



Virginia Peninsula Regional Jail Authority

**Basic Financial Statements and
Supplementary Information**
(With Independent Auditors' Report Thereon)

Year Ended June 30, 2018

Virginia Peninsula Regional Jail Authority

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Independent Auditors' Report

Board of Directors
Virginia Peninsula Regional Jail Authority
Williamsburg, Virginia

We have audited the accompanying financial statements of the Virginia Peninsula Regional Jail Authority as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Virginia Peninsula Regional Jail Authority's basic financial statements listed in the table of contents. These financial statements are the responsibility of the Virginia Peninsula Regional Jail's management.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Virginia Peninsula Regional Jail Authority as of June 30, 2018, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Changes in Accounting Principle

As discussed in Notes 1 and 9 to the financial statements, during 2018 the Virginia Peninsula Regional Jail implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits*

Other Than Pensions, which resulted in a cumulative effect adjustment to net position as of the beginning of the year. Our opinion is not modified with respect to these changes.

As described in Note 10 to the financial statements, the Authority has implemented a change in accounting principle over its basis of accounting from that of a governmental fund to that of an enterprise fund. Certain amounts previously reported were restated due to this change. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on page 4 – 6 and schedules of changes in net pension asset and schedules of changes in total other post-employment benefit liability and related ratios and employer contributions and related notes on pages 39 - 45 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 them to be essential parts of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context and disclosing additional plan information. 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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



Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2018, on our consideration of the Virginia Peninsula Regional Jail Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Virginia Peninsula Regional Jail Authority's internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

**Newport News, Virginia
October 30, 2018**

Virginia Peninsula Regional Jail Authority
Management's Discussion and Analysis
June 30, 2018

This section of the Virginia Peninsula Regional Jail Authority's (Authority) annual financial report presents our discussion and analysis of the Authority's financial performance during the fiscal year ended June 30, 2018.

Financial Highlights

The Authority's net position increased by \$1,432,657 for fiscal year 2018. The increase was primarily due to lower depreciation expense and a decrease in supplies purchased during the fiscal year. Total liabilities decreased by \$1,688,323, primarily due to principal payments on the capital lease payable and revenue bonds.

The Authority had a restatement of beginning net position in fiscal year 2018, due to the implementation of GASB 75. Additional information can be found in Notes 1 and 9 to the basic financial statements.

In addition, effective July 1, 2017, the Authority changed its basis of accounting from the modified accrual basis of accounting (using the current financial resources measurement focus) to the accrual basis of accounting (using an economic resources measurement focus). Additional information can be found in Note 10 to the basic financial statements.

Overview of the Financial Statements

This report has two components - Management's Discussion and Analysis (this section) and the basic financial statements. This report also contains required supplementary information and other supplementary information in addition to the basic financial statements. The basic financial statements are comprised of the statement of net position, statement of revenue, expenses and changes in net position, statement of cash flows and notes to the basic financial statements.

Transactions are accounted for under the economic resources measurement focus and the accrual basis of accounting utilizing an enterprise fund. Accordingly, revenues are recognized in the period earned and expenses are recognized when they are incurred. Enterprise funds are used to account for activities that are financed and operated similar to those often found in the private sector.

The Statement of Net Position presents information on the Authority's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. However, it is also important to consider other nonfinancial factors, such as changes in economic conditions, population and service area growth, and new or changed legislation.

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods. Notes to the financial statements are an integral part of the statements and should be read in conjunction with the financial statements and the Management's Discussion and Analysis.

Virginia Peninsula Regional Jail Authority
Management's Discussion and Analysis
June 30, 2018

Financial Analysis

Statements of Net Position

	<u>6/30/2018</u>	<u>6/30/2017</u>
Current and other assets	\$ 5,310,945	\$ 5,375,396
Capital assets, net	16,468,135	17,293,072
Net pension asset	1,894,996	1,159,958
Total assets	<u>23,674,076</u>	<u>23,828,426</u>
Deferred outflows of resources	482,568	851,146
Total assets and deferred outflows	<u>\$ 24,156,644</u>	<u>\$ 24,679,572</u>
Current liabilities	\$ 4,158,280	\$ 3,227,127
Noncurrent liabilities	2,137,752	4,757,228
Total liabilities	<u>6,296,032</u>	<u>7,984,355</u>
Deferred inflows of resources	721,437	613,954
Net position:		
Net investment in capital assets	12,181,907	11,125,004
Restricted	1,894,996	3,964,825
Unrestricted	<u>3,062,272</u>	<u>991,434</u>
Total net position	<u>17,139,175</u>	<u>16,081,263</u>
Total liabilities, deferred inflows and net position	<u>\$ 24,156,644</u>	<u>\$ 24,679,572</u>

Total assets decreased by 0.6% from fiscal year 2017, primarily due to a decrease in capital assets for current year depreciation expense. Total liabilities experienced a decrease of 21.1% from fiscal year 2017, which was primarily due to debt pay downs. Total net position was \$17,139,175 and \$16,081,263 at June 30, 2018 and 2017, respectively.

Statements of Revenues, Expenses and Changes in Net Position for the Year Ended

	<u>6/30/2018</u>	<u>6/30/2017</u>
Operating revenues:		
Fees from member jurisdictions	\$ 6,655,069	\$ 6,913,977
Commonwealth of Virginia	4,632,069	4,528,078
Federal government	1,445,495	1,467,200
Other	867,284	782,422
Total operating revenues	<u>13,599,917</u>	<u>13,691,677</u>
Operating expenses:		
Salaries and benefits	7,846,521	7,797,020
Contractual services	1,233,092	1,131,714
Depreciation	914,236	915,949
Other	2,105,048	2,699,443
Total operating expenses	<u>12,098,897</u>	<u>12,544,126</u>
Operating income	<u>1,501,020</u>	<u>1,147,551</u>
Nonoperating revenues (expenses):		
Interest expense	(96,594)	(182,201)
Investment income	28,231	(6,654)
Net nonoperating revenues (expenses)	<u>(68,363)</u>	<u>(188,855)</u>
Change in net position	1,432,657	958,696
Net position, beginning of year (as restated)	<u>15,706,518</u>	<u>15,122,567</u>
Net position, end of year	<u>\$ 17,139,175</u>	<u>\$ 16,081,263</u>

Operating revenue decreased by \$91,760 in 2018, mainly due to lower member contributions. Operating expenses decreased from the prior year by \$445,229, mainly due to lower depreciation and supply purchases. Total net position increased by \$1,432,657 from 2017, mainly attributable to the circumstances noted above.

Virginia Peninsula Regional Jail Authority
Management's Discussion and Analysis
June 30, 2018

Capital Assets

	<u>6/30/2018</u>	<u>6/30/2017</u>
Nondepreciable	\$ 885,546	\$ 916,041
Depreciable, net	<u>15,582,589</u>	<u>16,377,031</u>
Capital assets, net	<u>\$ 16,468,135</u>	<u>\$ 17,293,072</u>

During fiscal year 2018, the Authority purchased new vehicles, a shed, a mini air conditioning system and enhanced their security system. The net effect of the additions and the current year's depreciation expense collectively comprise the decrease in capital assets from 2017.

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

Debt Administration

In June 2003, the Authority issued \$21,655,000 of general improvement revenue bonds with an interest cost of 3.49% to refund the outstanding issue with interest rates from 2% to 5%. On October 1, 2005, the Authority called the outstanding refunded bonds. The balance of the revenue bonds, net of unamortized premiums, at June 30, 2018 and 2017 was \$2,869,549 and \$4,654,104, respectively.

In February 2013, the Authority signed a \$1,766,000 lease purchase agreement, with an interest rate of 2.85%, with Siemens Public, Inc. The agreement is part of an Energy Performance Contract, with the proceeds of the lease held in an escrow account with UMB Corporate Trust Services. The balance of the lease purchase agreement at June 30, 2018 and 2017 was \$1,416,679 and \$1,513,964, respectively.

