MIDDLE RIVER REGIONAL JAIL AUTHORITY

FINANCIAL AND COMPLIANCE REPORTS

YEAR ENDED JUNE 30, 2018

PBMares

ASSURANCE, TAX & ADVISORY SERVICES

MIDDLE RIVER
REGIONAL JAIL AUTHORITY

AUTHORITY MEMBERS

Chairman
Timothy Fitzgerald, County Administrator
County of Augusta, Virginia

Vice Chairman/Secretary/Treasurer
Stephen King, County Administrator
County of Rockingham, Virginia

Eric Campbell, City Manager
City of Harrisonburg, Virginia

Michael G. Hamp, II, City Manager
City of Waynesboro, Virginia

Stephen F. Owen, City Mananger
City of Staunton, Virginia

Terri Marks
Director of Finance
City of Waynesboro

Jennifer Whetzel
Deputy County Administrator
County of Augusta

Jeanne Colvin
Director of Finance
City of Staunton

Larry Propst
Director of Finance
City of Harrisonburg

Patricia Davidson
Director of Finance
County of Rockingham

Joe Harris, Jr.
Sheriff
City of Waynesboro

Donald Smith
Sheriff
County of Augusta

Matthew Robertson
Sheriff
City of Staunton

Steve Sellers
Interim Sheriff
City of Harrisonburg

Bryan Hutcheson
Sheriff
County of Rockingham

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BASIC FINANCIAL STATEMENTS

PBMares

INDEPENDENT AUDITOR'S REPORT

To the Board
Middle River Regional Jail Authority

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of the Middle River Regional Jail Authority (Authority) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's 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 Authority'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 Authority'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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the Authority, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principles

As discussed in Note 15 to the financial statements, the Authority restated beginning net position in order to record the liability for other postemployment benefits and related components in accordance with the implementation of GASB Statement No. 75.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the Required Supplementary Information on pages 43-52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Authority's basic financial statements. The accompanying statements listed in the table of contents as other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2018 on our consideration of the 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.

PBMares, LLP

Harrisonburg, Virginia
November 28, 2018

Exhibit 1

MIDDLE RIVER REGIONAL JAIL AUTHORITY

Statement of Net Position
June 30, 2018

ASSETS	
Current assets:	
Cash and cash equivalents	$ 8,538,993
Accounts receivable	266,245
Due from other governments	1,226,545
Restricted investments	2,978,316
Total current assets	13,010,099
Noncurrent assets:	
Net pension asset	2,500,357
Capital assets, net	36,260,701
Total noncurrent assets	38,761,058
Total assets	51,771,157
DEFERRED OUTFLOWS OF RESOURCES	
Pension plan	854,263
Other postemployment benefits	99,188
Total deferred outflows of resources	953,451
LIABILITIES	
Current liabilities:	
Accounts payable	644,522
Accrued interest payable	245,607
Deposits held in escrow	12,241
Total current liabilities	902,370
Noncurrent liabilities:	
Due within one year:	
Compensated absences	109,492
General obligation bond	1,188,430
Due in more than one year:	
Compensated absences	802,944
General obligation bond, net	23,018,012
Other postemployment benefits liability	2,135,535
Total noncurrent liabilities	27,254,413
Total liabilities	28,156,783
DEFERRED INFLOWS OF RESOURCES	
Pension plan	862,482
Other postemployment benefits	58,000
Total deferred inflows of resources	920,482
NET POSITION	
Net position:	
Net investment in capital assets	12,054,259
Restricted for:	
Debt service	2,978,316
Unrestricted	8,614,768
Total net position	$ 23,647,343

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

Exhibit 2

MIDDLE RIVER REGIONAL JAIL AUTHORITY

Statement of Revenues, Expenses, and Change in Net Position
Year Ended June 30, 2018

Operating revenues:	
From member jurisdictions	$ 7,130,318
Local bed rentals	872,534
Other income	224,745
Recovered costs	206,572
Fees and charges for services	910,863
State compensation board	5,825,005
Per diem reimbursement	2,230,288
Intergovernmental	440,246
Total operating revenues	17,840,571
Operating expenses:	
Salaries and wages	7,817,256
Fringe benefits	2,885,833
Contractual services	1,891,395
Other charges	781,402
Materials and supplies	2,072,004
Depreciation	1,145,026
Total operating expenses	16,592,916
Net operating income	1,247,655
Nonoperating revenues (expenses):	
Loss on disposal of assets	(10,644)
Interest income	102,333
Interest expense and other charges	(802,481)
Nonoperating expenses, net	(710,792)
Change in net position	536,863
Net position, beginning of year, as restated	23,110,480
Net position, end of year	$ 23,647,343

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

Exhibit 3

MIDDLE RIVER REGIONAL JAIL AUTHORITY

Statement of Cash Flows
Year Ended June 30, 2018

Operating activities:	
Receipts from customers and users	$ 17,814,133
Payments to suppliers	(4,580,236)
Payments to employees	(10,719,392)
Net cash provided by operating activities	2,514,505
Capital and related financing activities:	
Acquisitions of property and equipment	(793,193)
Bond principal payment	(930,000)
Interest payments	(1,022,631)
Net cash used in capital and related financing activities	(2,745,824)
Investing activities:	
Purchase of investments	(42,555)
Interest received	102,333
Net cash provided by investing activities	59,778
Decrease in cash and cash equivalents	(171,541)
Cash and cash equivalents, beginning of year	8,710,534
Cash and cash equivalents, end of year	$ 8,538,993
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	$ 1,247,655
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	1,145,026
Pension expense	(273,518)
Other postemployment benefits expense	100,535
Changes in operating assets, deferred outflows of resources and liabilities:	
Decrease in:	
Accounts receivable and due from other governments	(26,438)
Deferred outflows of resources:	
Pension plan	(60,983)
Other postemployment benefits	(15,723)
Increase in:	
Accounts payable	164,565
Deposits held in escrow	2,858
Compensated absences	230,528
Net cash provided by operating activities	$ 2,514,505

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

Exhibit 4

MIDDLE RIVER REGIONAL JAIL AUTHORITY

Statement of Net Position
Fiduciary Funds
June 30, 2018

		Agency Funds
ASSETS		
Cash and cash equivalents	$	1,059,915
LIABILITIES		
Amounts held for canteen purchases	$	798,092
Amounts held for inmate benefits		138,952
Amounts held for inmates		122,871
Total liabilities	$	1,059,915

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

NOTE 1—ORGANIZATION AND PURPOSE:

