

# **Virginia Peninsula Regional Jail Authority**

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

June 30, 2016



# Virginia Peninsula Regional Jail Authority

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## **Independent Auditors' Report**

Board of Directors  
Virginia Peninsula Regional Jail Authority  
Williamsburg, Virginia

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Virginia Peninsula Regional Jail Authority as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Virginia Peninsula Regional Jail Authority's basic financial statements listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

### ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Virginia Peninsula Regional Jail Authority as of June 30, 2016, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and schedules of changes in net pension asset and related ratios and employer contributions and related notes on pages 3-5 and 33-36 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information of consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***Other Information***

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

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

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

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2016, on our consideration of the Virginia Peninsula Regional Jail Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Virginia Peninsula Regional Jail Authority's internal control over financial reporting and compliance.

*Dixon Hughes Goodman LLP*

**Newport News, Virginia  
November 29, 2016**

## Virginia Peninsula Regional Jail Authority

### Management's Discussion and Analysis

June 30, 2016

This section of the Virginia Peninsula Regional Jail Authority's (Authority) annual financial report presents our discussion and analysis of the Authority's financial performance during the fiscal year ended June 30, 2016.

#### Financial Highlights for Fiscal Years 2016

The Authority had an increase in net position of \$809,507 for fiscal year 2016. The increase was primarily due to higher member contributions and federal revenue for more constant ICE detainees. Total liabilities decreased by \$1,452,496, primarily due to principal payments on a lease payable and revenue bonds.

#### Overview of the Financial Statements

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

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

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

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

#### Financial Analysis

Statements of Net Position		
	6/30/2016	6/30/2015
Current and other assets	\$ 5,367,511	\$ 5,435,925
Capital assets, net	18,129,160	18,903,204
Net pension asset	856,570	1,232,229
Total assets	24,353,241	25,571,358
Deferred outflows	674,622	516,982
Total assets and deferred outflow of resources	\$ 25,027,863	\$ 26,088,340
Current liabilities	\$ 2,625,937	\$ 2,576,156
Noncurrent liabilities	6,970,024	8,472,301
Total liabilities	9,595,961	11,048,457
Deferred pension investment experience	309,335	726,823
Net position:		
Net investment in capital assets	10,170,965	9,226,291
Restricted	3,671,700	4,530,636
Unrestricted	1,279,902	556,133
Total net position	15,122,567	14,313,060
Total liabilities, deferred inflows and net position	\$ 25,027,863	\$ 26,088,340

# Virginia Peninsula Regional Jail Authority

## Management's Discussion and Analysis

June 30, 2016

Total assets decreased by 4.8% from fiscal year 2015, primarily due to a decrease in cash, which was used to pay down debt, a decrease in capital assets due to current year depreciation expense and a decrease in the net pension asset, used to pay benefits to retirees.

Total liabilities experienced a decrease of 13.1% from fiscal year 2015, which was primarily due to debt repayments. Total net position was \$15,122,567 and \$14,313,060 at June 30, 2016 and 2015, respectively.

Statements of Activities for the Year Ended		
	6/30/2016	6/30/2015
Program expenses:		
Personal services	\$ 7,761,036	\$ 7,244,941
Materials and contractual services	3,763,127	3,378,302
Depreciation and interest	1,224,617	1,233,554
Total program expenses	12,748,780	11,856,797
Program revenues:		
Charges for services	6,822,397	7,028,762
Operating grants and contributions	5,784,651	5,280,791
Total program revenues	12,607,048	12,309,553
Net program gain (loss)	(141,732)	452,756
General revenues:		
Miscellaneous revenues, net	890,858	375,331
Investment income, net	60,381	59,643
Loss on disposal of capital assets	-	(6,929)
Total general revenues	951,239	428,045
Change in net position	809,507	880,801
Net position, beginning of year	14,313,060	13,432,259
Net position, end of year	\$ 15,122,567	\$ 14,313,060

Program expenses exceeded the prior year by \$891,983, mainly due to higher personal services and medical expenses. The main factors driving the increase in personal services were employee raises provided in August 2015 and an increase of \$99,000 in the Other Postemployment Benefits (OPEB) obligation. In addition, medical costs were much higher in fiscal year 2016, which is an expense that can be difficult to predict and is variable based on the needs of the inmate population.

Program revenue increased by \$297,495 in 2016, mainly due to an increase in contributions from member jurisdictions and higher federal revenue resulting from more U.S. Immigration and Custom Enforcement (ICE) detainees.

Total net position increased by \$809,507 and \$880,801 for fiscal years ended 2016 and 2015, respectively, mainly attributable to the circumstances noted above.

Summary Schedule of Budget and Actual - General Fund			
Year Ended June 30, 2016			
	Original Budget	Revised Budget	Actual
Revenues	\$ 13,292,831	\$ 13,228,997	\$ 13,035,176
Expenditures	\$ (11,494,418)	\$ (11,458,599)	\$ (11,534,229)
Other Financing Uses	(1,798,413)	(1,770,398)	(1,764,311)
Total	\$ (13,292,831)	\$ (13,228,997)	\$ (13,298,540)

## **Virginia Peninsula Regional Jail Authority**

### **Management's Discussion and Analysis**

June 30, 2016

The General Fund has a legally adopted budget. For fiscal year 2016, the revised budget reflected a net decrease \$68,834, or a .50% change from the original budget. The decrease was primarily attributable to less federal revenue than originally anticipated, partially offset by an increase in member contributions (due to a special assessment).

<b>Capital Assets</b>
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At June 30, 2016 and 2015, the Authority had invested \$18,129,160 and \$18,903,204 in capital assets, respectively. The main factor in the net decrease was current year depreciation expense.

<b>Debt Administration</b>
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In June 2003, the Authority issued \$21,655,000 of general improvement revenue bonds with an interest cost of 3.49% to refund the outstanding issue with interest rates from 2% to 5%. On October 1, 2005, the Authority called the outstanding refunded bonds. The balance of the revenue bonds, net of unamortized premiums, at June 30, 2016 and 2015 was \$6,353,659 and \$7,988,214, respectively.

In February 2013, the Authority signed a \$1,766,000 lease purchase agreement, with an interest rate of 2.85%, with Siemens Public, Inc. The agreement is part of an Energy Performance Contract, with the proceeds of the lease held in an escrow account with UMB Corporate Trust Services. The balance of the lease purchase agreement at June 30, 2016 and 2015 was \$1,604,536 and \$1,688,699, respectively.

