# ALBEMARLE—CHARLOTTESVILLE EMERGENCY COMMUNICATIONS CENTER FINANCIAL REPORT YEAR ENDED JUNE 30, 2016

# ALBEMARLE—CHARLOTTESVILLE

# **EMERGENCY COMMUNICATIONS CENTER**

# FINANCIAL REPORT

# YEAR ENDED JUNE 30, 2016

# **Table of Contents**

	Page
Independent Auditors' Report	1-3
Basic Financial Statements:	
Statement of Net Position	4
Statement of Revenues, Expenses and Changes in Net Position	5
Statement of Cash Flows	6
Notes to Financial Statements	7-30
Required Supplementary Information:	
Schedule of Center's Proportionate Share of the Net Pension Liability	31
Schedule of Employer Contributions	32
Notes to Required Supplementary Information	33
Schedule of Other Postemployment Benefits Funding	34
Other Supplementary Information:	
Schedule of Revenues and Expenditures - Budgetary Basis	35-36
Reconciliation of the Schedule of Revenues and Expenditures - Budgetary Basis to the Statement of Revenues, Expenses and Changes in Net Position	37
Compliance:	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	38-39

# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

#### INDEPENDENT AUDITORS' REPORT

TO THE HONORABLE MEMBERS OF THE BOARD OF SUPERVISORS COUNTY OF ALBEMARLE, VIRGINIA AS FISCAL AGENT FOR ALBEMARLE-CHARLOTTESVILLE EMERGENCY COMMUNICATIONS CENTER CHARLOTTESVILLE, VIRGINIA

# Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Albemarle-Charlottesville Emergency Communications Center, as of and for the year ended June 30, 2016, and the related notes to the financial statements which collectively comprise the Center's basic financial statements as listed in the table of contents.

# Management's Responsibility for the Financial Statements

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

# Auditors' Responsibility

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

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

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

# Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Albemarle-Charlottesville Emergency Communications Center, as of June 30, 2016, and the changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

# Change in Accounting Principle

As described in Note 1 to the financial statements, in 2016, the Center adopted new accounting guidance, GASB Statement No. 82 Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73. Our opinion is not modified with respect to this matter.

#### Other Matters

# Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the schedules related to pension and OPEB funding on pages 31-33 and 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

#### Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Albemarle-Charlottesville Emergency Communications Center's basic financial statements. The other supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

# Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2016, on our consideration of Albemarle-Charlottesville Emergency Communications Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Albemarle-Charlottesville Emergency Communications Center's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates Charlottesville, Virginia November 10, 2016



# Statement of Net Position As of June 30, 2016

713 01 34110 307 2010		
Assets: Current assets:		
Cash and cash equivalents Accounts receivable	\$	1,686,435 12,686
Due from other governments		1,404,103
Total current assets	\$	3,103,224
Capital assets:		
Land and construction in progress  Other capital assets, net of accumulated depreciation	\$ 	3,505,134 1,711,731
Total capital assets, net	\$	5,216,865
Total assets	\$	8,320,089
Deferred Outflows of Resources:		
Pension contributions subesequent to measurement date Difference between actual and expected experience	\$	281,167 4,220
Total deferred outflows of resources	\$	285,387
Total assets and deferred outflows of resources	\$	8,605,476
Liabilities: Current liabilities: Accounts payable	\$	264,397
Compensation payable Current portion of compensated absences	Ψ	24,457 19,724
Total current liabilities	\$	308,578
Noncurrent liabilities:		
Noncurrent portion of compensated absences Net pension liability Net OPEB obligation	\$	177,514 1,759,698 414,000
Total noncurrent liabilities	\$	2,351,212
Total liabilities	\$	2,659,790
Deferred Inflows of Resources:		
Differences in proportionate share of net pension liabilities  Differences between actual and expected returns	\$ 	61,634 203,606
Total deferred inflows of resources	\$	265,240
Net Position: Investment in capital assets Unrestricted	\$	5,216,865 463,581
Total net position	\$	5,680,446
Total liabilities, deferred inflows of resources and net position	\$	8,605,476

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

# Statement of Revenues, Expenses and Changes in Net Position Year Ended June 30, 2016

Operating revenues:		
Intergovernmental:		
Charges for services:		
City of Charlottesville	\$	1,808,286
County of Albemarle		2,353,264
University of Virginia		695,458
Charlottesville-Albemarle Airport Authority		19,108
Albemarle-Charlottesville Regional Jail		50,076
Rivanna Water and Sewer Authority		19,767
Other	. <del>-</del>	17,451
Total charges for services	\$	4,963,410
Miscellaneous	_	1,349
Total operating revenues	\$	4,964,759
Operating expenses:		
Personnel	\$	2,613,166
Payroll taxes and fringe benefits		814,438
Contractual services		1,498,481
Other charges		773,215
Depreciation	_	338,568
Total operating expenses	\$_	6,037,868
Operating loss	\$_	(1,073,109)
Nonoperating revenues:		
Revenue from the use of money and property	\$	11,836
Commonwealth of Virginia		580,560
Federal government	_	15,619
Total nonoperating revenues	\$_	608,015
Loss before contributions	\$_	(465,094)
Capital contributions:		
City of Charlottesville	\$	929,498
County of Albemarle		1,043,845
University of Virginia	_	342,312
Total capital contributions	\$_	2,315,655
Change in net position	\$	1,850,561
Net position, beginning of year	_	3,829,885
Net position, end of year	\$ <u></u>	5,680,446