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

Request for Financial Information

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

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Virginia Peninsula Regional Jail Authority

Statement of Net Position

June 30, 2018

Assets

Cash and short-term investments (Note 2)	\$ 1,833,590
Restricted cash and investments (Note 2)	2,767,543
Due from other governmental units (Note 3)	558,519
Due from James City County (Note 8)	3,604
Accounts receivable	147,689
Capital assets, net (Note 4):	
Nondepreciable	885,546
Depreciable, net	15,582,589
Net pension asset (Note 6)	1,894,996
Total assets	<u>23,674,076</u>

Deferred outflows of resources

Deferred pension contributions (Note 6)	432,963
Deferred differences between expected and actual experience on pension actuarial valuation (Note 6)	23,919
Deferred OPEB contributions (Note 7)	25,686
Total deferred outflows of resources	<u>482,568</u>
Total assets and deferred outflows of resources	<u>\$ 24,156,644</u>

Liabilities

Accounts payable	\$ 371,519
Amounts held for others	46,972
Interest payable	37,927
Accrued payroll	96,227
Noncurrent liabilities (Notes 5, 6 and 7):	
Due within one year	3,605,635
Due in more than one year	2,137,752
Total liabilities	<u>6,296,032</u>

Deferred inflows of resources

Deferred pension investment experience (Note 6)	229,446
Deferred differences between expected and actual experience on pension actuarial valuation (Note 6)	341,085
Deferred pension change of assumptions (Note 6)	63,908
Deferred other post-employment benefits (OPEB) change of assumptions (Note 7)	48,998
Deferred differences between expected and actual experience on OPEB (Note 7)	9,000
Net difference between projected and actual investment earnings on OPEB (Note 7)	15,000
Deferred changes in proportionate share on OPEB (Note 7)	14,000
Total deferred inflows of resources	<u>721,437</u>

Net position

Net investment in capital assets	12,181,907
Restricted for pensions	1,894,996
Unrestricted	3,062,272
Total net position	<u>17,139,175</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 24,156,644</u>

See accompanying notes to financial statements.

Virginia Peninsula Regional Jail Authority
Statement of Revenue, Expenses and Changes in Net Position
Year Ended June 30, 2018

Operating revenues

Fees from member jurisdictions	\$ 6,655,069
Commonwealth of Virginia	4,632,069
Federal government	1,445,495
Telephone commissions	334,562
Miscellaneous	320,983
Rental income	4,604
Work release fees	48,251
Canteen sales	158,884
Total operating revenues	<u>13,599,917</u>

Operating expenses

Salaries and benefits	7,846,521
Contractual services	1,233,092
Depreciation	914,236
Food and food supplies	511,538
Utilities	449,882
Medical supplies	320,392
Building maintenance	151,068
Other supplies	140,782
Fiscal agent fee (Note 8)	117,987
Staff development	64,291
Furniture and equipment	61,947
Inmate clothing	51,911
Transportation	51,104
Inmate betterment	96,946
Staff clothing	34,645
Insurance	31,145
Indigent expenses	16,438
Other	4,972
Total operating expenses	<u>12,098,897</u>

Operating income 1,501,020

Nonoperating revenues (expenses)

Interest expense	(96,594)
Investment income	28,231
Net nonoperating revenues (expenses)	<u>(68,363)</u>

Changes in net position 1,432,657

Net position, beginning of year (as restated) (Notes 9 & 10) 15,706,518

Net position, end of year \$ 17,139,175

See accompanying notes to financial statements.

Virginia Peninsula Regional Jail Authority

Statements of Cash Flows

Year Ended June 30, 2018

Cash flows from operating activities:

Cash received from customers	\$ 13,751,423
Cash payments to suppliers for goods and services	(3,453,435)
Cash payments for personnel services	(8,150,199)
Net cash provided by operating activities	2,147,789

Cash flows from capital and related financing activities:

Acquisition and construction of capital assets	(89,299)
Payment of debt	(1,777,285)
Interest paid	(222,381)
Net cash used in capital and financing activities	(2,088,965)

Cash flows from investment activities:

Interest received	69,151
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Increase in cash and short-term investments 127,975

Cash and short-term investments, beginning of year 1,705,615

Cash and short-term investments, end of year \$ 1,833,590

Reconciliation of operating income to net cash

provided by operating activities:

Operating income	\$ 1,501,020
Adjustments to reconcile operating income to cash provided by operating activities:	
Depreciation	914,236
Changes in operating assets, deferred outflows of resources, liabilities and deferred inflows of resources:	
Accounts receivable	155,110
Due from James City County	(3,604)
Due to James City County	(8,541)
Accounts payable	(54,633)
Amounts held for others	(52,121)
Accrued payroll	93,882
Compensated absences	(113,994)
Net pension asset and related deferred outflows/inflows	(320,289)
Net OPEB liability and related deferred outflows/inflows	36,723
Total adjustments	646,769

Net cash provided by operating activities \$ 2,147,789

See accompanying notes to financial statements.

Virginia Peninsula Regional Jail Authority
Notes to the Financial Statements
June 30, 2018

1) Summary of Significant Accounting Policies

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

Financial Reporting Entity

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

Basis of Accounting and Measurement Focus

The Authority prepares its financial statements in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Authority uses the economic resources management focus and the accrual basis of accounting similar to an enterprise fund. Accordingly, revenues are recognized in the period earned and expenses are recognized when they are incurred. Enterprise funds are used to account for activities that are financed and operated similar to those often found in the private sector. An enterprise fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from the Authority's ongoing operations. Operating revenues are comprised primarily of fees from member jurisdictions and intergovernmental; revenues. Operating expenses include salaries and benefits, contractual services, supplies and depreciation. Revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Budget Policy

The Authority prepares and adopts a fiscal year budget, which is prepared on a modified accrual basis of accounting for management and fiscal planning purposes. The Jail Superintendent convenes individual and group budget meetings internally at least annually, and the Jail Superintendent then presents a comprehensive budget package to the Board of Directors for approval.

The City Managers and County Administrators, serving as members of the Authority, are responsible for presenting the Authority's budget to their respective jurisdictions and representing the Authority in budget hearings, as needed, in the budget process.

Cash Equivalents

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

Capital Assets

The Authority's policy is to capitalize assets with a historical cost or acquisition value (for donated assets) on the date received of \$5,000 or greater. The costs of major improvements are capitalized while the cost of maintenance and repairs, which do not improve or extend the list of an asset, are expensed.

Virginia Peninsula Regional Jail Authority
Notes to the Financial Statements
June 30, 2018

1) Summary of Significant Accounting Policies, Continued

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

Buildings and improvements	10-40 years
Furniture, equipment, and vehicles	3-12 years

When capital assets are sold or retired, the cost and related accumulated depreciation, if applicable, are removed from the accounts and any resulting gain or loss on disposal is included in nonoperating revenues (expenses).

Interfund Transactions

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

Fees Revenue

Fees from member jurisdictions consist of charges billed on a rolling five year utilization average. The member's annual charge is based on the ratio of each member jurisdiction's bed usage in the jail during the preceding five fiscal years to the aggregate usage of space by all member jurisdictions during the same five fiscal years.

Estimates

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

Adoption of New Accounting Statement

Effective for the fiscal year ended June 30, 2018, the Authority adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statement No. 75 replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and Statement No. 57, *OPEB Measurement by Agent Employers and Agent Multiple-Employer Plans*.

Statement No. 75 addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

The Authority could not practically determine the period-specific details of the change on all prior periods presented; therefore, the cumulative effect of the change was applied to the beginning balance of the current year (Note 9).

Virginia Peninsula Regional Jail Authority
Notes to the Financial Statements
June 30, 2018

2) Cash and Investments

The Authority's cash and investments at June 30, 2018 consisted of the following:

Bank deposits	\$ 1,830,581
Petty cash	1,000
Investments	<u>2,769,552</u>
Total	<u><u>\$ 4,601,133</u></u>

Reconciliation to Statement of Net Position:

Cash and short-term investments	\$ 1,833,590
Restricted cash and investments	<u>2,767,543</u>
Total	<u><u>\$ 4,601,133</u></u>

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

The Authority's investments at June 30, 2018 were as follows:

<u>Investment Type</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Level</u>	<u>Maturity</u>	<u>Rated</u>
LGIP (amortized cost)	\$ 2,009	\$ 2,009	N/A	1 day	N/A
Money market (cost)	386,741	386,741	N/A	1 day	N/A
US Treasury bonds	<u>2,122,380</u>	<u>2,380,802</u>	1	11/15/2018	Aaa
Total	<u><u>\$ 2,511,130</u></u>	<u><u>\$ 2,769,552</u></u>			

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

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

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

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

Investment Policy

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

Virginia Peninsula Regional Jail Authority
Notes to the Financial Statements
June 30, 2018

2) Cash and Investments, Continued

The maximum percentage of the portfolio (book value at the date of acquisition) permitted in each security is as follows:

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

Credit Risk

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

Concentration of Credit Risk

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

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

At June 30, 2018, 85.96% of the Authority's portfolio was invested in U.S. Treasury obligations, 13.97% was invested in money market funds and .07% was invested in the Commonwealth of Virginia LGIP account.

Interest Rate Risk

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

Virginia Peninsula Regional Jail Authority
Notes to the Financial Statements
June 30, 2018

2) Cash and Investments, Continued

Proceeds from the sale of bonds must be invested in compliance with the specific requirements of the bond covenants and may be invested in securities with longer maturities, so long as the maturity does not exceed the expected disbursement date of those funds. The Authority has U.S. Treasury obligations totaling \$2,335,000 (par value), which mature on November 15, 2018 and will be used towards the final payment on the revenue bonds payable in fiscal year 2019. These investments relate to the proceeds of the 2003 general improvement bonds, which refunded the 1995 bonds (see Note 5). These securities are invested per the requirements of the bond covenant and are reflected as "Restricted Cash and Investments" at June 20, 2018.