#### **Request for Financial Information**

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

\* \* \* \* \*

**Virginia Peninsula Regional Jail Authority**  
Statement of Net Position  
June 30, 2016

	<b>Governmental Activities</b>
<b>Assets</b>	
Cash and short-term investments (Note 2)	\$ 725,813
Restricted cash and investments (Note 2)	2,815,130
Due from other governmental units (Note 3)	1,599,541
Accounts receivable	129,142
Prepaid expenses	97,885
Capital assets, net (Note 4):	
Nondepreciable	885,546
Depreciable, net	17,243,614
Net pension asset (Note 6)	856,570
Total assets	<u>24,353,241</u>
<b>Deferred outflows of resources</b>	
Deferred differences between expected and actual experience on pension actuarial valuation (Note 6)	120,181
Deferred pension contributions (Note 6)	554,441
Total deferred outflows of resources	<u>674,622</u>
Total assets and deferred outflow of resources	<u>\$ 25,027,863</u>
<b>Liabilities</b>	
Accounts payable	\$ 259,159
Amounts held for others	32,108
Salaries payable	3,083
Interest payable	79,311
Noncurrent liabilities (Notes 5, 6 and 7):	
Due within one year	2,252,276
Due in more than one year	6,970,024
Total liabilities	<u>9,595,961</u>
<b>Deferred inflow of resources</b>	
Deferred pension investment experience (Note 6)	<u>309,335</u>
<b>Net position</b>	
Net investment in capital assets	10,170,965
Restricted for pensions	856,570
Restricted for debt service	2,815,130
Unrestricted	1,279,902
Total net position	<u>15,122,567</u>
Total liabilities, deferred inflow of resources and net position	<u>\$ 25,027,863</u>

*See accompanying notes to financial statements.*



**Virginia Peninsula Regional Jail Authority**

Statement of Activities

Year Ended June 30, 2016

	<b>Governmental Activities</b>
<b>Program expenses</b>	
Personal services	\$ 7,761,036
Materials and contractual services	3,763,127
Depreciation	960,564
Interest	264,053
Total program expenses	<u>12,748,780</u>
<b>Program revenues</b>	
Charges for services	6,822,397
Operating grants and contributions	5,784,651
Total program revenues	<u>12,607,048</u>
Operating loss	<u>(141,732)</u>
<b>General revenues</b>	
Miscellaneous revenue, net	890,858
Investment income, net	60,381
Total general revenues, net	<u>951,239</u>
Change in net position	809,507
<b>Net position at beginning of year</b>	<u>14,313,060</u>
<b>Net position at end of year</b>	<u><u>\$ 15,122,567</u></u>

*See accompanying notes to financial statements.*

**Virginia Peninsula Regional Jail Authority**

Balance Sheet  
Governmental Funds  
June 30, 2016

	<b>General</b>	<b>Debt Service</b>	<b>Nonmajor Governmental funds</b>	<b>Total Governmental Funds</b>
<b>Assets</b>				
Cash and short-term investments (Note 2)	\$ 725,813	\$ -	\$ -	\$ 725,813
Restricted cash and investments (Note 2)	-	2,815,130	-	2,815,130
Due from other governmental units (Note 3)	1,599,541	-	-	1,599,541
Accounts receivable	111,548	-	17,594	129,142
Due from other funds (Note 8)	1,348	394,924	-	396,272
Prepaid expenditures	97,522	-	363	97,885
Total assets	<u>\$ 2,535,772</u>	<u>\$ 3,210,054</u>	<u>\$ 17,957</u>	<u>\$ 5,763,783</u>
<b>Liabilities</b>				
Accounts payable	\$ 251,616	\$ 3,045	\$ 4,498	\$ 259,159
Due to other funds (Note 8)	394,924	-	1,348	396,272
Amounts held for others	-	-	32,108	32,108
Interest payable	-	3,811	-	3,811
Salaries payable	3,083	-	-	3,083
Total liabilities	<u>649,623</u>	<u>6,856</u>	<u>37,954</u>	<u>694,433</u>
<b>Deferred inflows of resources</b>				
Unavailable revenue - intergovernmental fees	<u>255,645</u>	<u>-</u>	<u>-</u>	<u>255,645</u>
<b>Fund balances</b>				
Restricted	-	3,203,198	-	3,203,198
Unassigned	1,630,504	-	(19,997)	1,610,507
Total fund balances (deficit)	<u>1,630,504</u>	<u>3,203,198</u>	<u>(19,997)</u>	<u>4,813,705</u>
Total liabilities, deferred inflows and fund balances	<u>\$ 2,535,772</u>	<u>\$ 3,210,054</u>	<u>\$ 17,957</u>	<u>\$ 5,763,783</u>

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

Total fund balance – governmental funds	\$ 4,813,705
Amounts reported for governmental activities in the statement of net position are different because:	
Net pension asset, deferred differences in expected and actual experience on pension actuarial valuations and deferred pension contributions do not provide current financial resources and therefore are not reported in the governmental funds.	1,531,192
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	18,129,160
Accounts receivable collected after 45 days are not available to pay for current period expenditures and therefore are deferred in the funds.	255,645
Interest payable on long-term debt is not reported in governmental funds but rather is recognized as an expenditure when due.	(75,500)
The net difference between projected and actual earnings on pension plan investments does not require the use of current financial resources and therefore is not reflected on the governmental fund balance sheet.	(309,335)
Long-term liabilities are not due and payable with current resources and therefore are not reported in the governmental funds.	
Compensated absences	\$ (899,105)
Other post-employment benefits (OPEB)	(365,000)
Lease payable	(1,604,536)
Bonds payable	<u>(6,353,659)</u>
Net position of governmental activities	<u>\$ 15,122,567</u>

*See accompanying notes to financial statements.*

**Virginia Peninsula Regional Jail Authority**  
**Statements of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**Year Ended June 30, 2016**

