

**SOUTHWEST VIRGINIA REGIONAL JAIL AUTHORITY**

**FINANCIAL REPORT**

**FOR THE YEAR ENDED JUNE 30, 2016**

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**SOUTHWEST VIRGINIA REGIONAL JAIL AUTHORITY  
FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2016**

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**FINANCIAL SECTION**

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**FINANCIAL SECTION**

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# ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

## Independent Auditors' Report

To the Honorable Members of  
Southwest Virginia Regional Jail Authority  
Abingdon, Virginia

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and remaining fund information of Southwest Virginia Regional Jail Authority, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Southwest Virginia Regional Jail 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.

### *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 governmental activities, each major fund and remaining fund information of Southwest Virginia Regional Jail Authority, as of June 30, 2016, and the changes in financial position 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 Southwest Virginia Regional Jail Authority adopted new accounting guidance, GASB Statement Nos. 72 Fair Value Measurement and Application, 79 Certain External Investment Pools and Pool Participants and 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 budgetary comparison information and schedules related to pension and OPEB funding on pages 48-49 and 50-53, respectively, 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 September 22, 2016, on our consideration of 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, 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 Southwest Virginia Regional Jail Authority's internal control over financial reporting and compliance.

*Robinson, Fauner, Co. Associates*

Blacksburg, Virginia  
September 22, 2016

## Basic Financial Statements

SOUTHWEST VIRGINIA REGIONAL JAIL AUTHORITY  
Statement of Financial Position  
June 30, 2016

Exhibit 1

|   | Primary<br>Governmental<br>Activities |
|---|---------------------------------------|
| <b>ASSETS</b>   |                                       |
| Cash and cash equivalents                             | \$ 10,425,150                         |
| Accounts receivable                                   | 338,792                               |
| Prepaid items   | 950,157                               |
| Due from other governmental units                     | 3,645,984                             |
| Net pension asset                                     | 366,512                               |
| Restricted assets:                                    |                                       |
| Cash and cash equivalents with trustee                | 11,049                                |
| Investments with trustee                              | 6,950,165                             |
| Capital assets (net of accumulated depreciation):     |                                       |
| Land  | 1,176,628                             |
| Machinery and equipment                               | 1,103,379                             |
| Buildings and improvements                            | 88,943,151                            |
| Total assets  | \$ 113,910,967                        |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                 |                                       |
| Deferred charge on refunding                          | \$ 521,168                            |
| Pension contributions subsequent to measurement date  | 1,940,571                             |
| Total deferred outflows of resources                  | \$ 2,461,739                          |
| <b>LIABILITIES</b>                                    |                                       |
| Accounts payable                                      | \$ 261,373                            |
| Accrued interest payable                              | 685,095                               |
| Accrued wages   | 201,561                               |
| Accrued benefits                                      | 237,883                               |
| Due to other governmental units                       | 1,732,090                             |
| Long-term liabilities:                                |                                       |
| Due within one year                                   | 2,848,940                             |
| Due in more than one year                             | 70,379,828                            |
| Total liabilities                                     | \$ 76,346,770                         |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                  |                                       |
| Items related to measurement of net pension liability | \$ 981,184                            |
| <b>NET POSITION</b>                                   |                                       |
| Net investment in capital assets                      | \$ 20,351,297                         |
| Restricted for debt service                           | 6,961,214                             |
| Unrestricted  | 11,732,241                            |
| Total net position                                    | \$ 39,044,752                         |

