

**SOUTHWEST VIRGINIA REGIONAL JAIL AUTHORITY**

**FINANCIAL REPORT**

**FISCAL YEAR ENDED JUNE 30, 2013**

---

**SOUTHWEST VIRGINIA REGIONAL JAIL AUTHORITY  
FINANCIAL REPORT  
FISCAL YEAR ENDED JUNE 30, 2013**

---

**TABLE OF CONTENTS**

---

**FINANCIAL SECTION**

---

	<u>Exhibit</u>	<u>Page</u>
Independent Auditors' Report .....		1-3
 <b>Basic Financial Statements:</b>		
<b>Government-Wide Financial Statements:</b>		
Statement of Net Position .....	1	4
Statement of Activities .....	2	5
<b>Fund Financial Statements:</b>		
Balance Sheet - Governmental Funds .....	3	6
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position .....	4	7
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds .....	5	8
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities .....	6	9
Statement of Fiduciary Net Position - Fiduciary Funds .....	7	10
Notes to Financial Statements.....		11-28
 <b>Required Supplementary Information:</b>		
Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual: General Fund.....	8	29-30
Schedules of Pension and OPEB Funding Progress .....	9	31

---

**COMPLIANCE SECTION**

---

**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> .....		32-33
---	--	-------

---

**FINANCIAL SECTION**

---

---

## Independent Auditors' Report

---

To the Board of Directors  
Southwest Virginia Regional Jail Authority  
Abingdon, Virginia

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Southwest Virginia Regional Jail Authority, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Authority's basic financial statements as listed in the table of contents.

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

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

### *Auditor's Responsibility*

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 financial position of the governmental activities and each major fund of the Southwest Virginia Regional Jail Authority as of June 30, 2013, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## ***Emphasis of Matter***

As described in Note 1 to the financial statements, in 2013, the Southwest Virginia Regional Jail Authority adopted new accounting guidance, GASB Statement Nos. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

## ***Other Matter***

### ***Required Supplementary Information***

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated August 22, 2013, on our consideration of the Southwest Virginia Regional Jail Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the Southwest Virginia Regional Jail Authority's internal control over financial reporting and compliance.

*Robinson, Faimer, Co. Associates*

Blacksburg, Virginia

August 22, 2013

## **Basic Financial Statements**

SOUTHWEST VIRGINIA REGIONAL JAIL AUTHORITY  
Statement of Financial Position  
June 30, 2013

	Primary Government Governmental Activities
<b>ASSETS</b>	
Cash and cash equivalents	\$ 5,088,917
Accounts receivable	381,116
Prepaid assets	403,829
Due from other governmental units	3,548,648
Restricted assets:	
Cash and cash equivalents with trustee	17,580,506
Investments with trustee	25,091,254
Noncurrent assets:	
Capital assets (net of accumulated depreciation):	
Land	1,176,628
Construction in progress	941,050
Machinery and equipment	575,742
Buildings and improvements	60,154,286
Total assets	\$ 114,941,976
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Deferred charge on refunding	\$ 599,343
<b>LIABILITIES</b>	
Accounts payable	\$ 946,931
Contracts payable	94,048
Accrued interest payable	260,120
Accrued wages	473,462
Accrued benefits	34,716
Due to other governmental units	861,430
Long-term liabilities:	
Due within one year	1,021,118
Due in more than one year	93,686,013
Total liabilities	\$ 97,377,838
<b>NET POSITION</b>	
Net investment in capital assets	\$ 7,029,375
Restricted for debt service	4,954,479
Restricted for solar thermal energy system project	77,991
Unrestricted	6,101,636
Total net position	\$ 18,163,481

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



**SOUTHWEST VIRGINIA REGIONAL JAIL AUTHORITY**  
**Statement of Activities**  
**For the Year Ended June 30, 2013**

	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Regional Jail Authority Governmental Activities</u>
<b>Primary Governmental activities:</b>					
Governmental activities:					
Public safety	\$ 30,978,954	\$ 16,926,292	\$ 14,354,821	\$ -	\$ 302,159
Interest on long-term obligations	4,063,669	-	-	-	(4,063,669)
Total governmental activities	\$ 35,042,623	\$ 16,926,292	\$ 14,354,821	\$ -	\$ (3,761,510)
General revenues:					
Unrestricted revenues from use of money and property					\$ 251,216
Miscellaneous					1,859,026
Total general revenues					2,110,242
Change in net position					(1,651,268)
Net position - beginning					19,814,749
Net position - ending					18,163,481

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

SOUTHWEST VIRGINIA REGIONAL JAIL AUTHORITY  
Balance Sheet  
Governmental Funds  
At June 30, 2013

**ASSETS**

## Current assets:

Cash and cash equivalents	\$ 5,088,917
Accounts receivable	381,116
Prepaid assets	403,829
Due from other governmental units	3,548,648
Cash and cash equivalents with trustee - restricted	17,580,506
Investments with trustee - restricted	<u>25,091,254</u>

Total assets \$ 52,094,270

**LIABILITIES AND FUND BALANCE**

## Current liabilities:

Accounts payable	\$ 946,931
Contracts payable	94,048
Accrued wages	473,462
Accrued benefits	34,716
Due to other governmental units	<u>861,430</u>

Total liabilities \$ 2,410,587

## Fund balance:

Nonspendable	\$ 403,829
Restricted:	
Restricted for debt service	4,954,479
Restricted for jail expansion construction	37,717,281
Restricted for solar thermal energy system project	77,991
Unassigned	<u>6,530,103</u>

