Virginia Peninsula Regional Jail Authority

Basic Financial Statements and Supplementary Information

(With Independent Auditors' Report Thereon)

Year Ended June 30, 2017

Virginia Peninsula Regional Jail Authority

Table of Contents

DIXON HUGHES GOODMAN LLP

Independent Auditors' Report

Board of Directors
Virginia Peninsula Regional Jail Authority
Williamsburg, Virginia

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Virginia Peninsula Regional Jail Authority as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Virginia Peninsula Regional Jail Authority's basic financial statements listed in the table of contents. These financial statements are the responsibility of the Virginia Peninsula Regional Jail's management.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Virginia Peninsula Regional Jail Authority as of June 30, 2017, and the respective 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.

DIXON HUGHES GOODMAN LLP

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and schedules of changes in net pension asset and related ratios and employer contributions and related notes on pages 3-5 and 33-36 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 of consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Virginia Peninsula Regional Jail Authority's basic financial statements. The combining balance sheets and the combining schedules of revenues, expenditures, and changes in fund balance for the nonmajor governmental funds are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining balance sheet and the combining schedule of revenues, expenditures, and changes in fund balance for the nonmajor governmental funds are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining balance sheets and the combining schedules of revenues, expenditures, and changes in fund balance for the nonmajor government funds financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The statistical section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards,* we have also issued our report dated November 8, 2017, on our consideration of the Virginia Peninsula 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Virginia Peninsula Regional Jail Authority's internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

Newport News, Virginia
November 8, 2017

Virginia Peninsula Regional Jail Authority
Management's Discussion and Analysis
June 30, 2017

This section of the Virginia Peninsula Regional Jail Authority's (Authority) annual financial report presents our discussion and analysis of the Authority's financial performance during the fiscal year ended June 30, 2017.

Financial Highlights

The Authority had an increase in net position of $958,696 for fiscal year 2017. The increase was primarily due to higher member contributions and funding from the state and federal governments. Total liabilities decreased by $1,611,606, primarily due to principal payments on a lease payable and revenue bonds.

Overview of the Financial Statements

This report has two components - Management's Discussion and Analysis (this section) and the basic financial statements. This report also contains required supplementary information and other supplementary information in addition to the basic financial statements. The basic financial statements include both government-wide and fund financial statements and the notes to the financial statements. Government-wide and fund financial statements categorize primary activities as either governmental or business-type. All of the Authority's operations are considered to be governmental.

The government-wide and fund financial statements are distinguished as follows:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Authority's overall financial status.
- The remaining statements are fund financial statements that focus on individual components of the Authority's operations. In addition, governmental *fund* statements tell how *general government* services, like the operation and maintenance of the jail, were financed in the *short-term*, as well as the amounts that remain for future spending.

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

Financial Analysis

Statements of Net Position

	6/30/2017	6/30/2016
Current and other assets	$ 5,375,396	$ 5,367,511
Capital assets, net	17,293,072	18,129,160
Net pension asset	1,159,958	856,570
Total assets	23,828,426	24,353,241
Deferred outflows	851,146	674,622
Total assets and deferred outflow of resources	$ 24,679,572	$ 25,027,863
Current liabilities	$ 3,227,127	$ 2,625,937
Noncurrent liabilities	4,757,228	6,970,024
Total liabilities	7,984,355	9,595,961
Deferred pension investment experience	613,954	309,335
Net position:		
Net investment in capital assets	11,125,004	10,170,965
Restricted	3,964,825	3,671,700
Unrestricted	991,434	1,279,902
Total net position	16,081,263	15,122,567
Total liabilities, deferred inflows and net position	$ 24,679,572	$ 25,027,863

Total assets decreased by 2.2% from fiscal year 2016, primarily due to a decrease in capital assets for current year depreciation expense and assets written off that did not meet the capitalization threshold.

Total liabilities experienced a decrease of 16.8% from fiscal year 2016, which was primarily due to debt paydowns. Total net position was $16,081,263 and $15,122,567 at June 30, 2017 and 2016, respectively.

Statements of Activities for the Year Ended

	6/30/2017	6/30/2016
Program expenses:		
Personal services	$ 7,797,020	$ 7,761,036
Materials and contractual services	3,831,157	3,763,127
Depreciation and interest	1,098,150	1,224,617
Total program expenses	12,726,327	12,748,780
Program revenues:		
Charges for services	6,913,977	6,822,397
Operating grants and contributions	5,995,278	5,784,651
Total program revenues	12,909,255	12,607,048
Operating income (loss)	182,928	(141,732)
General revenues:		
Miscellaneous revenues, net	782,422	890,858
Investment income (loss), net	(6,654)	60,381
Total general revenues, net	775,768	951,239
Change in net position	958,696	809,507
Net position, beginning of year	15,122,567	14,313,060
Net position, end of year	$ 16,081,263	$ 15,122,567

Program expenses decreased from the prior year by $22,453, mainly due to lower depreciation and interest expenses. As the total outstanding debt decreases due to repayments, the related interest decreases as well.

Program revenue increased by $302,207 in 2017, mainly due to higher member contributions and funds received from the state and federal governments.

Total net position increased by $958,696 from 2016, mainly attributable to the circumstances noted above.

Summary Schedule of Budget and Actual – General Fund
Year Ended June 30, 2017

	Original Budget	Revised Budget	Actual	Variance
Revenues	$ 13,514,636	$ 13,628,971	$ 13,602,782	$ (26,189)
Expenditures	$ (11,667,264)	$ (11,739,776)	$ (11,799,783)	$ (60,007)
Other Financing Uses, net	(1,847,372)	(1,889,195)	(1,519,867)	369,328
Total	$ (13,514,636)	$ (13,628,971)	$ (13,319,650)	$ 309,321
Net Change in Fund Balance	$ -	$ -	$ 283,132	$ 283,132

The General Fund has a legally adopted budget. For fiscal year 2017, the revised budget reflected a net increase $114,335, or a .85% change from the original budget. Overall, the Authority came under budget by $283,132, primarily due to savings in debt service.

Capital Assets

	6/30/2017	6/30/2016
Nondepreciable	$ 916,041	$ 885,546
Depreciable, net	16,377,031	17,243,614
Capital assets, net	$ 17,293,072	$ 18,129,160

During fiscal year 2017, the Authority purchased new equipment and vehicles, and was in the process of enhancing their security system. In addition, several capital assets were written off that did not meet the capitalization threshold. The net effect of the additions and disposals as well as current year's depreciation expense collectively comprise the decrease in capital assets from 2016.

Additional information can be found in Note 4 to the basic financial statements.

Debt Administration

In June 2003, the Authority issued $21,655,000 of general improvement revenue bonds with an interest cost of 3.49% to refund the outstanding issue with interest rates from 2% to 5%. On October 1, 2005, the Authority called the outstanding refunded bonds. The balance of the revenue bonds, net of unamortized premiums, at June 30, 2017 and 2016 was $4,654,104 and $6,353,659, respectively.