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, 2016

|  | Program Revenues |                         |  | Net (Expense) Revenue and<br>Changes in Net Position |
|--|------------------|-------------------------|--|--|
|  | Expenses         | Charges for<br>Services | Operating<br>Grants and<br>Contributions |  |
| <b>Functions/Programs</b>                            |                  |                         |  |  |
| <b>Primary Government:</b>                           |                  |                         |  |  |
| Governmental activities:                             |                  |                         |  |  |
| Public safety  | \$ 40,260,041    | \$ 21,767,782           | \$ 38,976,957                            | \$ 20,484,698  |
| Interest on long-term obligations                    | 2,588,976        | -                       | -  | (2,588,976)  |
| Total governmental activities                        | \$ 42,849,017    | \$ 21,767,782           | \$ 38,976,957                            | \$ 17,895,722  |
|  |                  |                         |  |  |
| General revenues:                                    |                  |                         |  |  |
| Unrestricted revenues from use of money and property |                  |                         |  | \$ 120,729   |
| Miscellaneous  |                  |                         |  | 3,061,768  |
| Total general revenues                               |                  |                         |  | 3,182,497  |
| Change in net position                               |                  |                         |  | 21,078,219   |
| Net position - beginning                             |                  |                         |  | 17,966,533   |
| Net position - ending                                |                  |                         |  | \$ 39,044,752  |

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

SOUTHWEST VIRGINIA REGIONAL JAIL AUTHORITY  
 Balance Sheet  
 Governmental Funds  
 June 30, 2016

**ASSETS**

## Current assets:

|                                   |            |
|-----------------------------------|------------|
| Cash and cash equivalents         | 10,425,150 |
| Accounts receivable               | 338,792    |
| Prepaid items                     | 950,157    |
| Due from other governmental units | 3,645,984  |

## Noncurrent assets:

|   |           |
|---|-----------|
| Cash and cash equivalents with trustee - restricted | 11,049    |
| Investments with trustee - restricted               | 6,950,165 |

|              |            |
|--------------|------------|
| Total assets | 22,321,297 |
|--------------|------------|

**LIABILITIES AND FUND BALANCE**

## Current liabilities:

|                                 |            |
|---------------------------------|------------|
| Accounts payable                | \$ 261,373 |
| Accrued wages                   | 201,561    |
| Accrued benefits                | 237,883    |
| Due to other governmental units | 1,732,090  |

|                   |              |
|-------------------|--------------|
| Total liabilities | \$ 2,432,907 |
|-------------------|--------------|

## Fund balance:

|                             |            |
|-----------------------------|------------|
| Nonspendable                | \$ 950,157 |
| Restricted:                 |            |
| Restricted for debt service | 6,961,214  |
| Unassigned                  | 11,977,019 |

|                    |               |
|--------------------|---------------|
| Total fund balance | \$ 19,888,390 |
|--------------------|---------------|

|                                    |               |
|------------------------------------|---------------|
| Total liabilities and fund balance | \$ 22,321,297 |
|------------------------------------|---------------|

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, 2016

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

|   |  |               |
|---|--|---------------|
| Total fund balances per Exhibit 3 - Balance Sheet |  | \$ 19,888,390 |
|---|--|---------------|

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 | 88,943,151       |            |
| Machinery and equipment    | <u>1,103,379</u> | 91,223,158 |

|  |  |         |
|--|--|---------|
| The net pension asset is not an available resource and, therefore, is not reported in the funds. |  | 366,512 |
|--|--|---------|

Other long-term assets are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.

|   |                  |           |
|---|------------------|-----------|
| Deferred charge on refunding                                | 521,168          |           |
| Items related to measurement of net pension liability/asset | <u>(981,184)</u> | (460,016) |

|  |  |           |
|--|--|-----------|
| Pension contributions subsequent to the measurement date will be reduction to the net pension liability in the next fiscal year and, therefore, are not reported in the funds. |  | 1,940,571 |
|--|--|-----------|