The Cities of Staunton and Waynesboro and the County of Augusta entered into an agreement dated June 25, 2001, to operate a regional jail facility created pursuant to the provisions of Section 52.1-91, *Code of Virginia* (1950), as amended, to construct, own and provide an adequate regional jail and to provide jail services to local governments participating in the Middle River Regional Jail Authority (Authority), which was created by Resolution of the participating local governments. The Authority expanded membership to the County of Rockingham and the City of Harrisonburg in an agreement effective July 1, 2015. Each of the three original member jurisdictions authorized the expansion of the Authority's membership. The additional members are treated as the current members with the same number of representatives on the Authority's Board and agreed upon entrance into the three year rolling average for allocation of net expenditures. Each of the localities appoints two members to the Authority Board. In addition to locality appointed members, the Sheriff of each participating locality is required to be appointed.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Financial Reporting Entity

The Authority is not presented as a discretely presented component unit of any of the participating jurisdictions in accordance with Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus, an Amendment of GASB Statement No. 14 and Statement No. 34*. The Authority is not fiscally dependent on any one particular Member Jurisdiction, and none of the Member Jurisdictions appoint a voting majority. The Authority is a legally separate entity from the jurisdictions.

B. Basic Financial Statements

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

- Management's Discussion and Analysis (Management has elected not to prepare the Management's Discussion and Analysis in the current year)

- Basic Financial Statements:
  - Statement of Net Position
  - Statement of Revenues, Expenses, and Change in Net Position
  - Statement of Cash Flows
  - Statement of Net Position - Fiduciary Funds
  - Notes to Financial Statements

- Required Supplementary Information:
  - Schedule of Changes in Net Pension Asset and Related Ratios – Virginia Retirement System
  - Schedule of Contributions – Virginia Retirement System
  - Notes to Required Supplementary Information – Virginia Retirement System
  - Schedule of Changes in the Authority's Total OPEB Liability and Related Ratios – Medical Insurance Program
  - Schedule of Employer Contributions – OPEB – Medical Insurance Program

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

B. Basic Financial Statements (Continued)

- Required Supplementary Information: (continued)
  - Schedule of Employer's Share of Net OPEB Liability – Group Life Insurance Program
  - Schedule of Employer Contributions – OPEB – Group Life Insurance Program
  - Notes to Required Supplementary Information – Other Postemployment Benefits

C. Basis of Accounting

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America (GAAP). Accordingly, the Authority uses the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when liabilities are incurred.

Operating revenues and expenses generally result from providing services in connection with the Authority's principal ongoing operations. The principal operating revenues of the Authority are charges to member jurisdictions, bed rentals and state compensation board and per diem reimbursements. Operating expenses include the cost of services and administrative expenses.

All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Capital Assets

Capital assets of the Authority are stated at historical cost and depreciated on the straight line basis. Donated capital assets are stated at their acquisition value on the date donated. The capitalization threshold for assets is $5,000. Estimated useful lives, in years, for depreciable assets are as follows:

Assets	Years
Buildings	50
Vehicles and equipment	3 - 20

E. Use of Estimates

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

F. Restricted Investments

Investments, consisting primarily of money market funds, are stated at fair value.

G. Cash and Cash Equivalents

The Authority's cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

H. Inventory

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

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

I. Compensated Absences

It is the Authority's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave until an employee is eligible for retirement. The maximum payout for sick leave is limited to $5,000. Employees can earn a minimum 96 hours of vacation annually and can accumulate up to 384 hours of vacation depending on their years of service. Employees can also earn compensation time in lieu of overtime pay, which is accrued as a liability by the Authority.

J. Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Positon. Bond premiums are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable premium.

K. Net Position

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

L. Net Position Flow Assumption

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

M. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expenditure) until then. These items relate to the pension and other postemployment benefits (OPEB) plans. See Notes 8 through 10 for details regarding these items.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. These items relate to the pension and OPEB plans. See Notes 8 through 10 for details regarding these items.

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

N. Pensions

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

O. Other Postemployment Benefits

Medical Insurance Program

The Medical Insurance Program is a single-employer plan. Differences between expected and actual experience and actuarial assumptions are amortized over the average of the expected remaining service lives of all employees that are covered through this plan, which is 7.75 years. Plan amendments are recognized immediately.

Group Life Insurance Program

The VRS Group Life Insurance Program (GLI) is a multiple employer, cost-sharing plan. It provides coverage to state employees, teachers, and employees of participating political subdivisions. The GLI 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 GLI is a defined benefit plan that provides a basic GLI benefit for employees of participating employers. For purposes of measuring the total GLI OPEB liability, deferred outflows of resources and deferred inflows of resources related to the GLI OPEB, and GLI OPEB expense, information about the fiduciary net position of the VRS GLI OPEB and the additions to/deductions from the VRS GLI 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.

P. Subsequent Events

The Authority has evaluated subsequent events through November 28, 2018, the date on which the financial statements were available to be issued.

NOTE 3—FISCAL AGENT:

The County of Augusta, Virginia (County) is the fiscal agent for the Authority.

NOTE 4—DUE FROM OTHER GOVERNMENTS:

The amount due from other governments consists of receivable amounts from the Virginia Department of Corrections for compensation board salary reimbursement, state per diem fees, and medical services and from a local governmental agency for reimbursement of use of jail employees. At fiscal year-end, $1,226,545 was due from the Virginia Department of Corrections.

NOTE 5—DEPOSITS AND INVESTMENTS:

Deposits

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

Custodial Credit Risk (Deposits)

This is the risk that in the event of a bank failure, the Authority's deposits may not be returned to the Authority. The Authority requires all deposits to comply with the Act. At year end, none of the Authority's deposits were exposed to custodial credit risk.

Investments

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

External Investment Pool

The LGIP is a professionally managed money market fund which invests in qualifying obligations and securities as permitted by Virginia Statutes pursuant to Section 2.2-4605 *Code of Virginia,* the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings. The external local government investment pool is reported at amortized cost and classified as cash and cash equivalents. The maturity of the LGIP is less than one year.

Custodial Credit Risk (Investments)

The Authority's investment policy follows that of the County. The investment policy provides that securities purchased for the Authority shall be held by the County Treasurer or by the Treasurer's custodian. If held by a custodian, the securities must be in the County's name or in the custodian's nominee name and identifiable on the custodian's books as belonging to the County. Further, if held by a custodian, the custodian must be a third party, not a counterparty (buyer or seller) to the transaction. At June 30, 2018, all of the Authority's investments were held in accordance with this policy.

NOTE 5—DEPOSITS AND INVESTMENTS: (CONTINUED)

Credit Risk of Debt Securities

The Authority's investment policy for credit risk is consistent with the investments allowed by statutes as detailed above.

