Terms

As of the June 30, 2013 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

| | <u>Number</u> |
|--|-------------------|
| Inactive members or their beneficiaries currently receiving benefits | 16 |
| Inactive members: | |
| Vested inactive members | 4 |
| Non-vested inactive members | 11 |
| Inactive members active elsewhere in VRS | <u>27</u> |
| Total inactive members | 42 |
| Active members | <u>45</u> |
| Total covered employees | <u><u>103</u></u> |

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The Authority's contractually required contribution rate for the year ended June 30, 2015 was 15.49% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were \$286,807 and \$322,039 for the years ended June 30, 2015 and June 30, 2014, respectively.

Net Pension Liability

The Authority's net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2013, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

SOUTHSIDE REGIONAL JAIL AUTHORITY

Notes to Financial Statements As of June 30, 2015 (continued)

NOTE 7 - PENSION PLAN: (CONTINUED)

Actuarial Assumptions - General Employees

The total pension liability for General Employees in the Authority's Retirement Plan was based on an actuarial valuation as of June 30, 2013, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

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

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

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

Largest 10 - Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

SOUTHSIDE REGIONAL JAIL AUTHORITY

Notes to Financial Statements As of June 30, 2015 (continued)

NOTE 7 - PENSION PLAN: (CONTINUED)

Actuarial Assumptions - General Employees (Continued)

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - Non-LEOS:

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

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

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

Actuarial Assumptions - Public Safety Employees

The total pension liability for Public Safety employees in the Authority's Retirement Plan was based on an actuarial valuation as of June 30, 2013, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

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

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

SOUTHSIDE REGIONAL JAIL AUTHORITY

Notes to Financial Statements
As of June 30, 2015 (continued)

NOTE 7 - PENSION PLAN: (CONTINUED)

Actuarial Assumptions - Public Safety Employees (Continued)

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

Largest 10 - Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) - LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

SOUTHSIDE REGIONAL JAIL AUTHORITY

Notes to Financial Statements As of June 30, 2015 (continued)

NOTE 7 - PENSION PLAN: (CONTINUED)

Long-Term Expected Rate of Return

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

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

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

SOUTHSIDE REGIONAL JAIL AUTHORITY

Notes to Financial Statements
As of June 30, 2015 (continued)

NOTE 7 - PENSION PLAN: (CONTINUED)

Discount Rate

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

Changes in Net Pension Liability

| | Liability (a) | Net Position (b) | Liability (a) - (b) |
|--|------------------|---------------------|------------------------|
| Balances at June 30, 2013 | \$ 4,877,754 | \$ 4,132,998 | \$ 744,756 |
| Changes for the year: | | | |
| Service cost | \$ 352,821 | \$ - | \$ 352,821 |
| Interest | 335,632 | - | 335,632 |
| Differences between expected and actual experience | - | - | - |
| Contributions - employer | - | 322,039 | (322,039) |
| Contributions - employee | - | 94,408 | (94,408) |
| Net investment income | - | 678,760 | (678,760) |
| Benefit payments, including refunds of employee contributions | (166,012) | (166,012) | - |
| Administrative expenses | - | (3,390) | 3,390 |
| Other changes | - | 36 | (36) |
| Net changes | \$ 522,441 | \$ 925,841 | \$ (403,400) |
| Balances at June 30, 2014 | \$ 5,400,195 | \$ 5,058,839 | \$ 341,356 |

SOUTHSIDE REGIONAL JAIL AUTHORITY

Notes to Financial Statements
As of June 30, 2015 (continued)

NOTE 7 - PENSION PLAN: (CONTINUED)

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

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

| | Rate | | |
|---|--------------|------------|--------------|
| | (6.00%) | (7.00%) | (8.00%) |
| Authority Net Pension Liability (Asset) | \$ 1,193,492 | \$ 341,356 | \$ (354,435) |

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

For the year ended June 30, 2015, the Authority recognized pension expense of \$223,281. At June 30, 2015, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Net difference between projected and actual earnings on pension plan investments | \$ - | \$ 304,642 |
| Employer contributions subsequent to the measurement date | 286,807 | - |
| Total | \$ 286,807 | \$ 304,642 |

\$286,807 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended June 30 | |
|--------------------|-------------|
| 2016 | \$ (76,160) |
| 2017 | (76,160) |
| 2018 | (76,160) |
| 2019 | (76,162) |

SOUTHSIDE REGIONAL JAIL AUTHORITY

Notes to Financial Statements As of June 30, 2015 (continued)

NOTE 8 - RISK MANAGEMENT:

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority joined together with other local governments in Virginia to form the Virginia Association of Counties Risk Pool, a public entity risk pool currently operating as a common risk management and insurance program for participating local governments. The Authority pays an annual premium to the pool for substantially all of its insurance coverage. In the event of a loss deficit and depletion of all available excess insurance, the pool may assess all members in the proportion in which the premium of each bears to the total premiums of all members in the year in which such deficit occurs.

