Shenandoah Valley Juvenile Center Commission

Financial Report

Year Ended June 30, 2017

SHENANDOAH VALLEY JUVENILE CENTER COMMISSION

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2017

SHENANDOAH VALLEY JUVENILE CENTER COMMISSION

COMMISSION MEMBERS

Locality	Member
City of Lexington	Noah Simon
City of Harrisonburg	Kurt D. Hodgen, Vice Chairman
County of Augusta	Timothy Fitzgerald
County of Rockbridge	Spencer H. Suter
County of Rockingham	Joseph S. Paxton
County of Rockingham	Stephen King
City of Staunton	Stephen F. Owen
City of Waynesboro	Michael G. Hamp, Chairman

OTHER OFFICIALS

Timothy J. Smith	Executive Director/Treasurer
Dianne Hill	Secretary

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INDEPENDENT AUDITORS' REPORT

TO THE COMMISSION MEMBERS
SHENANDOAH VALLEY JUVENILE CENTER COMMISSION
STAUNTON, VIRGINIA

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Shenandoah Valley Juvenile Center Commission, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Shenandoah Valley Juvenile Center Commission, as of June 30, 2017, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information and schedules related to pension and OPEB funding on pages 37-42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance. The budgetary comparison information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Shenandoah Valley Juvenile Center Commission's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates 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 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited the Shenandoah Valley Juvenile Center Commission's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated September 7, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2017, on our consideration of the Shenandoah Valley Juvenile Center Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Shenandoah Valley Juvenile Center Commission's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Staunton, Virginia
September 19, 2017

BASIC FINANCIAL STATEMENTS

Statement of Net Position
June 30, 2017
With Comparative Totals for 2016

		2017		2016
ASSETS				
Current Assets:				
Cash and cash equivalents	$	1,057,445	$	1,025,052
Accounts receivable		29,393		3,407
Due from federal government		42,018		11,170
Prepaid items		4,408		7,369
Other receivables		1,507		1,587
Total current assets	$	1,134,771	$	1,048,585
Noncurrent Assets:				
Cash and cash equivalents (for capital projects)	$	1,096,893	$	1,093,654
Capital Assets, net of accumulated depreciation:				
Land	$	545,276	$	545,276
Building and Improvements		9,806,622		10,078,403
Equipment		169,505		203,894
Vehicles		17,396		30,443
Software		-		1,595
Total net capital assets	$	10,538,799	$	10,859,611
Total noncurrent assets	$	11,635,692	$	11,953,265
Total assets	$	12,770,463	$	13,001,850
DEFERRED OUTFLOWS OF RESOURCES				
Pension contributions subsequent to measurement date	$	134,659	$	210,571
Items related to measurement of net pension liability		124,181		-
Total deferred outflows of resources	$	258,840	$	210,571
LIABILITIES				
Current liabilities:				
Accounts payable - operations	$	42,114	$	87,320
Accounts payable - capital projects		15,600		15,600
Accrued Payroll		172,718		303,163
Accrued interest payable		2,438		3,304
Unearned revenue - community placement initiative		5,000		331,200
Revenue bonds - current portion		600,000		600,000
Total current liabilities	$	837,870	$	1,340,587
Noncurrent liabilities:				
Revenue bonds - net of current portion	$	1,200,000	$	1,800,000
Net OPEB obligation		627,999		528,978
Net pension liability		958,524		869,801
Compensated absences		203,763		165,238
Total noncurrent liabilities	$	2,990,286	$	3,364,017
Total liabilities	$	3,828,156	$	4,704,604
DEFERRED INFLOWS OF RESOURCES				
Items related to measurement of net pension liability	$	110,389	$	207,771
Total deferred inflows of resources	$	110,389	$	207,771
NET POSITION				
Net investment in capital assets	$	8,738,799	$	8,459,611
Unrestricted		351,959		(159,565)
Total net position	$	9,090,758	$	8,300,046

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

Shenandoah Valley Juvenile Center Commission **Exhibit 2**

Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2017
With Comparative Totals for 2016

	2017	2016
Operating Revenues:		
Participant assessments	$ 951,123	$ 912,220
Non-participant assessments	87,255	33,600
State wards assessments	750	1,650
DJJ Reentry - child care	4,591	-
DJJ direct intake	37,625	-
Community Placement Initiative	665,577	573,265
Sheltered care	-	12,950
Contractual assessments	18,600	15,000
Other revenues	4,644	4,913
Total operating revenues	$ 1,770,165	$ 1,553,598
Operating Expenses:		
Personnel services	$ 3,367,847	$ 2,993,076
Fringe benefits	1,076,961	975,660
Contractual services	240,077	181,209
Other charges	1,153,557	1,068,801
Depreciation expense	351,013	347,382
Total operating expenses	$ 6,189,455	$ 5,566,128
Net Operating income (loss)	$ (4,419,290)	$ (4,012,530)
Nonoperating Revenues (Expenses):		
State Block Grant	$ 1,038,851	$ 1,040,452
VML Risk Management Safety Grant	7,128	-
Federal USDA funds	81,792	89,782
E-Rate funds	-	3,674
Federal Unaccompanied Alien Children Grant	4,114,653	3,568,705
Interest income	3,639	3,631
Gain/Loss on disposal of assets	-	(1,917)
Interest expense	(36,061)	(41,713)
Total nonoperating income (expenses)	$ 5,210,002	$ 4,662,614
Change in net position	$ 790,712	$ 650,084
Net position, beginning of year	8,300,046	7,649,962
Net position, end of year	$ 9,090,758	$ 8,300,046