In February 2013, the Authority signed a $1,766,000 lease purchase agreement, with an interest rate of 2.85%, with Siemens Public, Inc. The agreement is part of an Energy Performance Contract, with the proceeds of the lease held in an escrow account with UMB Corporate Trust Services. The balance of the lease purchase agreement at June 30, 2017 and 2016 was $1,513,964 and $1,604,536, respectively.

Additional information can be found in Note 5 to the basic financial statements.

Request for Financial Information

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

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Virginia Peninsula Regional Jail Authority

Statement of Net Position

June 30, 2017

		Governmental Activities
Assets		
Cash and short-term investments (Note 2)	$	1,705,615
Restricted cash and investments (Note 2)		2,808,463
Due from other governmental units (Note 3)		583,738
Accounts receivable		277,580
Capital assets, net (Note 4):		
Nondepreciable		916,041
Depreciable, net		16,377,031
Net pension asset (Note 6)		1,159,958
Total assets		23,828,426
Deferred outflows of resources		
Deferred pension investment experience (Note 6)		362,168
Deferred pension contributions (Note 6)		431,719
Deferred differences between expected and actual experience on pension actuarial valuation (Note 6)		57,259
Total deferred outflows of resources		851,146
Total assets and deferred outflow of resources	$	24,679,572
Liabilities		
Accounts payable	$	426,152
Due to James City County		8,541
Amounts held for others		99,093
Interest payable		59,159
Salaries payable		2,345
Noncurrent liabilities (Notes 5, 6 and 7):		
Due within one year		2,631,837
Due in more than one year		4,757,228
Total liabilities		7,984,355
Deferred inflow of resources		
Deferred differences between expected and actual experience on pension actuarial valuation (Note 6)		613,954
Net position		
Net investment in capital assets		11,125,004
Restricted for pensions		1,159,958
Restricted for debt service		2,804,867
Unrestricted		991,434
Total net position		16,081,263
Total liabilities, deferred inflow of resources and net position	$	24,679,572

See accompanying notes to financial statements.

Virginia Peninsula Regional Jail Authority

Statement of Activities

Year Ended June 30, 2017

	Governmental Activities
Program expenses	
Personal services	$ 7,797,020
Materials and contractual services	3,831,157
Depreciation	915,949
Interest	182,201
Total program expenses	12,726,327
Program revenues	
Charges for services	6,913,977
Operating grants and contributions	5,995,278
Total program revenues	12,909,255
Operating income	182,928
General revenues	
Miscellaneous revenue, net	782,422
Investment income (loss), net	(6,654)
Total general revenues, net	775,768
Change in net position	958,696
Net position, beginning of year	15,122,567
Net position, end of year	$ 16,081,263

See accompanying notes to financial statements.

Virginia Peninsula Regional Jail Authority

Balance Sheet

Governmental Funds

June 30, 2017

	General	Debt Service	Nonmajor Governmental funds	Total Governmental Funds
Assets				
Cash and short-term investments (Note 2)	$ 1,606,522	$ -	$ 99,093	$ 1,705,615
Restricted cash and investments (Note 2)	-	2,808,463	-	2,808,463
Due from other governmental units (Note 3)	583,738	-	-	583,738
Accounts receivable	257,263	-	20,317	277,580
Total assets	$ 2,447,523	$ 2,808,463	$ 119,410	$ 5,375,396
Liabilities				
Accounts payable	$ 424,851	$ -	$ 1,301	$ 426,152
Due to James City County	8,297	-	244	8,541
Amounts held for others	-	-	99,093	99,093
Interest payable	-	3,596	-	3,596
Salaries payable	2,345	-	-	2,345
Total liabilities	435,493	3,596	100,638	539,727
Deferred inflows of resources				
Unavailable revenue - telephone commissions and misc. revenue	98,394	-	-	98,394
Fund balances				
Restricted	-	2,804,867	-	2,804,867
Unassigned	1,913,636	-	18,772	1,932,408
Total fund balances	1,913,636	2,804,867	18,772	4,737,275
Total liabilities, deferred inflows and fund balances	$ 2,447,523	$ 2,808,463	$ 119,410	$ 5,375,396

Reconciliation of the balance sheet for governmental funds to the statement of net position for governmental activities:

Total fund balance – governmental funds		$ 4,737,275
Amounts reported for governmental activities in the statement of net position are different because:		
Net pension asset, net difference between projected and actual earnings on pension plan investments, deferred pension contributions and differences between expected and actual pension experience do not provide current financial resources and therefore are not reported in the governmental funds.		2,011,104
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		17,293,072
Accounts receivable collected after 45 days are not available to pay for current period expenditures and therefore are deferred in the funds.		98,394
Interest payable on long-term debt is not reported in governmental funds but rather is recognized as an expenditure when due.		(55,563)
The deferred differences in expected and actual experience on pension experience does not require the use of current financial resources and therefore is not reflected on the governmental fund balance sheet.		(613,954)
Long-term liabilities are not due and payable with current resources and therefore are not reported in the governmental funds.		
Compensated absences	$ (749,997)	
Other post-employment benefits (OPEB)	(471,000)	
Lease payable	(1,513,964)	
Bonds payable	(4,654,104)	(7,389,065)
Net position of governmental activities		$ 16,081,263

See accompanying notes to financial statements.

Virginia Peninsula Regional Jail Authority

Statements of Revenues, Expenditures, and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2017

	General	Debt Service	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Commonwealth of Virginia	$ 4,528,078	$ -	$ -	$ 4,528,078
Local governments:				
York County	2,646,322	-	-	2,646,322
James City County	2,762,464	-	-	2,762,464
City of Williamsburg	1,229,100	-	-	1,229,100
City of Poquoson	321,797	-	-	321,797
Federal government	1,467,200	-	-	1,467,200
Investment income (loss), net	14	(6,668)	-	(6,654)
Telephone commissions	309,505	-	-	309,505
Miscellaneous	333,314	-	-	333,314
Rental income	4,988	-	-	4,988
Work release fees	-	-	63,969	63,969
Canteen sales	-	-	182,191	182,191
Total revenues	13,602,782	(6,668)	246,160	13,842,274
Expenditures				
Salaries and benefits	8,015,421	-	-	8,015,421
Contractual services	1,131,714	-	-	1,131,714
Food and food supplies	498,159	-	171	498,330
Utilities	434,109	-	-	434,109
Medical supplies	589,641	-	-	589,641
Other supplies	210,597	-	13,304	223,901
Building maintenance	202,057	-	-	202,057
Fiscal agent fee (Note 9)	115,517	-	-	115,517
Inmate programs	-	-	95,838	95,838
Staff development	73,137	-	52	73,189
Furniture and equipment	247,470	-	-	247,470
Staff clothing	61,136	-	-	61,136
Transportation	46,597	-	-	46,597
Insurance	31,085	-	-	31,085
Inmate clothing	69,884	-	-	69,884
Vehicles	72,960	-	-	72,960
Advertising	299	-	-	299
Indigent expenses	-	-	15,675	15,675
Debt service:				
Principal retirement	-	1,685,572	-	1,685,572
Interest	-	306,693	-	306,693
Other	-	1,616	-	1,616
Total expenditures	11,799,783	1,993,881	125,040	13,918,704
Excess (deficiency) of revenues over (under) expenditures	1,802,999	(2,000,549)	121,120	(76,430)
Other financing sources (uses)				
Transfers in (Note 8)	82,351	1,602,218	-	1,684,569
Transfers out (Note 8)	(1,602,218)	-	(82,351)	(1,684,569)
Total other financing sources (uses)	(1,519,867)	1,602,218	(82,351)	-
Net change in fund balances	283,132	(398,331)	38,769	(76,430)
Fund balance (deficit), beginning of year	1,630,504	3,203,198	(19,997)	4,813,705
Fund balance, end of year	$ 1,913,636	$ 2,804,867	$ 18,772	$ 4,737,275