	<b>General</b>	<b>Debt Service</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>				
Commonwealth of Virginia	\$ 4,695,429	\$ -	\$ -	\$ 4,695,429
Local governments:				
York County	2,509,712	-	-	2,509,712
James City County	2,562,001	-	-	2,562,001
City of Williamsburg	1,156,822	-	-	1,156,822
City of Poquoson	291,557	-	-	291,557
Federal government	1,089,222	-	-	1,089,222
Investment income, net	6	60,375	-	60,381
Telephone commissions	263,491	-	-	263,491
Miscellaneous	462,524	-	-	462,524
Rental income	4,412	-	-	4,412
Canteen sales	-	-	132,682	132,682
Work release fees	-	-	74,409	74,409
Total revenues	<u>13,035,176</u>	<u>60,375</u>	<u>207,091</u>	<u>13,302,642</u>
<b>Expenditures</b>				
Salaries and benefits	7,706,166	-	-	7,706,166
Contractual services	1,330,154	-	-	1,330,154
Food and food supplies	530,172	-	220	530,392
Utilities	429,690	-	-	429,690
Medical supplies	490,640	-	-	490,640
Other supplies	194,899	-	11,438	206,337
Building maintenance	227,207	-	-	227,207
Fiscal agent fee (Note 9)	113,806	-	-	113,806
Inmate programs	83,020	-	86,075	169,095
Staff development	65,510	-	118	65,628
Furniture and equipment	172,388	-	-	172,388
Staff clothing	31,203	-	-	31,203
Transportation	45,640	-	-	45,640
Insurance	30,098	-	-	30,098
Inmate clothing	18,056	-	-	18,056
Vehicles	65,013	-	-	65,013
Advertising	567	-	-	567
Indigent expenses	-	-	17,643	17,643
Debt service:				
Principal retirement	-	1,614,163	-	1,614,163
Interest	-	387,733	-	387,733
Other	-	6,090	-	6,090
Total expenditures	<u>11,534,229</u>	<u>2,007,986</u>	<u>115,494</u>	<u>13,657,709</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>1,500,947</u>	<u>(1,947,611)</u>	<u>91,597</u>	<u>(355,067)</u>
<b>Other financing sources (uses)</b>				
Transfers in (Note 8)	92,102	1,856,413	-	1,948,515
Transfers out (Note 8)	(1,856,413)	-	(92,102)	(1,948,515)
Total other financing sources (uses)	<u>(1,764,311)</u>	<u>1,856,413</u>	<u>(92,102)</u>	<u>-</u>
Net change in fund balances	(263,364)	(91,198)	(505)	(355,067)
<b>Fund balance, beginning of year</b>	<u>1,893,868</u>	<u>3,294,396</u>	<u>(19,492)</u>	<u>5,168,772</u>
<b>Fund balance, end of year</b>	<u>\$ 1,630,504</u>	<u>\$ 3,203,198</u>	<u>\$ (19,997)</u>	<u>\$ 4,813,705</u>

*See accompanying notes to financial statements.*

**Virginia Peninsula Regional Jail Authority**  
**Statements of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**Year Ended June 30, 2016**

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

Net change in total governmental fund balances	\$	(355,067)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	\$ (960,564)	
Capital outlay expenditures	186,520	(774,044)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. Unavailable revenue increased by this amount in the current year.		255,645
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, refunding gains/losses, and similar items when debt is issued, whereas these amounts are deferred and amortized in the statement of activities.

Principal payments on revenue bonds payable	1,530,000	
Principal payments on lease payable	84,163	
Change in interest payable on revenue bonds	19,125	
Amortization on premium on revenue bonds payable	104,555	1,737,843

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. The items listed below reflects the change from prior year.

Compensated absences	(155,339)	
OPEB obligation	(99,000)	
Pension asset and deferred inflows and outflows	199,469	(54,870)

Change in net position on statement of activities	\$	809,507
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*See accompanying notes to financial statements.*

# Virginia Peninsula Regional Jail Authority

## Notes to the Financial Statements June 30, 2016

### 1) Summary of Significant Accounting Policies

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

#### **Financial Reporting Entity**

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

#### **Government-Wide and Fund Financial Statements**

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

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

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

The Authority reports the following major governmental funds:

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

# Virginia Peninsula Regional Jail Authority

## Notes to the Financial Statements

June 30, 2016

### 1) Summary of Significant Accounting Policies, Continued

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

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

#### **Basis of Accounting and Measurement Focus**

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

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

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

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

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

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

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

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

# Virginia Peninsula Regional Jail Authority

## Notes to the Financial Statements June 30, 2016

### 1) Summary of Significant Accounting Policies, Continued

#### **Budgets and Budgetary Accounting**

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

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

#### **Adoption of New Accounting Statement**

Effective with the financial statements for the fiscal year ended June 30, 2016, the Authority has adopted GASB Statement No. 72, *Fair Value Measurement and Application*. This statement requires the use of valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach, or an income approach.

The statement establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs, other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs, such as management's assumption of the default rate among underlying mortgages of a mortgage-backed security. Statement No. 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that was used for the fair value measurements.

#### **Cash Equivalents**

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

#### **Capital Assets**

Capital outlays are recorded as expenditures in the governmental funds and capitalized at historical cost in the government-wide financial statements to the extent the Authority's capitalization threshold of \$1,000 is met. Contributed capital assets are recorded as capital assets at acquisition value at the time received. Depreciation is recorded on capital assets in the government-wide financial statements.

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

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

Buildings and improvements	30-40 years
Furniture, equipment, and vehicles	3-10 years

# Virginia Peninsula Regional Jail Authority

## Notes to the Financial Statements June 30, 2016

### 1) Summary of Significant Accounting Policies, Continued

#### Compensated Absences

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

#### Interfund Transactions

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

#### Estimates

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

### 2) Cash and Investments

The Authority's cash and investments at June 30, 2016 consisted of the following:

Bank deposits	\$	722,846
Petty cash		1,000
Investments		2,817,097
Total	\$	<u>3,540,943</u>

#### Reconciliation to Statement of Net Position:

Cash and short-term investments	\$	725,813
Restricted cash and investments		2,815,130
Total	\$	<u>3,540,943</u>

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

The Authority's investments at June 30, 2016 were as follows:

<u>Investment Type</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Level</u>	<u>Maturity</u>	<u>Rated</u>
LGIP (amortized cost)	\$ 1,967	\$ 1,967	N/A	1 day	N/A
Money market (cost)	193,590	193,590	N/A	1 day	N/A
US Treasury bonds	2,772,044	2,621,540	1	11/15/2018	AAA
Total	<u>\$ 2,967,601</u>	<u>\$ 2,817,097</u>			



## Virginia Peninsula Regional Jail Authority

### Notes to the Financial Statements June 30, 2016

#### 2) Cash and Investments, Continued

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

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

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

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

#### **Investment Policy**

The Authority utilizes the policies and procedures of the James City County Treasurer; therefore, the Investment Policy (Policy) of the County is used. In accordance with the Code of Virginia and other applicable law, including regulations, the Authority's Policy permits investments in U.S. government obligations, municipal obligations, commercial paper, and certain corporate notes, bankers' acceptances, repurchase agreements, negotiable certificates of deposit, bank deposit notes, mutual funds, and the State Treasurer's Local Government Investment Pool (the Virginia LGIP, a 2a-7 like pool). The Policy establishes limitations on the holdings of non-U.S. government obligations. The maximum percentage of the portfolio (book value at the date of acquisition) permitted in each security is as follows:

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

#### **Credit Risk**

As required by state statute, the Policy requires that commercial paper have a short-term debt rating of no less than "A-1" (or its equivalent) from at least two of the following: Moody's Investors Service, Standard & Poor's, Fitch Investor's Service, and Duff and Phelps. Corporate notes must have a minimum of "Aa" long-term debt rating by Moody's Investors Service and a minimum of "AA" long-term debt rating by Standard & Poor's. Negotiable certificates of deposit and bank deposit notes maturing in less than one year must have a short-term debt rating of at least "A-1" by Standard & Poor's and "P-1" by Moody's Investors Service. Notes having a maturity of greater than one year must be rated "AA" by Standard & Poor's and "Aa" by Moody's Investors Service.