Custodial Credit Risk

The Policy requires all investment securities purchased by the Authority or held as collateral on deposits or investments shall be held by the Authority or by a third-party custodial agent who may not otherwise be a counterparty to the investment transaction. As of June 30, 2018, all of the Authority's investments are held in a bank's trust department in its name.

Collateral Agreement with Morgan Guaranty Trust Company

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

3) Due from Other Governmental Units

Due from other governmental units consist of the following:

Commonwealth of Virginia	\$ 416,565
Federal government	141,954
Total	<u>\$ 558,519</u>

4) Capital Assets

The following is a summary of changes in capital assets for the fiscal year ended June 30, 2018.

	Balances July 1, 2017	Increases	Decreases	Balances June 30, 2018
Capital assets, non-depreciable:				
Land and land improvements	\$ 885,546	\$ -	\$ -	\$ 885,546
Construction in progress	30,495	-	(30,495)	-
Total capital assets, non-depreciable	<u>916,041</u>	<u>-</u>	<u>(30,495)</u>	<u>885,546</u>
Capital assets, depreciable:				
Buildings and improvements	30,795,260	14,357	-	30,809,617
Furniture, equipment, and vehicles	2,368,341	105,437	(270,382)	2,203,396
Total capital assets, depreciable	<u>33,163,601</u>	<u>119,794</u>	<u>(270,382)</u>	<u>33,013,013</u>
Less accumulated depreciation:				
Buildings and improvements	14,954,454	784,443	-	15,738,897
Furniture, equipment, and vehicles	1,832,116	129,793	(270,382)	1,691,527
Total accumulated depreciation	<u>16,786,570</u>	<u>914,236</u>	<u>(270,382)</u>	<u>17,430,424</u>
Total capital assets, depreciable, net	<u>16,377,031</u>	<u>(794,442)</u>	<u>-</u>	<u>15,582,589</u>
Net capital assets	<u>\$ 17,293,072</u>	<u>\$ (794,442)</u>	<u>\$ (30,495)</u>	<u>\$ 16,468,135</u>

Virginia Peninsula Regional Jail Authority
Notes to the Financial Statements
June 30, 2018

5) Long-Term Liabilities

A summary of the Authority's changes in long-term liabilities for the year ended June 30, 2018 is as follows:

	Balance 7/1/2017	Increases	Decreases	Balance 6/30/2018	Due Within One Year
Compensated absences	\$ 749,997	\$ 666,145	\$ 780,139	\$ 636,003	\$ 636,003
Lease payable	1,513,964	-	97,285	1,416,679	100,083
Revenue bonds payable	4,445,000	-	1,680,000	2,765,000	2,765,000
Unamortized bond premium	209,104	-	104,555	104,549	104,549
OPEB, restated	871,388	30,768	81,000	821,156	-
Total	<u>\$ 7,789,453</u>	<u>\$ 696,913</u>	<u>\$ 2,742,979</u>	<u>\$ 5,743,387</u>	<u>\$ 3,605,635</u>

Compensated Absences

Authority employees are granted vacation time in varying amounts based on length of service. They may accumulate, subject to certain limitations, unused vacation leave and upon retirement, termination or death may be compensated for certain amounts at their then current rates of pay. Accumulated vacation, sick and holiday leave estimated to be paid upon separation consisted of the following:

	6/30/2018
Vacation	\$ 402,996
Sick	148,979
Holiday	<u>84,028</u>
Total	<u>\$ 636,003</u>

Lease Payable

In February 2013, the Authority signed a \$1,766,000 lease purchase agreement for energy efficient improvements with an interest rate of 2.85%, with Siemens Public, Inc. The net book value of the capital assets purchased under this lease was \$1,014,033 at June 30, 2018 and the Authority had interest payable of \$3,365 related to this agreement at June 30, 2018. The annual requirements for principal and related interest are as follows:

Year ended June 30	Principal	Interest
2019	100,083	39,299
2020	103,028	36,445
2021	110,480	33,430
2022	118,281	30,199
2023	126,446	26,741
2024-2028	768,474	73,170
2029	89,887	962
Total	<u>\$ 1,416,679</u>	<u>\$ 240,246</u>

Revenue Bonds Payable

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

Year ended June 30	Principal	Interest
2019	<u>\$ 2,765,000</u>	<u>\$ 34,562</u>

Virginia Peninsula Regional Jail Authority
Notes to the Financial Statements
June 30, 2018

6) Pensions

The Virginia Retirement System (VRS) Political Subdivision Retirement Plan is a multi-employer, agent plan. For purposes of measuring the net pension asset, deferred outflow of resources and deferred inflow of resources related to pensions and pension expense, information about the fiduciary net position of the Authority's retirement plan and the additions to/deductions from the Authority's retirement plan's net fiduciary position have been determined on the same basis as reported by the VRS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan Description

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

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

PLAN 1

About Plan 1

Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.

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, and they have not taken a refund.

Hybrid Opt-In Election

Non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.

Retirement Contributions

Employees contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.

Creditable Service

Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

Virginia Peninsula Regional Jail Authority
Notes to the Financial Statements
June 30, 2018

6) Pension Plans, Continued

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.

Calculating the Benefit

The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.

Average Final Compensation

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

Service Retirement Multiplier

The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.7%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.7% or 1.85% as elected by the employer.

Normal Retirement Age

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

Earliest Unreduced Retirement Eligibility

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

Earliest Reduced Retirement Eligibility

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

Cost-of-Living Adjustment (COLA) in Retirement

The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.

Eligibility

For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.

Virginia Peninsula Regional Jail Authority
Notes to the Financial Statements
June 30, 2018

6) Pension Plans, Continued

Exceptions to COLA Effective Dates

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

- The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.
- The member retires on disability.
- The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
- The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
- The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.

Disability Coverage

Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

Purchase of Prior Service

Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.

PLAN 2

About Plan 2

Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.

Eligible Members

Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

Hybrid Opt-In Election

Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.

Retirement Contributions

Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.

Creditable Service

Same as Plan 1.

Vesting

Same as Plan 1.

Virginia Peninsula Regional Jail Authority
Notes to the Financial Statements
June 30, 2018

6) Pension Plans, Continued

Calculating the Benefit

See definition under Plan 1.

Average Final Compensation

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

Service Retirement Multiplier

Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. Sheriffs and regional jail superintendents: same as plan 1. Political subdivision hazardous duty employees: Same as Plan 1.

Normal Retirement Age

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

Earliest Unreduced Retirement Eligibility

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

Earliest Reduced Retirement Eligibility

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

Cost-of-Living Adjustment (COLA) in Retirement

The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.

Eligibility

Same as Plan 1.

Exceptions to COLA Effective Dates

Same as Plan 1.

Disability Coverage

Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

Purchase of Prior Service

Same as Plan 1.

Hybrid Retirement Plan

About the Hybrid Retirement Plan

The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

Virginia Peninsula Regional Jail Authority
Notes to the Financial Statements
June 30, 2018

6) Pension Plans, Continued

Eligible Members

Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes political subdivision employees, members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014. Some employees are not eligible to participate in the Hybrid Retirement Plan. They include political subdivision employees who are covered by enhanced benefits for hazardous duty employees. Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.

Retirement Contributions

A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

Creditable Service

Defined Benefit Component:

Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It may also count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

Defined Contributions Component:

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

Vesting

Defined Benefit Component:

Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

Defined Contributions Component:

Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. After two years, a member is 50% vested and may withdraw 50% of employer contributions. After three years, a member is 75% vested and may withdraw 75% of employer contributions. After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.

Calculating the Benefit

Defined Benefit Component:

See definition under Plan 1.

Virginia Peninsula Regional Jail Authority
Notes to the Financial Statements
June 30, 2018

6) Pension Plans, Continued

Defined Contribution Component:

The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.

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

Defined Benefit Component:

The retirement multiplier is 1.0%. For members that opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. Sheriffs and regional jail superintendents and political subdivision hazardous duty employees: Not applicable.

Defined Contribution Component:

Not applicable.

Normal Retirement Age

Defined Benefit Component:

Same as Plan 2. Political subdivision hazardous duty employees: Not applicable.

Defined Contribution Component:

Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Earliest Unreduced Retirement Eligibility

Defined Benefit Component:

Members are eligible for an unreduced retirement benefit when they reach normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. Political subdivision hazardous duty employees: Not applicable.

Defined Contribution Component:

Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Earliest Reduced Retirement Eligibility

Defined Benefit Component:

Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. Political subdivision hazardous duty employees: Not applicable.