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

Statement of Cash Flows
Year Ended June 30, 2017
With Comparative Totals for 2016

	2017	2016
Cash flows from operating activities:		
Receipts from customers and users	$ 1,418,059	$ 1,976,727
Payments to suppliers	(1,435,879)	(2,266,147)
Payments to employees	(4,494,635)	(3,066,604)
Net cash provided by (used for) operating activities	$ (4,512,455)	$ (3,356,024)
Cash flows from noncapital financing activities:		
Nonoperating grants received	$ 5,211,576	$ 4,774,560
Cash flows from capital and related financing activities:		
Purchases of property, plant and equipment	$ (30,201)	$ (710,945)
Repayment of debt	(600,000)	(600,000)
Interest expense	(36,927)	(38,462)
Net cash provided by (used for) capital and related financing activities	$ (667,128)	$ (1,349,407)
Cash flows from investing activities:		
Interest income	$ 3,639	$ 3,631
Net cash provided by (used for) investing activities	$ 3,639	$ 3,631
Increase (decrease) in cash and cash equivalents	$ 35,632	$ 72,760
Cash and cash equivalents at beginning of year	2,118,706	2,045,946
Cash and cash equivalents, (including restricted cash and cash equivalents) at end of year	$ 2,154,338	$ 2,118,706
Reconciliation of net operating income (loss) to net cash provided by (used for) by operating activities:		
Operating income (loss)	$ (4,419,290)	$ (4,012,530)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) by operating activities:		
Depreciation	351,013	347,382
Changes in operating assets and liabilities:		
(Increase) decrease in receivables	(25,906)	91,929
(Increase) decrease in prepaid items	2,961	3,417
(Increase) decrease in deferred outflows of resources	(48,269)	(19,820)
Increase (decrease) in accounts payable	(45,206)	(40,401)
Increase (decrease) in accrued payroll	(130,445)	2,713
Increase (decrease) in retainage payable	-	(3,493)
Increase (decrease) in unearned revenue	(326,200)	331,200
Increase (decrease) in deferred inflows of resources	(97,382)	(66,525)
Increase (decrease) in compensated absences	38,525	(28,835)
Increase (decrease) in net pension liability	88,723	(57,350)
Increase (decrease) in net OPEB obligation	99,021	96,289
Net cash provided by (used for) operating activities	$ (4,512,455)	$ (3,356,024)

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

NOTE 1–FORMATION OF THE SHENANDOAH VALLEY JUVENILE CENTER COMMISSION:

The Shenandoah Valley Juvenile Center Commission (the "Commission") was established on March 17, 1966 as a regional juvenile detention commission pursuant to 16.1-315 of the Code of Virginia of 1950, as amended. Since establishment, membership of the Commission has been amended over the years. Currently, one member from each of the political subdivisions of Cities of Staunton, Waynesboro, Harrisonburg, and Lexington, Virginia and Counties of Augusta, Rockingham, and Rockbridge, Virginia represent the Commission. Membership of the Commission consists of only one (1) member from each sponsoring local government. The purpose for which the Commission was formed is to provide a regional juvenile home for children with court orders to be admitted.

NOTE 2–SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Financial Reporting Entity

The Commission provides the services mentioned above to the citizens of its participating governments. However, the participating governments do not have a financial interest or responsibility to the Commission. The Commission's governing body is composed of one member appointed by each participating locality. Therefore, none of the participants appoints a voting majority of board members. The Commission is perpetual and no participating government has access to its resources or surpluses, nor is any participant liable for the Commissions debts or deficits. The Commission also has the ability to finance its capital projects through participant assessments or the sale of revenue bonds.

Based on the above representations, the Shenandoah Valley Juvenile Center Commission has been determined to be a jointly governed organization of the Cities of Staunton, Waynesboro, Harrisonburg, and Lexington, Virginia, and the Counties of Augusta, Rockbridge, and Rockingham, Virginia. The Commission is not a component unit of any of the participating governments. The Commission does not have any component units.

B. Basic Financial Statements

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

- Management's discussion and analysis (management has elected not to present this information)
- Enterprise fund financial statements
  - Statement of Net Position
  - Statement of Revenues, Expenses, and Changes in Net Position
  - Statement of Cash Flows
  - Notes to Financial Statements
- Required Supplementary Information
  - Schedule of Changes in Net Pension Liability and Related Ratios
  - Schedule of Employer Contributions
  - Schedule of OPEB Funding Progress – VRS Health Insurance Credit Program
  - Schedule of OPEB Funding Progress – Retiree Healthcare Plan
  - Notes to Required Supplementary Information
- Schedule of Revenues, Expenses, and Changes in Net Position – Budget and Actual

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

C. Basis of Accounting

Shenandoah Valley Juvenile Center Commission operates as an enterprise fund, and its accounts are maintained on the accrual basis of accounting. Under this method, revenues are recognized when earned, and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash. The Commission accrues revenue for services rendered but not yet billed at the end of the fiscal year.