Total fund balance \$ 49,683,683

Total liabilities and fund balance \$ 52,094,270

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

SOUTHWEST VIRGINIA REGIONAL JAIL AUTHORITY  
 Reconciliation of the Balance Sheet of Governmental Funds  
 To the Statement of Net Position  
 June 30, 2013

---

Amounts reported for governmental activities in the statement of net position are different because:

Total fund balances per Exhibit 3 - Balance Sheet		\$ 49,683,683
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		
Land	1,176,628	
Buildings and improvements	60,154,286	
Machinery and equipment	575,742	
Construction in progress	<u>941,050</u>	62,847,706
Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.		
		599,343
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		
Revenue bond	(19,875,000)	
Refunding bond	(46,080,000)	
Premium on revenue bond	(2,598,028)	
Premium on refunding bond	(6,394,949)	
Energy revolving loan	(462,635)	
Note payable	(18,125,000)	
Accrued interest payable	(260,120)	
Net OPEB liability	(500,925)	
Compensated absences	<u>(670,594)</u>	<u>(94,967,251)</u>
Net position of governmental activities		<u>\$ 18,163,481</u>

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

SOUTHWEST VIRGINIA REGIONAL JAIL AUTHORITY  
Statement of Revenues, Expenditures and Changes in Fund Balance  
Governmental Funds  
Year Ended June 30, 2013

<b>Revenues:</b>	
Charges for Services	\$ 16,926,292
Intergovernmental revenue	14,354,821
Revenue from use of money and property	251,216
Miscellaneous	<u>1,859,026</u>
 Total revenues	 <u>\$ 33,391,355</u>
<b>Expenditures:</b>	
Public Safety:	
Employee Costs	\$ 17,245,666
Contractual Services	1,510,389
Support Services	50,501
Utilities	1,966,035
Medical Services	964,154
Medical Supplies	935,547
Insurance	3,333,091
Travel	45,233
Office Supplies	45,293
Facility and Maintenance Supplies	557,963
Inmate Supplies	218,626
Correctional Supplies	68,306
Food Services	2,681,976
Equipment	167,414
Capital Projects	394,362
Debt Service:	
Principal	1,338,642
Bond Issuance Costs	1,447,113
Interest	<u>2,555,561</u>
 Total expenditures	 <u>\$ 35,525,872</u>
 Excess (deficiency) of revenues over (under) expenditures	 <u>\$ (2,134,517)</u>
 Other financing sources (uses):	
Proceeds of refunding bond	\$ 46,080,000
Proceeds of revenue bond	19,875,000
Proceeds of note payable	18,125,000
Premium on refunding bond	6,394,949
Premium on revenue bond	2,598,028
Payment to bond escrow agent	<u>(54,461,036)</u>
 Total other financing sources (uses)	 <u>\$ 38,611,941</u>
 Net change in fund balance	 <u>\$ 36,477,424</u>
 Fund balance, beginning of year	 <u>13,206,259</u>
 Fund balance, end of year	 <u>\$ 49,683,683</u>

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

SOUTHWEST VIRGINIA REGIONAL JAIL AUTHORITY  
 Reconciliation of Statement of Revenues,  
 Expenditures, and Changes in Fund Balances of Governmental Funds  
 To the Statement of Activities  
 For the year Ended June 30, 2013

---

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds \$ 36,477,424

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. This is the amount by which the depreciation exceeded capital asset purchases in the current period.

Capital asset additions	1,562,022	
Depreciation expense	(2,069,084)	(507,062)

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net position. (6,457)

The issuance of long-term obligations (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term obligations consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of prepaid bond insurance, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term obligations and related items.

Issuance of bonds	(84,080,000)	
Issuance of premium on refunding bond	(6,394,949)	
Issuance of premium on revenue bond	(2,598,028)	
Deferred outflow of resource due to refunding	599,343	
Payment to bond escrow agent	53,205,000	
Payment of principal	1,338,642	(37,929,992)

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.

(Increase) decrease in compensated absences	(98,569)	
(Increase) decrease in accrued interest payable	595,698	
(Increase) decrease in Net OPEB liability	(182,310)	314,819

Change in net position of governmental activities \$ (1,651,268)

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

SOUTHWEST VIRGINIA REGIONAL JAIL AUTHORITY  
 Statement of Fiduciary Net Position  
 Fiduciary Funds  
 June 30, 2013

---

	Agency Funds
<b>ASSETS</b>	
Cash	\$ <u>92,213</u>
Total assets	\$ <u><u>92,213</u></u>
<b>LIABILITIES</b>	
Amounts held for inmate benefits	\$ <u>92,213</u>
Total liabilities	\$ <u><u>92,213</u></u>

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

## Southwest Virginia Regional Jail Authority

### Notes to the Financial Statements June 30, 2013

---

#### Note 1-Summary of Significant Accounting Policies:

The financial statements of the Southwest Virginia Regional Jail Authority (the Authority) conform to generally accepted accounting principles (GAAP) applicable to governmental units promulgated by the Governmental Accounting Standards Board (GASB). The following is a summary of the more significant policies:

#### A. Financial Reporting Entity

The Authority was created by concurrent resolutions of the Counties of Buchanan, Dickenson, Lee, Russell, Scott, Smyth, Tazewell, Washington, Wise and the City of Norton. The Authority was created under the provisions of Title 53.1, Chapter 3, Articles 3.1 and 5 of the Code of Virginia (1950), as amended. The Authority was created to construct and operate jail facilities for the participating jurisdictions.