See accompanying notes to financial statements.

Virginia Peninsula Regional Jail Authority

Statements of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

Year Ended June 30, 2017

Reconciliation of the statement of revenues, expenditures, and changes in fund balances of governmental funds to the statement of activities:

Net change in total governmental fund balances		$ (76,430)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Depreciation expense	$ (915,949)	
Capital outlay expenditures	79,861	(836,088)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Unavailable revenue decreased by this amount in the current year.		(157,251)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, refunding gains/losses, and similar items when debt is issued, whereas these amounts are deferred and amortized in the statement of activities.		
Principal payments on revenue bonds payable	1,595,000	
Principal payments on lease payable	90,572	
Change in interest payable on revenue bonds	19,937	
Amortization on premium on revenue bonds payable	104,555	1,810,064
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. The items listed below reflects the change from prior year.		
Compensated absences	149,108	
OPEB obligation	(106,000)	
Pension asset and deferred inflows and outflows	175,293	
		218,401
Change in net position on statement of activities		$ 958,696

See accompanying notes to financial statements.

1) Summary of Significant Accounting Policies

The Virginia Peninsula Regional Jail Authority (the Authority) was created as a political subdivision of the Commonwealth of Virginia by resolutions adopted in 1993, by and between the Cities of Poquoson and Williamsburg (the Cities) and Counties of James City and York (the Counties), pursuant to the provisions of Article 3.1, Chapter 3, Title 53.1 of the Code of Virginia, as amended. The Authority is governed by a seven-member board of directors (the Board), consisting of one representative from each member jurisdiction and the sheriff of each jurisdiction that has a sheriff. The host jurisdiction, James City County (the County), is also entitled to an additional member who was appointed in January 1998. The general purpose of the Authority is to maintain and operate a regional jail. The Authority began accepting prisoners on June 14, 1997.

Financial Reporting Entity

The Authority is a legally separate organization, and neither the City Councils of the Cities nor the Boards of Supervisors of the Counties can impose their will on the Authority, and there is no potential financial benefit or burden in the relationship. Accordingly, the Authority is not considered a component unit of any of the Cities or the Counties. The County is the fiscal agent for the Authority.

Government-Wide and Fund Financial Statements

The basic financial statements include both government-wide and fund financial statements. Both the government-wide and fund financial statements categorize primary activities as either governmental or business type. All of the Authority's activities are considered to be governmental as they are principally supported by intergovernmental revenues. In the government-wide statement of net position, the governmental activities column (a) is presented on a consolidated basis, and (b) is reflected on a full accrual basis of accounting and economic resources measurement focus, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The government-wide statement of activities reflects both the gross and net cost per functional category that is otherwise being supported by general government revenues. The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants and contributions. The program revenues must be directly associated with the function. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants and contributions that are restricted for the operation or capital requirements of a particular function. Other items not properly included among program revenues are reported as general revenues. Administrative overhead charges are allocated to the programs and included in direct expenses. The operating grants include operating-specific and discretionary (either operating or capital) grants.

In the fund financial statements, financial transactions and accounts of the Authority are organized on the basis of funds. The operation of each fund is considered to be an independent fiscal and separate accounting entity, with a self-balancing set of accounts recording cash and/or other financial resources together with all related liabilities and residual equities or balances and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The governmental fund statements are presented on a current financial resources measurement focus and modified accrual basis of accounting. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, a reconciliation is presented which explains the adjustments necessary to reconcile the fund financial statements to the governmental activities column of the government-wide financial statements.

The Authority reports the following major governmental funds:

The General Fund is the general operating fund of the Authority. It is used to account for all revenues and financial resources except those required to be accounted for in a separate fund. Revenues are primarily derived from reimbursements from the Commonwealth of Virginia and member jurisdictions.

1) Summary of Significant Accounting Policies, Continued

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest and related charges.

The Nonmajor Governmental Funds are comprised of the Work Release Fund and the Canteen Fund.

Basis of Accounting and Measurement Focus

The fund financial statements of the governmental funds are maintained and reported on the modified accrual basis of accounting using the current financial resources measurement focus. Under this method of accounting, revenues are recognized in the period in which they become measurable and available to finance operations during the year. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period, usually 45 days after year end. Expenditures are recorded when the related fund liability is incurred. Expenditures for debt service and compensated absences are recorded when the related liability is due and payable. In applying the modified accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of revenues. In one, eligibility requirements must be met before revenues are recognized. In the other, there are no eligibility requirements and resources are reflected as revenues at the time of receipt. Amounts received in advance for grants with eligibility requirements are recorded as deferred revenue until eligibility requirements are met.

The government-wide statement of net position and statement of activities are accounted for on a flow of economic resources measurement focus and an accrual basis of accounting. With this measurement focus, all assets and liabilities associated with the operation of these activities are included on the statement of net position. Under this method of accounting, revenues are recognized when earned and expenses are recorded when liabilities are incurred without regard to receipt or disbursement of cash.

Fund balance classifications comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Fund balances are reported according to the following categories:

Nonspendable: amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes inventories, prepaid amounts, assets held for sale, and long-term receivables.

Restricted: amounts that are either externally imposed (such as debt covenants, grantor, contributors or other governments) or are imposed by law (constitutionally or enabling legislation).

Committed: amounts that require formal action of the Authority's Board of Directors either by resolution or ordinance that identifies the specific circumstances under which there resources may be expended.

Assigned: amounts that are constrained by the Authority's expressed intent to use resources for specific purposes but do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body, another body (such as the Finance Committee), or by the Jail Superintendent. With the exception of the general fund, this is the residual fund balance of the classification for all governmental funds with positive balances.

Unassigned: the residual classification of the general fund. Only the general fund can report a positive unassigned fund balance. Other governmental funds may report a negative balance in this classification.