Defined Contribution Component:

Members are eligible to receive distributions upon leaving employment, subject to restrictions.

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.

Exceptions to COLA Effective Dates:

Same as Plan 1 and Plan 2.

Virginia Peninsula Regional Jail Authority
Notes to the Financial Statements
June 30, 2018

6) Pension Plans, Continued

Disability Coverage

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

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

Purchase of Prior Service

Defined Benefit Component:

Same as Plan 1 with the following exceptions: Hybrid retirement plan members are ineligible for ported service.

Defined Contribution Component:

Not applicable.

Employees Covered by Benefit Terms

As of the June 30, 2016 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	57
Inactive members:	
Vested	15
Non-vested	105
Active elsewhere in VRS	63
Total inactive members	183
Active members	123
Total covered members	363

Contributions

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

The Authority's contractually required contribution rate for the year ended June 30, 2018, was 8.82% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contribution to the pension plan from the Authority was \$432,963 for the year ended June 30, 2018.

Net Pension Asset

The Authority's net pension asset was measured as of June 30, 2017. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Virginia Peninsula Regional Jail Authority
Notes to the Financial Statements
June 30, 2018

6) Pension Plans, Continued

Actuarial Assumptions - General Employees

The total pension liability for General Employees in the Authority's retirement plan was based on an actuarial valuation as of June 30, 2016, 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, 2017.

Inflation	2.50%
Salary increases, including inflation	3.5% - 5.35%
Investment rate of return	7%, net of pension plan investment expense, including inflation*

*Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7%. However, since the difference was minimal, and a more conservative 7% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7% to simplify preparation of pension liabilities.

Mortality rates:

Largest 10 - Non-Hazardous duty: 20% of deaths are assumed to be service related.

Pre-retirement:

RP-2014 employee rates to age 80, healthy annuitant rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-retirement:

RP-2014 employee rates to age 49, healthy annuitant rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 disability mortality rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

All Others (Non 10 Largest) - Non-Hazardous duty: 15% of deaths are assumed to be service related.

Pre-retirement:

RP-2014 employee rates to age 80, healthy annuitant rates at age 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-retirement:

RP-2014 employee rates to age 49, healthy annuitant rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 disability mortality rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Virginia Peninsula Regional Jail Authority
Notes to the Financial Statements
June 30, 2018

6) Pension Plans, Continued

Largest 10 - Non-Hazardous Duty:

- Update mortality rates to a more current mortality table – RP-2014 projected to 2020
- Lowered retirement rates at older ages and changed final retirement from 70 to 75
- Adjust withdrawal rates to better fit experience at each year age and service through 9 years of service
- Lowered disability rates
- No change in salary scale
- Increase rate of line of duty disability from 14% to 20%

All Others (Non 10 Largest) - Non-Hazardous Duty:

- Update mortality rates to a more current mortality table – RP-2014 projected to 2020
- Lowered retirement rates at older ages and changed final retirement from 70 to 75
- Adjust withdrawal rates to better fit experience at each year age and service through 9 years of service
- Lowered disability rates
- No change in salary scale
- Increase rate of line of duty disability from 14% to 15%

Actuarial Assumptions - Public Safety Employees with Hazardous Duty Benefits

The total pension liability for Public Safety employees with hazardous duty benefits in the Authority's retirement plan was based on an actuarial valuation as of June 30, 2016, 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, 2017.

Inflation	2.50%
Salary increases, including inflation	3.5% - 4.75%
Investment rate of return	7%, net of pension plan investment expense, including inflation*

*Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7%. However, since the difference was minimal, and a more conservative 7% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7% to simplify preparation of pension liabilities.

Mortality rates:

Largest 10 - Hazardous duty: 70% of deaths are assumed to be service related.

Pre-retirement:

RP-2014 employee rates to age 80, healthy annuitant rates at age 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-retirement:

RP-2014 employee rates to age 49, healthy annuitant rates at age 50 and older projected with scale BB to 2020; males set forward 1 year, 1.0% increases compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 disability mortality rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

All Others (Non 10 Largest) – Hazardous duty: 45% of deaths are assumed to be service related.

Pre-retirement:

RP-2014 employee rates to age 80, healthy annuitant rates at age 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

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6) Pension Plans, Continued

Post-retirement:

RP-2014 employee rates to age 49, healthy annuitant rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year, 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 disability mortality rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - Hazardous Duty

- Update mortality rates to a more current mortality table – RP-2014 projected to 2020
- Lowered retirement rates at older ages
- Adjust withdrawal rates to better fit experience
- Increased disability rates
- No change in salary scale
- Increase rate of line of duty disability from 60% to 70%

All Others (Non 10 Largest) - Hazardous Duty:

- Update mortality rates to a more current mortality table – RP-2014 projected to 2020
- Increased age 50 retirement rates and lowered retirement rates at older ages
- Adjust withdrawal rates to better fit experience at each year age and service through 9 years of service
- Adjusted disability rates to better fit experience
- No change in salary scale
- Decrease rate of line of duty disability from 60% to 45%

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
Public equity	40.00%	4.54%	1.82%
Fixed income	15.00%	0.69%	0.10%
Credit strategies	15.00%	3.96%	0.59%
Real assets	15.00%	5.76%	0.86%
Private equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
		*Expected arithmetic nominal return	7.30%

*The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Virginia Peninsula Regional Jail Authority
Notes to the Financial Statements
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6) Pension Plans, Continued

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that VRS member contributions will be made per the VRS statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the Authority for the retirement plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability (Asset)

	Increase (Decrease)		
	Total pension liability	Plan fiduciary net pension	Net pension liability (asset)
Balances at June 30, 2016	\$ 12,500,281	\$ 13,660,239	\$ (1,159,958)
Changes for the year:			
Service cost	815,014	-	815,014
Interest	857,808	-	857,808
Changes of assumptions	(99,812)	-	(99,812)
Differences between expected and actual experience	37,356	-	37,356
Contributions - employer	-	429,635	(429,635)
Contributions - employee	-	242,980	(242,980)
Net investment income	-	1,683,653	(1,683,653)
Benefit payments, including refunds of employee contributions	(491,774)	(491,774)	-
Administrative expenses	-	(9,348)	9,348
Other changes	-	(1,516)	1,516
Net changes	1,118,592	1,853,630	(735,038)
Balances at June 30, 2017	<u>\$ 13,618,873</u>	<u>\$ 15,513,869</u>	<u>\$ (1,894,996)</u>

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

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

	1% Decrease (6%)	Current discount rate (7%)	1% Increase (8%)
Net pension asset	\$ (53,873)	\$ (1,894,996)	\$ (3,416,012)

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

For the year ended June 30, 2018, the Authority recognized pension expense of \$110,590.

Virginia Peninsula Regional Jail Authority
Notes to the Financial Statements
June 30, 2018

6) Pension Plans, Continued

At June 30, 2018, the Authority reported deferred outflows of resources and deferred inflows of resources to pensions from the following sources:

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Employer contributions subsequent to measurement date	\$ 432,963	\$ -
Differences between expected and actual experience	23,919	341,085
Changes of assumptions	-	63,908
Net difference between projected and actual earnings on plan investments	-	229,446
Total	<u>\$ 456,882</u>	<u>\$ 634,439</u>

The \$432,963 reported as a deferred outflow of resources represents contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30	
2019	\$ (425,208)
2020	(33,903)
2021	(7,110)
2022	(144,299)
	<u>\$ (610,520)</u>

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is available in the separately issued comprehensive annual financial report (CAFR). A copy of the CAFR may be downloaded from the VRS website at <http://www.varetire.org/pdf/publications/2017-annual-report.pdf> or obtained by writing to VRS's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

7) Other Post-Employment Benefits (OPEB)

Multiple Employer Agent Plan - Retiree Healthcare

The Authority provides other post-employment health-care benefits for qualifying retired employees who are not yet eligible for Medicare through an agent, multiple-employer defined benefit plan administered by James City County. The benefits, benefit levels, employee contributions and employer contributions are governed by the Authority and can be amended by the Authority through its personnel manual.

Plan Description

Participants must be eligible to retire under VRS and must be full-time active employees who retire directly from the Authority and are at least 55 years of age with 15 years of service. Each year, retirees participating in the Authority's sponsored plans will be given the opportunity to change plans or drop coverage during an open enrollment period. The pre-Medicare retirees have a choice of five plans offered by Optima, Healthkeepers and KeyCare. The majority of the participants are in Healthkeepers. Dental plans are available at the retiree's cost and therefore, there is no employer obligation. There is no coverage for post-Medicare retirees.

Funding Policy

The Authority does not intend to establish a trust to pre-fund the obligation. The anticipated growth in the net OPEB obligation is based on contributions to the benefit plan on a pay-as-you-go cost basis. The data has been projected into the future based on the assumption that the current active population remains constant.