The Authority does not have any component units. In addition, the Authority is not considered a component unit of any of the participating jurisdictions.

#### B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the Authority (primary government). For the most part, the effect of interfund activity has been removed from these statements. Exceptions to this general rule are other charges between the Authority's functions. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *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 or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are fiduciary fund financial statements.

Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

*The remainder of this page is left blank intentionally.*

Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2013 (continued)

---

**Note 1-Summary of Significant Accounting Policies: (continued)**

C. Measurement focus, basis of accounting, and financial statement presentation

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. 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. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Intergovernmental revenues, consisting primarily of federal, state and other grants for the purpose of funding specific expenditures, are recognized when earned or at the time of the specific expenditure. Revenues from general-purpose grants are recognized in the period to which the grant applies. All other revenue items are considered to be measurable and available only when the government receives cash.

The Authority reports the following major governmental funds:

The General Fund is the Authority's primary operating fund. The fund is used to account for and report all financial resources of the Authority. The General Fund is considered a major fund for reporting purposes.

Additionally, the Authority reports the following fund types:

Fiduciary funds (trust and agency funds) account for assets held by the Authority in a trustee capacity or as agent or custodian for individuals, private organizations, other governmental units, or other funds. Agency funds include the Inmate Trust.

D. Assets, deferred outflows/inflows of resources, liabilities, and net position/fund balance

1. *Cash and Cash Equivalents*

The Authority's cash and cash equivalents (including cash in custody of trustee) are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

2. *Investments*

Investments for the Authority are reported at fair value. The State Non-Arbitrage Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.



Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2013 (continued)

---

**Note 1-Summary of Significant Accounting Policies: (continued)**

D. Assets, deferred outflows/inflows of resources, liabilities, and net position/fund balance  
(continued)

3. *Use of Estimates*

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

4. *Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets are defined by the Authority 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. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20-40
Machinery and equipment	5-10

5. *Accounts Receivable*

Accounts receivable are stated at book value. Uncollected balances have not been significant, therefore no allowances for uncollectible accounts is recorded.

*The remainder of this page is left blank intentionally.*

Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2013 (continued)

---

**Note 1-Summary of Significant Accounting Policies: (continued)**

**D. Assets, deferred outflows/inflows of resources, liabilities, and net position/fund balance**  
(continued)

**6. *Compensated Absences***

Vested or accumulated vacation leave that is expected to be liquidated with expendable available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it. In accordance with the provisions of Government Accounting Standards No. 16, *Accounting for Compensated Absences*, no liability is recorded for non-vesting accumulating rights to receive sick pay benefits. The Authority's employees accrue paid time off at various rates based on the total years of service during employment as a full-time employee. Employees will be allowed to accumulate their maximum accrued hours per year as determined by years of service. Once an employee attains the maximum hours, he/she will not accrue any more hours until leave is taken. Upon termination, full compensation will be paid for unused paid time off up to the designated maximum based upon total years of service. The Authority's employees also accrue holiday time which upon termination, and with the exception of exempt employees, may be paid up to a maximum of 48 hours. The Authority's liability for compensated absences at June 30, 2013 was \$670,594.

**7. *Restricted Assets***

Restricted cash is set aside for future debt service expenditures.

**8. *Long-term Obligations***

In the government-wide financial statements, long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as prepaid bond insurance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**9. *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. At June 30, 2013 the Authority has \$599,343 in a deferred outflow of resource due to refunding of bonds.

**Note 1-Summary of Significant Accounting Policies: (continued)**

**D. Assets, deferred outflows/inflows of resources, liabilities, and net position/fund balance (continued)**

**9. 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 Authority does not have any deferred inflows of resources as of June 30, 2013.

**10. Net Position**

The Statement of Net Position reports the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources as net position. GASB Statement 34 requires the reporting of net position classified according to external donor restrictions or availability of assets for satisfaction of obligations.

The Authority's net position is classified as follows:

Net Investment in Capital Assets - This category represents the net value of capital assets (property, plant, equipment and infrastructure less accumulated depreciation) reduced by the debt incurred to acquire or construct the asset.

Restricted- This category includes resources for which the Authority is legally or contractually obligated to spend in accordance with restrictions imposed by external parties.

Unrestricted - Unrestricted net position represents resources derived from charges to customers for goods received, services rendered or privileges provided, operating grants and contributions, and capital grants and contributions. These resources are used for transactions relating to the operations of the Authority and may be used at the Authority's discretion to meet current expenses for any lawful purposes.

**11. Net Position Flow Assumption**

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

*The remainder of this page is left blank intentionally.*

Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2013 (continued)

---

**Note 1-Summary of Significant Accounting Policies: (continued)**

D. Assets, deferred outflows/inflows of resources, liabilities, and net position/fund balance (continued)

12. *Fund Equity*

Beginning with fiscal year 2011, the Authority implemented GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable fund balance - amounts that are not in spendable form (such as inventory and prepaids) or are required to be maintained intact (corpus of a permanent fund);
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation;
- Committed fund balance - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint. The Authority's Board is the highest level of decision making body;
- Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. The Superintendent has been named as the individual with the authority to assign fund balances;
- Unassigned fund balance - amounts that are available for any purpose; positive amounts are only reported in the general fund.