1) Summary of Significant Accounting Policies, Continued

Budgets and Budgetary Accounting

The following procedures are used by the Authority in establishing budgetary data:

- The Authority is responsible for formulating the general fund budget. The Jail Superintendent will convene individual and group budget meetings internally at least annually. The Jail Superintendent will then present a comprehensive budget package to the Board of Directors for approval.
- The City Managers and County Administrators, serving as members of the Authority, are responsible for presenting the Authority's budget to their respective jurisdictions and representing the Authority in budget hearings, as needed, in the budget process.
- The budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP).

Cash Equivalents

Cash equivalents are defined as short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash, and (b) so near the maturity that they present insignificant risk of changes in value because of changes in interest rates. Generally, the Authority considers investments with original maturities of three months or less to be cash equivalents.

Capital Assets

Capital outlays are recorded as expenditures in the governmental funds and capitalized at historical cost in the government-wide financial statements to the extent the Authority's capitalization threshold of $5,000 is met. Contributed capital assets are recorded as capital assets at acquisition value at the time received. Depreciation is recorded on capital assets in the government-wide financial statements.

Maintenance, repairs and minor equipment are charged to operations when incurred. Expenditures that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of land, buildings and equipment, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and any resulting gain or loss is included in the change in net position.

Depreciation of capital assets is calculated on the straight-line basis over the following estimated useful lives:

Buildings and improvements	30-40 years
Furniture, equipment, and vehicles	3-12 years

Compensated Absences

Authority employees are granted vacation time in varying amounts based on length of service. They may accumulate, subject to certain limitations, unused vacation leave and upon retirement, termination or death may be compensated for certain amounts at their then current rates of pay. The current and noncurrent portions of accumulated annual vacation leave and sick leave estimated to be paid upon separation are recorded in the government-wide financial statements when earned. Expenditures for compensated absences are recorded in governmental funds when due and payable.

Interfund Transactions

Interfund transactions are reflected as either loans, service provided reimbursements, or transfers. Loans are reported as receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

1) Summary of Significant Accounting Policies, Continued

Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates and assumptions.

2) Cash and Investments

The Authority's cash and investments at June 30, 2017 consisted of the following:

Bank deposits	$	1,702,634
Petty cash		1,000
Investments		2,810,444
Total	$	4,514,078
Reconcilation to Statement of Net Position:		
Cash and short-term investments	$	1,705,615
Restricted cash and investments		2,808,463
Total	$	4,514,078

Deposits with banks are fully covered by Federal Deposit Insurance Corporation (FDIC) or collateralized in accordance with the Virginia Security for Public Deposits Act, Section 2.2-4400 et. seq. of the *Code of Virginia*.

The Authority's investments at June 30, 2017 were as follows:

Investment Type	Cost	Fair Value	Level	Maturity	Rated
LGIP (amortized cost)	$ 1,981	$ 1,981	N/A	1 day	N/A
Money market (cost)	323,065	323,065	N/A	1 day	N/A
US Treasury bonds	2,122,380	2,485,398	1	11/15/2018	Aaa
Total	$ 2,447,426	$ 2,810,444			

The Authority determines the fair value of its financial instruments based on the fair value hierarchy established in accounting standards, which require an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. Accounting standards define fair value as the exchange price that would be received for an asset or liability in the most advantageous markets for the asset or liability in an orderly transaction between market participants on the measurement date. Accounting standards describe three levels of inputs that may be used to measure fair value:

Level 1: Valuation is based on quoted prices in active markets for identical assets and liabilities.

Level 2: Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.

Level 3: Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

2) Cash and Investments, Continued

Investment Policy

The Authority utilizes the policies and procedures of the James City County Treasurer; therefore, the Investment Policy (Policy) of the County is used. In accordance with the Code of Virginia and other applicable law, including regulations, the Authority's Policy permits investments in U.S. government obligations, municipal obligations, commercial paper, and certain corporate notes, bankers' acceptances, repurchase agreements, negotiable certificates of deposit, bank deposit notes, mutual funds, and the State Treasurer's Local Government Investment Pool (the Virginia LGIP, which measures its investments at amortized cost). The Policy establishes limitations on the holdings of non-U.S. government obligations. The maximum percentage of the portfolio (book value at the date of acquisition) permitted in each security is as follows:

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

Credit Risk

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

Concentration of Credit Risk

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

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

At June 30, 2017, 99.93% of the Authority's portfolio was invested in U.S. Treasury obligations and money market fund as part of the debt service reserve fund, and 0.07% of the Authority's portfolio was invested in the Commonwealth of Virginia LGIP account.

2) Cash and Investments, Continued

Interest Rate Risk

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

Proceeds from the sale of bonds must be invested in compliance with the specific requirements of the bond covenants and may be invested in securities with longer maturities, so long as the maturity does not exceed the expected disbursement date of those funds. The Authority has U.S. Treasury obligations totaling $2,335,000 (par value) which mature on November 15, 2018. These investments relate to the proceeds of the 2003 general improvement bonds which refunded the 1995 bonds (see Note 5). These securities are invested per the requirements of the bond covenant and the maturity date will not exceed the expected disbursement date of these funds.

Custodial Credit Risk

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

Collateral Agreement with Morgan Guaranty Trust Company

The Authority entered into an agreement with Morgan Guaranty Trust Company (Morgan), whereby Morgan will provide collateral in order to cover any shortfalls which may occur as a result of fluctuations of the fair value of the investment in the debt service reserve and to meet the reserve requirement as stated in the bond covenant.

3) Due from Other Governmental Units

Due from other governmental units consist of the following:

Commonwealth of Virginia	$ 479,282
Federal Government	104,456
Total	$ 583,738

4) Capital Assets

The following is a summary of changes in capital assets for the fiscal year ended June 30, 2017.

	Balances July 1, 2016	Increases	Decreases	Balances June 30, 2017
Capital assets not being depreciated:				
Land and land improvements	$ 885,546	$ -	$ -	$ 885,546
Construction in progress	-	30,495	-	30,495
Total other capital assets not being depreciated	885,546	30,495	-	916,041
Capital assets being depreciated:				
Buildings and improvements	30,800,308	-	(5,048)	30,795,260
Furniture, equipment, and vehicles	2,668,182	118,620	(418,461)	2,368,341
Total other capital assets being depreciated	33,468,490	118,620	(423,509)	33,163,601
Less accumulated depreciation:				
Buildings and improvements	14,181,675	776,384	(3,605)	14,954,454
Furniture, equipment, and vehicles	2,043,201	139,565	(350,650)	1,832,116
Total accumulated depreciation	16,224,876	915,949	(354,255)	16,786,570
Total capital assets being depreciated, net	17,243,614	(797,329)	(69,254)	16,377,031
Total	$ 18,129,160	$ (766,834)	$ (69,254)	$ 17,293,072

5) Long-Term Liabilities

A summary of the Authority's changes in long-term liabilities for the year ended June 30, 2017 is as follows:

	Balance 7/1/2016	Increases	Decreases	Balance 6/30/2017	Due Within One Year
Compensated absences	$ 899,105	$ 1,289,811	$ 1,438,919	$ 749,997	$ 749,997
Lease payable	1,604,536	-	90,572	1,513,964	97,285
Revenue bonds payable	6,040,000	-	1,595,000	4,445,000	1,680,000
Unamortized bond premium	313,659	-	104,555	209,104	104,555
OPEB obligation	365,000	106,000	-	471,000	-
Total	$ 9,222,300	$ 1,395,811	$ 3,229,046	$ 7,389,065	$ 2,631,837

Lease Payable

In February 2013, the Authority signed a $1,766,000 lease purchase agreement for energy efficient improvements with an interest rate of 2.85%, with Siemens Public, Inc. The net book value of the capital assets purchased under this lease was $1,070,332 at June 30, 2017 and the Authority had accrued interest payable of $3,596 related to this agreement at June 30, 2017. The annual requirements for principal and related interest are as follows:

Year ended June 30	Principal	Interest
2018	$ 97,285	$ 42,130
2019	100,083	39,299
2020	103,028	36,445
2021	110,480	33,430
2022	118,281	30,199
2023-2027	721,668	94,233
2028-2029	263,139	6,640
Total	$ 1,513,964	$ 282,376

Revenue Bonds Payable

In September 1995, the Authority issued regional jail facility revenue bonds (1995 bonds) to fund the acquisition, construction and equipping of a regional jail facility. In June 2003, the Authority issued $21,655,000 of general improvement bonds to purchase U.S. government securities to refund the 1995 bonds. The securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1995 bonds. As a result, the refunded 1995 bonds are considered to be defeased and the liabilities have been removed from the governmental activities column on the statement of net position. On October 1, 2005, the Authority called the outstanding refunded bonds. The callable option resulted in the entire reduction of the amount deferred on refunding that was previously outstanding. The annual requirements to amortize the revenue bonds and related interest are as follows:

Year ended June 30	Principal	Interest
2018	$ 1,680,000	$ 159,250
2019	2,765,000	34,562
Total	$ 4,445,000	$ 193,812

6) Pension Plans

The Virginia Retirement System (VRS) Political Subdivision Retirement Plan is a multi-employer, agent plan. For purposes of measuring the net pension asset, deferred outflow of resources and deferred inflow 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 reported by the 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. Information about the VRS Political Subdivision Retirement Plan is available in the separately issued comprehensive annual financial report (CAFR). A copy of the CAFR may be downloaded from the VRS website at http://www.varetire.org/pdf/publications/2016-annual-report.pdf or obtained by writing to VRS at P.O. Box 2500, Richmond, VA, 23218-2500.

6) Pension Plans, Continued

Plan Description

All full-time, salaried regular employees of participating employers are automatically covered by Virginia Retirement System (VRS) upon employment. The plan is administered by the VRS 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 they and their employer are paying contributions to VRS. Members are eligible to purchase prior service, based on criteria as defined by the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active duty military service, certain periods of leave and previously refunded service.

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

PLAN 1

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.

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.

Hybrid Opt-In Election
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. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. 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.

Retirement Contributions
Members contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contribution; 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.

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.

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. Members are always 100% vested in the contributions that they make.

6) Pension Plans, Continued

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. 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.

Average Final Compensation
A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.

Service Retirement Multiplier
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 1.7%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.

Normal Retirement Age
Age 65. Political subdivisions hazardous duty employees: Age 60.

Earliest Unreduced Retirement Eligibility
Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. Members who are in hazardous duty positions are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.

Earliest Reduced Retirement Eligibility
Members may retire with a reduced benefit as early as age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. Hazardous duty employees may retire with a reduced benefit as early as age 50 with at least five years of creditable service.

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%.

Eligibility
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. 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.

Exceptions to COLA Effective Dates
The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:

- 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.

6) Pension Plans, Continued

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. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

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.

PLAN 2

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.

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.

Hybrid Opt-In Election
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. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. 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.

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.

Creditable Service
Same as Plan 1.

Vesting
Same as Plan 1.

Calculating the Benefit
See definition under Plan 1.

Average Final Compensation
A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.

6) Pension Plans, Continued

Service Retirement Multiplier
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. Sheriffs and regional jail superintendents: same as plan 1. Political subdivision hazardous duty employees: Same as Plan 1.

Normal Retirement Age
Normal Social Security retirement age. Political subdivision hazardous duty employees: Same as Plan 1.

Earliest Unreduced Retirement Eligibility
Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. Political subdivision hazardous duty employees: Same as Plan 1.

Earliest Reduced Retirement Eligibility
Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. Political subdivision hazardous duty employees: Same as Plan 1.

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%.

Eligibility
Same as Plan 1.

Exceptions to COLA Effective Dates
Same as Plan 1.

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. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

Purchase of Prior Service
Same as Plan 1.

Hybrid Retirement Plan

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”) 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. 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.

Eligible Members
Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes 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. Some employees are not eligible to participate in the Hybrid Retirement Plan.

6) Pension Plans, Continued

They include political subdivision employees who are covered by enhanced benefits for hazardous duty employees. 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.

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.

Creditable Service
Defined Benefit Component:
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 may also count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

Defined Contributions Component:
Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

Vesting
Defined Benefit Component:
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.

Defined Contributions Component:
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. Members are always 100% vested in the contributions that they make.

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. 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. Distribution is not required by law until age 70½.

Calculating the Benefit
Defined Benefit Component:
See definition under Plan 1.

Defined Contribution Component:
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.

6) Pension Plans, Continued

Average Final Compensation
Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

Service Retirement Multiplier
<u>Defined Benefit Component</u>:
The retirement multiplier is 1.0%. For members that 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. Sheriffs and regional jail superintendents and political subdivision hazardous duty employees: Not applicable.

<u>Defined Contribution Component</u>:
Not applicable.

Normal Retirement Age
<u>Defined Benefit Component</u>:
Same as Plan 2. Political subdivision hazardous duty employees: Not applicable.

<u>Defined Contribution Component</u>:
Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Earliest Unreduced Retirement Eligibility
<u>Defined Benefit Component</u>:
Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. Political subdivision hazardous duty employees: Not applicable.

<u>Defined Contribution Component</u>:
Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Earliest Reduced Retirement Eligibility
<u>Defined Benefit Component</u>:
Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. Political subdivision hazardous duty employees: Not applicable.

<u>Defined Contribution Component</u>:
Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Cost-of-Living Adjustment (COLA) in Retirement
<u>Defined Benefit Component</u>:
Same as Plan 2.

<u>Defined Contribution Component</u>:
Not applicable.

<u>Eligibility</u>:
Same as Plan 1 and Plan 2.

<u>Exceptions to COLA Effective Dates</u>:
Same as Plan 1 and Plan 2.

Disability Coverage
Eligible political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.

6) Pension Plans, Continued

Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VSDP or VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

Purchase of Prior Service
Defined Benefit Component:
Same as Plan 1 with the following exceptions:
· 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.