Although state statute does not impose credit standards on repurchase agreement counterparties, bankers' acceptances or money market mutual funds, the Authority has established stringent credit standards for these investments to minimize portfolio risk.

## Virginia Peninsula Regional Jail Authority

### Notes to the Financial Statements June 30, 2016

#### 2) Cash and Investments, Continued

##### **Concentration of Credit Risk**

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

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

At June 30, 2016, 99.99% of the Authority's portfolio was invested in U.S. Treasury obligations and money market fund as part of the debt service reserve fund, and 0.01% of the Authority's portfolio was invested in the Commonwealth of Virginia LGIP account.

##### **Interest Rate Risk**

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

Proceeds from the sale of bonds must be invested in compliance with the specific requirements of the bond covenants and may be invested in securities with longer maturities, so long as the maturity does not exceed the expected disbursement date of those funds. The Authority has U.S. Treasury obligations totaling \$2,621,540 which mature on November 15, 2018. These investments relate to the proceeds of the 2003 general improvement bonds which refunded the 1995 bonds (see Note 5). These securities are invested per the requirements of the bond covenant and the maturity date will not exceed the expected disbursement date of these funds.

##### **Custodial Credit Risk**

The Policy requires all investment securities purchased by the Authority or held as collateral on deposits or investments shall be held by the Authority or by a third-party custodial agent who may not otherwise be a counterparty to the investment transaction. As of June 30, 2016, all of the Authority's investments are held in a bank's trust department in its name.

##### **Collateral Agreement with Morgan Guaranty Trust Company**

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

# Virginia Peninsula Regional Jail Authority

## Notes to the Financial Statements June 30, 2016

### 3) Due from Other Governmental Units

Due from other governmental units consist of the following:

Commonwealth of Virginia	\$	481,948
York County		499,808
James City County		296,712
Federal Government		125,925
City of Williamsburg		133,975
City of Poquoson		61,173
Total	\$	<u>1,599,541</u>

### 4) Capital Assets

The following is a summary of changes in capital assets for the fiscal year ended June 30, 2016.

	Balances July 1, 2015	Increases	Decreases	Balances June 30, 2016
Capital assets not being depreciated:				
Land and land improvements	\$ 885,546	\$ -	\$ -	\$ 885,546
Capital assets being depreciated:				
Buildings and improvements	30,734,829	65,479	-	30,800,308
Furniture, equipment, and vehicles	2,597,205	121,041	(50,064)	2,668,182
Total other capital assets being depreciated	<u>33,332,034</u>	<u>186,520</u>	<u>(50,064)</u>	<u>33,468,490</u>
Less accumulated depreciation:				
Buildings and improvements	13,369,907	811,768	-	14,181,675
Furniture, equipment, and vehicles	1,944,469	148,796	(50,064)	2,043,201
Total accumulated depreciation	<u>15,314,376</u>	<u>960,564</u>	<u>(50,064)</u>	<u>16,224,876</u>
Total capital assets being depreciated, net	<u>18,017,658</u>	<u>(774,044)</u>	<u>-</u>	<u>17,243,614</u>
Total	<u>\$ 18,903,204</u>	<u>\$ (774,044)</u>	<u>\$ -</u>	<u>\$ 18,129,160</u>

### 5) Long-Term Liabilities

A summary of the Authority's changes in long-term liabilities for the year ended June 30, 2016 is as follows:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016	Due Within One Year
Compensated absences	\$ 743,766	\$ 1,182,837	\$ 1,027,498	\$ 899,105	\$ 462,149
Lease payable	1,688,699	-	84,163	1,604,536	90,572
Revenue bonds payable	7,570,000	-	1,530,000	6,040,000	1,595,000
Unamortized bond premium	418,214	-	104,555	313,659	104,555
OPEB obligation	266,000	99,000	-	365,000	-
Total	<u>\$ 10,686,679</u>	<u>\$ 1,281,837</u>	<u>\$ 2,746,216</u>	<u>\$ 9,222,300</u>	<u>\$ 2,252,276</u>

#### Lease Payable

In February 2013, the Authority signed a \$1,766,000 lease purchase agreement, with an interest rate of 2.85%, with Siemens Public, Inc. The agreement is part of an Energy Performance Contract (see Note 9), with the proceeds of the lease held in an escrow account with UMB Corporate Trust Services. The net book value of the capital assets purchased under this lease was \$1,126,632 at June 30, 2016 and the Authority had accrued interest payable of \$3,811 related to this agreement at June 30, 2016. The annual requirements for principal and related interest are as follows:

Year ended June 30	Principal	Interest
2017	\$ 90,572	\$ 44,783
2018	97,285	42,130
2019	100,083	39,299
2020	103,028	36,445
2021	110,480	33,430
2022-2026	676,911	113,998
2027-2029	426,177	17,074
Total	<u>\$ 1,604,536</u>	<u>\$ 327,159</u>

## Virginia Peninsula Regional Jail Authority

### Notes to the Financial Statements June 30, 2016

#### 5) Long-term Liabilities, Continued

##### Revenue Bonds Payable

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

Year ended June 30	Principal	Interest
2017	\$ 1,595,000	\$ 242,188
2018	1,680,000	159,250
2019	2,765,000	34,562
Total	<u>\$ 6,040,000</u>	<u>\$ 436,000</u>

#### 6) Pension Plans

For purposes of measuring the net pension asset, deferred outflow of resources and deferred inflow of resources related to pensions and pension expense, information about the fiduciary net position of the Authority's retirement plan and the additions to/deductions from the Authority's retirement plan's net fiduciary position have been determined on the same basis as reported by the 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. VRS issues a publicly available comprehensive annual financial report that includes financial statements, required supplementary information and detailed information about the fiduciary net position of the VRS plans. A copy of that report may be downloaded from their web site at <http://www.varetire.org/pdf/publications/2015-annual-report.pdf> or obtained by writing to VRS at P.O. Box 2500, Richmond, VA, 23218-2500.

##### Plan Description

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

VRS administers three different benefit plans for local government employees – Plan 1, Plan 2 and Hybrid. Each plan has different eligibility and benefit structures as set out below.

##### **VRS PLAN 1**

##### ***About VRS Plan 1***

VRS Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

##### ***Eligible Members***

Employees are in VRS Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

##### ***Hybrid Opt-In Election***

VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible VRS Plan 1 members who opted in was July 1, 2014. If eligible

## Virginia Peninsula Regional Jail Authority

### Notes to the Financial Statements June 30, 2016

#### 6) Pension Plans, Continued

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 VRS Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 1 or ORP.