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

# Statement of Cash Flows Year Ended June 30, 2016

Cash flows from operating activities: Operating receipts Payments to and for employees Payments to suppliers and others	\$	4,981,428 (3,542,436) (2,061,138)
Net cash (used for) operating activities	\$_	(622,146)
Cash flows from investing activities: Investment income Rental income	\$	7,740 4,096
Net cash provided by investing activities	\$	11,836
Cash flows from noncapital financing activities: Receipts from federal and state grants	\$	645,862
Cash flows from capital financing activities: Purchases of capital assets Capital contributions	\$	(2,296,531) 911,552
Net cash (used for) capital and related financing activities	\$	(1,384,979)
Net change in cash and cash equivalents	\$	(1,349,427)
Cash and cash equivalents, beginning of year		3,035,862
Cash and cash equivalents, end of year	\$	1,686,435
Reconciliation of operating loss to net cash (used for) operating activities:		
Operating loss	\$	(1,073,109)
Adjustments to reconcile operating loss to net cash (used for) operating activities: Depreciation Changes in assets, liabilities, and deferred inflows/outflows of resources: Accounts receivable Due from other governments		338,568 16,669
Accounts payable Compensation payable		210,558 (1,506)
Deferred outflows of resources		3,310
Deferred inflows of resources  Net pension liability		(190,961) 65,830
Compensated absenses		(15,505)
Net OPEB obligation	_	24,000
Net cash (used for) operating activities	\$	(622,146)

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

Notes to Financial Statements As of June 30, 2016

#### NOTE 1—NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

# A. Nature of Operations:

Albemarle-Charlottesville Emergency Communications Center, formed January 20, 1984, provides emergency dispatch services to the citizens in the area. The County of Albemarle serves as the fiscal agent and provides all accounting for the Center.

# B. Financial Reporting Entity:

Albemarle-Charlottesville Emergency Communications Center has determined that it is a related organization to the County of Albemarle and City of Charlottesville in accordance with Governmental Accounting Standards Board (GASB) Statement 14 and as amended by GASB No. 39. The Center is considered an intergovernmental (joint) venture and therefore its operations are not included in the County's financial statements. The County of Albemarle, City of Charlottesville, and the University of Virginia provide the financial support for the Center. The Center is controlled by a ten member board composed primarily of representatives from the County of Albemarle, the City of Charlottesville, and the University of Virginia. No one entity contributes more than 50% of the Center's funding or has oversight responsibility over its operations.

# C. Basis of Accounting:

The Center operates as an enterprise fund and its accounts are maintained on the accrual basis of accounting. Under this method, revenues are recognized when earned, and expenses are recorded as liabilities when incurred, without regard to receipt or payment of cash.

Operating revenues and expenses are distinguished from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the principal ongoing operations. The principal operating revenues are charges for services. Operating expenses include the cost of providing services and comprise administrative and depreciation expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

## D. Cash and Cash Equivalents:

The Center's cash and cash equivalents is part of the pooled cash and investments of the County of Albemarle. All cash on hand, in banks, and certificates of deposit and investments with original maturities of three months or less from the date of acquisition are considered cash and cash equivalents.

# E. Capital Assets:

Capital assets consist of property, equipment, and leasehold improvements and are valued at historical cost or estimated historical cost if actual historical cost is not available. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Donated fixed assets are valued at their acquisition value on the date donated. Depreciation is provided on the straight-line method over the estimated useful lives as follows:

Leasehold improvements20 yearsVehicles5 yearsCommunications equipment5 years

Depreciation expense amounted to \$338,568 for 2016.

Notes to Financial Statements As of June 30, 2016 (Continued)

# NOTE 1—NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

#### F. Construction in Progress:

Construction in progress represents expended funds for engineering, furnishing, installation, and construction of an Entity Wide Mobile Data System. At the completion of the project, amounts will be transferred to capital assets. Administrative, overhead and other costs that do not increase the value of the property are expensed as incurred.

# G. Use of Estimates:

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosures of contingencies at the date of the financial statements, and revenues and expenses recognized during the reporting period. Actual results could differ from those estimates.

# H. Net Position:

Net position is the difference between 1) assets and deferred outflows of resources and 2) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation less any outstanding debt related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

# I. Net Position Flow Assumption:

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

## J. Compensated Absences:

The Center accrues compensated absences (annual and sick leave benefits) when vested. The current and noncurrent portions of the compensated absences liabilities are recorded as accrued liabilities.

## K. Deferred Outflows/Inflows of Resources:

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

Notes to Financial Statements As of June 30, 2016 (Continued)

# NOTE 1—NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

# K. Deferred Outflows/Inflows of Resources: (Continued)

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

# L. Pensions:

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

# M. Adoption of Accounting Principles:

Governmental Accounting Standards Board Statement No. 82, Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73

The Center early implemented provisions of the above Statement during the fiscal year ended June 30, 2016. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. No restatement was required as a result of this implementation.

# N. Upcoming Pronouncements:

Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces Statements No. 43, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple Employer Plans. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans, as amended, Statement 43, and Statement No. 50, Pension Disclosures. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016.

Notes to Financial Statements As of June 30, 2016 (Continued)

# NOTE 1—NATURE OF ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

# N. <u>Upcoming Pronouncements: (Continued)</u>

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

Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans, addresses a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015.