Defined Contribution Component:
Not applicable.

Employees Covered by Benefit Terms

As of the June 30, 2015 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	51
Inactive members:	
Vested	12
Non-vested	84
Active elsewhere in VRS	64
Total inactive members	160
Active members	124
Total covered members	335

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% of their compensation toward their retirement. Prior to July 1, 2012, all of the 5% member contribution was paid by the Authority on behalf of its employees. 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% 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, 2017, was 8.82% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contribution to the pension plan from the Authority was $431,719 for the year ended June 30, 2017.

Net Pension Liability

The Authority's net pension liability was measured as of June 30, 2016.

6) Pension Plans, Continued

The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

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, 2015, 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, 2016.

Inflation	2.50%
Salary increases, including inflation	3.5% - 5.35%
Investment rate of return	7%, 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%. However, since the difference was minimal, and a more conservative 7% 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% 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 disabled 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 disabled 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, 2015 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:

6) Pension Plans, Continued

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, 2015, 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, 2016.

Inflation	2.50%
Salary increases, including inflation	3.5% - 4.75%
Investment rate of return	7%, 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%. However, since the difference was minimal, and a more conservative 7% 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% to simplify preparation of pension liabilities.

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

Largest 10-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 disabled life mortality table projected to 2020 with males set back 3 years and no provision for future mortality improvement.

All Others (Non 10 Largest) - 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 disabled life mortality table projected to 2020 with males set back 3 years and no provision for future mortality improvement.

6) Pension Plans, Continued

The actuarial assumptions used in the June 30, 2015 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

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 below:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
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	100.00%		5.83%
		Inflation	2.50%
		*Expected arithmetic nominal return	8.33%

*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%.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The discount rate determination does not use a municipal bond rate. The projection of cash flows used to determine the discount rate assumed that VRS 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.

6) Pension Plans, Continued

Through the fiscal year ending June 30, 2018, the rate contributed by the Authority for the 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 (Asset)

	Increase (Decrease)		
	Total pension liability	Plan fiduciary net pension	Net pension liability (asset)
Balances at June 30, 2015	$ 12,239,571	$ 13,096,141	$ (856,570)
Changes for the year:			
Service cost	774,740	-	774,740
Interest	840,404	-	840,404
Differences between expected and actual experience	(886,823)	-	(886,823)
Contributions - employer	-	552,590	(552,590)
Contributions - employee	-	244,984	(244,984)
Net investment income	-	242,074	(242,074)
Benefit payments, including refunds of employee contributions	(467,611)	(467,611)	-
Administrative expenses	-	(7,839)	7,839
Other changes	-	(100)	100
Net changes	260,710	564,098	(303,388)
Balances at June 30, 2016	$ 12,500,281	$ 13,660,239	$ (1,159,958)

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

The following presents the net pension liability using the discount rate of 7.00%, as well as what the net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6%) or one percentage point higher (8%) than the current rate:

	1% Decrease (6%)	Current discount rate (7%)	1% Increase (8%)
Net pension liability (asset)	$ 572,817	$ (1,159,958)	$ (2,588,104)

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

For the year ended June 30, 2017, the Authority recognized pension expense of $254,575. At June 30, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Employer contributions subsequent to measurement date	$ 431,719	$ -
Differences between expected and actual experience	57,259	613,954
Net difference between projected and actual earnings on plan investments	362,168	-
Total	$ 851,146	$ 613,954

6) Pension Plans, Continued

The $431,719 reported as a deferred outflow of resources represents contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. 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		
2018	$	(201,186)
2019		(258,444)
2020		127,916
2021		137,187
	$	(194,527)

7) Other Post-Employment Benefits (OPEB)

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

Funding Policy

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

Plan Description

Covered full-time active employees who retire directly from the Authority and are at least 50 years of age with 15 years of service are eligible to receive post-employment health care benefits. Each year, retirees participating in the Authority's sponsored plans will be given the opportunity to change plans or drop coverage during an open enrollment period. The pre-Medicare retirees have a choice of three plans: Optima, Healthkeepers and KeyCare. The majority of the participants are in Healthkeepers. Dental plans are available at the retiree's cost and therefore, have no employer obligation. There is no coverage for post-Medicare retirees. There were 108 active employee participants at the time of the actuarial study.

Net OPEB Obligation

As of June 30, 2017, the net OPEB obligation was calculated as follows:

Annual required contribution	$	111,000
Amortization of net OPEB obligation		(19,000)
Interest on net OPEB obligation		15,000
Annual OPEB cost		107,000
Contribtutions made		(1,000)
Increase in net OPEB obligation		106,000
Net OPEB obligation, beginning of year		365,000
Net OPEB obligation, end of year	$	471,000

7) Other Post-Employment Benefits (OPEB), Continued

Annual OPEB Cost

Three-year trend information

Year ended June 30,	Annual OPEB cost	Actual contribution	Percentage of annual OPEB cost contributed	Net OPEB obligation
2015	$ 72,000	$ 8,000	11.1%	$ 266,000
2016	100,000	1,000	1.0%	365,000
2017	107,000	1,000	0.9%	471,000

Actuarial Methods and Assumptions

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

The actuarial assumptions included calculations based on a discount rate of 4% for the unfunded liability and amortization of the initial unfunded actuarial liability over 22 years based on a level percent of payroll method. The actuarial accrued liability was $532,000. Future increases for medical benefits are assumed to range from an initial rate of 7.5% and decrease gradually with the ultimate rate being 5.04%. It should be noted actuarial calculations reflect a long-term perspective and therefore, actuarially determined amounts are subject to revision as results are compared to past expectations and new estimates are made about the future.

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

Schedule of Funding Progress

Actuarial Valuation Date July 1,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Projected Unit Credit	Unfunded Accrued Liability (UAAL)	Funding Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2014	$ -	$ 402,000	$ 402,000	0.0%	$ -	0.0%
2015	-	436,000	436,000	0.0%	-	0.0%
2016	-	532,000	532,000	0.0%	-	0.0%

Schedule of Employer Contributions

Year Ended June 30,	Employer Contributions	Annual Required Contribution (ARC)	Funding Ratio
2014	$ -	$ 74,000	0.0%
2015	-	102,000	0.0%
2016	-	111,000	0.0%

8) Interfund Activity

The composition transfers for the year ended June 30, 2017 was as follows:

	Transfer In Fund	Transfer Out Fund
General	$ 82,351	$ 1,602,218
Debt service	1,602,218	-
Nonmajor governmental	-	82,351
Total	$ 1,684,569	$ 1,684,569

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

9) Transactions with Related Parties

Certain financial management and accounting services are provided to the Authority by the County. The charges for these services totaled $115,517 for the year ended June 30, 2017.