The Authority's rated debt investments as of June 30, 2018 were rated by Standard & Poor's and the ratings are presented below using the Standard & Poor's rating scale.

Authority's Rated Debt Investments' Values

	Fair Quality Ratings	
	AAAm	AA+
Local Government Investment Pool	$ 103,425	$ -
Money Market Mutual Funds	-	2,978,316
Total	$ 103,425	$ 2,978,316

Concentration of Credit Risk

At June 30, 2018, the Authority maintained money market mutual funds with U.S. Bank in the amount of $2,978,316. All other cash is maintained through a checking account through First Bank & Trust Co., a money market fund through Union Bank & Trust (not subject to fair quality ratings) in the amount of $1,633,198 and the LGIP. These funds are maintained by the County and total $8,538,993 at June 30, 2018.

Interest Rate Risk

All Authority investments must be in securities maturing within five years.

Investment Maturities (in years)

Investment Type	Fair Value	Less Than 1 Year
Money Market Funds	$ 4,611,514	$ 4,611,514
	$ 4,611,514	$ 4,611,514

Interest rate risk does not apply to the LGIP since it is an external investment pool classified in accordance with GASB Statement No. 79.

The Authority categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The Authority has the following recurring fair value measurements as of June 30, 2018:

- Money market mutual funds of $2,978,316, which are valued using quoted market prices (Level 1 inputs).
- Money market funds of $1,633,198, which are valued using quoted market prices (Level 1 inputs).

NOTE 6—CAPITAL ASSETS:

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

	Balance June 30, 2017	Increases	Decreases/ Transfer	Balance June 30, 2018
Capital assets not being depreciated:				
Land	$ 612,500	$ -	$ -	$ 612,500
Construction in progress	-	14,000	-	14,000
Total capital assets not being depreciated	612,500	14,000	-	626,500
Capital assets being depreciated:				
Buildings	45,279,812	-	-	45,279,812
Vehicles and equipment	3,185,139	779,193	(71,855)	3,892,477
Total capital assets being depreciated	48,464,951	779,193	(71,855)	49,172,289
Less accumulated depreciation for:				
Buildings	(10,187,391)	(905,758)	-	(11,093,149)
Vehicles and equipment	(2,266,882)	(239,268)	61,211	(2,444,939)
Total accumulated depreciation	(12,454,273)	(1,145,026)	61,211	(13,538,088)
Total capital assets being depreciated, net	36,010,678	(365,833)	(10,644)	35,634,201
Total capital assets, net	$ 36,623,178	$ (351,833)	$ (10,644)	$ 36,260,701

NOTE 7—LONG-TERM OBLIGATIONS:

The following is a summary of changes in long-term obligation transactions for the year ended June 30, 2018:

	Balance June 30, 2017	Increases	Decreases	Balance June 30, 2018	Amount Due Within One Year
General obligation bond	$ 22,010,000	$ -	$ 930,000	$ 21,080,000	$ 980,000
Premium on bond issue	3,334,872	-	208,430	3,126,442	208,430
Total general obligation bond and premium	25,344,872	-	1,138,430	24,206,442	1,188,430
Compensated absences	681,908	526,332	295,804	912,436	109,492
Total long-term liabilities	$ 26,026,780	$ 526,332	$ 1,434,234	$ 25,118,878	$ 1,297,922

NOTE 7—LONG-TERM OBLIGATIONS: (CONTINUED)

Annual requirement to amortize long-term obligations are as follows:

	Revenue Refunding Bond	
Year Ending June 30,	Principal	Interest
2019	$ 980,000	$ 973,688
2020	1,035,000	922,054
2021	1,085,000	871,529
2022	1,135,000	818,441
2023	1,200,000	758,606
2024	1,250,000	703,525
2025	1,310,000	645,625
2026	1,380,000	576,694
2027	1,450,000	506,350
2028	1,525,000	434,590
2029	1,595,000	359,365
2030	1,665,000	292,403
2031	1,735,000	222,028
2032	1,825,000	136,153
2033	1,910,000	46,069
Total	$ 21,080,000	$ 8,267,120

The following provides details on long-term obligations as of June 30, 2018:

On November 19, 2014, the Authority issued Jail Facility Revenue Refunding Bonds, Series 2014 through the Virginia Resources Authority (VRA) in the amount of $22,905,000 with a maturity date of October 1, 2032. Repayment of the bond is due in annual installments ranging from $980,000 through $1,910,000 plus semi-annual interest ranging from 3.43% to 5.13% through October 1, 2032. The bond was issued at a premium of $3,543,302 which will be amortized over the life of the bond. U.S. Bank is Trustee for the bond funds and holds a debt service reserve and a portion of annual principal and interest payments in trust. At June 30, 2018, $2,978,316 was held in trust at U.S. Bank. Principal outstanding at June 30, 2018, totaled $21,080,000. According to the rate covenant as provided in the VRA Bond documents, the Authority shall fix and collect rates, fees and other charges for the use of and for services furnished by the Authority so that in each fiscal year the net revenues available for debt service will equal at least 100% of the amount required during the fiscal year to pay the principal of and interest on the local bond. At June 30, 2018, the debt coverage ratio is 1.23.

Fiscal Year June 30,	Operating Revenue	Operating Expenses Excluding Depreciation	Net Available Revenue	Annual Debt Service Principal	Annual Debt Service Interest	Annual Debt Service Total	Coverage Ratio
2018	$17,840,571	$ 15,447,890	$ 2,392,681	$930,000	$1,010,911	$1,940,911	1.23

NOTE 8—PENSION PLAN:

Name of Plan: Virginia Retirement System (VRS)

Identification of Plan: Agent Multiple-Employer Pension Plans

Administering Entity: Virginia Retirement System (System)

A. Plan Description

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

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

Plan 1	Plan 2	Hybrid Retirement Plan
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.	**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.	**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.

NOTE 8—PENSION PLAN: (CONTINUED)

A. Plan Description (Continued)

Plan 1

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
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.

Plan 2

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

Hybrid Opt-In Election
Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

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.

Hybrid Retirement Plan

Eligible Members
Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:

- Political subdivision employees.*
- School division employees (teachers).
- Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 through April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.

<u>*Non-Eligible Members</u>
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.

NOTE 8—PENSION PLAN: (CONTINUED)

A. Plan Description (Continued)

Plan 1	Plan 2	Hybrid Retirement Plan
Retirement Contributions Employees contribute 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.	**Retirement Contributions** Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.	**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 Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	**Creditable Service** Same as Plan 1.	**Creditable Service** **Defined Benefit Component** Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. **Defined Contribution Component** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

NOTE 8—PENSION PLAN: (CONTINUED)

A. Plan Description (Continued)

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

NOTE 8—PENSION PLAN: (CONTINUED)

A. Plan Description (Continued)

Plan 1	Plan 2	Hybrid Retirement Plan
		Vesting (Continued) **Defined Contribution Component (Continued)** • 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 70 1/2.
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.	**Calculating the Benefit** See definition under Plan 1.	**Calculating the Benefit** **Defined Benefit Component** See definition under Plan 1. **Defined Contribution Component** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.