##### ***Retirement Contributions***

Members contribute up to 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some school divisions and political subdivisions elected to phase in the required 5% member contribution; all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment. Beginning July 1, 2012, the Authority opted for employees to pay the entire 5% member contribution.

##### ***Creditable Service***

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

##### ***Vesting***

Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.

##### ***Calculating the Benefit***

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

##### ***Average Final Compensation***

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

##### ***Service Retirement Multiplier***

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

##### ***Normal Retirement Age***

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

##### ***Earliest Unreduced Retirement Eligibility***

Members who are not in hazardous duty positions are eligible for an unreduced retirement benefit at age 65 with at least five years (60 months) of creditable service or at age 55 with at least 30 years of creditable service. Members who are in hazardous duty positions are eligible for an unreduced retirement benefit at age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.

## Virginia Peninsula Regional Jail Authority

### Notes to the Financial Statements June 30, 2016

#### 6) Pension Plans, Continued

##### ***Earliest Reduced Retirement Eligibility***

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

##### ***Cost-of-Living Adjustment (COLA) in Retirement***

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

##### ***Eligibility***

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

##### ***Exceptions to COLA Effective Dates***

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

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

##### ***Disability Coverage***

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

##### ***Purchase of Prior Service***

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

#### **VRS PLAN 2**

##### ***About VRS Plan 2***

VRS Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for VRS Plan 2 if their membership date is on or after July 1, 2010 and before January 1, 2014, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

##### ***Eligible Members***

Employees are in VRS 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.

## Virginia Peninsula Regional Jail Authority

### Notes to the Financial Statements June 30, 2016

#### 6) Pension Plans, Continued

##### ***Hybrid Opt-In Election***

VRS 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 VRS 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 VRS Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as VRS Plan 2 or ORP.

##### ***Retirement Contributions***

Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.

##### ***Creditable Service***

Same as VRS Plan 1.

##### ***Vesting***

Same as VRS Plan 1.

##### ***Calculating the Benefit***

See definition under VRS Plan 1.

##### ***Average Final Compensation***

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

##### ***Service Retirement Multiplier***

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

##### ***Normal Retirement Age***

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

##### ***Earliest Unreduced Retirement Eligibility***

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

##### ***Earliest Reduced Retirement Eligibility***

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

##### ***Cost-of-Living Adjustment (COLA) in Retirement***

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

##### ***Eligibility***

Same as VRS Plan 1.

##### ***Exceptions to COLA Effective Dates***

Same as VRS Plan 1.

## Virginia Peninsula Regional Jail Authority

### Notes to the Financial Statements

June 30, 2016

#### 6) Pension Plans, Continued

##### ***Disability Coverage***

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

##### ***Purchase of Prior Service***

Same as VRS Plan 1.

<b>Hybrid Retirement Plan</b>
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##### ***About the Hybrid Retirement Plan***

The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as VRS Plan 1 and VRS Plan 2 members who were eligible and opted into the plan during a special election window. (See "Eligible Members") The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

##### ***Eligible Members***

Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes members in VRS Plan 1 or VRS Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014. Some employees are not eligible to participate in the Hybrid Retirement Plan. They include members of the State Police Officers' Retirement System (SPORS), the Virginia Law Officers' Retirement System (VaLORS), or 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 VRS Plan 1 or VRS Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select VRS Plan 1 or VRS Plan 2 (as applicable) or ORP.

##### ***Retirement Contributions***

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

##### ***Creditable Service***

###### **Defined Benefit Component:**

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

###### **Defined Contributions Component:**

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



## Virginia Peninsula Regional Jail Authority

### Notes to the Financial Statements

June 30, 2016

#### 6) Pension Plans, Continued

##### ***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. VRS Plan 1 or VRS Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

##### **Defined Contributions Component:**

Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make.

Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. After two years, a member is 50% vested and may withdraw 50% of employer contributions. After three years, a member is 75% vested and may withdraw 75% of employer contributions. After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.

##### ***Calculating the Benefit***

##### **Defined Benefit Component:**

See definition under VRS 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***

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

##### ***Service Retirement Multiplier***

##### **Defined Benefit Component:**

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

##### **Defined Contribution Component:**

Not applicable.

##### ***Normal Retirement Age***

##### **Defined Benefit Component:**

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

##### **Defined Contribution Component:**

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

##### ***Earliest Unreduced Retirement Eligibility***

##### **Defined Benefit Component:**

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

##### **Defined Contribution Component:**

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

## Virginia Peninsula Regional Jail Authority

Notes to the Financial Statements  
June 30, 2016

### 6) Pension Plans, Continued

#### ***Earliest Reduced Retirement Eligibility***

##### **Defined Benefit Component:**

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

##### **Defined Contribution Component:**

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

#### ***Cost-of-Living Adjustment (COLA) in Retirement***

##### **Defined Benefit Component:**

Same as VRS Plan 2.

##### **Defined Contribution Component:**

Not applicable.

##### **Eligibility:**

Same as VRS Plan 1 and VRS Plan 2.

##### **Exceptions to COLA Effective Dates:**

Same as VRS Plan 1 and VRS Plan 2.

#### ***Disability Coverage***

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

#### ***Purchase of Prior Service***

##### **Defined Benefit Component:**

Same as VRS Plan 1 with the following exceptions:

- Hybrid retirement plan members are ineligible for ported service
- The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation
- Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one year period, the rate for most categories of service will change to actuarial cost.

##### **Defined Contribution Component:**

Not applicable.

## Virginia Peninsula Regional Jail Authority

### Notes to the Financial Statements June 30, 2016

#### 6) Pension Plans, Continued

##### Employees Covered by Benefit Terms

As of the June 30, 2014 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	47
Inactive members:	
Vested	11
Non-vested	114
Active elsewhere in VRS	<u>63</u>
Total inactive members	188
Active members	<u>120</u>
Total covered members	<u>355</u>

##### Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly.

Employees are required to contribute 5% of their compensation toward their retirement. Prior to July 1, 2012, all of the 5% member contribution was paid by the Authority on behalf of its employees. Beginning July 1, 2012, new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The Authority's contractually required contribution rate for the year ended June 30, 2016, was 11.24% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contribution to the pension plan from the Authority was \$554,441 and \$516,982 for the years ended June 30, 2016 and June 30, 2015, respectively.

##### Net Pension Liability

The Authority's net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

##### Actuarial Assumptions – General Employees

The total pension liability for General employees in the Authority's retirement plan was based on an actuarial valuation as of June 30, 2014, 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, 2015.

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

## Virginia Peninsula Regional Jail Authority

### Notes to the Financial Statements June 30, 2016

#### 6) Pension Plans, Continued

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

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

##### Largest 10 – Non-LEOS:

###### Pre-retirement:

RP-2000 employee mortality table projected with scale AA to 2020 with males set forward 4 years and females set back 2 years.