Virginia Peninsula Regional Jail Authority
Notes to the Financial Statements
June 30, 2018

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

Retirees contribute towards their health insurance premiums based on a blended rate and therefore, the Authority has an implicit rate obligation. The estimated contributions are based on the implicit rate subsidy payments made during the year by the retirees. Retirees pay 100% of the published rates for individual and dependent coverage until age 65.

Employees Covered by Benefit Terms

As of the June 30, 2017 actuarial valuation, the following employees were covered by the benefit terms of the OPEB plan:

	<u>Number of Participants</u>
Active employees	102
Retirees	1
Total	<u>103</u>

Actuarial Methods and Assumptions

For the actuarial valuation at July 1, 2017 (measurement date of June 30, 2017), the entry age normal funding method was used. The goal of this method is that the annual accrual (or normal cost) be a level percent of pay throughout an employee's career. This method requires a salary increase assumption. The normal cost percentage is equal to the present value of benefits divided by the present value of future salary determined when the employee was hired. The actuarial accrued liability is equal to the present value of benefits minus the normal cost percentage times the present value of future salaries at the valuation date.

The actuarial assumptions included calculations based on a discount rate of 3.58% for the unfunded liability. Benefits are discounted based on an index rate for 20-year tax exempt general obligation (GO) municipal bonds with an average rating of AA/Aa or higher. For this valuation, the Bond Buyer GO 20-year Bond Municipal Bond Index was used.

The medical trend assumption was changed from the previous valuation to an assumption developed using the Society of Actuaries (SOA) Long-Run Medical Cost Trend Model baseline assumptions. The SOA Model was released in December 2007 and revised in 2014. The following assumptions were used as input variables into this model:

Inflation	2.20%
Rate of growth in real income/ GDP per capita	1.63%
Income multiplier for health spending	1.30
Extra trend due to technology and other factors	1.40%
Health share of GDP resistance point	25.00%
Year for limiting cost growth to GDP growth	2075

The SOA Long-Run Medical Cost Trend Model and its baseline projection are based on an econometric analysis of historical U.S. medical expenditures and the judgments of experts in the field. The long-run baseline projection and input variables have been developed under the guidance of an SOA Project Oversight Group.

The actuarial assumptions included calculations based on salary increases of 3.15%-1.30% (general) and 2.55%-1.30% (public safety) based on years of service. The valuation assumed that 40% of participants currently with coverage will elect coverage upon retirement, and that 30% of participants electing coverage at retirement will elect coverage for their spouse.

Mortality decrements:

- Pre-Retirement (General): RP 2000 Employee Mortality Table Projected with Scale AA to 2020, males set forward 2 years and females set back 3 years
- Pre-Retirement (LEOS): RP 2000 Employee Mortality Table Projected with Scale AA to 2020, males and females set back 2 years
- Post-Retirement (General): RP 2000 Combined Mortality Table Projected with Scale AA to 2020, females back 1 year

Virginia Peninsula Regional Jail Authority
Notes to the Financial Statements
June 30, 2018

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

- Post-Retirement (LEOS): RP 2000 Combined Mortality Table Projected with Scale AA to 2020, males set forward 1 year
- Disabled: RP 2000 Disabled Mortality Table, males set back 3 years not fully generational

Changes in Assumptions Since Prior Valuation

- Discount rate was updated as required under the GASB 75 standard.
- Decrement and mortality assumptions were updated to the most recent VRS assumptions.
- Election rate was decreased from 50% to 40% for participants currently with coverage and 50% to 30% for participants who elect coverage at retirement taking spousal coverage.
- Claims assumption was updated to include the most recent plan experience.

Changes in Net OPEB Liability

	Increase (decrease)		
	Total OPEB liability (a)	Plan fiduciary net pension (b)	Net OPEB liability (a) - (b)
Balances at June 30, 2016	\$ 387,388	\$ -	\$ 387,388
Changes for the year:			
Service cost	62,830	-	62,830
Interest	10,894	-	10,894
ER trust contribution	-	10,292	(10,292)
Changes of assumptions	(32,664)	-	(32,664)
Benefit payments	(10,292)	(10,292)	-
Net changes	30,768	-	30,768
Balances at June 30, 2017	\$ 418,156	\$ -	\$ 418,156

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

The following presents the net OPEB liability using the discount rate of 3.58%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.58%) or one percentage point higher (4.58%) than the current rate:

	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
Net OPEB Liability	\$ 463,548	\$ 418,156	\$ 377,351

Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rate

The following presents the net OPEB liability using the health care cost trend rate of 4.00%, as well as what the net OPEB liability would be if it were calculated using a health care cost trend rate that is one percentage point lower (3.00%) or one percentage point higher (5.00%) than the current rate:

	1% Decrease (3.00%)	Ultimate Trend Rate (4.00%)	1% Increase (5.00%)
Net OPEB Liability	\$ 362,809	\$ 418,156	\$ 484,073

Virginia Peninsula Regional Jail Authority
Notes to the Financial Statements
June 30, 2018

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

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2018, the Authority recognized OPEB expense of \$69,058. At June 30, 2018, deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources were reported:

	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	27,998
Net difference between projected and actual earnings on OPEB investments	-	-
Employer contributions subsequent to the measurement date	-	-
Total	<u>\$ -</u>	<u>\$ 27,998</u>

Amounts reported as Deferred Outflows of Resources and Deferred Inflows of Resources related to OPEB will be recognized in OPEB Expense as follows:

<u>Year Ended</u>	
2019	\$ (4,666)
2020	(4,666)
2021	(4,666)
2022	(4,666)
2023	(4,666)
Thereafter	<u>(4,668)</u>
Total	<u>\$ (27,998)</u>

Multiple Employer Cost-Sharing Plan – Group Life Insurance

VRS Group Life Insurance Program is a multiple employer, cost-sharing plan. It provides coverage to state employees, teachers, and employees of participating political subdivisions. The Group Life Insurance Program was established pursuant to Section 51.1-500 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. The Group Life Insurance Program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers. For purposes of measuring the net Group Life Insurance Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the Group Life Insurance Program OPEB, and Group Life Insurance Program OPEB expense, information about the fiduciary net position of the VRS Group Life Insurance Program OPEB and the additions to/deductions from the VRS Group Life Insurance Programs OPEB's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan Description

All full-time, salaried permanent employees of the Authority are automatically covered by the VRS Group Life Insurance Program upon employment. This plan is administered by the VRS, along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

In addition to the Basic Group Life Insurance Program benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the Group Life Insurance Program OPEB.

Virginia Peninsula Regional Jail Authority
Notes to the Financial Statements
June 30, 2018

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

The specific information for Group Life Insurance Program OPEB, including eligibility, coverage and benefits is set out below:

Eligible Employees: the Group Life Insurance Program was established July 1, 1960, for state employees, teachers, and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement: City of Richmond, City of Portsmouth, City of Roanoke, City of Norfolk, and Roanoke City Schools Board. Basic group life insurance coverage is automatic upon employment. Coverage end for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.

Benefit Amounts: the benefits payable under the Group Life Insurance Program have several components.

- Natural death benefit - equal to the employee's covered compensation rounded to the next highest thousand and then doubled.
- Accidental death benefit - double the natural death benefit.
- Other benefit provisions - the program provides additional benefits provided under specific circumstances. These include:
 - o Accidental dismemberment benefit
 - o Safety belt benefit
 - o Repatriation benefit
 - o Felonious assault benefit
 - o Accelerated death benefit option

Reduction in benefit amounts: benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.

Minimum benefit amount and Cost-of-living adjustment (COLA): for covered members with at least 30 years of creditable service, the minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently \$8,111.

Contributions

The contribution requirement for the Group Life Insurance Program are governed by Section 51.1-506 and Section 51.1-508 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies and school division by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% X 60%) and the employer component was 0.52% (1.31% X 40%). Employers may elect to pay all or part of the employee contribution, however the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contribution to the Group Life Insurance Program from the Authority \$25,686 and \$25,643 for the years ended June 30, 2018 and June 30, 2017, respectively.

Virginia Peninsula Regional Jail Authority
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7) Other Post-Employment Benefits (OPEB), Continued

Group Life Insurance (GLI) OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the GLI Program OPEB

At June 30, 2018, the Authority reported a liability of \$403,000 for its proportionate share of the Net GLI OPEB liability. The Net GLI OPEB liability was measured as of June 30, 2017 and the total GLI OPEB liability used to calculate the Net GLI OPEB liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017 the participating employer's proportion was 0.02673% as compared to 0.02764% at June 30, 2016.