NOTE 8—PENSION PLAN: (CONTINUED)

A. Plan Description (Continued)

Plan 1	Plan 2	Hybrid Retirement Plan
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 1.70%.	**Service Retirement Multiplier** Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. The retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.	**Service Retirement Multiplier** **<u>Defined Benefit Component</u>** The retirement multiplier for the defined benefit component 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: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.	**Sheriffs and regional jail superintendents:** Same as Plan 1.	**Sheriffs and regional jail superintendents:** Not applicable.
Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.	**Political subdivision hazardous duty employees:** Same as Plan 1.	**Political subdivision hazardous duty employees:** Not applicable. **<u>Defined Contribution Component</u>** Not applicable.
Normal Retirement Age Age 65.	**Normal Retirement Age** Normal Social Security retirement age.	**Normal Retirement Age** **<u>Defined Benefit Component</u>** Same as Plan 2.
Political subdivisions hazardous duty employees: Age 60.	**Political subdivisions hazardous duty employees:** Same as Plan 1.	**Political subdivisions hazardous duty employees:** Not applicable. **<u>Defined Contribution Component</u>** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

NOTE 8—PENSION PLAN: (CONTINUED)

A. Plan Description (Continued)

Plan 1	Plan 2	Hybrid Retirement Plan
Earliest Unreduced Retirement Eligibility Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.	**Earliest Unreduced Retirement Eligibility** Normal Social Security retirement age and have at least 5 years (60 months) of creditable service or when their age and service equal 90.	**Earliest Unreduced Retirement Eligibility** **<u>Defined Benefit Component</u>** Normal Social Security retirement age and have at least 5 years (60 months) of creditable service or when their age and service equal 90.
Political subdivisions hazardous duty employees: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	**Political subdivisions hazardous duty employees:** Same as Plan 1.	**Political subdivisions hazardous duty employees:** Not applicable. **<u>Defined Contribution Component</u>** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.	**Earliest Reduced Retirement Eligibility** Age 60 with at least five years (60 months) of creditable service.	**Earliest Reduced Retirement Eligibility** **<u>Defined Benefit Component</u>** Age 60 with at least five years (60 months) of creditable service. **Political subdivisions hazardous duty employees:** Not applicable.
Political subdivisions hazardous duty employees: Age 50 with at least five years of creditable service.	**Political subdivisions hazardous duty employees:** Same as Plan 1.	**<u>Defined Contribution Component</u>** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

NOTE 8—PENSION PLAN: (CONTINUED)

A. Plan Description (Continued)

Plan 1	Plan 2	Hybrid Retirement Plan
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%.	**Cost-of-Living Adjustment (COLA) in Retirement** The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 2%) up to a maximum COLA of 3%.	**Cost-of-Living Adjustment (COLA) in Retirement** **Defined Benefit Component** Same as Plan 2. **Defined Contribution Component** Not applicable.
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.	**Eligibility:** Same as Plan 1.	**Eligibility:** Same as Plan 1 and Plan 2.

NOTE 8—PENSION PLAN: (CONTINUED)

A. Plan Description (Continued)

Plan 1	Plan 2	Hybrid Retirement Plan
Exceptions to COLA Effective Dates: **School Division (Teachers) and Political Subdivision Employees:** 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 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.	**Exceptions to COLA Effective Dates:** **School Division (Teachers) and Political Subdivision Employees:** Same as Plan 1.	**Exceptions to COLA Effective Dates:** **School Division (Teachers) and Political Subdivision Employees:** Same as Plan 1 and Plan 2.

NOTE 8—PENSION PLAN: (CONTINUED)

A. Plan Description (Continued)

Plan 1	Plan 2	Hybrid Retirement Plan
Disability Coverage	**Disability Coverage**	**Disability Coverage**
Political subdivision employees: Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.70% on all service, regardless of when it was earned, purchased or granted.	**Political subdivision employees:** 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.	Employees of political subdivisions and school divisions (teachers), 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 VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.
Purchase of Prior Service	**Purchase of Prior Service**	**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. Members also may be eligible to purchase periods of leave without pay.	Same as Plan 1.	**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.

NOTE 8—PENSION PLAN: (CONTINUED)

B. 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	20
Inactive members:	
Vested	7
Non-vested	30
Active elsewhere in VRS	42
Total inactive members	79
Active members	145
Total covered employees	244

C. Contributions

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

The Authority's contractually required contribution rate for the year ended June 30, 2018, was 12.21% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2016.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by an employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Authority were $846,772 and $781,150 for the years ended June 30, 2018 and 2017, respectively.

D. 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.

NOTE 8—PENSION PLAN: (CONTINUED)

E. Actuarial Assumptions

The total pension liability for 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	2.5%
Salary increases, including inflation:	
General employees	3.5% - 5.35%
Public safety employees with hazardous duty benefits	3.5% - 4.75%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation*

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

General Employees

Mortality Rates:	15% 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 three 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 two 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 rates to better fit experience each year, age and service through nine years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

NOTE 8—PENSION PLAN: (CONTINUED)

E. Actuarial Assumptions (Continued)

Public Safety Employees with Hazardous Duty Benefits

Mortality Rates:	45% 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 90% of rates; females set forward one 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 one year; 1.0% increase compounded from ages 70 to 90; females set forward three years.
– Post-disablement:	RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward two 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 rates to better fit experience each year, age and service through nine years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 45%

NOTE 8—PENSION PLAN: (CONTINUED)

F. 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 estimates 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	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%.

G. Discount Rate

The discount rate used to measure the total pension liabilities was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the employer for the Authority's retirement plans 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 asset.