The Commission distinguishes *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Commission's principal ongoing operations. The principal operating revenues of the Commission are charges to participants for child care. Operating expenses include the cost of child care services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Net Position

Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

E. Net Position Flow Assumption

Sometimes the Commission will fund outlays for a particular purpose from both restricted (e.g. restricted bond and grant proceeds) and unrestricted resources, in order to calculate the amounts to report as restricted – net position and unrestricted – net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Commission's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

F. Cash and Cash Equivalents

The Commission's cash and cash equivalents consist of cash on hand, demand deposits, and certificates of deposit, generally with an original maturity of three months or less from the date of acquisition, all of which are readily convertible to known amounts of cash.

G. Allowance for Doubtful Accounts

The Commission bills its customers monthly for substantially all of its services. Since no significant bad debts have been incurred, no provision for doubtful accounts is considered necessary at this time. Such provision would be immaterial.

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

H. Inventory

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

I. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements. Capital assets are defined by the Commission as assets with an initial, individual cost of more than $3,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. Capitalized interest during the years ended June 30, 2017 and June 30, 2016 amounted to $0 and $4,971, respectively.

Property, plant, and equipment are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	50
Equipment	5-10
Vehicles	5
Software	3

J. Designated Assets

Included in designated cash and cash equivalents are balances committed by the Commission for future capital outlay, in the amount of $1,096,893 and $1,093,654 for the years ended June 30, 2017 and 2016, respectively.

K. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

L. Comparative Totals

Comparative amounts for the prior year are presented for informational purposes only. Certain reclassifications have been made to the prior year amounts to provide a more comparable presentation with the current year financial reporting.

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

M. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The commission only has two items that qualify for reporting in this category. One is comprised of contributions to the pension plan made during the current year and subsequent to the net position liability measurement date, which will be recognized as a reduction of the net pension liability next fiscal year. The other item is comprised of certain items related to the measurement of the net pension liability. These include differences between expected and actual experience, change in assumptions, and the net difference between expected and actual earnings on pension plan investments. For more detailed information on this item, reference the pension note.

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

N. Pensions

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

NOTE 3—DEPOSITS AND INVESTMENTS:

Deposits

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

NOTE 3—DEPOSITS AND INVESTMENTS: (CONTINUED)

Investments

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

The Commission held no such investments at year end.

NOTE 4—COMPENSATED ABSENCES:

Full-time regular Commission employees earn vacation leave each month at a scheduled rate in accordance with their years of service and sick leave at the rate of one workday per month. Accumulated unpaid vacation and other compensatory leave amounts are accrued when incurred. An employee with at least five years of continuous service, upon separation, will be paid for twenty-five (25) percent of unused sick leave, not to exceed $5,000. At June 30, 2017 and 2016, the liability for accrued vacation leave and accrued sick leave was $203,763 and $165,238, respectively.

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NOTE 5—PENSION PLAN:

Plan Description

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

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

RETIREMENT PLAN PROVISIONS		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
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.	**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.	**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.

NOTE 5—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
		• 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 Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013. **Hybrid Opt-In Election** VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. 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.	**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** Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. 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.	**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. ***Non-Eligible Members** Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.

NOTE 5—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	**Hybrid Opt-In Election (Cont.)** Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	***Non-Eligible Members (Cont.)** Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
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 are paying the full 5% as of July 1, 2017. 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.	**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 are paying the full 5% as of July 1, 2017.	**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.

NOTE 5—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
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.	**Creditable Service** Same as Plan 1.	**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 also may 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.

NOTE 5—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
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.	**Vesting** Same as Plan 1.	**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.

NOTE 5—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Vesting (Cont.)	**Vesting (Cont.)**	**Vesting (Cont.)** **<u>Defined Contributions Component:</u> (Cont.)** 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 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.	**Calculating the Benefit** See definition under Plan 1.	**Calculating the Benefit** **<u>Defined Benefit Component:</u>** See definition under Plan 1

NOTE 5—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

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

NOTE 5—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

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

NOTE 5—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Earliest Reduced Retirement Eligibility (Cont.) **Political subdivisions hazardous duty employees:** 50 with at least five years of creditable service.	**Earliest Reduced Retirement Eligibility (Cont.)** **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Earliest Reduced Retirement Eligibility (Cont.)** **Political subdivisions hazardous duty employees:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
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.	**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	**Cost-of-Living Adjustment (COLA) in Retirement** **Defined Benefit Component:** Same as Plan 2. **Defined Contribution Component:** Not applicable. **Eligibility:** Same as Plan 1 and Plan 2.

NOTE 5—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Cost-of-Living Adjustment (COLA) in Retirement (Cont.) **<u>Exceptions to COLA Effective Dates:</u>** The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • 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.	**Cost-of-Living Adjustment (COLA) in Retirement (Cont.)** **<u>Exceptions to COLA Effective Dates:</u>** Same as Plan 1	**Cost-of-Living Adjustment (COLA) in Retirement (Cont.)** **<u>Exceptions to COLA Effective Dates:</u>** Same as Plan 1 and Plan 2.

NOTE 5—PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
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.	**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.	**Disability Coverage** Employees of political subdivisions (including Plan 1 and Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
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.	**Purchase of Prior Service** Same as Plan 1.	**Purchase of Prior Service** **<u>Defined Benefit Component:</u>** 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. **<u>Defined Contribution Component:</u>** Not applicable.