The Authority continues to carry commercial insurance for all other risks of loss, including employee dishonesty and surety bond insurance coverage. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 9 - AMOUNTS HELD FOR OTHERS:

Amounts held for inmates in the Commissary and Inmate accounts are reported as current liabilities as follows at June 30, 2015:

| | | |
|---|----|----------------------|
| Amount held in inmate account | \$ | 18,623 |
| Amount held in commissary account | | 39,897 |
| Amount held in employee recognition account | | <u>146</u> |
| Total | \$ | <u><u>58,666</u></u> |

NOTE 10 - SUMMARY OF SPECIAL ACCOUNTS:

A summary of activity from the special accounts at the Authority are shown below.

| | <u>Receipts</u> | <u>Disburse- ments</u> | <u>Excess of Revenues over (under) Expenditures</u> |
|---------------------------|--------------------------|----------------------------|---|
| Inmate Account | \$ 269,110 | \$ 280,910 | \$ (11,800) |
| Inmate Canteen Account | 115,887 | 136,940 | (21,053) |
| Work Release | 882 | 882 | - |
| Inmate Medical Co-Payment | <u>7,338</u> | <u>7,338</u> | <u>-</u> |
| Total | <u><u>\$ 393,217</u></u> | <u><u>\$ 426,070</u></u> | <u><u>\$ (32,853)</u></u> |

SOUTHSIDE REGIONAL JAIL AUTHORITY

Notes to Financial Statements As of June 30, 2015 (continued)

NOTE 11 - RETIREE HEALTH INSURANCE CREDIT PROGRAM:

In addition to the benefits described previously, the Authority participates in the Health Insurance Credit Program administered by the Virginia Retirement System.

A. Plan Description

The Authority participates in the Health Insurance Credit Program, a plan designed to assist retirees with the cost of health insurance coverage. This program is an agent, multiple-employer defined benefit plan administered by the Virginia Retirement System (VRS). The Virginia General Assembly establishes the dollar amount of the health insurance credit for each year of creditable service. The credit amount and eligibility differs for state, school division, political subdivision, local officer, local social services department and general registrar retirees.

An employee of the Authority, who retires under VRS with at least 15 years of total creditable service under the System and is enrolled in a health insurance plan, is eligible to receive a monthly health insurance credit of \$1.50 per year of creditable service up to a maximum monthly credit of \$45. However, such credit shall not exceed the health insurance premium for the retiree. Disabled retirees automatically receive the maximum monthly health insurance credit of \$45.

Benefit provisions and eligibility requirements are established by Title 51.1, Chapter 14 of the Code of Virginia. The VRS actuarially determines the amount necessary to fund all credits provided, reflects the cost of such credits in the applicable employer contribution rate pursuant to §51.1-145, and prescribes such terms and conditions as are necessary to carry out the provisions of the health insurance credit program. VRS issues separate financial statements as previously discussed in Note 7.

B. Funding Policy

As a participating local political subdivision, the Authority is required to contribute the entire amount necessary to fund participation in the program using the actuarial basis specified by the Code of Virginia and the VRS Board of Trustees. The Authority's contribution rate for the fiscal year ended 2014 was 0.21% of annual covered payroll.

C. OPEB Cost and Net OPEB Obligation

The annual cost of OPEB under Governmental Accounting Standards Board (GASB) 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, is based on the annual required contribution (ARC). The Authority is required to contribute the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

For 2015, the Authority's contribution of \$3,854 was equal to the ARC and OPEB cost. The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2015 and the two preceding years are as follows:

| <u>Fiscal Year Ended</u> | <u>Annual OPEB Cost</u> | <u>Percentage of Annual OPEB Cost Contributed</u> | <u>Net OPEB Obligation</u> |
|------------------------------|-----------------------------|---|--------------------------------|
| June 30, 2013 | \$ 4,463 | 100.00% | \$ - |
| June 30, 2014 | 4,414 | 100.00% | - |
| June 30, 2015 | 3,854 | 100.00% | - |

SOUTHSIDE REGIONAL JAIL AUTHORITY

Notes to Financial Statements As of June 30, 2015 (continued)

NOTE 11 - RETIREE HEALTH INSURANCE CREDIT PROGRAM: (CONTINUED)

D. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2014, the most recent actuarial valuation date, is as follows:

| | | |
|---|----|-----------|
| Actuarial accrued liability (AAL) | \$ | 56,153 |
| Actuarial value of plan assets | \$ | 34,986 |
| Unfunded actuarial accrued liability (UAAL) | \$ | 21,167 |
| Funded ratio (actuarial value of plan assets/AAL) | | 62.30% |
| Covered payroll (annual payroll of active plan members) | \$ | 1,759,711 |
| UAAL as a percentage of covered payroll | | 1.20% |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future and reflect a long-term perspective. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used included techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The entry age normal cost method was used to determine the plan's funding liabilities and costs. The actuarial assumptions included a 7% investment rate of return, compounded annually, including an inflation component of 2.5%, and a payroll growth rate of 3%. The UAAL is being amortized as a level percentage of payroll on an open basis. The remaining open amortization period at June 30, 2014 was 27 years.