NOTE 8—PENSION PLAN: (CONTINUED)

H. Changes in the Net Pension Asset

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Asset
Balances at June 30, 2016	$ 10,039,079	$ 11,718,005	$ (1,678,926)
Changes for the year:			
Service cost	1,234,668	-	1,234,668
Interest	686,312	-	686,312
Changes of assumptions	(182,574)	-	(182,574)
Difference between expected and actual experience	9,127	-	9,127
Contributions – employer	-	781,150	(781,150)
Contributions – employee	-	319,765	(319,765)
Net investment income	-	1,477,150	(1,477,150)
Benefit payments, including refunds of employee contributions	(469,258)	(469,258)	-
Administrative expense	-	(7,751)	7,751
Other changes	-	(1,350)	1,350
Net changes	1,278,275	2,099,706	(821,431)
Balances at June 30, 2017	$ 11,317,354	$ 13,817,711	$ (2,500,357)

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

The following presents the net pension asset of the Authority, using the discount rate of 7.00%, as well as what the Authority's net pension assets would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Plan's net pension liability (asset)	$ (575,760)	$ (2,500,357)	$ (4,062,541)

NOTE 8—PENSION PLAN: (CONTINUED)

J. 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 $507,632. The Authority also reported deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 7,491	$ (497,039)
Changes of assumptions	-	(149,855)
Net difference between projected and actual earnings on pension plan investments	-	(215,588)
Employer contributions subsequent to the measurement date	846,772	-
Total	$ 854,263	$ (862,482)

The $846,772 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ending 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 Ending June 30,	Amount
2019	$ (260,634)
2020	(126,038)
2021	(171,824)
2022	(259,435)
2023	(37,060)
	$ (854,991)

K. Pension Plan Data

Detailed information about the pension plans' fiduciary net position are 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 System's Chief Financial Officer at P.O. Box 2500, Richmond, Virginia 23218-2500.

NOTE 9—OTHER POSTEMPLOYMENT BENEFITS—MEDICAL INSURANCE PROGRAM:

A. Plan Description

The Authority's defined benefit other postemployment benefit (OPEB) – medical insurance plan provides OPEB for all permanent full-time general and public safety employees of the Authority. The plan was established by the Authority's Board and any amendments to the plan must be approved by the Board. This plan is a single-employer defined benefit OPEB plan administered by the Authority. No assets are accumulated in a trust that meets the criteria in paragraph four of GASB Statement No. 75. This plan does not issue stand-alone financial reports.

The Authority offers its employees the option to participate in the group health insurance program offered to other employees upon retirement. Employees who retire after June 30, 1997, are 55 years of age, and were employed for at least 10 years of continuous service immediately prior to retirement are eligible to remain enrolled in the health insurance group plan and continue to have the premiums paid for health insurance coverage subject to specific terms. The Authority will pay 75% of the monthly premium, not to exceed $2,500 per fiscal year. Retirees shall have participated in the group insurance program for the five years preceding retirement. Full cost of dependent coverage will be the responsibility of the retired employee. Eligibility for this benefit terminates at the time the retiree obtains other health coverage or reaches the age of 65. Should an employee be granted full retirement by VRS and/or Social Security because of disability, he/she will be eligible to receive the payments made by the Authority for retirees regardless of age if he/she has been employed by the Authority for at least 10 years immediately prior to the disability. The Authority reserves the right to change the terms of the retirees' health insurance coverage at any time, including the right to terminate any or all coverage provided to retirees.

B. Employees Covered by Benefit Terms

At July 1, 2017, the following employees were covered by the benefit terms:

	Number
Inactive employees or beneficiaries currently receiving benefit payments	5
Active employees	142
Total	147

C. Total Medical Insurance Program OPEB Liability

The Authority's total Medical Insurance OPEB liability of $1,610,000 was measured as of July 1, 2017, and was determined by an actuarial valuation as of July 1, 2017.

NOTE 9—OTHER POSTEMPLOYMENT BENEFITS—MEDICAL INSURANCE PROGRAM: (CONTINUED)

D. Actuarial Assumptions and Other Inputs

The total Medical Insurance Program OPEB liabilities were based on an actuarial valuation as of July 1, 2017, using the Entry Age Normal actuarial cost method and the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	0.00%
Salary increases	2.50%
Discount rate	3.56%
Healthcare cost trend rates	7.00% for fiscal year end 2018, decreasing 0.25% per year to an ultimate rate of 4.50%
Retirees' share of benefit-related costs	Increase each year by the assumed Medical Trend Rate
Mortality	RP-2014 Fully Generational Mortality Table, with base year 2006, using two-dimensional improvement scale MP-2017
Actuarial cost method	Entry Age Actuarial Cost Method

The discount rate was based on the Municipal GO AA 20-year yield curve rate as of June 30, 2017.

E. Changes in the Total Medical Insurance OPEB Liability

	Total Medical Insurance OPEB Liability
Balance at July 1, 2016	$ 1,486,000
Changes for the year:	
Service cost	94,000
Interest	56,000
Contributions - employer	(26,000)
Net changes	124,000
Balance at June 30, 2017	$ 1,610,000

F. Sensitivity of the Total Medical Insurance OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the Authority calculated using the stated discount rate, as well as what the Authority's total Medical Insurance OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.56%) or 1-percentage-point higher (4.56%) than the current discount rate:

	1% Decrease (2.56%)	Current Discount Rate (3.56%)	1% Increase (4.56%)
Authority total OPEB liability	$ 1,794,000	$ 1,610,000	$ 1,445,000

NOTE 9—OTHER POSTEMPLOYMENT BENEFITS—MEDICAL INSURANCE PROGRAM: (CONTINUED)

G. Sensitivity of the Total Medical Insurance OPEB Liability to Changes in Healthcare Cost Trend Rate

The following represents the total Medical Insurance OPEB liability of the Authority calculated using the stated discount rate, as well as what the Authority's total Medical Insurance OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current discount rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Authority total OPEB liability	$ 1,400,000	$ 1,610,000	$ 1,862,000

H. Medical Insurance OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Medical Insurance OPEB

For the year ended June 30, 2018, the Authority recognized Medical Insurance OPEB expense of $150,000.

For the year ended June 30, 2018, the Authority reported deferred outflows of resources of $39,130, relating to contributions subsequent to the measurement date, which will be recognized as a reduction of the total OPEB liability in the fiscal year ending June 30, 2019.

NOTE 10—OTHER POSTEMPLOYMENT BENEFITS—GROUP LIFE INSURANCE PROGRAM:

A. Plan Description

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

In addition to the Basic GLI benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional GLI. For members who elect the optional GLI coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from the 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 GLI OPEB.

NOTE 10— OTHER POSTEMPLOYMENT BENEFITS—GROUP LIFE INSURANCE PROGRAM: (Continued)

A. Plan Description (Continued)

The specific information for GLI OPEB, including eligibility, coverage and benefits is set out in the table below:

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS
Eligible Employees The GLI was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program. Basic GLI coverage is automatic upon employment. Coverage ends 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 GLI have several components. • Natural Death Benefit – The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. • Accidental Death Benefit – The accidental death benefit is double the natural death benefit. • Other Benefit Provisions – In addition to the basic natural and accidental death benefits, 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 The benefit amounts provided to members covered under the GLI 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, there is a minimum benefit payable under GLI. The minimum benefit was set at $8,000 by statute. This amount is increased annually based on the VRS Plan 2 COLA and is currently $8,111.