Management is currently evaluating the impact these standards will have on the financial statements when adopted.

#### NOTE 2—DEPOSITS AND INVESTMENTS:

The Center's cash and cash equivalents are a part of the pooled cash and investments of the County of Albemarle, the Center's fiscal agent. The components of the Center's cash and equivalents as to bank and investment balances are not identifiable. The portion of the County's cash and investments which are applicable to the Center consist of deposits covered by FDIC insurance, the Virginia Security for Public Deposits Act, or are a part of the County's investments in the Virginia Local Government Investment Pool. The State Treasury Board is responsible for monitoring compliance with the collateralization and reporting requirements of the Act and for notifying local governments of compliance by banks and savings and loans. Of the bank balances, no amounts were uninsured and uncollateralized in banks and savings and loans not qualifying under the Act at June 30, 2016.

# NOTE 3-DUE FROM OTHER GOVERNMENTS:

Receivables and amounts due from other governments are as follows:

Due from other governmental units:

County of Albemarle	\$	619,468
City of Charlottesville		566,067
University of Virginia	_	218,568
Total due from other governmental units	\$	1,404,103

Notes to Financial Statements As of June 30, 2016 (Continued)

## **NOTE 4—CAPITAL ASSETS:**

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

		Balance July 1, 2015	Increases	Decreases		Balance June 30, 2016
Capital assets not being depreciated:	-				•	
Land	\$	90,027 \$	- \$	-	\$	90,027
Construction in progress*	_	1,140,653	2,296,531	22,077		3,415,107
Total capital assets not being depreciated	\$	1,230,680 \$	2,296,531 \$	22,077	\$	3,505,134
Other capital assets:						
Buildings	\$	282,281 \$	- \$	-	\$	282,281
Leasehold improvements		159,138	-	-		159,138
Vehicles		49,391	-	-		49,391
Communications equipment		21,262,407	22,077			21,284,484
Total other capital assets	\$	21,753,217 \$	22,077 \$	-	\$	21,775,294
Accumulated depreciation:						
Buildings	\$	15,683 \$	- \$	-	\$	15,683
Leasehold improvements		159,138	18,819	-		177,957
Vehicles		49,390	-	-		49,390
Communications and other equipment	_	19,500,784	319,749			19,820,533
Total accumulated depreciation	\$	19,724,995 \$	338,568 \$	-	\$	20,063,563
Other capital assets, net	\$	2,028,222 \$	(316,491) \$	-	\$	1,711,731
Net capital assets	\$	3,258,902 \$	1,980,040 \$	22,077	\$	5,216,865

<sup>\*</sup>Construction in progress relates primarily to engineering, furnishing and installation of a mobile data computer system.

# NOTE 5—LONG-TERM OBLIGATIONS:

The following is a summary of changes in long-term obligations transactions for fiscal year ending June 30, 2016:

	Balance at July 1, 2015	Increases	Decreases	Balance at June 30, 2016	Amounts Due Within One Year
Compensated absences Net pension liability Net OPEB obligation	\$ 212,743 1,693,868 390,000	\$ 8,548 875,099 56,000	\$ 24,053 809,269 32,000	\$ 197,238 1,759,698 414,000	\$ 19,724 - -
Total Long-Term Obligations	\$ 2,296,611	\$ 939,647	\$ 865,322	\$ 2,370,936	\$ 19,724

# NOTE 6—REVENUES:

Revenues consist primarily of operating appropriations from the City of Charlottesville, the County of Albemarle and the University of Virginia. The Center also receives operating and capital grants from state and federal sources.

Notes to Financial Statements As of June 30, 2016 (Continued)

#### NOTE 7—COMPENSATED ABSENCES:

In accordance with GASB Statement 16, "Accounting for Compensated Absences," the Center has accrued the liability arising from compensated absences. Center employees earn vacation and sick leave based upon length of service. The Center has outstanding accrued compensated absences totaling \$197,238.

# NOTE 8—PENSION PLAN:

# Plan Description

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

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

RETIREMENT PLAN PROVISIONS						
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN				
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members") • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.				

Notes to Financial Statements As of June 30, 2016 (Continued)

# NOTE 8-PENSION PLAN: (CONTINUED)

RETIREMENT PLAN PROVISIONS (CONTINUED)					
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN			
About Plan 1 (Cont.)	About Plan 2 (Cont.)	About the Hybrid Retirement Plan (Cont.)  • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions investment gains or losses, and any required fees.			
Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.  Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.  The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.  If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.	Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.  Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.  The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.  If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid	Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • Political subdivision employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-Apri 30, 2014; the plan's effective date for opt-in members was July 1, 2014.  *Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.			

Notes to Financial Statements As of June 30, 2016 (Continued)

# NOTE 8-PENSION PLAN: (CONTINUED)

PLAN 1	REMENT PLAN PROVISIONS (CONTIN PLAN 2	HYBRID RETIREMENT PLAN
I LAW I	r LAN Z	TITORIO RETIREMENTI FEAN
Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	*Non-Eligible Members (Cont.) Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service unde Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees 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.	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.	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.

Notes to Financial Statements As of June 30, 2016 (Continued)

# NOTE 8-PENSION PLAN: (CONTINUED)

RETIREMENT PLAN PROVISIONS (CONTINUED)						
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN				
Creditable Service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	Creditable Service Same as Plan 1.	Creditable Service  Defined Benefit Component: Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.  Defined Contributions Component: Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.				