NOTE 5—PENSION PLAN: (CONTINUED)

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2016-annual-report.pdf or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Employees Covered by Benefit Terms

As of the June 30, 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	27
Inactive members:	
Vested inactive members	9
Non-vested inactive members	45
Inactive members active elsewhere in VRS	36
Total inactive members	90
Active members	64
Total covered employees	181

Contributions

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

The Commission's contractually required contribution rate for the year ended June 30, 2017 was 5.02% 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 employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Commission were $134,659 and $198,749 for the years ended June 30, 2017 and June 30, 2016, respectively.

Net Pension Liability

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

NOTE 5—PENSION PLAN: (CONTINUED)

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Commission'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	2.5%
Salary increases, including inflation	3.5% – 5.35%
Investment rate of return	7.0%, net of pension plan investmen expense, including inflation*

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

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

Largest 10 – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

NOTE 5—PENSION PLAN: (CONTINUED)

Actuarial Assumptions – General Employees (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 – 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

Long-Term Expected Rate of Return

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

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%

NOTE 5—PENSION PLAN: (CONTINUED)

Long-Term Expected Rate of Return (Continued)

* 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 projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Commission 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

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2015	$ 5,570,841	$ 4,701,040	$ 869,801
Changes for the year:			
Service cost	$ 205,052	$ -	$ 205,052
Interest	378,541	-	378,541
Differences between expected and actual experience	(93,691)	-	(93,691)
Contributions - employer	-	198,749	(198,749)
Contributions - employee	-	122,029	(122,029)
Net investment income	-	83,318	(83,318)
Benefit payments, including refunds of employee contributions	(326,236)	(326,236)	-
Administrative expenses	-	(2,882)	2,882
Other changes	-	(35)	35
Net changes	$ 163,666	$ 74,943	$ 88,723
Balances at June 30, 2016	$ 5,734,507	$ 4,775,983	$ 958,524

NOTE 5—PENSION PLAN: (CONTINUED)

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

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

Commission Net Pension Liability	$ 1,668,684	$ 958,524	$ 373,566

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

For the year ended June 30, 2017, the Commission recognized pension expense of $65,909. At June 30, 2017, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 110,389
Net difference between projected and actual earnings on pension plan investments	124,181	-
Employer contributions subsequent to the measurement date	134,659	-
Total	$ 258,840	$ 110,389

$134,659 reported as deferred outflows of resources related to pensions resulting from the Commission's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year Ended June 30,	
2018	$ (69,792)
2019	(31,793)
2020	66,283
2021	49,094
Thereafter	-

NOTE 6—ASSESSMENTS TO PARTICIPANTS:

Assessments to participants were based on budget estimates and allocated by the percentage of participant usage of the Home during the previous completed calendar year as follows:

	2017		2016	
	Percent	Assessment	Percent	Assessment
County of Augusta, Virginia	11.68%	$ 111,092	11.81%	$ 107,732
City of Harrisonburg, Virginia	36.34%	345,636	37.78%	344,636
City of Lexington, Virginia	0.14%	1,332	0.22%	2,008
County of Rockbridge, Virginia	3.22%	30,628	2.76%	25,176
County of Rockingham, Virginia	19.69%	187,276	21.15%	192,936
City of Staunton, Virginia	15.00%	142,668	12.20%	111,292
City of Waynesboro, Virginia	13.93%	132,491	14.08%	128,440
Total	100.00%	$ 951,123	100.00%	$ 912,220

NOTE 7—RISK MANAGEMENT:

The Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commission joined together with other local governments in Virginia to form the Virginia Municipal Group Self Insurance Association, a public entity risk pool currently operating as a common risk management and insurance program for participating local governments. The Commission pays an annual premium to the Association for its workers compensation insurance. The Commission also joined together with other local governments in Virginia to form the Virginia Municipal Liability pool a public entity risk pool currently operating as a common property and general liability program for participating local governments. The Commission pays annual premiums to the Pool for its automobile, liability, property, boiler and machinery, and fidelity crime coverage.

In the event of a loss deficit and depletion of all available excess insurance, these pools may assess all members in the proportion which the premium of each bears to the total premiums of all members in the year in which such deficit occurs.

The Commission continues to carry commercial insurance for employee health and accident insurance. Settled claims resulting from this risk has not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 8—CAPITAL ASSETS:

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

	July 1, 2016	Increases	Decreases	June 30, 2017
Capital assets not being depreciated:				
Land	$ 545,276	$ -	$ -	$ 545,276
Total capital assets not being depreciated	$ 545,276	$ -	$ -	$ 545,276
Capital assets being depreciated:				
Building and improvements	$ 13,010,876	$ 4,050	$ -	$ 13,014,926
Equipment	533,818	26,151	(19,560)	540,409
Vehicles	148,874	-	-	148,874
Software	52,411	-	(13,779)	38,632
Total capital assets being depreciated	$ 13,745,979	$ 30,201	$ (33,339)	$ 13,742,841
Accumulated depreciation				
Building and improvements	$ (2,932,473)	$ (275,831)	$ -	$ (3,208,304)
Equipment	(331,262)	(59,202)	19,560	(370,904)
Vehicles	(118,431)	(13,047)	-	(131,478)
Software	(49,478)	(2,933)	13,779	(38,632)
Total accumulated depreciation	$ (3,431,644)	$ (351,013)	$ 33,339	$ (3,749,318)
Capital assets being depreciated, net	$ 10,314,335	$ (320,812)	$ -	$ 9,993,523
Total capital assets, net	$ 10,859,611	$ (320,812)	$ -	$ 10,538,799

Depreciation Expense for the year ended June 30, 2017 was $351,013.