###### Post-retirement:

RP-2000 combined mortality table projected with scale AA to 2020 with males set forward 1 year.

###### Post-Disablement:

RP-2000 disabled life mortality table with males set back 3 years and no provision for future mortality improvement.

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

###### Pre-retirement:

RP-2000 employee mortality table projected with scale AA to 2020 with males set forward 4 years and females set back 2 years.

###### Post-retirement:

RP-2000 combined mortality table projected with scale AA to 2020 with males set forward 1 year.

###### Post-Disablement:

RP-2000 disabled life mortality table with males set back 3 years and no provision for future mortality improvement.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

##### Largest 10 –LEOS:

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

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

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

## Virginia Peninsula Regional Jail Authority

### Notes to the Financial Statements June 30, 2016

#### 6) Pension Plans, Continued

##### Actuarial Assumptions – Public Safety Employees

The total pension liability for Public Safety employees in the Authority's retirement plan was based on an actuarial valuation as of June 30, 2014, 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, 2015.

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

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

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

##### Largest 10 – LEOS:

###### Pre-retirement:

RP-2000 employee mortality table projected with scale AA to 2020 with males set back 2 years and females set back 2 years.

###### Post-retirement:

RP-2000 combined mortality table projected with scale AA to 2020 with males set forward 1 year.

###### Post-Disablement:

RP-2000 disabled life mortality table projected to 2020 with males set back 3 years and no provision for future mortality improvement.

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

###### Pre-retirement:

RP-2000 employee mortality table projected with scale AA to 2020 with males set back 2 years and females set back 2 years.

###### Post-retirement:

RP-2000 combined mortality table projected with scale AA to 2020 with males set forward 1 year.

###### Post-Disablement:

RP-2000 disabled life mortality table projected to 2020 with males set back 3 years and no provision for future mortality improvement.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

##### Largest 10 –LEOS:

- Update mortality table
- Decrease in male rates of disability

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

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

# Virginia Peninsula Regional Jail Authority

## Notes to the Financial Statements June 30, 2016

### 6) Pension Plans, Continued

#### Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
U.S. equity	19.50%	6.46%	1.26%
Developed non U.S. equity	16.50%	6.28%	1.04%
Emerging market equity	6.00%	10.00%	0.60%
Fixed income	15.00%	0.09%	0.01%
Emerging debt	3.00%	3.51%	0.11%
Rate sensitive credit	4.50%	3.51%	0.16%
Non rate sensitive credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public real estate	2.25%	6.12%	0.14%
Private real estate	12.75%	7.10%	0.91%
Private equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	100.00%		5.83%
		Inflation	2.50%
		*Expected arithmetic nominal return	8.33%

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

#### Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The discount rate determination does not use a municipal bond rate. The projection of cash flows used to determine the discount rate assumed that VRS member contributions will be made per the VRS statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the Authority for the retirement plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

# Virginia Peninsula Regional Jail Authority

## Notes to the Financial Statements June 30, 2016

### 6) Pension Plans, Continued

#### Changes in Net Pension Liability

		Increase (Decrease)	
	Total pension liability	Plan fiduciary net pension	Net pension liability (asset)
Balances at June 30, 2014	\$ 10,930,494	\$ 12,162,723	\$ (1,232,229)
Changes for the year:			
Service cost	755,721	-	755,721
Interest	751,781	-	751,781
Differences between expected and actual experience	183,103	-	183,103
Contributions - employer	-	516,601	(516,601)
Contributions - employee	-	236,366	(236,366)
Net investment income	-	569,404	(569,404)
Benefit payments, including refunds of employee contributions	(381,528)	(381,528)	-
Administrative expenses	-	(7,304)	7,304
Other changes	-	(121)	121
Net changes	1,309,077	933,418	375,659
Balances at June 30, 2015	\$ 12,239,571	\$ 13,096,141	\$ (856,570)

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

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

	1% Decrease (6%)	Current discount rate (7%)	1% Increase (8%)
Net pension liability (asset)	\$ 854,101	\$ (856,570)	\$ (2,266,366)

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

For the year ended June 30, 2016, the Authority recognized pension expense of \$354,591. At June 30, 2016, the Authority reported deferred outflows of resources and deferred inflows of resources to pensions from the following sources:

	Deferred outflows of resources	Deferred inflows of resources
Employer contributions subsequent to measurement date	\$ 554,441	\$ -
Differences between expected and actual experience	120,181	-
Net difference between projected and actual earnings on plan investments	-	309,335
Total	\$ 674,622	\$ 309,335

The \$554,441 reported as a deferred outflow of resources represents contributions subsequent to the measurement date and will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30	
2017	\$ (59,839)
2018	(65,502)
2019	(122,760)
2020	58,947
	<u>\$ (189,154)</u>

## Virginia Peninsula Regional Jail Authority

### Notes to the Financial Statements June 30, 2016

#### 7) Other Post-Employment Benefits (OPEB)

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

##### Funding Policy

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

##### Plan Description

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

##### Net OPEB Obligation

As of June 30, 2016, the net OPEB obligation was calculated as follows:

Annual required contribution	\$ 102,000
Amortization of net OPEB obligation	(13,000)
Interest on net OPEB obligation	11,000
Annual OPEB cost	100,000
Contributions made	(1,000)
Increase in net OPEB obligation	99,000
Net OPEB obligation, beginning of year	266,000
Net OPEB obligation, end of year	<u>\$ 365,000</u>

##### Annual OPEB Cost

Three-year trend information				
Year ended June 30,	Annual OPEB cost	Actual contribution	Percentage of annual OPEB cost contributed	Net OPEB obligation
2014	\$ 67,000	\$ 7,000	10.4%	\$ 202,000
2015	72,000	8,000	11.1%	266,000
2016	100,000	1,000	1.0%	365,000

##### Actuarial Methods and Assumptions

For the actuarial valuation at June 30, 2016, the projected unit credit actuarial cost method was used. Under this method, benefits provided by the substantive plan (the plan as understood by the Authority and the plan members) at the time of the actuarial study are projected and their present value is determined. The present value is divided into equal parts which are earned over the period from date of hire to the full eligibility date.



# Virginia Peninsula Regional Jail Authority

## Notes to the Financial Statements June 30, 2016

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

The actuarial assumptions included calculations based on a discount rate of 4% for the unfunded liability and amortization of the initial unfunded actuarial liability over 23 years based on a level percent of payroll method. The actuarial accrued liability was \$436,000. Future increases for medical benefits are assumed to range from an initial rate of 7.5% and decrease gradually with the ultimate rate being 5.04%. It should be noted actuarial calculations reflect a long-term perspective and therefore, actuarially determined amounts are subject to revision as results are compared to past expectations and new estimates are made about the future.