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Required Supplementary Information

Virginia Peninsula Regional Jail Authority

Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual (Unaudited)

General Fund

Year Ended June 30, 2017

	Original Budget	Revised Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues				
Commonwealth of Virginia	$ 4,680,424	$ 4,483,092	$ 4,528,078	$ 44,986
Local governments:				
York County	2,564,812	2,564,812	2,646,322	81,510
James City County	2,679,252	2,679,252	2,762,464	83,212
City of Williamsburg	1,191,527	1,191,527	1,229,100	37,573
City of Poquoson	296,199	296,199	321,797	25,598
Federal government	1,376,064	1,625,071	1,467,200	(157,871)
Investment income, net	-	-	14	14
Telephone commissions	285,550	298,253	309,505	11,252
Miscellaneous	436,344	486,161	333,314	(152,847)
Rent income	4,464	4,604	4,988	384
Total revenues	13,514,636	13,628,971	13,602,782	(26,189)
Expenditures				
Salaries and benefits	8,044,660	7,959,666	8,015,421	(55,755)
Contractual services	1,160,404	1,027,198	1,131,714	(104,516)
Food and food supplies	444,065	501,444	498,159	3,285
Utilities	441,211	459,530	434,109	25,421
Medical supplies	466,851	569,672	589,641	(19,969)
Other supplies	195,260	246,505	210,597	35,908
Building maintenance	270,000	225,314	202,057	23,257
Fiscal agent fee	115,517	115,517	115,517	-
Staff development	75,000	75,000	73,137	1,863
Furniture and equipment	233,010	270,000	247,470	22,530
Staff clothing	37,000	55,000	61,136	(6,136)
Transportation	42,202	44,697	46,597	(1,900)
Insurance	32,084	30,233	31,085	(852)
Inmate clothing	30,000	85,000	69,884	15,116
Vehicles	78,000	73,000	72,960	40
Advertising	2,000	2,000	299	1,701
Total expenditures	11,667,264	11,739,776	11,799,783	(60,007)
Other financing sources (uses)				
Transfers in	62,000	53,000	82,351	29,351
Transfers out	(1,909,372)	(1,942,195)	(1,602,218)	339,977
Total other financing uses	(1,847,372)	(1,889,195)	(1,519,867)	369,328
Net change in fund balance	$ -	$ -	$ 283,132	$ 283,132
Fund balance, beginning of year			1,630,504	
Fund balances, end of year			$ 1,913,636	

See independent auditors' report.

Virginia Peninsula Regional Jail Authority

Schedule of Changes in the Net Pension Asset and Related Ratios

Year Ended June 30, 2017

	2014	2015	2016
Total pension liability			
Service Cost	$ 696,818	$ 755,721	$ 774,740
Interest	685,356	751,781	840,404
Changes of benefit terms	-	-	-
Differences between expected and actual experience	-	183,103	(886,823)
Changes in assumptions	-	-	-
Benefit payments, including refunds of employee contributions	(484,966)	(381,528)	(467,611)
Net change in total pension liability	897,208	1,309,077	260,710
Total pension liability, beginning	10,033,286	10,930,494	12,239,571
Total pension liability, ending	$ 10,930,494	$ 12,239,571	$ 12,500,281
Plan fiduciary net position			
Contributions - employer	628,274	516,601	552,590
Contributions - employee	223,741	236,366	244,984
Net investment income	1,633,051	569,404	242,074
Benefit payments, including refunds of employee contributions	(484,966)	(381,528)	(467,611)
Administrative expense	(8,404)	(7,304)	(7,839)
Other	86	(121)	(100)
Net change in plan fiduciary net position	1,991,782	933,418	564,098
Plan fiduciary net position, beginning	10,170,941	12,162,723	13,096,141
Plan fiduciary net position, ending	$ 12,162,723	$ 13,096,141	$ 13,660,239
Net pension asset	$ (1,232,229)	$ (856,570)	$ (1,159,958)
Plan fiduciary net position as a percentage of the total pension asset	111.27%	107.00%	109.28%
Covered-employee payroll	$ 4,487,387	$ 4,599,484	$ 4,932,752
Net pension asset as a percentage of the total covered-employee payroll	(27.46)%	(18.62)%	(23.52)%

(1) This schedule is intended to present 10 years of information. GASB 68 and 71 were implemented in fiscal year 2015, and additional years will be presented as the information becomes available.

Virginia Peninsula Regional Jail Authority

Schedule of Employer Contributions

Last 3 Fiscal Years (1)

Fiscal year	Contractually required contribution	Contributions in relation to contractually required contribution	Contribution excess (deficiency)	Employer's covered employee payroll	Contributions as a % of covered employee payroll
2015	$ 516,589	$ 516,982	$ 393	$ 4,599,484	11.24%
2016	554,438	554,441	3	4,932,752	11.24%
2017	431,719	431,719	-	4,894,773	8.82%

(1) This schedule is intended to present 10 years of information. GASB 68 and 71 were implemented in fiscal year 2015, and additional years will be presented as the information becomes available.

1) Changes of Benefit Terms

There have been no actuarially material changes to the system benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2016 are not material.

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

* * * * *

1) Changes of Benefit Terms

There have been no actuarially material changes to the system benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2016 are not material.

Changes of assumptions

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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

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Supplementary Information

Virginia Peninsula Regional Jail Authority

Combining Balance Sheet

Nonmajor Governmental Funds

June 30, 2017

	Work Release Fund	Canteen Fund	Total
Assets			
Cash and short-term investments	$ -	$ 99,093	$ 99,093
Accounts receivable	3,975	16,342	20,317
Total assets	$ 3,975	$ 115,435	$ 119,410
Liabilities			
Accounts payable	$ 178	$ 1,123	$ 1,301
Due to James City County	-	244	244
Amounts held for others	-	99,093	99,093
Total liabilities	178	100,460	100,638
Fund balance, unassigned	3,797	14,975	18,772
Total liabilities and fund balance	$ 3,975	$ 115,435	$ 119,410

See independent auditors' report.

Virginia Peninsula Regional Jail Authority

Combining Statement of Revenues, Expenditures, and Changes in Fund Balance (Deficit)

Nonmajor Governmental Funds

Year Ended June 30, 2017

	Work Release Fund	Canteen Fund	Total
Revenues			
Work release fees	$ 63,969	$ -	$ 63,969
Canteen sales	-	182,191	182,191
Total revenues	63,969	182,191	246,160
Expenditures			
Food and food supplies	171	-	171
Staff development	52	-	52
Other supplies	13,304	-	13,304
Indigent expenses	-	15,675	15,675
Inmate programs	-	95,838	95,838
Total expenditures	13,527	111,513	125,040
Excess of revenue over expenditures	50,442	70,678	121,120
Other financing uses			
Transfers out	(50,964)	(31,387)	(82,351)
Net change in fund balance	(522)	39,291	38,769
Fund balance (deficit), beginning of year	4,319	(24,316)	(19,997)
Fund balance, end of year	$ 3,797	$ 14,975	$ 18,772

See independent auditors' report.