NOTE 10— OTHER POSTEMPLOYMENT BENEFITS—GROUP LIFE INSURANCE PROGRAM: (Continued)

B. Contributions

The contribution requirements for the GLI are governed by Sections 51.1-506 and 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 divisions by the Virginia General Assembly. The total rate for the GLI 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, 2016. 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. Contributions to the GLI from the Authority were $36,058 and $33,465 for the years ended June 30, 2018 and 2017, respectively.

C. GLI OPEB Liability, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB

At June 30, 2018, the Authority reported a liability of $525,535 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 employers' proportion of the net GLI OPEB liability was based on the covered employer's actuarially determined employer contributions to the GLI 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 Authority's proportion was 0.03489% as compared to 0.03331% at June 30, 2016.

Since there was a change in the 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 Authority 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	$ -	$ (11,000)
Net difference between projected and actual earnings on GLI OPEB program investments	-	(20,000)
Change in assumptions	-	(27,000)
Changes in proportion	24,000	-
Employer contributions subsequent to the measurement date	36,058	-
Total	$ 60,058	$ (58,000)

NOTE 10— OTHER POSTEMPLOYMENT BENEFITS—GROUP LIFE INSURANCE PROGRAM: (Continued)

C. GLI OPEB Liability, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB (Continued)

The $36,058 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 Ending June 30,		Amount
2019	$	(8,000)
2020		(8,000)
2021		(8,000)
2022		(8,000)
2023		(2,000)
Total	$	(34,000)

D. Actuarial Assumptions

Mortality Rates – 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 three 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 two 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%

NOTE 10— OTHER POSTEMPLOYMENT BENEFITS—GROUP LIFE INSURANCE PROGRAM: (Continued)

D. Actuarial Assumptions (Continued)

Mortality Rates – 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 one 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 one year with 1.0% increase compounded from ages 70 to 90; females set forward three years.

Post-Disablement: RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward two 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%

E. Net GLI OPEB Liability

The net OPEB liability (NOL) for the GLI 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 GLI is as follows:

	Group Life Insurance OPEB Program
Total GLI OPEB liability	$ 2,942,426,000
Plan fiduciary net position	1,437,586,000
Employers' net GLI OPEB liability	$ 1,504,840,000
Plan fiduciary net position as a percentage of the total GLI OPEB liability	48.86%

NOTE 10— OTHER POSTEMPLOYMENT BENEFITS—GROUP LIFE INSURANCE PROGRAM: (Continued)

E. Net GLI OPEB Liability (Continued)

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

F. Long-Term Expected Rate of Return

The long-term expected rate of return on the System'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 System'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	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%.

NOTE 10—OTHER POSTEMPLOYMENT BENEFITS—GROUP LIFE INSURANCE PROGRAM: (Continued)

G. 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 participating employers 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.

H. Sensitivity of the Participating Employers' Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the participating employers' proportionate share of the net GLI OPEB liability using the discount rate of 7.00%, as well as what the participating employers' 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%)
Authority net GLI OPEB liability	$ 679,000	$ 525,535	$ 400,000

I. GLI Fiduciary Net Position

Detailed information about the GLI'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 System's Chief Financial Officer at P.O. Box 2500, Richmond, Virginia, 23218-2500.

NOTE 11—RISK MANAGEMENT:

The Authority is a member of the Virginia Association of Counties Risk Pool (VACorp) for all risks of losses. This workers' compensation program is administered by a servicing contractor, which furnishes claims review and processing.

Each member of this risk pool jointly and severally agrees to assume, pay and discharge any liability. The Authority pays VACorp contributions and assessments based upon classification and rates into a designated cash reserve fund out of which expenses of VACorp and claims and awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, VACorp may assess all members in the proportion which the premium of each bears to the total premiums of all members in the year in which such deficit occurs.

The Authority is exposed to various risks of losses related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority also participates in the VaRisk2, a group liability self insurance plan, administered by the Commonwealth of Virginia, Department of General Services, Division of Risk Management. The Authority pays an annual premium for its public officials general liability insurance to this public entity risk pool currently operating as a common risk management and insurance program for participating governments. Settled claims have not exceeded pool coverage in any of the past three fiscal years.

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

NOTE 12—CONTINGENCY:

The Authority has received proceeds from several federal and state grant programs. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. Based upon past experience, no provision has been made in the accompanying financial statements for the refund of grant monies.

NOTE 13—PENDING GASB STATEMENTS:

At June 30, 2018, the Governmental Accounting Standards Board (GASB) had issued statements not yet implemented by the Authority. The statements which might impact the Authority are as follows:

GASB Statement No. 84, *Fiduciary Activities*, will improve the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Statement No. 84 will be effective for fiscal years beginning after December 15, 2018.

GASB Statement No. 87, *Leases*, will increase the usefulness of the Authority's financial statements by requiring reporting of certain lease liabilities that currently are not reported. Statement No. 87 will be effective for fiscal years beginning after December 15, 2019.

NOTE 13—PENDING GASB STATEMENTS: (Continued)

GASB Statement No. 88, *Certain Disclosures Related to Debt,* will improve the information that is disclosed in notes related to debt. It also clarifies which liabilities governments should include when disclosing information related to debt. Statement No. 88 will be effective for fiscal years beginning after June 15, 2018.

The Authority has not determined the financial reporting effect that any of these statements will have on prospective financial statements.

NOTE 14—SUBSEQUENT EVENT:

Subsequent to year-end, the Authority approved the purchase of a radio system upgrade for $306,370, and a fire alarm panel for $97,013.