NOTE 9—LONG-TERM OBLIGATIONS:

Changes in Long-Term Obligations:

	July 1, 2016	Increase/ Issuances	Decrease/ Retirements	June 30, 2017	Amount Due Within One Year
Revenue Bonds Payable	$ 2,400,000	$ -	$ 600,000	$ 1,800,000	$ 600,000
Compensated Absences	165,238	38,525	-	203,763	-
Net Pension Liability	869,801	586,510	497,787	958,524	-
Net OPEB Obligation	528,978	99,021	-	627,999	-
Total Long-Term Obligations	$ 3,964,017	$ 724,056	$ 1,097,787	$ 3,590,286	$ 600,000

NOTE 9—LONG-TERM OBLIGATIONS: (CONTINUED)

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

Year Ending June 30,	Revenue Bonds Principal	Revenue Bonds Interest
2018	$ 600,000	$ 27,192
2019	600,000	17,306
2020	600,000	7,434
Total	$ 1,800,000	$ 51,932

Details of Indebtedness:

Revenue Bonds:

On June 26, 2015, the Commission issued $3,000,000 in Revenue Bonds to currently refund its existing debt for the facility, and to fund new construction on the existing facility. The bonds are due in semi-annual installments of $600,000 with final maturity on June 1, 2020, including interest at 1.625%. Balance at June 30, 2017	$ 1,800,000
Total balance at June 30, 2017	$ 1,800,000

NOTE 10—OPERATING LEASE AGREEMENTS:

During the year ended June 30, 2000, the Commission signed a lease agreement with a new member jurisdiction, County of Rockbridge, Virginia. Pursuant to this agreement the new member will contribute capital funds in the amount of $226,000 over the period July 1, 2001 through July 1, 2005 with interest accruing at the simple rate of 5% per annum on the unpaid balance. Starting at July 1, 2005 Rockbridge County will contribute $1 each year through the remainder of the contract ending June 30, 2019. In addition to the original capital contributions, this locality will pay an annual fee for operating costs based on usage. Rockbridge is considered a member of the Commission for purposes of representation on the Board.

During the year ended June 30, 2000, the Commission signed operating lease agreements with the County of Bath, Virginia and the County of Highland, Virginia. The terms of these leases are from July 1, 2001 through June 30, 2019. The County of Bath is leasing 90 days of bed space per fiscal year and the County of Highland in leasing 30 days of bed space per fiscal year. Annual rent will equal the then-applicable per diem rate for each bed space multiplied by the guaranteed number of bed spaces for each locality per year. Rental payments will be due on a quarterly basis in four equal installments.

NOTE 11—OTHER POSTEMPLOYMENT BENEFITS: HEALTH INSURANCE AND HEALTH INSURANCE CREDIT

The Commission offers two OPEB plans to retirees. These plans are the VRS Health Insurance Credit Program and a Health Insurance for Retirees Plan.

A. Plan Description

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

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

Benefit provisions and eligibility requirements are established by Title 51.1, Chapter 14 of the Code of Virginia. The VRS actuarially determines the amount necessary to fund credits provided, reflects the cost of such credits in the applicable employer contribution rate pursuant to §51.1-145, and prescribes such terms and conditions as are necessary to carry out the provisions of the health insurance credit program. VRS issues separate financial statements as previously discussed in Note 5.

Health Insurance for Retirees: The Commission's Health Insurance for Retirees is a single employer defined benefit healthcare plan. The Commission allows eligible retirees to remain on their health insurance plan(s) after they retire. Commission employees must have attained age 50 with a minimum of 30 years of service or attained age 65 with 5 years of service.

Health benefits include Medical, Dental, and Vision. Retirees not eligible for Medicare are able to enroll in the following health plan through the Commission:

Key Advantage Expanded (PPO)

Retirees eligible for Medicare are only permitted to choose the following supplemental health plan:

Medicare Complementary (Medicare)

Coverage is for retiree and eligible spouses/dependents. For retirees who are eligible for Medicare, spouses/dependents may be covered under either plan based on their Medicare status. If a retiree with family or dual membership dies, the covered family member may remain in the Retiree Health Benefits Group as a survivor.

NOTE 11—OTHER POSTEMPLOYMENT BENEFITS: - HEALTH INSURANCE AND HEALTH INSURANCE CREDIT (CONTINUED)

B. Funding Policy

VRS Health Insurance Credit Program: The employer is required to contribute the entire amount necessary to fund participation in the program using the actuarial basis specified by the Code of Virginia and the VRS Board of Trustees. The Commission's contribution rate for the fiscal year ended 2017 was 0.17% of annual covered payroll.

Health Insurance for Retirees: Retirees must pay 100% of their health insurance premiums. Currently the Commission has one retiree spouse not eligible for Medicare and five individuals, including one spouse, eligible for Medicare.