For the year ended June 30, 2018 the participating employer recognized GLI OPEB expense of \$3,000. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	\$ -	\$ 9,000
Net difference between projected and actual investment earnings on OPEB Plan investments	-	15,000
Changes of assumptions	-	21,000
Changes in proportionate share	-	14,000
Employer contributions subsequent to the measurement date	25,686	-
Total	<u>\$ 25,686</u>	<u>\$ 59,000</u>

The \$25,686 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year Ended	
2019	\$ (11,000)
2020	(11,000)
2021	(11,000)
2022	(11,000)
2023	(7,000)
Thereafter	(8,000)
Total	<u>\$ (59,000)</u>

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2016, 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, 2017.

Virginia Peninsula Regional Jail Authority
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7) Other Post-Employment Benefits (OPEB), Continued

Inflation	2.50%
Salary increases, including inflation:	
Locality - general employees	3.5% - 5.35%
Locality - hazardous duty employees	3.5% - 4.75%
Investment rate of return	7.0%, net of investment expenses, 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 the OPEB liabilities.

Mortality rates: Largest Ten Locality Employers - General Employees

- Pre-Retirement: RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 95% of rates; females 105% of rates.
- Post-Retirement: RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.
- Post-Disability: RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Virginia Peninsula Regional Jail Authority
Notes to the Financial Statements
June 30, 2018

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

Mortality rates: Non-Largest Ten Locality Employers - General Employees

- Pre-Retirement: RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 95% of rates; females 105% of rates.
- Post-Retirement: RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.
- Post-Disablement: RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

Mortality rates: Largest Ten Locality Employers – Hazardous Duty Employees

- Pre-Retirement: RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.
- Post-Retirement: RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.
- Post-Disablement: RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

Virginia Peninsula Regional Jail Authority
Notes to the Financial Statements
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7) Other Post-Employment Benefits (OPEB), Continued

Mortality rates: Non-Largest Ten Locality Employers – Hazardous Duty Employees

- Pre-Retirement: RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with Scale BB to 2020; males 90% of rates; females set forward 1 year.
- Post-Retirement: RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.
- Post-Disablement: RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

Net GLI OPEB Liability

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the Group Life Insurance Program is as follows (amounts expressed in thousands):

	Group Life Insurance OPEB Program
Total GLI OPEB Liability	\$ 2,942,426
Plan Fiduciary Net Position	1,437,586
Employers' Net GLI OPEB Liability (Asset)	<u>\$ 1,504,840</u>
Plan Fiduciary Net Position as a % of the Total GLI OPEB Liability	48.86%

The total GLI OPEB liability is calculated by VRS's actuary, and each plan's fiduciary net position is reported in the VRS's financial statements. The net GLI OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in VRS' notes to the financial statements and required supplementary information.

Virginia Peninsula Regional Jail Authority
Notes to the Financial Statements
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7) Other Post-Employment Benefits (OPEB), Continued

Long-Term Expected Rate of Return

The long-term expected rate of return on the VRS's 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 VRS's 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
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	<u>100.00%</u>		<u>4.80%</u>
	Inflation		<u>2.50%</u>
	* Expected arithmetic nominal return		<u>7.30%</u>

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance 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, 2019, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

Virginia Peninsula Regional Jail Authority
Notes to the Financial Statements
June 30, 2018

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

Sensitivity of the Employer's Proportionate Share of the Net GLI OPEB Liability to Changes in the Discount Rate

The following presents the employer's proportionate share of the net GLI OPEB liability using the discount rate of 7.00%, as well as what the employer's proportionate share of the net GLI OPEB 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:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Employer's proportionate share of the Group Life Insurance Program			
Net OPEB Liability	\$ 521,000	\$ 403,000	\$ 307,000

Group Life Insurance Program Fiduciary Net Position

Detailed information about the Group Life Insurance Program's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the VRS' Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

8) Transactions with Related Parties

Certain financial management and accounting services are provided to the Authority by the County. The charges for these services totaled \$117,987 for the year ended June 30, 2018.

At June 30, 2018, the County owed \$3,604 to the Authority for payroll expenses.

9) Restatement

As stated in Note 1, the Authority adopted GASB Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in fiscal year 2018. The Authority could not practically determine the period-specific details of the change on all prior periods presented; therefore, the cumulative effect of the change was applied to the beginning balances of the current year as follows:

	Previously Reported 6/30/2017	Restatement	As Restated 6/30/2017
Deferred outflow - OPEB Group Life Insurance contribution	\$ -	\$ 25,643	\$ 25,643
OPEB liability - Retiree Healthcare	\$ (471,000)	\$ 83,612	\$ (387,388)
OPEB liability - Group Life Insurance	\$ -	\$ (484,000)	\$ (484,000)
Net position	\$ (16,081,263)	\$ 374,745	\$ (15,706,518)

Virginia Peninsula Regional Jail Authority
Notes to the Financial Statements
June 30, 2018

10) Change in Accounting Principle

Prior to July 1, 2017, the Authority's financial statements were reported using the modified accrual basis of accounting using the current financial resources measurement focus. Effective July 1, 2017, the Authority changed its method of accounting to the full accrual basis of accounting using an economic resources measurement focus. As a result the Authority changed its fund structure from governmental funds to enterprise funds (proprietary fund types). Given that the majority of the Authority's revenue is derived from user fees, the change was made to present a more accurate reflection of revenue and a more comprehensive view on its financial position.

As a result of this change, the following opening balances have been restated:

	Previously Reported 6/30/2017	Restatement	As Restated 6/30/2017
Fund balances:			
General Fund	\$ 1,913,636	\$ (1,913,636)	\$ -
Debt Service Fund	2,804,867	(2,804,867)	-
Other governmental funds	18,772	(18,772)	-
Total fund balances	4,737,275		-
Full accrual adjustments	11,343,988	(11,343,988)	-
Net position:			
Governmental activities	<u>\$ 16,081,263</u>	(16,081,263)	<u>\$ -</u>
Net position:			
Business-type activities	<u>\$ -</u>	16,081,263	<u>\$ 16,081,263</u>
		<u>\$ -</u>	

* * * * *

Required Supplementary Information

Virginia Peninsula Regional Jail Authority
Schedule of Changes in the Net Pension Asset and Related Ratios
Last Ten Fiscal Years (1) *

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability				
Service cost	\$ 815,014	\$ 774,740	\$ 755,721	\$ 696,818
Interest	857,808	840,404	751,781	685,356
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	37,356	(886,823)	183,103	-
Changes in assumptions	(99,812)	-	-	-
Benefit payments, including refunds of employee contributions	(491,774)	(467,611)	(381,528)	(484,966)
Net change in total pension liability	1,118,592	260,710	1,309,077	897,208
Total pension liability, beginning	12,500,281	12,239,571	10,930,494	10,033,286
Total pension liability, ending	<u>\$ 13,618,873</u>	<u>\$ 12,500,281</u>	<u>\$ 12,239,571</u>	<u>\$ 10,930,494</u>
Plan fiduciary net position				
Contributions - employer	429,635	552,590	516,601	628,274
Contributions - employee	242,980	244,984	236,366	223,741
Net investment income	1,683,653	242,074	569,404	1,633,051
Benefit payments, including refunds of employee contributions	(491,774)	(467,611)	(381,528)	(484,966)
Administrative expense	(9,348)	(7,839)	(7,304)	(8,404)
Other	(1,516)	(100)	(121)	86
Net change in plan fiduciary net position	1,853,630	564,098	933,418	1,991,782
Plan fiduciary net position, beginning	13,660,239	13,096,141	12,162,723	10,170,941
Plan fiduciary net position, ending	<u>\$ 15,513,869</u>	<u>\$ 13,660,239</u>	<u>\$ 13,096,141</u>	<u>\$ 12,162,723</u>
Net pension asset	<u>\$ (1,894,996)</u>	<u>\$ (1,159,958)</u>	<u>\$ (856,570)</u>	<u>\$ (1,232,229)</u>
Plan fiduciary net position as a percentage of the total pension liability	113.91%	109.28%	107.00%	111.27%
Covered payroll	<u>\$ 4,894,773</u>	<u>\$ 4,932,752</u>	<u>\$ 4,599,484</u>	<u>\$ 4,487,387</u>
Net pension asset as a percentage of the total covered payroll	(38.71)%	(23.52)%	(18.62)%	(27.46)%

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

* The amounts presented have a measurement date of the previous fiscal year end.

See independent auditors' report.

Virginia Peninsula Regional Jail Authority
Schedule of Employer Pension Contributions
Last 10 Fiscal Years (1) *

Fiscal year	Contractually required contribution	Contributions in relation to contractually required contribution	Contribution excess (deficiency)	Employer's covered payroll	Contributions as a % of covered payroll
2018	\$ 432,963	\$ 432,963	\$ -	\$ 4,901,876	8.82%
2017	431,719	431,719	-	4,894,773	8.82%
2016	554,438	554,441	3	4,932,752	11.24%
2015	516,589	516,982	393	4,599,484	11.24%

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

* The amounts presented have a measurement date of the previous fiscal year end.