SOUTHSIDE REGIONAL JAIL AUTHORITY

Notes to Financial Statements As of June 30, 2015 (continued)

NOTE 12 - COMMITMENTS AND CONTINGENCIES:

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the government expects such amounts, if any, to be immaterial.

NOTE 13 - LITIGATION:

At June 30, 2015, there were no matters of litigation involving the Authority which would materially affect the Authority's financial position should any court decisions on pending matters not be favorable.

NOTE 14 - ADOPTION OF ACCOUNTING PRINCIPLES:

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*:

The Authority implemented the financial reporting provisions of the above Statements for the fiscal year ended June 30, 2015. These Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expenses related to pensions. Note disclosure and required supplementary information requirements about pensions are also addressed. The requirements of these Statements will improve financial reporting by improving accounting and financial reporting by state and local governments for pensions. The implementation of these Statements resulted in a \$422,717 restatement of beginning net position.

- Required Supplementary Information -

SOUTHSIDE REGIONAL JAIL AUTHORITY

**Schedule of Components of and Changes in Net Pension Liability and Related Ratios
Year Ended June 30, 2015**

| | <u>2014</u> |
|--|----------------------------|
| Total pension liability | |
| Service cost | \$ 352,821 |
| Interest | 335,632 |
| Benefit payments, including refunds of employee contributions | <u>(166,012)</u> |
| Net change in total pension liability | \$ 522,441 |
| Total pension liability - beginning | <u>4,877,754</u> |
| Total pension liability - ending (a) | <u><u>\$ 5,400,195</u></u> |
| Plan fiduciary net position | |
| Contributions - employer | \$ 322,039 |
| Contributions - employee | 94,408 |
| Net investment income | 678,760 |
| Benefit payments, including refunds of employee contributions | (166,012) |
| Administrative expense | (3,390) |
| Other | <u>36</u> |
| Net change in plan fiduciary net position | \$ 925,841 |
| Plan fiduciary net position - beginning | <u>4,132,998</u> |
| Plan fiduciary net position - ending (b) | <u><u>\$ 5,058,839</u></u> |
| Authority's net pension liability - ending (a) - (b) | \$ 341,356 |
| Plan fiduciary net position as a percentage of the total pension liability | 93.68% |
| Covered-employee payroll | \$ 1,851,044 |
| Authority's net pension liability as a percentage of covered-employee payroll | 18.44% |

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

SOUTHSIDE REGIONAL JAIL AUTHORITY

Schedule of Employer Contributions
Year Ended June 30, 2015

| <u>Date</u> | <u>Contractually Required Contribution (1)</u> | <u>Contributions in Relation to Contractually Required Contribution (2)</u> | <u>Contribution Deficiency (Excess) (3)</u> | <u>Employer's Covered Employee Payroll (4)</u> | <u>Contributions as a % of Covered Employee Payroll (5)</u> |
|-------------|--|---|---|--|---|
| 2015 | \$ 286,807 | \$ 286,807 | \$ - | \$ 1,843,838 | 15.55% |

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

SOUTHSIDE REGIONAL JAIL AUTHORITY

Notes to Required Supplementary Information Year Ended June 30, 2015

Changes of benefit terms - There have been no significant changes to the System benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining the System after the valuation date of June 30, 2013 and the impact on the liabilities as of the measurement date of June 30, 2014 are minimal.

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

Largest 10 - Non-LEOS:

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

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

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

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

All Others (Non 10 Largest) - LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

SOUTHSIDE REGIONAL JAIL AUTHORITY

Schedule of OPEB Funding Progress
Year Ended June 30, 2015

VIRGINIA RETIREMENT SYSTEM

| Actuarial Valuation Date | Actuarial Value of Assets (AVA) | Actuarial Accrued Liability (AAL) | Unfunded (Excess Funded) Actuarial Accrued Liability (UAAL) | Funded Ratio (2) / (3) | Covered Payroll | UAAL as % of Payroll (4) / (6) |
|--------------------------------|--|--|--|------------------------------|--------------------|---|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| 6/30/2014 | \$ 34,986 | \$ 56,153 | 21,167 | 62.30% | \$ 1,759,711 | 1.20% |
| 6/30/2013 | 29,531 | 51,797 | 22,266 | 57.01% | 1,862,911 | 1.20% |
| 6/30/2012 | 24,881 | 49,585 | 24,704 | 50.18% | 1,768,806 | 1.40% |

- Compliance -

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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 Directors
Southside Regional Jail Authority
Emporia, 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 Southside Regional Jail Authority as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Southside Regional Jail Authority's basic financial statements and have issued our report thereon dated November 24, 2015.

Internal Control over Financial Reporting

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia

November 24, 2015