When fund balance resources are available for a specific purpose in more than one classification, it is the Authority's policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

13. *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position, Statement No. 63 of the Governmental Accounting Standards Board*

The Authority implemented the financial reporting provisions of the above Statement for the fiscal year ended June 30, 2013. This Statement provides guidance for reporting deferred inflows and outflows of resources. The requirement of this Statement will improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on the entity's net position. With the implementation of this Statement, certain terminology has changed and financial statement descriptions have changed from "net assets" to "net position." The net equity reported in the financial statements was not changed as a result of implementing this Statement and no restatement of prior balances is required.

Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2013 (continued)

**Note 1-Summary of Significant Accounting Policies: (continued)**

D. Assets, deferred outflows/inflows of resources, liabilities, and net position/fund balance  
(continued)

14. *Items Previously Reported as Assets and Liabilities, Statement No. 65 of the Governmental Accounting Standards Board*

The Authority implemented the financial reporting provisions of the above Statement for the fiscal year ended June 30, 2013. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

**Note 2-Deposits and Investments:**

Deposits:

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

Investments:

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

Credit Risk of Debt Securities:

The Authority has not adopted an investment policy for credit risk. The Authority's rated debt investments as of June 30, 2013 were rated by Standard and Poor's and/or an equivalent national rating organization and the ratings are presented below using the Standard and Poor's rating scale.

Rated Debt Investments	Fair Quality Ratings		
	AAAm	AA+	Total
US Treasury Obligations	\$ -	\$ 296,000	\$ 296,000
Fidelity Instit. MM Class II	111,628	-	111,628
Virginia SNAP	24,683,626	-	24,683,626
Total	\$ 24,795,254	\$ 296,000	\$ 25,091,254

Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2013 (continued)

---

**Note 2-Deposits and Investments: (continued)**

Concentration of Credit Risk:

At June 30, 2013, the Authority did not have any investments meeting the GASB 40 definition requiring concentration of credit risk disclosures that exceeded 5% of total investments. The State Non-Arbitrage Pool (SNAP) is an open-end management investment company registered with the Securities and Exchange Commission (SEC).

Interest Rate Risk:

The Authority has not adopted an investment policy for interest rate risk. Listed below are the Authority's US Treasury investments subject to investment rate risk and their corresponding maturity dates.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity Date</u>	<u>Call Options</u>
<i>U.S. Treasury Obligations:</i>			
Freddie Mac Discount Notes	\$ 59,000	TBD	None
Federal Home Loan Bank Discount Notes	128,000	TBD	None
Fannie Mae Discount Notes	109,000	TBD	None
Total	<u>\$ 296,000</u>		

**Note 3-Due From Other Governments:**

At June 30, 2013, the Authority had the following receivables due from other governments:

	<u>Primary Government</u>
Amounts due from the State Compensation Board for payroll	\$ 864,237
Amounts due from the State for Per Diems	1,641,988
Amounts due from Federal Government	32,370
Amounts due from participating jurisdictions	<u>1,010,053</u>
Total Due from Other Governments	<u>\$ 3,548,648</u>

*The remainder of this page is left blank intentionally.*

Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2013 (continued)

**Note 4-Long-Term Obligations:**

Primary Government - Governmental Activity Indebtedness:

The following is a summary of long-term obligation transactions of the Authority for the year ended June 30, 2013:

	Balance July 1, 2012	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2013
Revenue Bond	\$ 54,480,000	\$ 19,875,000	\$ (54,480,000)	\$ 19,875,000
Premium on Revenue Bond	-	2,598,028	-	2,598,028
Refunding Bond	-	46,080,000	-	46,080,000
Premium on Refunding Bond	-	6,394,949	-	6,394,949
Note Payable	-	18,125,000	-	18,125,000
Energy Revolving Loan	526,277	-	(63,642)	462,635
Compensated Absences	572,025	527,588	(429,019)	670,594
Net OPEB Obligation	318,615	224,610	(42,300)	500,925
	<u>\$ 55,896,917</u>	<u>\$ 93,825,175</u>	<u>\$ (55,014,961)</u>	<u>\$ 94,707,131</u>
Total	<u>\$ 55,896,917</u>	<u>\$ 93,825,175</u>	<u>\$ (55,014,961)</u>	<u>\$ 94,707,131</u>

The Authority issued \$46,080,000 of refunding bonds to provide resources to purchase State and Local Government Series Securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$53,205,000 revenue bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the Primary Government-Governmental Activities column of the Statement of Net Position. The reacquisition price exceeded the net carrying value of the old debt by \$599,343. The amount is being netted against the new debt and amortized over the life of the new debt. This advance refunding was undertaken to reduce debt service, long-term, which resulted in less debt service of \$11,325,179 and an economic gain of \$8,396,735. Debt that has been defeased in substance, but remains outstanding as of the end of the fiscal year totaled \$53,205,000.