C. Annual OPEB Cost and Net OPEB Obligation

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

VRS Health Insurance Credit Program: For 2017, the Commission's contribution of $4,860 was equal to the ARC and OPEB cost. The Commission's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and the preceding two years are as follows:

Fiscal Year Ending	Annual OPEB Cost (ARC)	Percentage of ARC Cost Contributed	Net OPEB Obligation
6/30/2015	$ 4,059	100.00%	$ -
6/30/2016	4,480	100.00%	-
6/30/2017	4,860	100.00%	-

Health Insurance for Retirees: The estimated contributions are based on the projected medical premium payments and credit for the implicit rate made during the year for the retired employees by the Commission. The following table shows the components of the Commission's annual OPEB cost for the year, the amount actually contributed to the plan, and the changes in the net OPEB obligation:

Annual Required Contribution (ARC)	$ 91,024
Interest on Net OPEB Obligation	37,029
Adjustment to ARC	(29,032)
Annual OPEB Cost (expense)	$ 99,021
Contributions made	-
Increase in Net OPEB Obligation	$ 99,021
Net OPEB Obligation - Beginning of Year	528,978
Net OPEB Obligation - End of Year	$ 627,999

NOTE 11—OTHER POSTEMPLOYMENT BENEFITS: - HEALTH INSURANCE AND HEALTH INSURANCE CREDIT (CONTINUED)

C. Annual OPEB Cost and Net OPEB Obligation

The Commission's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the fiscal year 2017 and preceding two years are as follows:

Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2015	$ 95,948	6.19%	$ 432,689
6/30/2016	96,289	0.00%	528,978
6/30/2017	99,021	0.00%	627,999

D. Funded Status and Funding Progress

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

VRS Health Insurance Credit Program: The funded status of the plan as of June 30, 2016, the most recent actuarial valuation date, is as follows:

Actuarial accrued liability (AAL)	$ 88,044
Actuarial value of plan assets	$ 53,895
Unfunded actuarial accrued liability (UAAL)	$ 34,149
Funded ratio (actuarial value of plan assets/ AAL)	61.21%
Covered payroll (active plan members)	$ 2,573,314
UAAL as a percentage of covered payroll	1.33%

Health Insurance for Retirees: The funded status of the plan, as of June 30, 2016, the most recent valuation date is as follows:

Actuarial accrued liability (AAL)	$ 549,416
Actuarial value of plan assets	$ -
Unfunded actuarial accrued liability (UAAL)	$ 549,416
Funded ratio (actuarial value of plan assets/ AAL)	0.00%
Covered payroll (active plan members)	$ 3,648,366
UAAL as a percentage of covered payroll	15.06%

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

NOTE 11—OTHER POSTEMPLOYMENT BENEFITS: - HEALTH INSURANCE AND HEALTH INSURANCE CREDIT (CONTINUED)

E. Actuarial Methods and Assumptions

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and the probability of occurrences of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

VRS Health Insurance Credit Program: The entry age normal cost method was used to determine the plan's funding liabilities and costs. The actuarial assumptions included a 7% investment rate of return, including an inflation component of 2.5%, and a payroll growth rate of 3%. The UAAL is being amortized as a level percentage of payroll on an open basis. The remaining amortization period at June 30, 3016 was 18-27 years.

Health Insurance for Retirees: The Entry Age Normal cost method is used to determine the Plan's funding liabilities and costs. Under the cost method, the actuarial present value of projected benefits of every active Participant as if the Plan's provisions on the valuation date had always been in effect, is determined as a level percentage of expected annual earnings for each future year of expected service. A normal cost for each year from the assumed entry date is determined by applying this level percentage of pay to the assumed earnings for that year (or if benefits are not pay related, the level amount for each year). Under the method, inactive Participants have no normal cost, and the actuarial liability is the present value of the plan benefits to which they and their beneficiaries are entitled. The Plan's total annual normal cost and actuarial liability are the sum of the individual Participant amounts. An experience gain or loss is a decrease or increase in the unfunded actuarial liability attributable to actual experience that differed from that expected by the actuarial assumptions. Such gains or losses are explicitly recognized under this method. Data is net of any retiree contributions.

Measurement of Actuarial Information

The Commission has elected to calculate information of an actuarial nature using the alternative measurement method permitted by GASB 43, for plans with fewer than 100 participants.

NOTE 11—OTHERPOST EMPLOYMENT BENEFITS: - HEALTH INSURANCE AND HEALTH INSURANCE CREDIT (CONTINUED)

E. Actuarial Methods and Assumptions (Continued)

The following simplifying assumptions were made:

Retirement age for active employees – Retirement age was estimated based on tables used for the VRS pension valuation and assumed that participants begin to retire when they become eligible to receive healthcare benefits.

Mortality – Life expectancies were based on the mortality tables provided by GASB Post Employment Benefit Plans Other Than Pension Plans – Defined Benefit – Po50.136 Tables 1 and 2.

Coverage Elections – It was assumed that for those employees currently on the Commission's health insurance plan that they would continue it into retirement (if eligible).