Long-term liabilities/assets, 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            | (43,435,000)     |                     |
| Premium on revenue bond   | (2,338,225)      |                     |
| Premium on refunding bond | (5,560,825)      |                     |
| Energy revolving loan     | (183,979)        |                     |
| Accrued interest payable  | (685,095)        |                     |
| Net OPEB obligation       | (1,043,599)      |                     |
| Compensated absences      | <u>(792,140)</u> | <u>(73,913,863)</u> |

|   |  |                      |
|---|--|----------------------|
| Net position of governmental activities |  | <u>\$ 39,044,752</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**  
**For the Year Ended June 30, 2016**

|   |                           |
|---|---------------------------|
| <b>Revenues:</b>  |                           |
| Charges for Services                                      | \$ 21,767,782             |
| Intergovernmental revenue                                 | 38,976,957                |
| Unrestricted revenue from use of money and property       | 120,729                   |
| Miscellaneous   | 3,061,768                 |
|   | <hr/>                     |
| Total revenues  | \$ 63,927,236             |
| <br>  |                           |
| <b>Expenditures:</b>                                      |                           |
| Public Safety:  |                           |
| Employee Costs  | \$ 23,305,781             |
| Contractual Services                                      | 782,065                   |
| Support Services  | 51,197                    |
| Utilities   | 2,371,970                 |
| Medical Services  | 2,287,512                 |
| Medical Supplies  | 1,158,303                 |
| Insurance   | 4,195,821                 |
| Travel  | 44,779                    |
| Office Supplies   | 85,711                    |
| Facility and Maintenance Supplies                         | 616,310                   |
| Inmate Supplies   | 442,924                   |
| Correctional Supplies                                     | 147,710                   |
| Food Services   | 2,148,444                 |
| Equipment   | 838,503                   |
| Capital Projects  | 17,391                    |
| Debt Service:   |                           |
| Principal   | 19,598,874                |
| Interest  | 2,979,277                 |
|   | <hr/>                     |
| Total expenditures  | \$ 61,072,572             |
| <br>  |                           |
| Excess (deficiency) of revenues over (under) expenditures | \$ 2,854,664              |
| <br>  |                           |
| Net change in fund balance                                | \$ 2,854,664              |
| <br>  |                           |
| Fund balance, beginning of year                           | <hr/> 17,033,726          |
| <br>  |                           |
| Fund balance, end of year                                 | <hr/> <hr/> \$ 19,888,390 |

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, 2016

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

Net change in fund balances - total governmental funds \$ 2,854,664

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 capital asset purchases exceeded the depreciation in the current period.

|                         |                    |             |
|-------------------------|--------------------|-------------|
| Capital asset additions | 486,061            |             |
| Depreciation expense    | <u>(3,037,362)</u> | (2,551,301) |

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

|  |         |
|--|---------|
| Change in deferred inflows related to the measurement of the net pension liability/asset | 130,229 |
|--|---------|

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.

|                      |            |
|----------------------|------------|
| Payment of principal | 19,598,874 |
|----------------------|------------|

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  | (29,466)       |                  |
| (Increase) decrease in accrued interest payable  | 51,717         |                  |
| (Increase) decrease in Net OPEB obligation   | (187,207)      |                  |
| Amortization of bond premium   | 364,642        |                  |
| Amortization of deferred charge on refunding   | (26,058)       |                  |
| (Increase) decrease in net pension obligation/asset  | 607,627        |                  |
| Change in deferred outflows related to pension payments subsequent to the measurement date | <u>264,498</u> | <u>1,045,753</u> |

|   |                      |
|---|----------------------|
| Change in net position of governmental activities | <u>\$ 21,078,219</u> |
|---|----------------------|

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

SOUTHWEST VIRGINIA REGIONAL JAIL AUTHORITY  
 Statement of Fiduciary Net Position  
 Agency Funds  
 June 30, 2016

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|                                  | <u>Agency<br/>Funds</u>  |
|----------------------------------|--------------------------|
| <b>ASSETS</b>                    |                          |
| Cash                             | \$ <u>199,212</u>        |
| Total assets                     | \$ <u><u>199,212</u></u> |
| <b>LIABILITIES</b>               |                          |
| Amounts held for inmate benefits | \$ <u>199,212</u>        |
| Total liabilities                | \$ <u><u>199,212</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, 2016

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#### 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.