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

#### Schedule of Funding Progress

Actuarial Valuation Date July 1,	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) Projected Unit Credit	Unfunded Accrued Liability (UAAL)	Funding Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
2013	\$ -	\$ 343,000	\$ 343,000	0.0%	\$ -	0.0%
2014	-	402,000	402,000	0.0%	-	0.0%
2015	-	436,000	436,000	0.0%	-	0.0%

#### Schedule of Employer Contributions

Year Ended June 30,	Employer Contributions	Annual Required Contribution (ARC)	Funding Ratio
2013	\$ -	\$ 68,000	0.0%
2014	-	74,000	0.0%
2015	-	102,000	0.0%

### 8) Interfund Activity

The composition of interfund balances and transfers as of and for the year ended June 30, 2016 was as follows:

Fund	Due from Fund	Due to Fund
General	\$ 1,348	\$ 394,924
Debt service	394,924	-
Nonmajor governmental	-	1,348
Total	\$ 396,272	\$ 396,272
Fund	Transfer In Fund	Transfer Out Fund
General	\$ 92,102	\$ 1,856,413
Debt service	1,856,413	-
Nonmajor governmental	-	92,102
Total	\$ 1,948,515	\$ 1,948,515

The general fund was owed \$1,074 from the work release fund for software and training costs and \$274 from the canteen fund for inmate betterment supplies. The debt service fund was owed \$394,924 from the general fund to be used for the repayment of debt.

## **Virginia Peninsula Regional Jail Authority**

### **Notes to the Financial Statements**

June 30, 2016

#### **8) Interfund Activity, Continued**

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

#### **9) Energy Performance Contract**

On December 20, 2012, the Authority entered into an Energy Performance Contract with Siemens Industry, Inc. (Siemens) to provide and install energy improvements. These improvements include installing energy efficient lighting, upgraded controls, hot water boiler, laundry machines and ozone treatment, kitchen recycler, and ice machine.

Siemens issued an Energy Savings Guarantee, based on energy and operational savings, using a savings calculation formula. If, at the end of any of the 15 years included in the guarantee, the savings do not equal the savings calculation formula, Siemens will pay the Authority the difference between actual energy and operational savings and the guaranteed amount (savings calculation formula). Siemens is required to remit any payment to the Authority within 45 days of a written notice. If the actual savings exceeds the guaranteed amount, those monies are used as a credit to offset any future amount due. Annually, Siemens will issue a report within 45 days of the original project end date, which was February 15. The report will disclose the prior year's utility usage compared to the same data prior to the project. A report was not issued for 2016, and the parties agreed that no monies were due by either party.

#### **10) Transactions with Related Parties**

Certain financial management and accounting services are provided to the Authority by the County. The charges for these services totaled \$113,806 for the year ended June 30, 2016. The Authority has a receivable balance from the County for \$296,712 at June 30, 2016, as a result of services rendered by the Authority.

\* \* \* \* \*

## **Required Supplementary Information**

**Virginia Peninsula Regional Jail Authority**

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

General Fund

Year Ended June 30, 2016

	<b>Original Budget</b>	<b>Revised Budget</b>	<b>Actual</b>	<b>Variance with Final Budget Positive (Negative)</b>
<b>Revenues</b>				
Commonwealth of Virginia	\$ 4,685,994	\$ 4,676,329	\$ 4,695,429	\$ 19,100
Local governments:				
York County	2,581,609	2,593,218	2,509,712	(83,506)
James City County	2,477,037	2,647,243	2,562,001	(85,242)
City of Williamsburg	1,176,429	1,195,311	1,156,822	(38,489)
City of Poquoson	300,643	317,399	291,557	(25,842)
Federal government	1,404,793	1,051,717	1,089,222	37,505
Investment income, net	-	-	6	6
Telephone commissions	279,090	276,226	263,491	(12,735)
Miscellaneous	362,206	467,142	462,524	(4,618)
Rent income	25,030	4,412	4,412	-
Total revenues	<u>13,292,831</u>	<u>13,228,997</u>	<u>13,035,176</u>	<u>(193,821)</u>
<b>Expenditures</b>				
Salaries and benefits	7,861,892	7,730,846	7,706,166	24,680
Contractual services	961,665	1,238,464	1,330,154	(91,690)
Food and food supplies	730,712	517,467	530,172	(12,705)
Utilities	441,305	430,571	429,690	881
Medical supplies	425,804	481,938	490,640	(8,702)
Other supplies	162,000	201,605	194,899	6,706
Building maintenance	229,489	220,144	227,207	(7,063)
Fiscal agent fee	113,806	113,806	113,806	-
Inmate programs	83,020	83,020	83,020	-
Staff development	72,000	64,000	65,510	(1,510)
Furniture and equipment	206,000	175,000	172,388	2,612
Staff clothing	25,000	31,000	31,203	(203)
Transportation	45,000	42,202	45,640	(3,438)
Insurance	31,725	30,098	30,098	-
Inmate clothing	39,000	20,000	18,056	1,944
Vehicles	64,000	76,438	65,013	11,425
Advertising	2,000	2,000	567	1,433
Total expenditures	<u>11,494,418</u>	<u>11,458,599</u>	<u>11,534,229</u>	<u>(75,630)</u>
<b>Other financing sources (uses)</b>				
Transfers in	58,000	86,015	92,102	6,087
Transfers out	(1,856,413)	(1,856,413)	(1,856,413)	-
Total other financing uses	<u>(1,798,413)</u>	<u>(1,770,398)</u>	<u>(1,764,311)</u>	<u>6,087</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (263,364)</u>	<u>\$ (263,364)</u>
<b>Fund balance, beginning of year</b>			<u>1,893,868</u>	
<b>Fund balances, end of year</b>			<u>\$ 1,630,504</u>	

*See independent auditors' report.*

**Virginia Peninsula Regional Jail Authority**  
Schedule of Changes in the Net Position Asset and Related Ratios  
Year Ended June 30, 2016

	<u>2014</u>	<u>2015</u>
<b>Total pension liability</b>		
Service Cost	\$ 696,818	\$ 755,721
Interest	685,356	751,781
Changes of benefit terms	-	-
Differences between expected and actual experience	-	183,103
Changes in assumptions	-	-
Benefit payments, including refunds of employee contributions	(484,966)	(381,528)
Net change in total pension liability	897,208	1,309,077
Total pension liability, beginning	10,033,286	10,930,494
<b>Total pension liability, ending</b>	<u><u>\$ 10,930,494</u></u>	<u><u>\$ 12,239,571</u></u>
<b>Plan fiduciary net position</b>		
Contributions - employer	628,274	516,601
Contributions - employee	223,741	236,366
Net investment income	1,633,051	569,404
Benefit payments, including refunds of employee contributions	(484,966)	(381,528)
Administrative expense	(8,404)	(7,304)
Other	86	(121)
Net change in plan fiduciary net position	1,991,782	933,418
Plan fiduciary net position, beginning	10,170,941	12,162,723
<b>Plan fiduciary net position, ending</b>	<u><u>\$ 12,162,723</u></u>	<u><u>\$ 13,096,141</u></u>
<b>Net pension asset</b>	<u><u>\$ (1,232,229)</u></u>	<u><u>\$ (856,570)</u></u>
Plan fiduciary net position as a percentage of the total pension asset	111.27%	107.00%
Covered-employee payroll	\$ 4,487,387	\$ 4,599,484
Net pension asset as a percentage of the total covered-employee payroll	(27.46)%	(18.62)%