*The remainder of this page is left blank intentionally.*

Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2013 (continued)

**Note 4-Long-Term Obligations: (continued)**

Primary Government - Governmental Activity Indebtedness: (continued)

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

Year Ending June 30,	Revenue Bond		Energy Revolving Loan	
	Principal	Interest	Principal	Interest
2014	\$ -	\$ 798,835	\$ 48,530	\$ 6,363
2015	-	882,149	65,789	7,401
2016	-	882,149	67,048	6,142
2017	370,000	878,343	68,331	4,859
2018	375,000	865,477	69,638	3,552
2019-2023	2,245,000	4,047,328	143,299	3,080
2024-2028	2,820,000	3,497,962	-	-
2029-2033	3,635,000	2,777,366	-	-
2034-2038	4,630,000	1,869,522	-	-
2039-2043	5,800,000	703,112	-	-
	<u>\$ 19,875,000</u>	<u>\$ 17,202,243</u>	<u>\$ 462,635</u>	<u>\$ 31,397</u>

  

Year Ending June 30,	Refunding Bond		Note Payable	
	Principal	Interest	Principal	Interest
2014	\$ 105,000	\$ 1,747,676	\$ -	\$ 244,557
2015	1,135,000	1,915,031	-	270,063
2016	1,405,000	1,887,268	-	270,063
2017	1,450,000	1,848,509	18,125,000	135,031
2018	1,515,000	1,787,181	-	-
2019-2023	8,485,000	7,935,803	-	-
2024-2028	10,410,000	5,968,622	-	-
2029-2033	12,925,000	3,365,613	-	-
2034-2038	8,650,000	540,175	-	-
	<u>\$ 46,080,000</u>	<u>\$ 26,995,878</u>	<u>\$ 18,125,000</u>	<u>\$ 919,714</u>

*The remainder of this page is left blank intentionally.*



Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2013 (continued)

Note 4-Long-Term Obligations: (continued)

Primary Government - Governmental Activity Indebtedness: (continued)

Details of long-term indebtedness:

	<u>Interest Rates</u>	<u>Date Issued</u>	<u>Payment Frequency</u>	<u>Final Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Balance Governmental Activities</u>	<u>Amount Due Within One Year</u>
Revenue Bond	2.0-4.7%	6/5/2013	Semi-Annually	10/1/2042	\$ 19,875,000	\$ 19,875,000	\$ -
Premium on Revenue Bond					2,598,028	2,598,028	86,601
Refunding Bond	2.0-4.8%	6/5/2013	Semi-Annually	10/1/2035	46,080,000	46,080,000	105,000
Premium on Refunding Bond					6,394,949	6,394,949	278,041
Note Payable	1.49%	6/5/2013	Lump Sum	10/1/2016	18,125,000	18,125,000	-
Energy Revolving Loan	1.90%	4/30/2012	Monthly	7/15/2020	542,000	462,635	48,530
Other Obligations:							
Compensated Absences						\$ 670,594	\$ 502,946
Net OPEB Obligation						500,925	-
Total Other Obligations						\$ 1,171,519	502,946
Total Long Term Obligations						\$ 94,707,131	\$ 1,021,118

*The remainder of this page is left blank intentionally.*

## Southwest Virginia Regional Jail Authority

### Notes to the Financial Statements June 30, 2013 (continued)

---

#### Note 5-Defined Benefit Pension Plan:

##### A. Plan Description

Name of Plan: Virginia Retirement System (VRS)  
Identification of Plan: Agent Multiple-Employer Defined Benefit Pension Plan  
Administering Entity: Virginia Retirement System (System)

All full-time, salaried permanent employees of participating employers are automatically covered by VRS upon employment. Benefits vest after five years of service credit. Members earn one month of service credit for each month they are employed and their employer is paying into the 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 two defined benefit plans for local government employees - Plan 1 and Plan 2:

- Members hired before July 1, 2010 and who were vested as of January 1, 2013 are covered under Plan 1. Non-hazardous duty members are eligible for an unreduced retirement benefit beginning at age 65 with at least five years of service credit or age 50 with at least 30 years of service credit. They may retire with a reduced benefit early at age 55 with at least five years of service credit or age 50 with at least 10 years of service credit.
- Members hired or rehired on or after July 1, 2010 and Plan 1 members who were not vested on January 1, 2013 are covered under Plan 2. Non-hazardous duty members are eligible for an unreduced benefit beginning at their normal Social Security retirement age with at least five years of service credit or when the sum of their age and service equals 90. They may retire with a reduced benefit as early as age 60 with at least five years of service credit.
- Eligible hazardous duty members in Plan 1 and Plan 2 are eligible for an unreduced benefit beginning at age 60 with at least 5 years of service credit or age 50 with at least 25 years of service credit. These members include sheriffs, deputy sheriffs and hazardous duty employees of political subdivisions that have elected to provide enhanced coverage for hazardous duty service. They may retire with a reduced benefit as early as age 50 with at least five years of service credit. All other provisions of the member's plan apply.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under Plan 1, average final compensation is the average of the member's 36 consecutive months of highest compensation. Under Plan 2, average final compensation is the average of the member's 60 consecutive months of highest compensation. The retirement multiplier for non-hazardous duty members is 1.70%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier for eligible political subdivision hazardous duty employees other than sheriffs and jail superintendents is 1.70% or 1.85% as elected by the employer. The multiplier for Plan 2 members was reduced to 1.65% effective January 1, 2013 unless they are hazardous duty employees and their employer has elected the enhanced retirement multiplier. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2013 (continued)

**Note 5-Defined Benefit Pension Plan: (continued)**

A. Plan Description (continued)

Retirees are eligible for an annual cost-of-living adjustment (COLA) effective July 1 of the second calendar year of retirement. Under Plan 1, the COLA cannot exceed 5.00%; under Plan 2, the COLA cannot exceed 6.00%. During years of no inflation or deflation, the COLA is 0.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

The system issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2012-annual-report.pdf> or obtained by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

B. Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their compensation toward their retirement. All or part of the 5.00% member contribution may be assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employees 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. In addition, the Authority is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Authority's contribution rate for the fiscal year ended 2013 was 15.90% of annual covered payroll, excluding the 5% member contribution paid by the employee.