Statement of Net Position - The Statement of Net Position is designed to display financial position of the primary government (governmental and business-type activities) and its discretely presented component units. Governments will report all capital assets in the government-wide Statement of Net Position and will report depreciation expense - the cost of "using up" capital assets - in the Statement of Activities. The net position of a government will be broken down into three categories - 1) net investment in capital assets; 2) restricted; and 3) unrestricted.

Statement of Activities - The government-wide Statement of Activities reports expenses and revenues in a format that focuses on the cost of each of the government's functions. The expense of individual functions is compared to the revenues generated directly by the function (for instance, through user charges or intergovernmental grants).

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*.

## Southwest Virginia Regional Jail Authority

### Notes to the Financial Statements June 30, 2016 (continued)

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

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

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.

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.



Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2016 (continued)

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

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

2. *Investments*

Money market investments, participating interest-earning investment contracts (repurchase agreements) that have a remaining maturity at time of purchase of one year or less, nonparticipating interest-earning investment contracts (nonnegotiable certificates of deposit (CDs) and external investment pools are measured as amortized cost. All other investments are reported at fair value.

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, and equipment 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 acquisition 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 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.

## Southwest Virginia Regional Jail Authority

### Notes to the Financial Statements June 30, 2016 (continued)

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#### 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, 2016 was \$792,140.

##### 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 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.

##### 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. The Authority has two items that qualify for reporting in this category. One item is the deferred charge on refunding reported in the statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The other item is comprised of certain items related to the measurement of the net pension liability.

## Southwest Virginia Regional Jail Authority

### Notes to the Financial Statements June 30, 2016 (continued)

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#### 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)*

These include differences between expected and actual experience, change in assumptions, the net difference between projected and actual earnings on pension plan investments, and 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, see note 5.

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 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 between expected and actual experience, change in assumptions, the net difference between projected and actual earning on pension plan investments, and changes in proportion and differences between employer contributions and proportionate share of contributions. For more detailed information on these items, see note 5.

###### 10. *Pensions*

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

###### 11. *Net Position*

Net position is the difference between a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets. 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.

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.

## Southwest Virginia Regional Jail Authority

### Notes to the Financial Statements June 30, 2016 (continued)

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

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

##### *11. Net Position (continued)*

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.

##### *12. 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.

##### *13. Fund Equity*

The Authority reports fund balance in accordance with GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. 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.

Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2016 (continued)

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

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

*13. Fund Equity (continued)*

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.

*14. Adoption of Accounting Principles*

**Governmental Accounting Standards Board Statement No. 72, Fair Value Measurement and Application**

The Authority implemented the provisions of the above Statement during the fiscal year ended June 30, 2016. The Statement generally requires investments to be measured at fair value. The Statement requires the Authority to use valuation techniques which are appropriate under the circumstances and are either a market approach, a cost approach, or an income approach. The Statement establishes a hierarchy of inputs used to measure fair value. There was no material impact on the Authority's financial statement as a result of the implementation of Statement No. 72. All required disclosures are located in Note 9.

**Governmental Accounting Standards Board Statement No. 79, Certain External Investment Pools and Pool Participants**

The Authority implemented the provisions of the above Statement during the fiscal year ended June 30, 2016. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. There was no material impact on the Authority's financial statement as a result of the implementation of Statement No. 79. All required disclosures are located in Note 3.

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Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2016 (continued)

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

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

*14. Adoption of Accounting Principles (continued)*

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

The Authority 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 Pensions 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.

**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).

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Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2016 (continued)

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

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, 2016 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      | \$ -                 | \$ 1,843,686 | \$ 1,843,686 |
| Fidelity Instit. MM Class II | 537,330              | -            | 537,330      |
| SNAP                         | 4,569,149            | -            | 4,569,149    |
| Total                        | \$ 5,106,479         | \$ 1,843,686 | \$ 6,950,165 |

Concentration of Credit Risk:

At June 30, 2016, the Authority did not have any investments meeting the GASB 40 definition requiring concentration of credit risk disclosures that exceeded 5% of total investments.