NOTE 15—PRIOR PERIOD ADJUSTMENT:

The following adjustment was made to the beginning net position of the Authority at July 1, 2017:

Net position, as originally reported, July 1, 2017	$ 24,016,015
Net adjustment as a result of the implementation of GASB Statement No. 75	(905,535)
Net position, as restated, July 1, 2017	$ 23,110,480

REQUIRED SUPPLEMENTARY INFORMATION

Exhibit 5

MIDDLE RIVER REGIONAL JAIL AUTHORITY

Schedule of Changes in the Net Pension Asset and Related Ratios
Virginia Retirement System

	Fiscal Year June 30,			
	2014	2015	2016	2017
Total Pension Liability				
Service cost	$ 1,088,683	$ 1,081,998	$ 1,150,730	$ 1,234,668
Interest	444,658	542,543	620,835	686,312
Changes of benefit terms	-	-	-	(182,574)
Difference between expected and actual experience	-	(321,907)	(475,700)	9,127
Benefit payments, including refunds of employee contributions	(153,313)	(116,657)	(251,709)	(469,258)
Net change in total pension liability	1,380,028	1,185,977	1,044,156	1,278,275
Total pension liability - beginning	6,428,918	7,808,946	8,994,923	10,039,079
Total pension liability - ending (a)	$ 7,808,946	$ 8,994,923	$ 10,039,079	$ 11,317,354
Plan Fiduciary Net Position				
Contributions - employer	$ 763,721	$ 778,228	$ 825,943	$ 781,150
Contributions - employee	269,134	279,945	297,368	319,765
Net investment income	1,205,451	451,289	215,679	1,477,150
Benefit payments, including refunds of employee contributions	(153,313)	(116,657)	(251,709)	(469,258)
Administrative expense	(5,674)	(5,141)	(5,984)	(7,751)
Other	63	(98)	(85)	(1,350)
Net change in plan fiduciary net position	2,079,382	1,387,566	1,081,212	2,099,706
Plan fiduciary net position - beginning	7,169,845	9,249,227	10,636,793	11,718,005
Plan fiduciary net position - ending (b)	$ 9,249,227	$ 10,636,793	$ 11,718,005	$ 13,817,711
Authority's net pension asset - ending (a) - (b)	$ (1,440,281)	$ (1,641,870)	$ (1,678,926)	$ (2,500,357)
Plan fiduciary net position as a percentage of the total pension liability	118.44%	118.25%	116.72%	122.09%
Covered payroll	$ 5,385,903	$ 5,623,035	$ 5,967,796	$ 6,397,625
Authority's net pension asset as a percentage of covered payroll	26.74%	29.20%	28.13%	39.08%

Note to Schedule:

(1) This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Authority will present information for those years for which information is available.

See Notes to Required Supplementary Information - Virginia Retirement System.

Exhibit 6

MIDDLE RIVER REGIONAL JAIL AUTHORITY

Schedule of Contributions
Virginia Retirement System

	Fiscal Year June 30,				
	2014	2015	2016	2017	2018
Contractually required contribution (CRC)	$ 763,721	$ 778,228	$ 825,943	$ 781,150	$ 846,772
Contributions in relation to the CRC	763,721	778,228	825,943	781,150	846,772
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -
Employer's covered payroll	$ 5,385,903	$ 5,623,035	$ 5,967,796	$ 6,397,625	$ 6,935,070
Contributions as a percentage of covered payroll	14.18%	13.84%	13.84%	12.21%	12.21%

Note to Schedule:

(1) This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Authority will present information for those years for which information is available.

See Notes to Required Supplementary Information - Virginia Retirement System.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
VIRGINIA RETIREMENT SYSTEM
YEAR ENDED JUNE 30, 2018

NOTE 1—CHANGES OF BENEFIT TERMS:

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

NOTE 2—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 ended June 30, 2016:

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 rates to better fit experience each year, age and service through nine years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

Public Safety Employees with Hazardous Duty Benefits

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 rates to better fit experience each year, age and service through nine years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 45%

NOTE 3—CONTRACTUALLY REQUIRED CONTRIBUTIONS:

The actuarially determined contribution rates are calculated as of June 30, one year prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

General Employees

Mortality Rates: 15% 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 BBG to 2020; males set forward three 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 two years, 110% of rates; females 125% of rates.

Public Safety Employees with Hazardous Duty Benefits

Mortality Rates: 45% 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 90% of rates; females set forward one 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 one year, 1.0% increase compounded from ages 70 to 90; females set forward three years.

– Post-disablement: RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward two years; unisex using 100% male.

Exhibit 7

MIDDLE RIVER REGIONAL JAIL AUTHORITY

SCHEDULES OF CHANGES IN THE AUTHORITY'S TOTAL OPEB LIABILITY AND RELATED RATIOS MEDICAL INSURANCE PROGRAM

	Fiscal Year June 30, 2017
Total OPEB liability:	
Service cost	$ 94,000
Interest	56,000
Contributions - employer	(26,000)
Net change in total OPEB liability	124,000
Total OPEB liability, beginning	1,486,000
Total Medical Insurance OPEB liability, ending	$ 1,610,000
Covered payroll	$ 6,265,000
Total OPEB liability as a percentage of covered payroll	25.70%

Note to Schedule:

(1) This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Authority will present information for those years which information is available.

See Notes to Required Supplementary Information - Other Postemployment Benefits.

MIDDLE RIVER REGIONAL JAIL AUTHORITY

SCHEDULE OF EMPLOYER CONTRIBUTIONS - OPEB
MEDICAL INSURANCE PROGRAM

	Fiscal Year June 30, 2017
Contractually required contribution (CRC)	$ 26,000
Contributions in relation to the CRC	26,000
Contribution deficiency (excess)	$ -
Employer's covered payroll	$ 6,265,000
Contributions as a percentage of covered payroll	0.42%

Note to Schedule:

(1) This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Authority will present information for those years for which information is available.

See Notes to Required Supplementary Information - Other Postemployment Benefits.

Exhibit 9

MIDDLE RIVER REGIONAL JAIL AUTHORITY

SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY
GROUP LIFE INSURANCE PROGRAM

	Fiscal Year June 30, 2017
Employer's proportion of the net GLI OPEB liability	0.03489%
Employer's proportionate share of the net GLI OPEB liability	$ 525,535
Employer's covered payroll	6,435,577
Employer's proportionate share of the net GLI OPEB liability as a percentage of its covered payroll	8.17%
Plan fiduciary net position as a percentage of the total GLI OPEB liability	48.86%

Note to Schedule:

(1) This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Authority will present information for those years for which information is available.

See Notes to Required Supplementary Information - Other Postemployment Benefits.