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

*See independent auditors' report.*

**Virginia Peninsula Regional Jail Authority**  
Schedule of Employer Contributions  
Last 2 Fiscal Years (1)

<b>Fiscal year</b>	<b>Contractually required contribution</b>	<b>Contributions in relation to contractually required contribution</b>	<b>Contribution excess (deficiency)</b>	<b>Employer's covered employee payroll</b>	<b>Contributions as a % of covered employee payroll</b>
2015	\$ 516,589	\$ 516,982	\$ 393	\$ 4,599,484	11.24%
2016	554,438	554,441	3	4,932,752	11.24%

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

*See independent auditors' report.*

# Virginia Peninsula Regional Jail Authority

## Note to Required Supplemental Information

Year ended June 30, 2016

### 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 was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2015 are not material.

#### Changes of assumptions

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

##### Largest 10 – Non-LEOS:

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

##### Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

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

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

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

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

\* \* \* \* \*

## **Supplementary Information**



**Virginia Peninsula Regional Jail Authority**  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2016

	<u>Work Release Fund</u>	<u>Canteen Fund</u>	<u>Total</u>
<b>Assets</b>			
Accounts receivable	\$ 6,218	\$ 11,376	\$ 17,594
Prepaid expenditures	-	363	363
Total assets	<u>\$ 6,218</u>	<u>\$ 11,739</u>	<u>\$ 17,957</u>
<b>Liabilities</b>			
Accounts payable	\$ 825	\$ 3,673	\$ 4,498
Due to other funds	1,074	274	1,348
Amounts held for others	-	32,108	32,108
Total liabilities	<u>1,899</u>	<u>36,055</u>	<u>37,954</u>
<b>Fund balance (deficit), unassigned</b>	<u>4,319</u>	<u>(24,316)</u>	<u>(19,997)</u>
Total liabilities and fund balance	<u>\$ 6,218</u>	<u>\$ 11,739</u>	<u>\$ 17,957</u>

*See independent auditors' report.*

**Virginia Peninsula Regional Jail Authority**  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance (Deficit)  
Nonmajor Governmental Funds  
Year Ended June 30, 2016

	<u>Work Release Fund</u>	<u>Canteen Fund</u>	<u>Total</u>
<b>Revenues</b>			
Work release fees	\$ 74,409	\$ -	\$ 74,409
Canteen sales	-	132,682	132,682
Total revenues	<u>74,409</u>	<u>132,682</u>	<u>207,091</u>
<b>Expenditures</b>			
Food and food supplies	220	-	220
Staff development	118	-	118
Other supplies	11,438	-	11,438
Indigent expenses	-	17,643	17,643
Inmate programs	-	86,075	86,075
Total expenditures	<u>11,776</u>	<u>103,718</u>	<u>115,494</u>
Excess of revenue over expenditures	62,633	28,964	91,597
<b>Other financing uses</b>			
Transfers out	<u>(59,794)</u>	<u>(32,308)</u>	<u>(92,102)</u>
Net change in fund balance	2,839	(3,344)	(505)
<b>Fund balance (deficit), beginning of year</b>	<u>1,480</u>	<u>(20,972)</u>	<u>(19,492)</u>
<b>Fund balance (deficit), end of year</b>	<u><u>\$ 4,319</u></u>	<u><u>\$ (24,316)</u></u>	<u><u>\$ (19,997)</u></u>

*See independent auditors' report.*

**Statistical Section (Unaudited)**

**Virginia Peninsula Regional Jail Authority**  
**Federal Revenue**  
**Last 8 Fiscal Years (1)**

**Table 1**

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

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

**Virginia Peninsula Regional Jail Authority**  
**State Revenue**  
**Last 8 Fiscal Years (1)**

**Table 2**

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

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

**Virginia Peninsula Regional Jail Authority**  
State Per Diems  
Last 8 Fiscal Years (1)

**Table 3**

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

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

**Virginia Peninsula Regional Jail Authority**  
**Medical Costs**  
**Last 8 Fiscal Years (1)**

**Table 4**

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

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

**Virginia Peninsula Regional Jail Authority**  
Food Supplies  
Last 8 Fiscal Years (1)

**Table 5**

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

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



## **Compliance Section**

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

Board of Directors  
Virginia Peninsula Regional Jail Authority  
Williamsburg, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Virginia Peninsula Regional Jail Authority as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Virginia Peninsula Regional Jail Authority's basic financial statements, and have issued our report thereon dated November 29, 2016.

### ***Internal Control over Financial Reporting***

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

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

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

***Compliance and Other Matters***

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

***Purpose of this Report***

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

*Dixon Hughes Goodman LLP*

**Newport News, Virginia  
November 29, 2016**

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

Board of Directors  
Virginia Peninsula Regional Jail Authority  
Williamsburg, Virginia

We have audited the financial statements of the Virginia Peninsula Regional Jail Authority, as of and for the year ended June 30, 2016, and have issued our report thereon dated November 29, 2016.

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

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

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

### Code of Virginia

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

The results of our tests disclosed one instance of noncompliance with the provisions referred to in the preceding paragraph. This instance is discussed in the Schedule of Findings and Responses as Finding 16-1. With respect to items not tested, nothing came to our attention that caused us to believe that the Virginia Peninsula Regional Jail Authority had not complied, in all material respects, with those provisions.

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

*Dixon Hughes Goodman LLP*

**Newport News, Virginia  
November 29, 2016**

## Virginia Peninsula Regional Jail Authority

### Schedule of Findings and Responses Year ended June 30, 2016

#### 1) Summary of Auditors' Results

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

#### 2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*: **none noted**

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

##### Finding 16-1

**Condition:** Board members are not filing the disclosure statement as required by the Virginia Code.

**Criteria:** The State and Local Government Conflict of Interests Act contained in Chapter 31 of Title 2.2 of the Code of Virginia requires certain local government officials to file a disclosure statement of their personal interests with the clerk of the governing body by December 15 of each year, unless the governing body of the jurisdiction that appoints the members requires that the members file the Statement of Economic Interests.

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

**Cause:** Unknown

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

**Management's response:** Management will ensure compliance going forward.

#### 4) Results of Prior Year Findings

There were no prior year findings.