See independent auditors' report.

Virginia Peninsula Regional Jail Authority
Schedule of Changes in Net OPEB Liability and Related Ratios (2)
Required Supplementary Information (Unaudited)
Last Ten Fiscal Years (1) *

Total OPEB liability	
Service cost	\$ 62,830
Interest cost	10,894
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	(32,664)
Benefit payments	(10,292)
Net change in total OPEB liability	<u>30,768</u>
Total OPEB liability, beginning	<u>387,388</u>
Total OPEB liability, ending (a)	<u><u>\$ 418,156</u></u>
 Plan fiduciary net position	
Contributions - employer	\$ 10,292
Net investment income	-
Benefit payments	(10,292)
Administrative expense	-
Net change in plan fiduciary net position	<u>-</u>
Plan fiduciary net position, beginning	<u>-</u>
Plan fiduciary net position, ending (b)	<u><u>\$ -</u></u>
 Net OPEB liability (a) - (b)	 <u><u>\$ 418,156</u></u>

Fiduciary net position as a % of total OPEB liability 0.00%

Expected average remaining service years of all participants 7

(1) This schedule is intended to present 10 years of information. GASB 75 was implemented in fiscal year 2018; additional years will be presented as the information becomes available.

(2) This OPEB plan does not depend on salary information.

* The amounts presented have a measurement date of the previous fiscal year end.

See independent auditors' report.

Virginia Peninsula Regional Jail Authority
Schedule of Employer's Share of Net Group Life Insurance (GLI) OPEB Liability
Required Supplementary Information (Unaudited)
Last Ten Fiscal Years (1) *

	<u>2018</u>
Employer's proportion of the net GLI OPEB liability	0.02673%
Employer's proportionate share of the net GLI OPEB liability	\$ 403,000
Employer's covered payroll	\$ 4,901,876
Employer's proportionate share of the net GLI OPEB liability as a percentage of its covered payroll	8.22%
Plan fiduciary net position as a % of total GLI OPEB liability	48.86%

(1) This schedule is intended to present 10 years of information. GASB 75 was implemented in fiscal year 2018; additional years will be presented as the information becomes available.

* The amounts presented have a measurement date of the previous fiscal year end.

Virginia Peninsula Regional Jail Authority
Schedule of Employer OPEB Contributions
Required Supplementary Information (Unaudited)
Last Ten Fiscal Years (1) *

OPEB - Retiree Healthcare (2)					
Fiscal Year	Actuarially determined contribution	Contributions in relation to actuarially determined contribution	Contribution deficiency (excess)		
2018	\$ 69,058	\$ 10,292	\$ 58,766		

OPEB - Group Life Insurance					
Fiscal Year	Actuarially determined contribution	Contributions in relation to actuarially determined contribution	Contribution deficiency (excess)	Employer's covered payroll	Contributions as a % of covered payroll
2018	\$ 25,686	\$ 25,686	\$ -	\$ 4,901,876	0.52%

(1) This schedule is intended to present 10 years of information. GASB 75 was implemented in fiscal year 2018; additional years will be presented as the information becomes available.

(2) This OPEB plan does not depend on salary information.

* The amounts presented have a measurement date of the previous fiscal year end.

Virginia Peninsula Regional Jail Authority
Note to Required Supplemental Information
Year ended June 30, 2018

1) Pension - Changes of Benefit Terms

There have been no actuarially material changes to the system benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 are not material.

2) Pension and OPEB Group Life Insurance - Changes of Assumptions

The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the system for the four-year period ending June 30, 2016:

Largest Ten Locality Employers - General Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Non-Largest Ten Locality Employers - General Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

Largest Ten Locality Employers – Hazardous Duty Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

See accompanying independent auditors' report.

Virginia Peninsula Regional Jail Authority
 Note to Required Supplemental Information
 Year ended June 30, 2018

2) Pension and OPEB Group Life Insurance - Changes of Assumptions, Continued

Non-Largest Ten Locality Employers – Hazardous Duty Employees

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

3) OPEB Retiree Healthcare - Trust Arrangement and Funding Policy

The Authority does not intend to establish a trust to pre-fund the obligation. The anticipated growth in the net OPEB liability is based on contributions to the benefit plan on a pay-as-you-go cost basis.

4) OPEB Retiree Healthcare - Changes of Benefit Terms

There have been no actuarially material changes to the benefit provisions since the prior actuarial valuation.

5) OPEB Retiree Healthcare - Changes of Assumptions

The following change in actuarial assumptions were made based on the most recent actuarial valuation:

Discount Rate	
June 30, 2017	2.85%
June 30, 2018	3.58%

6) OPEB Group Life Insurance - Changes of Benefit Terms

There have been no actuarially material changes to the VRS benefit provisions since the prior actuarial valuation.

7) OPEB Group Life Insurance - Changes of Assumptions

The following change in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of VRS for the four-year period ending June 30, 2016:

See accompanying independent auditors' report.

Supplementary Information

Virginia Peninsula Regional Jail Authority

Combining Statements of Net Position

June 30, 2018

	General Fund	Work Release Fund	Canteen Fund	Total
Assets				
Cash and short-term investments	\$ 1,516,238	\$ -	\$ 317,352	\$ 1,833,590
Restricted cash and investments	2,767,543	-	-	2,767,543
Due from other governmental units	558,519	-	-	558,519
Due from James City County	3,604	-	-	3,604
Due from Canteen Fund	82,270	18,055	-	100,325
Accounts receivable	147,689	-	-	147,689
Capital assets, net				
Nondepreciable	885,546	-	-	885,546
Depreciable, net	15,582,589	-	-	15,582,589
Net pension asset	1,894,996	-	-	1,894,996
Total assets	<u>23,438,994</u>	<u>18,055</u>	<u>317,352</u>	<u>23,774,401</u>
Deferred outflows of resources				
Deferred pension contributions	432,963	-	-	432,963
Deferred differences between expected and actual experience on pension actuarial valuation	23,919	-	-	23,919
Deferred OPEB contributions	25,686	-	-	25,686
Total deferred outflows of resources	<u>482,568</u>	<u>-</u>	<u>-</u>	<u>482,568</u>
Total assets and deferred outflows of resources	<u>\$ 23,921,562</u>	<u>\$ 18,055</u>	<u>\$ 317,352</u>	<u>\$ 24,256,969</u>
Liabilities				
Accounts payable	\$ 228,337	\$ -	\$ 143,182	\$ 371,519
Amounts held for others	-	-	46,972	46,972
Due to General Fund	-	-	82,270	82,270
Due to Work Release Fund	-	-	18,055	18,055
Interest payable	37,927	-	-	37,927
Accrued payroll	96,180	-	47	96,227
Noncurrent liabilities				
Due within one year	3,605,635	-	-	3,605,635
Due in more than one year	2,137,752	-	-	2,137,752
Total liabilities	<u>6,105,831</u>	<u>-</u>	<u>290,526</u>	<u>6,396,357</u>
Deferred inflows of resources				
Deferred pension investment experience	229,446	-	-	229,446
Deferred differences between expected and actual experience on pension actuarial valuation	341,085	-	-	341,085
Deferred pension change of assumptions	63,908	-	-	63,908
Deferred OPEB change of assumptions	48,998	-	-	48,998
Deferred differences between expected and actual experience on OPEB	9,000	-	-	9,000
Net difference between projected and actual investment earnings on OPEB	15,000	-	-	15,000
Deferred changes in proportionate share on OPEB	14,000	-	-	14,000
Total deferred inflows of resources	<u>721,437</u>	<u>-</u>	<u>-</u>	<u>721,437</u>
Net position				
Net investment in capital assets	12,181,907	-	-	12,181,907
Restricted for pensions	1,894,996	-	-	1,894,996
Unrestricted	3,017,391	18,055	26,826	3,062,272
Total net position	<u>17,094,294</u>	<u>18,055</u>	<u>26,826</u>	<u>17,139,175</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 23,921,562</u>	<u>\$ 18,055</u>	<u>\$ 317,352</u>	<u>\$ 24,256,969</u>

See independent auditors' report.