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> |                   |                      |                     |
| Federal Home Loan Bank            | \$ 515,237        | 9/29/2016            | None                |
| Federal Home Loan Bank            | 121,927           | 9/16/2016            | None                |
| Federal Home Loan Bank            | 156,906           | 9/16/2016            | None                |
| Federal Home Loan Mortgage Corp   | 121,921           | 9/22/2016            | None                |
| Federal Home Loan Mortgage Corp   | 489,838           | 8/17/2016            | None                |
| Federal National Mortgage Assn    | 314,896           | 8/17/2016            | None                |
| Federal Farm Credit Bank          | 122,961           | 8/16/2016            | None                |
| Total                             | \$ 1,843,686      |                      |                     |

External Investment Pools:

The State Non-Arbitrage Pool (SNAP) is an open-end management investment company registered with the Securities and Exchange Commission. In May 2016, the Board voted to convert SNAP fund to an LGIP structure, which would be managed in conformance with GASB 79. On October 3, 2016 the Prime Series became a government money market fund and the name was changed to Government Select Series. The Government Select Series has a policy of investing at least 99.5% of its assets in cash, U.S. Government securities (including securities issued or guaranteed by the U.S. government or its agencies or instrumentalities) and/or repurchase agreements that are collateralized fully.

Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2016 (continued)

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

*External Investment Pools: (continued)*

The value of the positions in the external investment pools (Local Government Investment Pool and State Non-Arbitrage Pool) is the same as the value of the pool shares. As LGIP is not SEC registered, regulatory oversight of the pools rests with the Virginia State Treasury. LGIP and SNAP are amortized cost basis portfolios under the provisions of GASB Statement No. 79. There are no withdrawal limitations or restrictions imposed on participants.

**Note 3— Fair Value Measurements:**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Authority categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The Authority maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels as follows:

- Level 1. Quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at a measurement date
- Level 2. Directly or indirectly observable inputs for the asset or liability other than quoted prices
- Level 3. Unobservable inputs that are supported by little or no market activity for the asset or liability

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk.

The Authority has the following recurring fair value measurements as of June 30, 2016:

| Investment    | 6/30/2016 | Fair Value Measurement Using |   |
|---------------|-----------|------------------------------|---|
|               |           |                              | Quoted Prices in<br>Active Markets<br>for Identical Assets<br>(Level 1) |
| U.S. Treasury |           | \$                           | 1,843,685   |



Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2016 (continued)

**Note 4-Due From Other Governments:**

At June 30, 2016, the Authority had the following receivables due from other governments:

|  | <u>Primary<br/>Government</u> |
|--|-------------------------------|
| Amounts due from the State Compensation Board for payroll                | \$ 1,848,686                  |
| Amounts due from the State for Per Diems                                 | 1,587,849                     |
| Amounts due from Federal Government                                      | 118,950                       |
| Amounts due from participating jurisdictions                             | 78,814                        |
| Amount due from the Southwest Virginia Criminal Justice Training Academy | <u>11,685</u>                 |
| <br>Total Due from Other Governments                                     | <br><u>\$ 3,645,984</u>       |

**Note 5-Long-Term Obligations:**

**Primary Government - Governmental Activities Indebtedness:**

The following is a summary of long-term obligation transactions of the Authority for the year ended June 30, 2016:

|                           | <u>Balance<br/>July 1, 2015</u> | <u>Increases/<br/>Issuances</u> | <u>Decreases/<br/>Retirements</u> | <u>Balance<br/>June 30, 2016</u> |
|---------------------------|---------------------------------|---------------------------------|-----------------------------------|----------------------------------|
| Revenue Bond              | \$ 19,875,000                   | \$ -                            | \$ -                              | \$ 19,875,000                    |
| Premium on Revenue Bond   | 2,424,826                       | -                               | (86,601)                          | 2,338,225                        |
| Refunding Bond            | 44,840,000                      | -                               | (1,405,000)                       | 43,435,000                       |
| Premium on Refunding Bond | 5,838,866                       | -                               | (278,041)                         | 5,560,825                        |
| Note Payable              | 18,125,000                      | -                               | (18,125,000)                      | -                                |
| Energy Revolving Loan     | 252,853                         | -                               | (68,874)                          | 183,979                          |
| Compensated Absences      | 762,674                         | 601,472                         | (572,006)                         | 792,140                          |
| Net OPEB Obligation       | <u>856,392</u>                  | <u>235,607</u>                  | <u>(48,400)</u>                   | <u>1,043,599</u>                 |
| <br>Total                 | <br><u>\$ 92,975,611</u>        | <br><u>\$ 837,079</u>           | <br><u>\$ (20,583,922)</u>        | <br><u>\$ 73,228,768</u>         |