C. Annual Pension Cost

For fiscal year 2013, the Southwest Virginia Regional Jail Authority's annual pension cost of \$1,779,335 was equal to the Southwest Virginia Regional Jail Authority's required and actual contributions.

Three-Year Trend Information

	Fiscal Year Ending	Annual Pension Cost (APC) <sup>1</sup>	Percentage of APC Contributed	Net Pension Obligation
Primary Government	6/30/2013	\$ 1,779,335	100.00%	\$ -
Primary Government	6/30/2012	1,660,738	100.00%	-
Primary Government	6/30/2011	1,666,985	100.00%	-

<sup>1</sup> Employer portion only

Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2013 (continued)

---

**Note 5-Defined Benefit Pension Plan: (continued)**

C. Annual Pension Cost (continued)

The FY 2013 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2011 included (a) an investment rate of return (net of administrative expenses) of 7.00%, (b) projected salary increases ranging from 3.75% to 5.60% per year for general government employees, 3.75% to 6.20% per year for teachers, and 3.50% to 4.75% for employees eligible for enhanced benefits available to law enforcement officers, firefighters, and sheriffs, and (c) a cost-of-living adjustment of 2.50% per year for Plan 1 employees and 2.25% for Plan 2 employees. Both the investment rate of return and the projected salary increases include an inflation component of 2.50%. The actuarial value of the Southwest Virginia Regional Jail Authority's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. The Southwest Virginia Regional Jail Authority's unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at June 30, 2011 for the Unfunded Actuarial Accrued Liability (UAAL) was 30 years.

D. Funded Status and Funding Progress

As of June 30, 2012, the most recent actuarial valuation date, the plan was 81.31% funded. The actuarial accrued liability for benefits was \$14,251,210, and the actuarial value of assets was \$11,587,193, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,664,017. The covered payroll (annual payroll of active employees covered by the plan) was \$10,362,967, and ratio of the UAAL to the covered payroll was 25.71%.

The schedule of funding progress, presented as Required Supplementary Information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability (AAL) for benefits.

*The remainder of this page is left blank intentionally.*

Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2013 (continued)

**Note 6-Capital Assets:**

Capital asset activity for the year ended June 30, 2013 was as follows:

Primary Government:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 1,176,628	\$ -	\$ -	\$ 1,176,628
Construction in Progress	20,000	1,385,845	(464,795)	941,050
Total capital assets not being depreciated	<u>\$ 1,196,628</u>	<u>\$ 1,385,845</u>	<u>\$ (464,795)</u>	<u>\$ 2,117,678</u>
Capital assets being depreciated				
Buildings and Improvements	\$ 74,611,864	\$ 464,795	\$ -	\$ 75,076,659
Machinery and Equipment	2,017,066	176,177	(92,443)	2,100,800
Total capital assets being depreciated	<u>\$ 76,628,930</u>	<u>\$ 640,972</u>	<u>\$ (92,443)</u>	<u>\$ 77,177,459</u>
Accumulated depreciation:				
Buildings and Improvements	\$ (13,057,076)	\$ (1,865,297)	\$ -	\$ (14,922,373)
Machinery and Equipment	(1,407,257)	(203,787)	85,986	(1,525,058)
Total accumulated depreciation	<u>\$ (14,464,333)</u>	<u>\$ (2,069,084)</u>	<u>\$ 85,986</u>	<u>\$ (16,447,431)</u>
Total capital assets being depreciated, net	<u>\$ 62,164,597</u>	<u>\$ (1,428,112)</u>	<u>\$ (6,457)</u>	<u>\$ 60,730,028</u>
Governmental activities capital assets, net	<u>\$ 63,361,225</u>	<u>\$ (42,267)</u>	<u>\$ (471,252)</u>	<u>\$ 62,847,706</u>

All depreciation expense was charged to the public safety function in the Statement of Activities.

**Note 7-Risk Management:**

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Authority participates with other government entities in a public entity risk pool for its coverage of liability insurance through VARISK 2 insurance pool. Each member of this risk pool jointly and severally agrees to assume, pay and discharge any liability. The Authority pays contributions and assessments based upon classification and rates into a designated cash reserve fund out of which expenses of the pool, claims and awards are to be paid. In the event of a loss, deficit, or depletion of all available excess insurance, the pool may assess all members in the proportion in which the premium of each bears to the total premiums of all members in the year in which such deficit occurs. The Authority continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2013 (continued)

**Note 8-Other Post-Employment Benefits - Health Insurance:**

From an accrual accounting perspective, the cost of other post-employment health care benefits (OPEB), like the cost of pension benefits, generally should be associated with the periods in which the cost occurs, rather than in future years when it will be paid. In adopting the requirements of GASB Statement No. 45 during the year ended June 30, 2009, the Authority recognizes the cost of post-employment health care in the year when the employee services are rendered, reports the accumulating liability, and provides information useful in assessing potential demands on the Authority's future cash flows. Recognition of the liability accumulated from prior years will be phased in over 30 years, commencing with the 2009 liability.

A. Plan Description

The Southwest Virginia Regional Jail Authority administers a single-employer healthcare plan ("the Plan"). The Plan provides for participation by eligible retirees and their dependents in the health insurance programs available to Authority employees. The Plan will provide retiring employees the option to continue health insurance (PPO option) offered by the Authority until retirees attain 65 years of age at which time they may participate in a Medicare supplement (PPO option) plan.