Notes to Financial Statements As of June 30, 2016 (Continued)

# NOTE 8-PENSION PLAN: (CONTINUED)

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

Notes to Financial Statements As of June 30, 2016 (Continued)

# NOTE 8-PENSION PLAN: (CONTINUED)

RETIREMENT PLAN PROVISIONS (CONTINUED)					
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN			
Vesting (Cont.)	Vesting (Cont.)	Vesting (Cont.)  Defined Contributions Component: (Cont.) Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.  • After two years, a member is 50% vested and may withdraw 50% of employer contributions.  • After three years, a member is 75% vested and may withdraw 75% of employer contributions.  • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.  Distribution is not required by law until age 70½.			
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.	Calculating the Benefit See definition under Plan 1.	Calculating the Benefit  Defined Benefit Component: See definition under Plan 1.			

Notes to Financial Statements As of June 30, 2016 (Continued)

# NOTE 8-PENSION PLAN: (CONTINUED)

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

Notes to Financial Statements As of June 30, 2016 (Continued)

# NOTE 8-PENSION PLAN: (CONTINUED)

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

Notes to Financial Statements As of June 30, 2016 (Continued)

# NOTE 8-PENSION PLAN: (CONTINUED)

RETIREMENT PLAN PROVISIONS (CONTINUED)					
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN			
Earliest Reduced Retirement Eligibility (Cont.)	Earliest Reduced Retirement Eligibility (Cont.)	Earliest Reduced Retirement Eligibility (Cont.)			
Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.	Political subdivisions hazardous duty employees: Same as Plan 1.	Political subdivisions hazardous duty employees: Not applicable.  Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.			
Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.  Eligibility: For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.  For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.	Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.  Eligibility: Same as Plan 1.	Cost-of-Living Adjustment (COLA) in Retirement Defined Benefit Component: Same as Plan 2.  Defined Contribution Component: Not applicable.  Eligibility: Same as Plan 1 and Plan 2.			

Notes to Financial Statements As of June 30, 2016 (Continued)

# NOTE 8-PENSION PLAN: (CONTINUED)

RETIREMENT PLAN PROVISIONS (CONTINUED)						
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN				
Cost-of-Living Adjustment (COLA) in Retirement (Cont.)	Cost-of-Living Adjustment (COLA) in Retirement (Cont.)	Cost-of-Living Adjustment (COLA) in Retirement (Cont.)				
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             Transitional Benefits             Program.         • The member dies in service             and the member's survivor             or beneficiary is eligible for             a monthly death-in-service             benefit. The COLA will go             into effect on July 1             following one full calendar             year (January 1 to             December 31) from the date             the monthly benefit begins.	Exceptions to COLA Effective Dates: Same as Plan 1.	Exceptions to COLA Effective Dates: Same as Plan 1 and Plan 2.				

Notes to Financial Statements As of June 30, 2016 (Continued)

# NOTE 8-PENSION PLAN: (CONTINUED)

# Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)					
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN			
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.  VSDP members are subject to a	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.	Disability Coverage Employees of political subdivisions (including Plan 1 and Plan 2 optins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.			
one-year waiting period before becoming eligible for non-work-related disability benefits.	VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.			
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	Purchase of Prior Service Same as Plan 1.	Purchase of Prior Service  Defined Benefit Component: Same as Plan 1, with the following exceptions:  Hybrid Retirement Plan members are ineligible for ported service.  The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.  Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost.  Defined Contribution Component: Not applicable.			

The system issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the most recent report may be obtained from the VRS website at <a href="http://www.varetire.org/Pdf/Publications/2015-annual-report-pdf">http://www.varetire.org/Pdf/Publications/2015-annual-report-pdf</a>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Notes to Financial Statements As of June 30, 2016 (Continued)

# NOTE 8-PENSION PLAN: (CONTINUED)

#### **Contributions**

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

The Center's contractually required contribution rate for the year ended June 30, 2016 was 13.49% 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 employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Center were \$281,167 and \$288,697 for the years ended June 30, 2016 and June 30, 2015, respectively.

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

At June 30, 2016, the Center reported a liability of \$1,759,698 for its proportionate share of the net pension liability. The Center'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, 2013, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015. The Center's proportionate share of the same was calculated using retirement contributions as of June 30, 2015 and 2014 as a basis for allocation. At June 30, 2015 and 2014, the Center's proportion was 5.72% and 6.01%, respectively.

# Actuarial Assumptions - General Employees

The total pension liability for General Employees in the Center'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 2.5%

Salary increases, including inflation 3.5% - 5.35%

Investment rate of return 7.0%, net of pension plan investment

expense, including inflation\*

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

Notes to Financial Statements As of June 30, 2016 (Continued)

# NOTE 8-PENSION PLAN: (CONTINUED)

# Actuarial Assumptions - General Employees (Continued)

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

## Largest 10 - Non-LEOS:

#### Pre-Retirement:

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

#### Post-Retirement:

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

#### Post-Disablement:

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

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

#### Pre-Retirement:

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

#### Post-Retirement:

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

#### Post-Disablement:

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

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 - Non-LEOS:

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

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

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

Notes to Financial Statements As of June 30, 2016 (Continued)

# NOTE 8-PENSION PLAN: (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 in the following table:

	Toward	Arithmetic Long-Term	Weighted Average Long-Term
Asset Class (Strategy)	Target Allocation	Expected Rate of Return	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 arithme	tic nominal return	8.33%

<sup>\*</sup> 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%.