Interest Assumptions

Funding interest rate	7.00%
Annual amortization increase rate	2.50%

The Retiree Health Insurance Credit benefit is based on a member's employer eligibility and his or her years of service. The monthly maximum credit amount cannot exceed the member's actual health insurance premium costs. The actuarial valuation for this plan assumes the maximum credit is payable for each eligible member. Since this benefit is a flat dollar amount multiplied by years of service and the maximum benefit is assumed, no assumption relating to healthcare cost trend rates is needed or applied.

NOTE 12—LITIGATION:

At June 30, 2017, there were no matters of litigation involving the Commission for which would materially affect the Commission's financial position should any court decisions on pending matters not be favorable to the Commission.

NOTE 13—CONTINGENT LIABILITIES:

The Commission's primary grant award for the year ended June 30, 2017 was $4,114,653. The federal funding source is the Department of Health and Human Services. Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenses which may be disallowed by the grantor cannot be determined at this time although the Commission expects such amounts, if any, would be immaterial.

NOTE 14—UPCOMING PRONOUNCEMENT:

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension,* improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. This Statement is effective for fiscal years beginning after June 15, 2017. No formal study or estimate of the impact of this standard has been performed.

REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Changes in Net Pension Liability and Related Ratios
Year Ended June 30, 2017

		2016		2015	2014
Total pension liability					
Service cost	$	205,052	$	208,323	219,904
Interest		378,541		369,494	353,015
Differences between expected and actual experience		(93,691)		(130,881)	-
Benefit payments, including refunds of employee contributions		(326,236)		(309,173)	(365,823)
Net change in total pension liability	$	163,666	$	137,763	207,096
Total pension liability - beginning		5,570,841		5,433,078	5,225,982
Total pension liability - ending (a)	$	5,734,507	$	5,570,841	5,433,078
Plan fiduciary net position					
Contributions - employer	$	198,749	$	185,473	217,899
Contributions - employee		122,029		114,901	113,189
Net investment income		83,318		206,743	616,464
Benefit payments, including refunds of employee contributions		(326,236)		(309,173)	(365,823)
Administrative expense		(2,882)		(2,786)	(3,332)
Other		(35)		(45)	32
Net change in plan fiduciary net position	$	74,943	$	195,113	578,429
Plan fiduciary net position - beginning		4,701,040		4,505,927	3,927,498
Plan fiduciary net position - ending (b)	$	4,775,983	$	4,701,040	4,505,927
Political subdivision's net pension liability - ending (a) - (b)	$	958,524	$	869,801	927,151
Plan fiduciary net position as a percentage of the total pension liability		83.28%		84.39%	82.94%
Covered payroll	$	2,635,432	$	2,387,370	2,267,483
Political subdivision's net pension liability as a percentage of covered payroll		36.37%		36.43%	40.89%

Schedule is intended to show information for 10 years. Information prior to the 2014 valuation is not available. However, additional years will be included as they become available.

Schedule of Employer Contributions
Year Ended June 30, 2017

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2017	$ 134,659	$ 134,659	$ -	$ 2,859,594	4.71%
2016	198,749	198,749	-	2,635,432	7.54%
2015	185,473	185,473	-	2,387,370	7.77%
2014	217,899	217,899	-	2,267,483	9.61%
2013	199,758	199,758	-	2,125,084	9.40%
2012	150,807	150,807	-	2,063,022	7.31%
2011	124,648	124,648	-	1,705,170	7.31%
2010	117,448	117,448	-	1,600,108	7.34%
2009	107,336	107,336	-	1,462,348	7.34%
2008	66,361	66,361	-	1,242,709	5.34%

Current year contributions are from the Commission records and prior year contributions are from the VRS actuarial valuation performed each year.

SHENANDOAH VALLEY JUVENILE CENTER COMMISSION Exhibit 6

Schedule of OPEB Funding Progress - VRS Health Insurance Credit Program
Year Ended June 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a)/c)
06/30/14	$ 56,012	$ 86,734	$ 30,722	64.58%	$ 2,419,537	1.27%
06/30/15	55,783	87,995	32,212	63.39%	2,483,578	1.30%
06/30/16	53,895	88,044	34,149	61.21%	2,573,314	1.33%

Schedule of OPEB Funding Progress - Retiree Healthcare Plan
Year Ended June 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as % of Covered Payroll ((b-a)/c)
06/30/15	$ -	$ 437,777	$ 437,777	0.00%	$ 2,314,942	18.91%
06/30/16	-	541,693	541,693	0.00%	3,648,366	14.85%
06/30/17	-	549,416	549,416	0.00%	3,648,366	15.06%

Schedule of Revenues, Expenses and Changes in Net Position - Budget to Actual
Year Ended June 30, 2017