Statistical Section (Unaudited)

Virginia Peninsula Regional Jail Authority

Federal Revenue

Last 9 Fiscal Years (1)

Table 1

Year	Federal revenue	Average daily population
2009	$ 1,908,369	14.80
2010	362,720	7.10
2011	120,196	3.50
2012	68,380	1.80
2013	32,283	0.80
2014	33,035	0.90
2015	618,257	0.60
2016	1,089,222	0.47
2017	1,467,200	0.64

(1) Statistical section reporting was adopted by the Authority in fiscal year 2012; comparable financial information prior to 2009 is not available.

Virginia Peninsula Regional Jail Authority

State Revenue

Last 9 Fiscal Years (1)

Table 2

Year	State revenue	Percentage of operational expenditures
2009	$ 4,009,629	39.0%
2010	4,744,884	45.0%
2011	4,647,650	48.0%
2012	4,558,687	46.0%
2013	4,670,471	47.0%
2014	5,010,391	48.0%
2015	4,662,534	43.0%
2016	4,695,429	41.0%
2017	4,528,078	38.0%

(1) Statistical section reporting was adopted by the Authority in fiscal year 2012; comparable financial information prior to 2009 is not available.

Virginia Peninsula Regional Jail Authority

State Per Diems

Last 9 Fiscal Years (1)

Table 3

Year	State per diems	Local average daily population
2009	$ 1,347,874	420.6
2010	1,131,385	437.8
2011	1,001,828	421.9
2012	942,960	388.4
2013	1,018,719	413.3
2014	1,058,923	432.4
2015	802,896	410.1
2016	521,954	437.6
2017	362,183	487.5

(1) Statistical section reporting was adopted by the Authority in fiscal year 2012; comparable financial information prior to 2009 is not available.

Virginia Peninsula Regional Jail Authority

Medical Costs

Last 9 Fiscal Years (1)

Table 4

Year	Medical costs	Average cost per inmate
2009	$ 826,710	$ 1,884
2010	808,799	1,818
2011	831,798	1,936
2012	732,742	1,858
2013	854,615	2,012
2014	901,335	2,050
2015	780,481	1,767
2016	1,073,147	2,452
2017	1,091,232	2,238

(1) Statistical section reporting was adopted by the Authority in fiscal year 2012; comparable financial information prior to 2009 is not available.

Virginia Peninsula Regional Jail Authority

Food Supplies

Last 9 Fiscal Years (1)

Table 5

Year	Food supplies	Average daily cost per inmate
2009	$ 635,643	$ 3.39
2010	647,625	3.41
2011	661,372	3.59
2012	610,015	3.55
2013	615,043	3.37
2014	671,507	3.58
2015	657,334	3.66
2016	530,172	3.31
2017	498,159	2.80

(1) Statistical section reporting was adopted by the Authority in fiscal year 2012; comparable financial information prior to 2009 is not available.

Compliance Section

DIXON HUGHES GOODMAN LLP

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*

Board of Directors
Virginia Peninsula Regional Jail Authority
Williamsburg, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Virginia Peninsula Regional Jail Authority as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Virginia Peninsula Regional Jail Authority's basic financial statements, and have issued our report thereon dated November 8, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Virginia Peninsula 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Virginia Peninsula Regional Jail Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Virginia Peninsula 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2017-001 that we consider to be a significant deficiency.

DIXON HUGHES GOODMAN LLP

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Virginia Peninsula Regional Jail Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

Purpose of this Report

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

Dixon Hughes Goodman LLP

Newport News, Virginia
November 8, 2017

DIXON HUGHES GOODMAN LLP

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

Board of Directors
Virginia Peninsula Regional Jail Authority
Williamsburg, Virginia

We have audited the financial statements of the Virginia Peninsula Regional Jail Authority*,* as of and for the year ended June 30, 2017, and have issued our report thereon dated November 8, 2017.

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

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

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

Code of Virginia

- Cash and Investments
- Inmate Canteen and Other Auxiliary Funds
- Conflicts of Interest
- Retirement Systems
- Procurement
- Unclaimed Property

The results of our tests disclosed one instance of noncompliance with the provisions referred to in the preceding paragraph. This instance is discussed in the Schedule of Findings and Responses as Finding 2017-002. With respect to items not tested, nothing came to our attention that caused us to believe that the Virginia Peninsula Regional Jail Authority had not complied, in all material respects, with those provisions.

This report is intended solely for the information and use of the Board of Directors and management of Virginia Peninsula Regional Jail Authority, and the Auditor of Public Accounts and all applicable state agencies and is not intended to be, and should not be, used by anyone other than these specified parties.

Dixon Hughes Goodman LLP

Newport News, Virginia
November 8, 2017

1. Summary of Auditors' Results

(a) The type of report issued on the financial statements: **unmodified opinion**

(b) Significant deficiencies in internal control disclosed by the audit of the financial statements:

Inmate trust funds held by the Authority were not recorded within the financial statements. All funds held by the Authority must be identified and reported to the fiscal agent. These amounts should be reconciled on a regular basis to prevent and identify any misuse of the funds.

Material weaknesses: **none noted**

(c) Noncompliance which is material to the financial statements: **no**

2. Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*:

Finding 2017-001

Condition: Accounts held by the Authority (not held by the fiscal agent) are not being reported or reconciled on a regular basis.

Criteria: Cash accounts and inmate trust fund accounts held directly by the Authority should be reconciled regularly and reported timely to the Authority's fiscal agent for inclusion in financial reporting documents.

Effect: Cash balances and activity and inmate trust fund liability amounts are not being appropriately recorded in the books and records of the Authority.

Cause: Unknown

Recommendation: The Authority should take steps to ensure that all cash and inmate trust fund accounts are reconciled monthly and that all activity in these accounts is appropriately reflected in the books and records maintained by the fiscal agent.

Management's response: Management will implement processes and procedures to ensure the inmate accounts are reconciled monthly and all activity is recorded and reported to the fiscal agent.

3. Findings and Responses for Commonwealth of Virginia Laws, Regulations, Contracts, and Grants:

Finding 2017-002

Condition: Accounts held by the Authority are not identified as public deposits.

Criteria: All public deposits must be made into a qualified public depository in accordance with the Virginia Security for Public Deposits Act (Section 2.2-4407 of the Code of Virginia). Governmental officials must ensure the qualified depository identifies the account(s) as public deposits. Public deposits include all moneys of the Commonwealth, local governments, or other political subdivisions.

Effect: The Authority was not in compliance with the Virginia Security for Public Deposits Act.

Cause: Unknown

Recommendation: The Authority should take steps to ensure that all accounts are identified as public deposits by the qualified depository.

Management's response: The Authority will ensure to properly identify accounts as inmate trust funds and public funds, as applicable, with the qualified depositories.

4. Summary Schedule of Prior State Audit Findings:

There was one finding in the prior year related to board members not filing the disclosure statement as required by the Virginia Code. No issues with board members filing the disclosure statements was noted during the current year's audit.