Notes to Financial Statements As of June 30, 2016 (Continued)

# NOTE 8-PENSION PLAN: (CONTINUED)

#### Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the County of Albemarle 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.

Sensitivity of the Center's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

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

	Rate				
	(6.00%)	(7.00%)	(8.00%)		
Center's proportionate share of Albemarle retirement					
Plan Net Pension Liability (Asset)	\$ 2,902,548 \$	1,666,942 \$	644,847		

Remainder of this page left blank intentionally

Notes to Financial Statements As of June 30, 2016 (Continued)

# NOTE 8-PENSION PLAN: (CONTINUED)

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

For the year ended June 30, 2016, the Center recognized pension expense of \$183,080. Since there was a change in proportionate share between measurement dates, a portion of the pension expense was related to deferred amounts from changes in proportion and from differences between employer contributions and the proportionate share of employer contributions.

At June 30, 2016, the Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	C	Deferred Outflows of Resources	Deferred Inflows of Resources	
Differences between expected and actual experience	\$	4,220 \$	-	
Net difference between projected and actual earnings on pension plan investments		-	203,606	
Differences in proportionate share of net pension liabilities		-	61,634	
Employer contributions subsequent to the measurement date		281,167		
Total	\$	285,387 \$	265,240	

\$281,167 reported as deferred outflows of resources related to pensions resulting from the Center's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

_	Year ended June 30	_	
		_	
	2017	\$	(68,709)
	2018		(68,709)
	2019		(68,709)
	2020		(59,111)
	Thereafter		-

#### NOTE 9-FISCAL AGENT:

The County of Albemarle serves as fiscal agent for the Center. As a part of the fiscal agent agreement the County provides treasury, accounting, purchasing and personnel services for the Center.

Notes to Financial Statements As of June 30, 2016 (Continued)

#### NOTE 10-OTHER POSTEMPLOYMENT BENEFITS-VERIP:

# A. Plan Description:

The Albemarle County Voluntary Early Retirement Incentive Program (VERIP) is a single-employer defined benefit plan. VERIP benefits are paid monthly for a period of five years or until age 65, whichever comes first. In addition to the monthly stipend, the County will pay an amount equivalent to the Board's annual contribution toward medical insurance. Participants may accept it as a cash payment, or apply it toward the cost of the continuation of their County medical/dental benefits.

To be eligible, employees must meet the age and service criteria for reduced VRS retirement and be a current employee at least 50 years of age and have been employed by the County in a benefits-eligible position for 10 of the last 13 years prior to retirement. The plan is administered by the County and does not have a separate financial report.

# B. Funding Policy:

The Albemarle County Government establishes employer medical contribution rates for all medical plan participants as part of the budgetary process each year. The County also determines how the plan will be funded each year, whether it will partially fund the plan or fully fund the plan. Retirees pay 100% of spousal premiums. Coverage ceases when retirees reach the age of 65. Surviving spouses are not allowed access to the plan.

# C. Annual OPEB Cost and Net OPEB Obligation:

The annual cost of other post employment benefits (OPEB) under GASB 45 is called the annual required contribution or ARC. The estimated pay-as-you-go cost for OPEB benefits is \$32,000 for the Emergency Communications Center for fiscal year 2016. The Emergency Communications Center has elected not to pre-fund OPEB liabilities. The Center is required to contribute the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The unfunded liability is amortized over a closed 25 year period as a level percentage of payroll.

For 2016, the Center's estimated contribution of \$32,000 was less than the annual OPEB cost. The Center's annual OPEB cost, the estimated contributions made, and the increase in net OPEB obligation are as follows:

\$ 59,000
14,000
 (17,000)
\$ 56,000
 32,000
\$ 24,000
 390,000
\$ 414,000
\$ \$

Notes to Financial Statements As of June 30, 2016 (Continued)

# NOTE 10—OTHER POSTEMPLOYMENT BENEFITS-VERIP: (CONTINUED)

# C. Annual OPEB Cost and Net OPEB Obligation: (Continued)

The Center's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 and the preceding two years are as follows:

Annual				Percentage of	Net
Fiscal Year		OPEB	Estimated	Annual OPEB	OPEB
Ended		Cost	Contribution	Cost Contributed	Obligation
June 30, 2014	\$	52,000	\$ 8,000	15%	\$ 390,000
June 30, 2015		55,000	9,000	16%	390,000
June 30, 2016		56,000	32,000	57%	414,000

# D. Funded Status and Funding Progress:

The funded status of the plan as of July 1, 2015, the most recent actuarial valuation, is as follows:

Actuarial accrued liability (AAL)	\$ 668,000
Actuarial value of plan assets	-
Unfunded actuarial accrued liability	668,000
Funded ratio (actuarial value of plan assets/AAL)	-
Covered payroll (active plan members)	2,392,369
UAAL as a percentage of covered payroll	28%

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

# E. Actuarial Methods and Assumptions:

#### Cost Method

The valuation uses the projected unit credit method, with linear pro-ration to assumed benefit commencement.