	Original Budget	Final Budget	Actual	Variance with budget- Positive (Negative)
Operating Revenues:				
Participant assessments	$ 951,000	$ 951,000	$ 951,123	$ 123
Non-participant assessments	80,000	80,000	87,255	7,255
State wards assessments	2,500	2,500	750	(1,750)
DJJ Reentry - Child Care	4,500	4,500	4,591	91
DJJ direct intake	30,000	30,000	37,625	7,625
Community placement initiative	657,000	657,000	665,577	8,577
Contractual assessments	18,600	18,600	18,600	-
Other revenues	20,000	20,000	4,644	(15,356)
Total operating revenues	$ 1,763,600	$ 1,763,600	$ 1,770,165	$ 6,565
Operating Expenses:				
Personnel services	$ 3,206,119	$ 3,206,119	$ 3,367,847	$ (161,728)
Fringe benefits	1,098,029	1,098,029	1,076,961	21,068
Contractual services	240,000	240,000	240,077	(77)
Other charges	1,043,234	1,043,234	1,153,557	(110,323)
Depreciation expense	350,000	350,000	351,013	(1,013)
Total operating expenses	$ 5,937,382	$ 5,937,382	$ 6,189,455	$ (252,073)
Operating income (loss)	$ (4,173,782)	$ (4,173,782)	$ (4,419,290)	$ (245,508)
Nonoperating Revenues (Expenses):				
State block grant	$ 1,038,850	$ 1,038,850	$ 1,038,851	$ 1
VML risk management safety grant	-	-	7,128	7,128
Federal USDA funds	90,000	90,000	81,792	(8,208)
Federal Unaccompanied Alien Children Grant	3,690,000	3,690,000	4,114,653	424,653
Interest income	3,600	3,600	3,639	39
Interest expense	(643,699)	(643,699)	(36,061)	607,638
Total nonoperating revenues (expenses)	$ 4,178,751	$ 4,178,751	$ 5,210,002	$ 1,031,251
Change in net position	$ 4,969	$ 4,969	$ 790,712	$ 785,743
Net position, beginning of year	-	-	8,300,046	8,300,046
Net position, end of year	$ 4,969	$ 4,969	$ 9,090,758	$ 9,085,789

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 was a 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

COMPLIANCE

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

TO THE COMMISSION MEMBERS
SHENANDOAH VALLEY JUVENILE CENTER COMMISSION
STAUNTON, VIRGINIA

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of Shenandoah Valley Juvenile Center Commission as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Shenandoah Valley Juvenile Center Commission's basic financial statements and have issued our report thereon dated September 19, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Shenandoah Valley Juvenile Center Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Shenandoah Valley Juvenile Center Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of Shenandoah Valley Juvenile Center Commission's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Robinson, Farmer, Cox Associates

Staunton, Virginia
September 19, 2017

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

TO THE COMMISSION MEMBERS
SHENANDOAH VALLEY JUVENILE CENTER COMMISSION
STAUNTON, VIRGINIA

Report on Compliance for Each Major Federal Program

We have audited Shenandoah Valley Juvenile Center Commission's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Shenandoah Valley Juvenile Center Commission's major federal programs for the year ended June 30, 2017. Shenandoah Valley Juvenile Center Commission's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Shenandoah Valley Juvenile Center Commission's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Shenandoah Valley Juvenile Center Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Shenandoah Valley Juvenile Center Commission's compliance.

Opinion on Each Major Federal Program

In our opinion, Shenandoah Valley Juvenile Center Commission complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of Shenandoah Valley Juvenile Center Commission is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Shenandoah Valley Juvenile Center Commission's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Shenandoah Valley Juvenile Center Commission's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Robinson, Farmer, Cox Associates

Staunton, Virginia
September 19, 2017

Shenandoah Valley Juvenile Center Commission
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2017

Federal Grantor/Pass - Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number		Federal Expenditures
Department of Health and Human Services:				
Direct Payments:				
Unaccompanied Alien Children Program	93.676	Not Available	$	4,114,653
Total Department of Health and Human Services			$	4,114,653
Department of Agriculture:				
Pass Through Payments:				
Child and Adult Care Food Program	10.558	Not Available	$	81,792
Total Department of Agriculture			$	81,792
Total Expenditures of Federal Awards			$	4,196,445

See accompanying notes to schedule of expenditures of federal awards.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2017

NOTE A-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Shenandoah Valley Juvenile Center Commission under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of the Uniform Guidance. Because the Schedule presents only a selected portion of the operations of the Commission, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the Commission.

B. Summary of Significant Account Policies:

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) Pass-through entity identifying numbers are presented where available.

(3) The Shenandoah Valley Juvenile Center Commission has not elected to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

C. Matching Costs:

Matching costs, the nonfederal share of certain program costs, are not included in the Schedule.

NOTE B-RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

The regulations and guidelines governing the preparation of federal financial reports vary by federal agency and among programs administered by the agency. As a result, the amounts reported in federal financial reports may not agree with the amounts reported in the accompanying schedule.

Shenandoah Valley Juvenile Center Commission
Schedule of Findings and Questioned Costs
Year Ended June 30, 2017

Section I-Summary of Auditors' Results

Financial Statements

Type of auditors' report issued	unmodified
Internal control over financial reporting:	
- Material weakness(es) identified?	___ yes x no
- Significant deficiency(ies) identified?	___ yes x none reported
Noncompliance material to financial statements noted?	___ yes x no

Federal Awards

Internal control over major programs:	
- Material weakness(es) identified?	___ yes x no
- Significant deficiency(ies) identified?	___ yes x no
Type of auditors' report issued on compliance for major programs:	unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	___ yes x no

Identification of major programs:

CFDA Numbers	*Name of Federal Program or Cluster*
93.676	Unaccompanied Alien Children Program

Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low-risk auditee?	___ yes x no

Section II-Financial Statement Findings

None

Section III-Federal Award Findings and Questioned Costs

None

Section IV-Summary Schedule of Prior Year Findings

None