Virginia Peninsula Regional Jail Authority
Combining Statements of Revenue, Expenses and Changes in Net Position
Year Ended June 30, 2018

	<u>General Fund</u>	<u>Work Release Fund</u>	<u>Canteen Fund</u>	<u>Total</u>
Operating revenues				
Fees from member jurisdictions	\$ 6,655,069	\$ -	\$ -	\$ 6,655,069
Commonwealth of Virginia	4,632,069	-	-	4,632,069
Federal government	1,445,495	-	-	1,445,495
Telephone commissions	334,562	-	-	334,562
Miscellaneous	320,983	-	-	320,983
Rental income	4,604	-	-	4,604
Work release fees	-	48,251	-	48,251
Canteen sales	-	-	158,884	158,884
Total operating revenues	<u>13,392,782</u>	<u>48,251</u>	<u>158,884</u>	<u>13,599,917</u>
Operating expenses				
Salaries and benefits	7,846,521	-	-	7,846,521
Contractual services	1,233,092	-	-	1,233,092
Depreciation	914,236	-	-	914,236
Food and food supplies	511,485	53	-	511,538
Utilities	449,882	-	-	449,882
Medical supplies	320,392	-	-	320,392
Building maintenance	151,068	-	-	151,068
Other supplies	134,896	5,886	-	140,782
Fiscal agent fee	117,987	-	-	117,987
Inmate betterment	-	-	96,946	96,946
Staff development	64,291	-	-	64,291
Furniture and equipment	61,947	-	-	61,947
Inmate clothing	51,911	-	-	51,911
Transportation	51,104	-	-	51,104
Staff clothing	34,645	-	-	34,645
Insurance	31,145	-	-	31,145
Indigent expenses	-	-	16,438	16,438
Other	4,972	-	-	4,972
Total operating expenses	<u>11,979,574</u>	<u>5,939</u>	<u>113,384</u>	<u>12,098,897</u>
Operating income	<u>1,413,208</u>	<u>42,312</u>	<u>45,500</u>	<u>1,501,020</u>
Nonoperating revenues (expenses)				
Interest expense	(96,594)	-	-	(96,594)
Investment income	28,231	-	-	28,231
Transfers in	61,703	-	-	61,703
Transfers out	-	(28,054)	(33,649)	(61,703)
Net nonoperating revenues (expenses)	<u>(6,660)</u>	<u>(28,054)</u>	<u>(33,649)</u>	<u>(68,363)</u>
Changes in net position	1,406,548	14,258	11,851	1,432,657
Net position, beginning of year (as restated)	<u>15,687,746</u>	<u>3,797</u>	<u>14,975</u>	<u>15,706,518</u>
Net position, end of year	<u>\$ 17,094,294</u>	<u>\$ 18,055</u>	<u>\$ 26,826</u>	<u>\$ 17,139,175</u>

See independent auditors' report.

Statistical Section (Unaudited)

Virginia Peninsula Regional Jail Authority

Federal Revenue
Last 10 Fiscal Years

Table 1

Year	Federal revenue	Average daily population
2018	\$ 1,445,495	0.64
2017	1,467,200	0.64
2016	1,089,222	0.47
2015	618,257	0.60
2014	33,035	0.90
2013	32,283	0.80
2012	68,380	1.80
2011	120,196	3.50
2010	362,720	7.10
2009	1,908,369	14.80

Virginia Peninsula Regional Jail Authority
State Revenue
Last 10 Fiscal Years

Table 2

Year	State revenue	Percentage of operational expenses
2018	\$ 4,632,069	38.0%
2017	4,528,078	38.0%
2016	4,695,429	41.0%
2015	4,662,534	43.0%
2014	5,010,391	48.0%
2013	4,670,471	47.0%
2012	4,558,687	46.0%
2011	4,647,650	48.0%
2010	4,744,884	45.0%
2009	4,009,629	39.0%

Virginia Peninsula Regional Jail Authority
State Per Diems
Last 10 Fiscal Years

Table 3

<u>Year</u>	<u>State per diems</u>	<u>Local average daily population</u>
2018	\$ 349,608	498.4
2017	362,183	487.5
2016	521,954	437.6
2015	802,896	410.1
2014	1,058,923	432.4
2013	1,018,719	413.3
2012	942,960	388.4
2011	1,001,828	421.9
2010	1,131,385	437.8
2009	1,347,874	420.6

Virginia Peninsula Regional Jail Authority
 Medical Costs
 Last 10 Fiscal Years

Table 4

Year	Medical costs	Average cost per inmate
2018	\$ 1,121,049	\$ 2,249
2017	1,091,232	2,238
2016	1,073,147	2,452
2015	780,481	1,767
2014	901,335	2,050
2013	854,615	2,012
2012	732,742	1,858
2011	831,798	1,936
2010	808,799	1,818
2009	826,710	1,884

Virginia Peninsula Regional Jail Authority

Food Supplies
Last 10 Fiscal Years

Table 5

Year	Food supplies	Average daily cost per inmate
2018	\$ 511,538	\$ 2.81
2017	498,159	2.80
2016	530,172	3.31
2015	657,334	3.66
2014	671,507	3.58
2013	615,043	3.37
2012	610,015	3.55
2011	661,372	3.59
2010	647,625	3.41
2009	635,643	3.39

Compliance Section

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Directors
Virginia Peninsula Regional Jail Authority
Williamsburg, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Virginia Peninsula Regional Jail Authority as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Virginia Peninsula Regional Jail Authority's basic financial statements, and have issued our report thereon dated October 30, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Virginia Peninsula Regional Jail Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Virginia Peninsula Regional Jail Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Virginia Peninsula Regional Jail Authority's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Dixon Hughes Goodman LLP

**Newport News, Virginia
October 30, 2018**

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

Board of Directors
Virginia Peninsula Regional Jail Authority
Williamsburg, Virginia

We have audited the financial statements of the Virginia Peninsula Regional Jail Authority, as of and for the year ended June 30, 2018, and have issued our report thereon dated October 30, 2018.

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

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

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

Code of Virginia

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

The results of our tests disclosed three instances of noncompliance with the provisions referred to in the preceding paragraph. These instances are discussed in the Schedule of Findings and Responses as Findings 2018-001, 2018-002, and 2018-003. With respect to items not tested, nothing came to our attention that caused us to believe that the Virginia Peninsula Regional Jail Authority had not complied, in all material respects, with those provisions.

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

Dixon Hughes Goodman LLP

**Newport News, Virginia
October 30, 2018**

Virginia Peninsula Regional Jail Authority
Schedule of Findings and Responses
Year Ended June 30, 2018

1. Summary of Auditors' Results:

- (a) The type of report issued on the financial statements: **unmodified opinion**
- (b) Significant deficiencies in internal control disclosed by the audit of the financial statements: **none noted**
- (c) Material weaknesses in internal control disclosed by the audit of the financial statements: **none noted**
- (d) Noncompliance which is material to the financial statements: **no**

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

None noted

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

Finding 2018-001

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

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

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

Cause: Unknown

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

Management's response: There are three (3) accounts identified; one (1) prior inmate trust account held by Sun Trust Bank which has pending uncashed checks issued and two (2) Towne Bank accounts. The two (2) Towne Bank accounts are the inmate escrow account and the canteen account. Steps are currently underway to register all three (3) accounts as public accounts.

Finding 2018-002

Condition: The Authority reports outstanding checks on its bank reconciliation that are older than one year.

Criteria: The Uniform Disposition of Unclaimed Property Act in Chapter 11.1 (Section 55-210.1 et. seq.) of Title 55 of the Code of Virginia requires the Authority to file an annual report with the State Treasurer listing all unclaimed property and remit the property to the State Treasurer for final disposition. All intangible property held for the owner that remains unclaimed for more than a year is presumed abandoned. Outstanding checks are considered to be unclaimed property.

Effect: The Authority is not in compliance with the Uniform Disposition of Unclaimed Property Act.

Virginia Peninsula Regional Jail Authority
Schedule of Findings and Responses
Year Ended June 30, 2018

Cause: Unknown

Recommendation: The Authority should take steps to remit the property to the State Treasurer for final disposition.

Management's response: All identified and outstanding checks from 2012 and 2013 have been submitted through the proper channels to the State Treasurer for disposition. Unclaimed checks from 2014 through 2016 will be submitted by October 31, 2018.

Finding 2018-003

Condition: A disclosure statement was not filed for one Board of Director member as required by the Virginia Code.

Criteria: The State and Local Government Conflict of Interests Act contained in Chapter 31 of Title 2.2 of the Code of Virginia requires certain local government officials to file a disclosure statement of their personal interests with the clerk of the governing body by February 1 of each year, unless the governing body of the jurisdiction that appoints the members requires that the members file the Statement of Economic Interests.

Effect: The Authority was not in compliance with the State and Local Government Conflict of Interest Act.

Cause: Unknown

Recommendation: The Authority should take steps to ensure that each local official files the required forms in a timely manner.

Management's response: In December of each calendar year, VPRJ staff shall notify each member of the Virginia Peninsula Regional Jail Authority to file the appropriate disclosure statement by February 1 of the upcoming year. Such reminder shall also occur in January in the year in which the disclosure statement is due thus providing two (2) opportunities to ensure compliance.

4. Summary Schedule of Prior State Audit Findings:

There was one finding in the prior year related to accounts held by the Authority not being reported as public deposit as required by the Virginia Security for Public Deposits Act. This issue was noted during the current year's audit as well.