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Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2016 (continued)

Note 5-Long-Term Obligations: (continued)

Primary Government - Governmental Activities Indebtedness: (continued)

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

| Year Ending<br>June 30, | Revenue Bond         |                      | Energy Revolving Loan |                 |
|-------------------------|----------------------|----------------------|-----------------------|-----------------|
|                         | Principal            | Interest             | Principal             | Interest        |
| 2017                    | \$ 370,000           | \$ 878,343           | \$ 70,192             | \$ 2,998        |
| 2018                    | 375,000              | 865,477              | 71,536                | 1,654           |
| 2019                    | 400,000              | 847,893              | 42,251                | 315             |
| 2020                    | 430,000              | 828,999              | -                     | -               |
| 2021                    | 450,000              | 807,774              | -                     | -               |
| 2022-2026               | 2,570,000            | 3,736,356            | -                     | -               |
| 2027-2031               | 3,285,000            | 3,090,678            | -                     | -               |
| 2032-2036               | 4,220,000            | 2,252,335            | -                     | -               |
| 2037-2041               | 5,290,000            | 1,213,778            | -                     | -               |
| 2042-2043               | 2,485,000            | 117,478              | -                     | -               |
|                         | <u>\$ 19,875,000</u> | <u>\$ 14,639,111</u> | <u>\$ 183,979</u>     | <u>\$ 4,967</u> |

| Year Ending<br>June 30, | Refunding Bond       |                      |
|-------------------------|----------------------|----------------------|
|                         | Principal            | Interest             |
| 2017                    | \$ 1,450,000         | \$ 1,848,509         |
| 2018                    | 1,515,000            | 1,787,181            |
| 2019                    | 1,580,000            | 1,717,196            |
| 2020                    | 1,640,000            | 1,644,184            |
| 2021                    | 1,700,000            | 1,579,796            |
| 2022-2026               | 9,550,000            | 6,850,778            |
| 2027-2031               | 11,835,000           | 4,486,597            |
| 2032-2036               | 14,165,000           | 1,531,662            |
|                         | <u>\$ 43,435,000</u> | <u>\$ 21,445,903</u> |

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Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2016 (continued)

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Note 5-Long-Term Obligations: (continued)

Primary Government - Governmental Activities 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                          | \$ 370,000                        |
| Premium on Revenue Bond     |                       |                    |                          |                            | 2,598,028                       | 2,338,225                              | 86,601                            |
| Refunding Bond              | 2.0-4.8%              | 6/5/2013           | Semi-Annually            | 10/1/2035                  | 46,080,000                      | 43,435,000                             | 1,450,000                         |
| Premium on Refunding Bond   |                       |                    |                          |                            | 6,394,949                       | 5,560,825                              | 278,042                           |
| Energy Revolving Loan       | 1.90%                 | 4/30/2012          | Monthly                  | 7/15/2020                  | 542,000                         | 183,979                                | 70,192                            |
| Other Obligations:          |                       |                    |                          |                            |                                 |  |                                   |
| Compensated Absences        |                       |                    |                          |                            |                                 | \$ 792,140                             | \$ 594,105                        |
| Net OPEB Obligation         |                       |                    |                          |                            |                                 | 1,043,599                              | -                                 |
| Total Other Obligations     |                       |                    |                          |                            |                                 | <u>\$ 1,835,739</u>                    | <u>594,105</u>                    |
| Total Long Term Obligations |                       |                    |                          |                            |                                 | <u>\$ 73,228,768</u>                   | <u>\$ 2,848,940</u>               |