Eligibility for this program is consistent with the VRS defined benefit pension plan as described in Note 5. The benefits, employee contributions and the employer contributions are governed by the Board of Directors and can be amended through Board action. The Plan does not issue a publicly available financial report.

B. Funding Policy

The Authority currently pays for the post-retirement health care benefits on a pay-as-you-go basis. The Authority currently has 320 employees that are eligible for the program. In addition, 100 percent of premiums are the responsibility of the retiree.

Health benefits include Medical, Dental, and Vision coverage for retirees and eligible spouses/dependents. Retirees are eligible to choose one of the following medical options through the Authority. The rates are as follows:

	<u>Retiree</u>	<u>Retiree Plus Dependent</u>	<u>Family</u>
KA Expanded (PPO):	\$ 553	\$ 1,023	\$ 1,493
KA 500 (PPO):	473	875	1,277
Advantage 65:	160	N/A	N/A

The Authority 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 costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2013 (continued)

**Note 8-Other Post-Employment Benefits - Health Insurance: (continued)**

C. Annual OPEB Cost and Net OPEB Obligation

For 2013, the Authority's annual OPEB cost (expense) of \$224,610 did not equal the ARC of \$223,300. The obligation calculation is as follows:

Annual required contribution	\$ 223,300
Interest on net OPEB obligation	12,745
Adjustment to annual required contribution	(11,435)
Annual OPEB cost (expense)	<u>224,610</u>
Contributions made	<u>42,300</u>
Increase in net OPEB obligation	182,310
Net OPEB obligation - beginning of year	<u>318,615</u>
Net OPEB obligation - end of year	\$ 500,925

The Authority's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2013 and the two preceding years were as follows:

<u>Fiscal</u> <u>Year Ended</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Percentage of</u> <u>Annual OPEB Cost</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
6/30/2013	\$ 224,610	18.83%	\$ 500,925
6/30/2012	106,504	23.94%	318,615
6/30/2011	100,369	25.41%	237,610

D. Funded Status and Funding Progress

The funded status of the Plan for the Authority as of June 30, 2013, is as follows:

Actuarial accrued liability (AAL)	\$ 1,466,300
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	\$ 1,466,300
Funded ratio (actuarial value of plan assets / AAL)	0.00%
Covered payroll (active plan members)	\$ 10,737,400
UAAL as a percentage of covered payroll	13.66%

Actuarial valuation of an ongoing plan involves 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.

Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2013 (continued)

---

**Note 8-Other Post-Employment Benefits - Health Insurance: (continued)**

D. Funded Status and Funding Progress (continued)

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will present multiyear trend information, as it becomes available, about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point.

The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2013, the most recent actuarial valuation date, the projected unit credit actuarial cost method was used. Under this method, future benefits are projected and the present value of such benefits is allocated from date of hire to date of eligibility. The actuarial assumptions included: inflation at 3.00 percent, investment's rate of return at 3.50 percent, and a health care trend rate of 7.70 percent graded to 4.80 percent over 70 years. The UAAL is being amortized as a level percentage over the remaining amortization period, which at June 30, 2013 was 30 years.

**Note 9-Litigation:**

As of June 30, 2013, there were no matters of litigation involving the Authority which would materially affect the Authority's financial position should an court decisions on pending matters not be favorable.

**Note 10-Commitments and Contingencies:**

**Construction Commitments:**

At June 30, 2013, the following construction commitments were outstanding:

<u>Project</u>	<u>Contract Amount</u>	<u>Amount Remaining at 6/30/13</u>
Jail Expansion - Thompson & Litton	\$ 1,838,956	\$ 897,907



## Required Supplementary Information

SOUTHWEST VIRGINIA REGIONAL JAIL AUTHORITY  
Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual  
Year Ended June 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Revenues:				
Revenue from local sources:				
Charges to participating jurisdictions:				
Buchanan County	\$ 1,467,895	\$ 1,467,895	\$ 1,348,316	\$ (119,579)
Dickenson County	764,959	764,959	886,767	121,808
Lee County	1,095,752	1,095,752	1,143,895	48,143
Russell County	2,015,770	2,015,770	2,150,859	135,089
Scott County	1,302,497	1,302,497	1,296,186	(6,311)
Smyth County	1,434,145	1,434,145	1,492,405	58,260
Tazewell County	3,201,421	3,201,421	3,692,363	490,942
Washington County	2,274,202	2,274,202	2,156,693	(117,509)
City of Norton	93,036	93,036	115,381	22,345
Wise County	2,532,634	2,532,634	2,211,632	(321,002)
Charges to Federal Government	521,950	521,950	431,795	(90,155)
Interest Income	45,000	45,000	251,216	206,216
Miscellaneous Revenue:				
Work Release Program	140,000	140,000	85,484	(54,516)
Inmate Telephone Income	-	-	551,350	551,350
Home Monitoring	30,000	30,000	29,544	(456)
Commissary Commissions	625,000	625,000	699,684	74,684
Co-payment and Medical Services	120,000	120,000	118,268	(1,732)
Other Miscellaneous Revenue	565,800	565,800	374,696	(191,104)
<b>Total revenue from local sources</b>	<b>\$ 18,230,061</b>	<b>\$ 18,230,061</b>	<b>\$ 19,036,534</b>	<b>\$ 806,473</b>
Intergovernmental revenue:				
Revenue from the Commonwealth:				
Categorical aid:				
Reimbursement of salaries and fringes	\$ 9,755,350	\$ 9,755,350	\$ 9,750,876	\$ (4,474)
State per diem warrant	3,882,525	3,882,525	4,187,860	305,335
Other	-	-	416,085	416,085
<b>Total revenue from the Commonwealth</b>	<b>\$ 13,637,875</b>	<b>\$ 13,637,875</b>	<b>\$ 14,354,821</b>	<b>\$ 716,946</b>
<b>Total revenues</b>	<b>\$ 31,867,936</b>	<b>\$ 31,867,936</b>	<b>\$ 33,391,355</b>	<b>\$ 1,523,419</b>
Expenditures:				
Operating Expenditures:				
Employee Costs	\$ 18,350,990	\$ 18,350,990	\$ 17,245,666	\$ 1,105,324
Contractual Services	618,302	618,302	1,510,389	(892,087)
Support Services	68,834	68,834	50,501	18,333
Utilities	1,809,763	1,809,763	1,966,035	(156,272)
Medical Services	792,777	792,777	964,154	(171,377)
Medical Supplies	927,527	927,527	935,547	(8,020)
Insurance	2,146,195	2,146,195	3,333,091	(1,186,896)
Travel	26,961	26,961	45,233	(18,272)