Coverage Status and Age of Spouse

Actual medical coverage status was used in the valuation. Females are assumed to be 3 years younger than male spouses. Employees with individual coverage are assumed to elect individual coverage at retirement while those with family / spouse coverage are assumed to continue family / spouse coverage at retirement. All of the active participants who are eligible to retire under the County's Voluntary Early Retirement Incentive Program (VERIP) will take the flat dollar subsidy, which for FY 16 was \$8,388. The VERIP Subsidy is assumed to increase at a flat rate of 3% per year. It is assumed that 50% of active employees currently enrolled in the health care plan will continue in the plan upon retiring from active service. Medical and prescription drugs are assumed to increase at rates ranging from 7.00% in FY 17 to 6.1% in FY 26.

Notes to Financial Statements As of June 30, 2016 (Continued)

# NOTE 10-OTHER POSTEMPLOYMENT BENEFITS-VERIP: (CONTINUED)

# E. Actuarial Methods and Assumptions: (Continued)

The assumptions and calculations are based on the past three years of premium rates at the time of the valuation and the sharing of costs between the employer and plan members.

	Percentage					
Discount rate	3.50%					
Payroll growth	4.00%					
Inflation rate	3.00%					
Investment return	4.00%					
VERIP increase	3.00%					

**Medical Trend Assumption** 

Based on the Society of Actuaries long-term medical trend model, as revised September 2012.

Trends for the next ten years are as follows:

	Fiscal		Fiscal	
_	Year Ended	Percentage	Year Ended	Percentage
	2017	6.00%	2022	6.20%
	2018	6.40%	2023	6.10%
	2019	6.40%	2024	6.10%
	2020	6.20%	2025	6.10%
	2021	6.20%	2026	6.10%

The following chart shows explicit costs, total medical costs, and drug costs between pre and post medicare as well as single and family coverage:

Total costs	Single	_	Family
<ol> <li>Explicit Costs</li> <li>Pre-medicare</li> <li>Medicare age</li> </ol>	\$ 9,762 -	\$	11,910 -
2. Total Medical Costs a. Under 50 b. Age 50-54 c. Age 55-59 d. Age 60-44 e. Over Age 65	\$ 5,691 6,775 7,818 9,277	\$	11,497 13,686 15,792 18,740
3. Total Drug Costs a. Under 50 b. Age 50-54 c. Age 55-59 d. Age 60-44 e. Over Age 65	\$ 1,549 1,974 2,338 2,672	\$	3,129 3,987 4,724 5,398

- Required Supplementary Information -	

# Schedule of Center's Proportionate Share of the Net Pension Liability Year Ended June 30, 2016

Date (1)	Proportion of the Net Pension Liability (NPL) (2)	Proportionate Share of the NPL (3)	nare of the NPL		Proportionate Share of the NPL as a Percentage of Covered Payroll (3)/(4) (5)	Pension Plan's Fiduciary Net Position as a Percentage of Total Pension Liability (6)				
2015	5.72% \$	1,759,698	\$	2,550,811	68.99%	81.12%				
2014	6.01%	1,693,868		2,350,779	72.06%	81.67%				

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

# Schedule of Employer Contributions Year Ended June 30, 2016

Date	Contractually Required Contribution (1)	Required	Contribution Deficiency (Excess) (3)	 Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2016 2015	\$ 281,16 288,69	•	-	\$ 2,550,811 2,350,779	11% 12%

Schedule is intended to show information for 10 years. Information prior to the 2015 valuation is not available. However, additional years will be included as they become available.

# Notes to Required Supplementary Information Year Ended June 30, 2016

In 2015, Covered Employee Payroll (as defined by GASB 68) included the total payroll for employees covered under the pension plan whether that payroll is subject to pension coverage or not. This definition was modified in GASB Statement No. 82 and now is the payroll on which contributions to a pension plan are based. The ratios presented use the same measure.

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 is 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

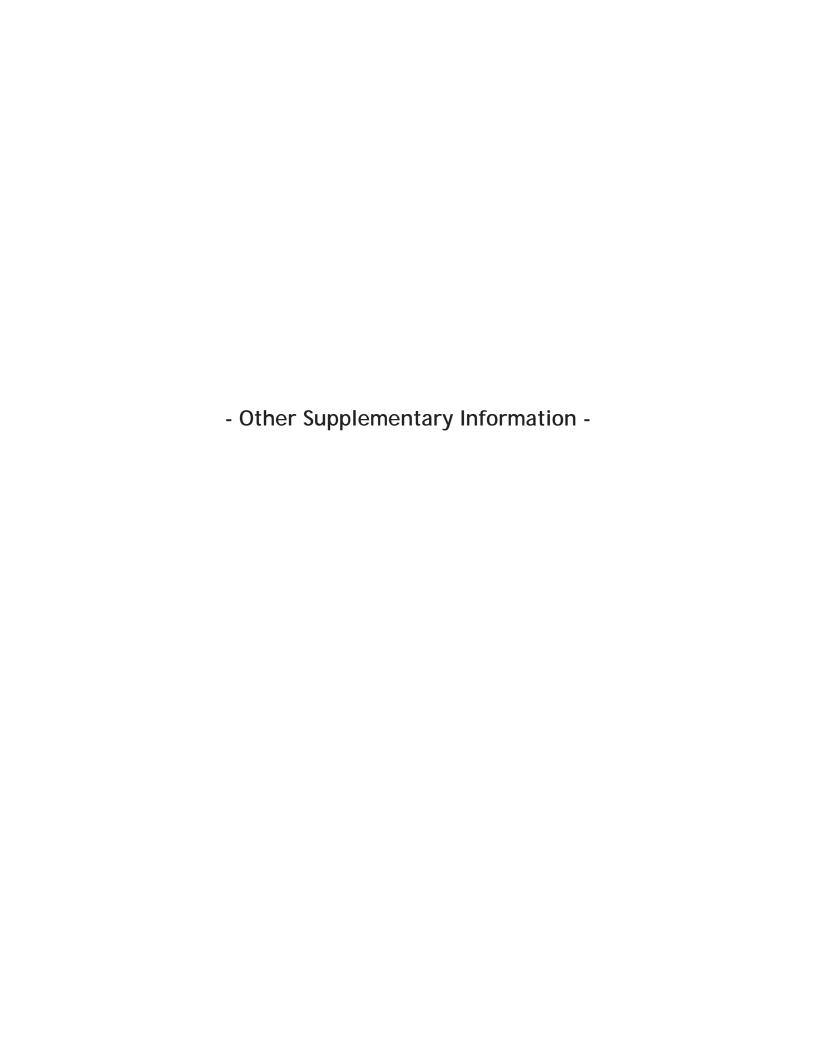
# All Others (Non 10 Largest) - LEOS:

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

# Schedule of Other Postemployment Benefits Funding Last Three Fiscal Years

# Other Postemployment Benefits:

					Į	Unfunded			
		Actuarial		Actuarial		Actuarial			UAAL
Actuarial		Value of		Accrued		Accrued			as a % of
Valuation		Assets		Liability		Liability	Funded	Covered	Covered
Date	_	(AVA)	_	(AAL)		(UAAL)	Ratio	Payroll	Payroll
		(a)	_	(b)		(b-a)	(a/b)	(c)	((b-a)/c)
June 30, 2013	\$	-	\$	494,000	\$	494,000	0.00% \$	2,392,369	20.65%
June 30, 2014		-		538,000		538,000	0.00%	2,392,369	22.49%
June 30, 2015		-		668,000		668,000	0.00%	2,392,369	27.92%



# Schedule of Revenues and Expenditures Budgetary Basis Year Ended June 30, 2016

	_	Original Budget		Amended Budget	_	Actual	_	Variance Positive (Negative)
Operating revenues:								
Intergovernmental:								
Charges for services:	ф	1 024 701	ф	1 004 701	ф	1 000 207	¢	(1/ 505)
City of Charlottesville	\$	1,824,791	<b>Þ</b>	1,824,791	<b>&gt;</b>	1,808,286	<b>Þ</b>	(16,505)
County of Albemarle		2,344,372		2,344,372		2,353,264		8,892
University of Virginia		690,288		690,288		695,458		5,170
Charlottesville-Albemarle Airport Authority		19,108		19,108		19,108		-
Albemarle Charlottesville Regional Jail		50,076		50,076		50,076		-
Rivanna Water and Sewer Authority		19,767		19,767		19,767		1 200
Other	_	16,143		16,143		17,451		1,308
Total charges for services	\$	4,964,545	\$	4,964,545	\$	4,963,410	\$	(1,135)
Miscellaneous	_	-		-		1,349	_	1,349
Total operating revenues	\$_	4,964,545	\$_	4,964,545	\$_	4,964,759	\$_	214
Expenditures:								
Operating:								
Salaries and wages	\$	2,504,149	\$	2,504,149	\$	2,480,690	\$	23,459
Fringes		925,695		925,695		849,753		75,942
Contractual		553,784		880,745		749,960		130,785
Other charges		488,019		500,572		423,040		77,532
Capital outlays	_	46,000		348,318		62,495		285,823
Total operating	\$_	4,517,647	\$_	5,159,479	\$_	4,565,938	\$_	593,541
Emergency Services:								
Salaries and wages	\$	122,881	\$	131,381	\$	132,476	\$	(1,095)
Fringes		46,552		46,552		62,506		(15,954)
Contractual		47,515		49,015		48,782		233
Other charges		12,020		31,502		23,365		8,137
Capital outlays	_	1,300		4,770		147		4,623
Total emergency services	\$_	230,268	\$_	263,220	\$_	267,276	\$_	(4,056)
800 MHZ Operations:								
Contractual	\$	694,842	\$	694,842	\$	699,740	\$	(4,898)
Other charges		136,763		136,763		127,458		9,305
Capital outlays	_	22,000		22,000		23,469		(1,469)
Total 800 MHZ operations	\$_	853,605	\$_	853,605	. \$_	850,667	\$_	2,938