Exhibit 10

MIDDLE RIVER REGIONAL JAIL AUTHORITY

SCHEDULE OF EMPLOYER CONTRIBUTIONS - OPEB
GROUP LIFE INSURANCE PROGRAM

	Fiscal Year June 30,									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	**2018**
Contractually required contribution (CRC)	$ 13,804	$ 10,454	$ 13,840	$ 14,078	$ 25,458	$ 25,861	$ 27,006	$ 28,735	$ 33,465	**$ 36,058**
Contributions in relation to the CRC	13,804	10,454	13,840	14,078	25,458	25,861	27,006	28,735	33,465	**36,058**
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	**$ -**
Employer's covered payroll	$ 5,112,496	$ 3,871,836	$ 4,942,829	$ 5,027,905	$ 5,303,687	$ 5,387,681	$ 5,626,315	$ 5,986,407	$ 6,435,577	**$ 6,934,198**
Contributions as a percentage of covered payroll	0.27%	0.27%	0.28%	0.28%	0.48%	0.48%	0.48%	0.48%	0.52%	**0.52%**

See Notes to Required Supplementary Information - Other Postemployment Benefits.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFITS
YEAR ENDED JUNE 30, 2018

Note 1—MEDICAL INSURANCE PROGRAM:

A. Changes of Benefit Terms

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

B. Changes of Assumptions

Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The following is the discount rate used for the period presented:

2018	3.56%

Note 2—GROUP LIFE INSURANCE PROGRAM:

A. Changes of Benefit Terms

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

B. Changes of Assumptions

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

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%

Note 2—GROUP LIFE INSURANCE PROGRAM: (Continued)

B. Changes of Assumptions (Continued)

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%

OTHER SUPPLEMENTARY INFORMATION

MIDDLE RIVER REGIONAL JAIL AUTHORITY

Combining Statement of Net Position
Fiduciary Funds
June 30, 2018

	Agency Funds						
	Inmate Commissary Account	Inmate Account	Home Electronic Monitoring	Phone Account	Work Release Account	Inmate Daily Fee Account	Total
ASSETS							
Cash and cash equivalents	$ 798,092	$ 125,061	$ 3,032	$ 78,666	$ 44,205	$ 10,859	$ 1,059,915
Total assets	$ 798,092	$ 125,061	$ 3,032	$ 78,666	$ 44,205	$ 10,859	$ 1,059,915
LIABILITIES							
Amounts held for canteen purchases	$ 798,092	$ -	$ -	$ -	$ -	$ -	$ 798,092
Amounts held for inmate benefits	-	125,061	3,032	-	-	10,859	138,952
Amounts held for inmates	-	-	-	78,666	44,205	-	122,871
Total liabilities	$ 798,092	$ 125,061	$ 3,032	$ 78,666	$ 44,205	$ 10,859	$ 1,059,915

Exhibit 12

MIDDLE RIVER REGIONAL JAIL AUTHORITY

Statement of Changes in Net Position
Agency Funds
Year Ended June 30, 2018

	Balance June 30, 2017	Additions	Deductions	Balance June 30, 2018
INMATE COMMISSARY ACCOUNT:				
Assets:				
Cash and cash equivalents	$ 589,128	$ 1,295,048	$ 1,086,084	$ 798,092
Liabilities:				
Amounts held for canteen purchases	$ 589,128	$ 1,295,048	$ 1,086,084	$ 798,092
INMATE ACCOUNT:				
Assets:				
Cash and cash equivalents	$ 88,055	$ 3,054,943	$ 3,017,937	$ 125,061
Liabilities:				
Amounts held for inmate benefits	$ 88,055	$ 3,054,943	$ 3,017,937	$ 125,061
HOME ELECTRONIC MONITORING:				
Assets:				
Cash and cash equivalents	$ -	$ 20,035	$ 17,003	$ 3,032
Liabilities:				
Amounts held for inmate benefits	$ -	$ 20,035	$ 17,003	$ 3,032
PHONE ACCOUNT:				
Assets:				
Cash and cash equivalents	$ 71,169	$ 285,016	$ 277,519	$ 78,666
Liabilities:				
Amounts held for inmates	$ 71,169	$ 285,016	$ 277,519	$ 78,666
WORK RELEASE ACCOUNT:				
Assets:				
Cash and cash equivalents	$ 5,319	$ 601,018	$ 562,132	$ 44,205
Liabilities:				
Amounts held for inmates	$ 5,319	$ 601,018	$ 562,132	$ 44,205
INMATE DAILY FEE ACCOUNT:				
Assets:				
Cash	$ 18,136	$ 254,314	$ 261,591	$ 10,859
Liabilities:				
Amounts held for inmate benefits	$ 18,136	$ 254,314	$ 261,591	$ 10,859
TOTALS:				
Assets:				
Cash and cash equivalents	$ 771,807	$ 5,510,374	$ 5,222,266	$ 1,059,915
Liabilities:				
Amounts held for canteen purchases	$ 589,128	$ 1,295,048	$ 1,086,084	$ 798,092
Amounts held for inmate benefits	106,191	3,329,292	3,296,531	138,952
Amounts held for inmates	76,488	886,034	839,651	122,871
Total liabilities	$ 771,807	$ 5,510,374	$ 5,222,266	$ 1,059,915

COMPLIANCE

PBMares

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

To the Board
Middle River Regional Jail Authority

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities and the aggregate remaining fund information of the Middle River Regional Jail Authority (Authority) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements, and have issued our report thereon dated November 28, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 Authority'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 and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a deficiency in internal control, described in the accompanying Schedule of Finding and Response as item 2018-001 that we consider to be a significant deficiency.

Compliance and Other Matters

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

Authority's Response to Finding

The Authority's response to the finding identified in our audit is described in the accompanying Schedule of Finding and Response. The Authority's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 Authority'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 Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PBMares, LLP

Harrisonburg, Virginia
November 28, 2018

MIDDLE RIVER REGIONAL JAIL AUTHORITY

SCHEDULE OF FINDING AND RESPONSE
Year Ended June 30, 2018

FINDING RELATING TO THE FINANCIAL STATEMENT AUDIT AS REQUIRED TO BE REPORTED IN ACCORDANCE WITH GENERALLY ACCEPTED GOVERNMENT AUDITING STANDARDS

A. Significant Deficiency in Internal Control

2018-001 Significant Deficiency in Purchasing Practices

Criteria: The Authority is required to adhere to their purchasing policy for purchasing goods and services. The Authority's purchasing policy criteria requires purchases greater than $1,000 to have a completed purchase order.

Condition/Context: Upon auditing the Authority's controls over purchasing, we noted several instances of purchase orders not being completed for purchases greater than $1,000.

Cause: Lack of understanding of procurement policies and procedures and a lack of review of purchase orders.

Effect: With purchase order procedures not being followed there is a risk of controls over purchasing being circumvented.

Recommendation: The Authority should strengthen controls and procedures to ensure adherence with the Authority's purchasing policy.

Views of Responsible Officials:

The Authority agrees with this finding for the fiscal year. Given the twenty-four/seven daily operations of the Authority, the Authority has purchased a new purchase order software system to be able to issue purchase orders in a timely manner to comply with daily/weekly and emergency purchases required for maintaining the facility and providing food and other supplies for the care of inmates. The new system will be a more efficient cloud-based technology system that will document and require the approval of the department director, administrative command approval, finance approval, and the Superintendent's approval before the purchase order is issued.