SOUTHWEST VIRGINIA REGIONAL JAIL AUTHORITY  
Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual  
Year Ended June 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget- Positive (Negative)
	Original	Final		
Expenditures: (continued)				
Operating Expenditures: (continued)				
Office Supplies	\$ 91,373	\$ 91,373	\$ 45,293	\$ 46,080
Facility and Maintenance Supplies	619,237	619,237	557,963	61,274
Inmate Supplies	317,131	317,131	218,626	98,505
Correctional Supplies	90,116	90,116	68,306	21,810
Food Services	2,176,862	2,176,862	2,681,976	(505,114)
Equipment	51,868	51,868	167,414	(115,546)
Capital Projects	-	-	394,362	(394,362)
Debt Services:				
Principal	1,272,000	1,272,000	1,338,642	(66,642)
Bond issuance costs	-	-	1,447,113	(1,447,113)
Interest	2,628,000	2,628,000	2,555,561	72,439
Total expenditures	<u>\$ 31,987,936</u>	<u>\$ 31,987,936</u>	<u>\$ 35,525,872</u>	<u>\$ (3,537,936)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>\$ (120,000)</u>	<u>\$ (120,000)</u>	<u>\$ (2,134,517)</u>	<u>\$ (2,014,517)</u>
Other financing sources (uses):				
Proceeds of refunding bond	\$ -	\$ -	\$ 46,080,000	\$ 46,080,000
Proceeds of revenue bond	-	-	19,875,000	19,875,000
Proceeds of note payable	-	-	18,125,000	18,125,000
Premium on refunding bond	-	-	6,394,949	6,394,949
Premium on revenue bond	-	-	2,598,028	2,598,028
Payment to bond escrow agent	-	-	(54,461,036)	(54,461,036)
Total other financing sources (uses)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 38,611,941</u>	<u>\$ 38,611,941</u>
Net change in fund balance	<u>\$ (120,000)</u>	<u>\$ (120,000)</u>	<u>\$ 36,477,424</u>	<u>\$ 36,597,424</u>
Fund balance, beginning of year	120,000	120,000	13,206,259	13,086,259
Fund balance, end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 49,683,683</u>	<u>\$ 49,683,683</u>

Southwest Virginia Regional Jail Authority  
Schedules of Pension and OPEB Funding Progress  
For the Year Ended June 30, 2013

## VRS Retirement Plan

Valuation as of (1)	Actuarial Value of Assets (2)	Actuarial Accrued Liability (AAL) (3)	Unfunded AAL (UAAL) (3) - (2) (4)	Funded Ratio Assets as % of AAL (2)/(3) (5)	Annual Covered Payroll (6)	UAAL as a % of Covered Payroll (4)/(6) (7)
June 30, 2012	\$ 11,587,193	\$ 14,251,210	\$ 2,664,017	81.31%	\$ 10,362,967	25.71%
June 30, 2011	9,734,375	12,501,053	2,766,678	77.87%	10,340,437	26.76%
June 30, 2010	7,432,784	10,700,065	3,267,281	69.46%	10,547,664	30.98%

## Other Post-employment Benefits (OPEB) - Health Insurance

Valuation as of (1)	Actuarial Value of Assets (2)	Actuarial Accrued Liability (AAL) (3)	Unfunded AAL (UAAL) (3) - (2) (4)	Funded Ratio Assets as % of AAL (2)/(3) (5)	Annual Covered Payroll (6)	UAAL as a % of Covered Payroll (4)/(6) (7)
January 1, 2013	\$ -	\$ 1,466,300	\$ 1,466,300	0.00%	\$ 10,737,400	13.66%
January 1, 2011	-	719,300	719,300	0.00%	9,842,500	7.31%
January 1, 2009	-	595,300	595,300	0.00%	10,848,600	5.49%

---

**COMPLIANCE SECTION**

---

## **Compliance Section**

# 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 Board of Directors  
Southwest Virginia Regional Jail Authority  
Abingdon, 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 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 governmental activities and each major fund of Southwest Virginia Regional Jail Authority, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise Southwest Virginia Regional Jail Authority's basic financial statements, and have issued our report thereon dated August 22, 2013.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Southwest Virginia 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 Southwest Virginia Regional Jail Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Southwest Virginia Regional Jail Authority's internal control.

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

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

### Compliance and Other Matters

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

noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### 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, Co. Associates*

Blacksburg, Virginia  
August 22, 2013