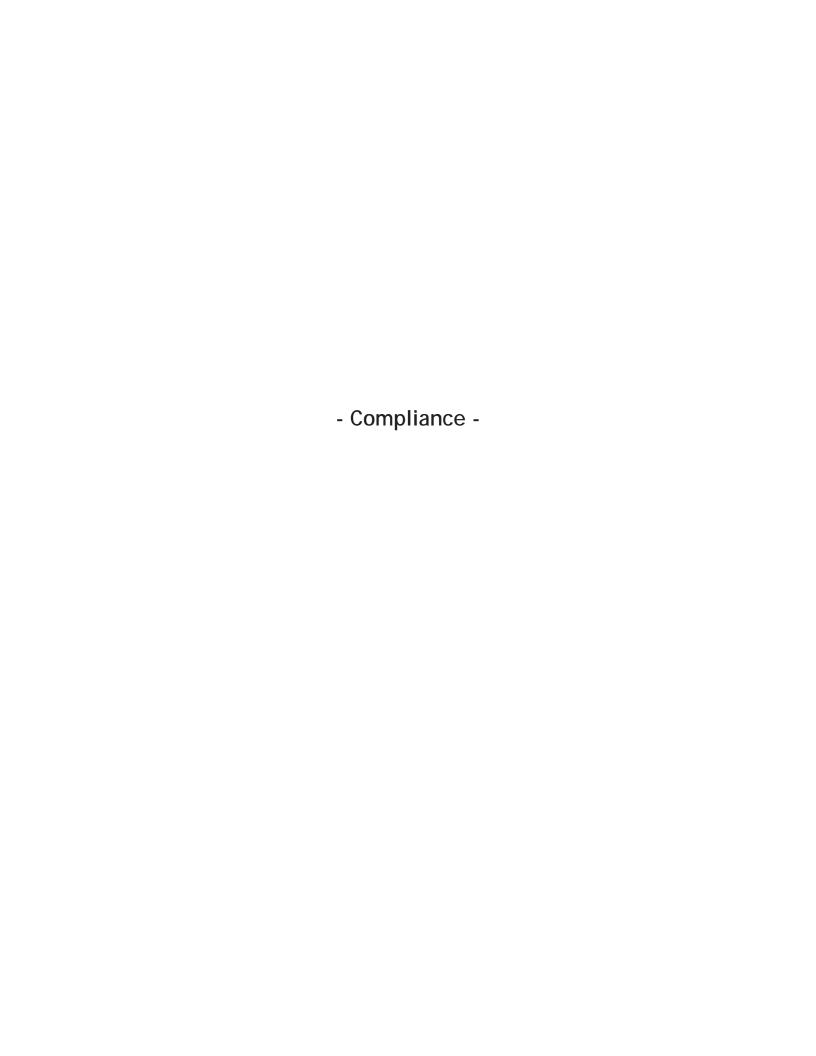
Schedule of Revenues and Expenditures Budgetary Basis Year Ended June 30, 2016 (Continued)

Expenditures: (continued)	_	Original Budget		Amended Budget	_	Actual	_	Variance Positive (Negative)
Total expenditures	\$_	5,601,520	. \$ _	6,276,304	. \$ _	5,683,881	\$ <u> </u>	592,423
Net operating income (loss)	\$_	(636,975)	\$_	(1,311,759)	\$	(719,122)	\$	592,637
Nonoperating revenue: Revenue from use of money of property: Investment earnings Rent income	\$	30,000 3,226	\$	30,000 3,226	\$	7,740 4,096	\$	(22,260) 870
Total revenue from use of money of property	\$	33,226	\$	33,226	\$	11,836	\$	(21,390)
Commonwealth of Virginia: Wireless E-911 grant Other categorical aid from the commonwealth	\$	603,749 -	\$	605,749 32,952	\$	547,608 32,952	\$	(58,141) -
Total revenue from the commonwealth	\$	603,749	\$	638,701	\$	580,560	\$	(58,141)
Federal Government: Emergency Services grant	\$_	-	\$_	-	\$	15,619	\$_	15,619
Total Federal Government	\$	-	\$	-	\$	15,619	\$	15,619
Total nonoperating revenues	\$	636,975	\$	671,927	\$	608,015	\$	(63,912)
Excess (deficiency) of revenues over expenditures	\$_	-	\$_	(639,832)	\$	(111,107)	\$	528,725

This statement is prepared using the Center's budgetary basis of accounting which differs from that required of generally accepted accounting principles.

# Reconciliation of the Schedule of Revenues and Expenditures - Budgetary Basis to the Statement of Revenues, Expenses and Changes in Net Position Year Ended June 30, 2016

Reconciliation of excess (deficiency) of revenues over expenses to		
changes in net position per the Statement of Revenues,		
Expenses and Changes in Net Position:		
Excess (deficiency) of revenues over expenditures per		
budgetary basis schedule	\$	(111,107)
Nonbudgetary funds activity not included on the Schedule of Revenues		
and Expenses - Budgetary Basis:		
Capital Projects Fund - expenses		(1,057,083)
800 MHz Radio System Fund expenses		(94,118)
Integrated computer aided dispatch - expenses		(1,258,570)
Changes in other post employment benefits		(24,000)
Capital contributions		2,315,655
Changes in deferred outflows of resources		(3,310)
Changes in deferred inflows of resources		190,961
Changes in net pension liability		(65,830)
Additions to capital assets		2,296,531
Depreciation	_	(338,568)
Change in net position, per statement of revenues, expenses,		
and changes in net position	\$_	1,850,561



# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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

TO THE HONORABLE MEMBERS OF THE BOARD OF SUPERVISORS COUNTY OF ALBEMARLE, VIRGINIA AS FISCAL AGENT FOR ALBEMARLE-CHARLOTTESVILLE EMERGENCY COMMUNICATIONS CENTER CHARLOTTESVILLE, VIRGINIA

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of Albemarle-Charlottesville Emergency Communications Center as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Center's financial statements and have issued our report thereon dated November 10, 2016.

# Internal Control over Financial Reporting

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

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

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

# **Compliance and Other Matters**

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

# Purpose of this Report

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

Robinson, Farmer, Cox Associates Charlottesville, Virginia

November 10, 2016