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Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2016 (continued)

**Note 6—Pension Plan:**

*Plan Description*

All full-time, salaried permanent employees of the Southwest Virginia Regional Jail Authority are automatically covered by VRS Retirement Plan upon employment. 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. 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   |
| <p><b>About Plan 1</b><br/>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.</p> | <p><b>About Plan 2</b><br/>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.</p> | <p><b>About the Hybrid Retirement Plan</b><br/>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”)</p> <ul style="list-style-type: none"> <li>• The defined benefit is based on a member’s age, creditable service and average final compensation at retirement using a formula.</li> <li>• 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.</li> </ul> |

Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2016 (continued)

**Note 6—Pension Plan: (Continued)**

*Plan Description (Continued)*

| RETIREMENT PLAN PROVISIONS (CONTINUED)  |   |   |
|---|---|---|
| PLAN 1  | PLAN 2  | HYBRID RETIREMENT PLAN  |
| <p>About Plan 1 (Cont.)</p>   | <p>About Plan 2 (Cont.)</p>   | <p>About the Hybrid Retirement Plan (Cont.)</p> <ul style="list-style-type: none"> <li>• 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.</li> </ul>   |
| <p><b>Eligible Members</b><br/>Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p><b>Hybrid Opt-In Election</b><br/>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.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> | <p><b>Eligible Members</b><br/>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.</p> <p><b>Hybrid Opt-In Election</b><br/>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.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> | <p><b>Eligible Members</b><br/>Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> <li>• Political subdivision employees*</li> <li>• Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.</li> </ul> <p><b>*Non-Eligible Members</b><br/>Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> <li>• Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.</li> </ul> |

Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2016 (continued)

**Note 6—Pension Plan: (Continued)**

*Plan Description (Continued)*

| RETIREMENT PLAN PROVISIONS (CONTINUED)  |  |   |
|---|--|---|
| PLAN 1  | PLAN 2   | HYBRID RETIREMENT PLAN  |
| <p><b>Hybrid Opt-In Election (Cont.)</b><br/>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.</p>  | <p><b>Hybrid Opt-In Election (Cont.)</b><br/>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.</p>  | <p><b>*Non-Eligible Members (Cont.)</b><br/>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>  |
| <p><b>Retirement Contributions</b><br/>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.</p> | <p><b>Retirement Contributions</b><br/>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.</p> | <p><b>Retirement Contributions</b><br/>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.</p> |

Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2016 (continued)

**Note 6—Pension Plan: (Continued)**

*Plan Description (Continued)*

| RETIREMENT PLAN PROVISIONS (CONTINUED)  |  |  |
|---|--|--|
| PLAN 1  | PLAN 2   | HYBRID RETIREMENT PLAN   |
| <p><b>Creditable Service</b><br/>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.</p> | <p><b>Creditable Service</b><br/>Same as Plan 1.</p> | <p><b>Creditable Service</b><br/><b><u>Defined Benefit Component:</u></b><br/>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.</p> <p><b><u>Defined Contributions Component:</u></b><br/>Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p> |

Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2016 (continued)

**Note 6—Pension Plan: (Continued)**

*Plan Description (Continued)*

| RETIREMENT PLAN PROVISIONS (CONTINUED)   |   |   |
|--|---|---|
| PLAN 1   | PLAN 2                                    | HYBRID RETIREMENT PLAN  |
| <p><b>Vesting</b><br/>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.</p> <p>Members are always 100% vested in the contributions that they make.</p> | <p><b>Vesting</b><br/>Same as Plan 1.</p> | <p><b>Vesting</b><br/><u><b>Defined Benefit Component:</b></u><br/>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.</p> <p><u><b>Defined Contributions Component:</b></u><br/>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.</p> <p>Members are always 100% vested in the contributions that they make.</p> |



Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2016 (continued)

**Note 6—Pension Plan: (Continued)**

*Plan Description (Continued)*

| RETIREMENT PLAN PROVISIONS (CONTINUED)   |  |   |
|--|--|---|
| PLAN 1   | PLAN 2   | HYBRID RETIREMENT PLAN  |
| <p>Vesting (Cont.)</p>   | <p>Vesting (Cont.)</p>   | <p>Vesting (Cont.)<br/><u>Defined Contributions Component: (Cont.)</u><br/>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.</p> <ul style="list-style-type: none"> <li>• After two years, a member is 50% vested and may withdraw 50% of employer contributions.</li> <li>• After three years, a member is 75% vested and may withdraw 75% of employer contributions.</li> <li>• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.</li> </ul> <p>Distribution is not required by law until age 70½.</p> |
| <p><b>Calculating the Benefit</b><br/>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.</p> | <p><b>Calculating the Benefit</b><br/>See definition under Plan 1.</p> | <p><b>Calculating the Benefit</b><br/><u>Defined Benefit Component:</u><br/>See definition under Plan 1</p>   |

Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2016 (continued)

**Note 6—Pension Plan: (Continued)**

*Plan Description (Continued)*

| RETIREMENT PLAN PROVISIONS (CONTINUED)  |  |  |
|---|--|--|
| PLAN 1  | PLAN 2   | HYBRID RETIREMENT PLAN   |
| <p><b>Calculating the Benefit (Cont.)</b><br/>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.</p>   | <p><b>Calculating the Benefit (Cont.)</b></p>  | <p><b>Calculating the Benefit (Cont.)</b><br/><u>Defined Contribution Component:</u><br/>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.</p>  |
| <p><b>Average Final Compensation</b><br/>A member’s average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>   | <p><b>Average Final Compensation</b><br/>A member’s average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>  | <p><b>Average Final Compensation</b><br/>Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>   |
| <p><b>Service Retirement Multiplier</b><br/><b>VRS:</b> 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%.</p> <p><b>Sheriffs and regional jail superintendents:</b> The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.</p> <p><b>Political subdivision hazardous duty employees:</b> 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.</p> | <p><b>Service Retirement Multiplier</b><br/><b>VRS:</b> 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.</p> <p><b>Sheriffs and regional jail superintendents:</b> Same as Plan 1.</p> <p><b>Political subdivision hazardous duty employees:</b> Same as Plan 1.</p> | <p><b>Service Retirement Multiplier</b><br/><u>Defined Benefit Component:</u><br/><b>VRS:</b> The retirement multiplier for the defined benefit component is 1.00%.</p> <p>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.</p> <p><b>Sheriffs and regional jail superintendents:</b> Not applicable.</p> <p><b>Political subdivision hazardous duty employees:</b> Not applicable.</p> <p><u>Defined Contribution Component:</u><br/>Not applicable.</p> |

Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2016 (continued)

**Note 6—Pension Plan: (Continued)**

*Plan Description (Continued)*

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

Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2016 (continued)

**Note 6—Pension Plan: (Continued)**

*Plan Description (Continued)*

| RETIREMENT PLAN PROVISIONS (CONTINUED)  |  |   |
|---|--|---|
| PLAN 1  | PLAN 2   | HYBRID RETIREMENT PLAN  |
| <p><b>Earliest Reduced Retirement Eligibility (Cont.)</b></p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p>  | <p><b>Earliest Reduced Retirement Eligibility (Cont.)</b></p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>  | <p><b>Earliest Reduced Retirement Eligibility (Cont.)</b></p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u><br/>Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p> |
| <p><b>Cost-of-Living Adjustment (COLA) in Retirement</b></p> <p>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%.</p> <p><u>Eligibility:</u><br/>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.</p> <p>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.</p> | <p><b>Cost-of-Living Adjustment (COLA) in Retirement</b></p> <p>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%.</p> <p><u>Eligibility:</u><br/>Same as Plan 1.</p> | <p><b>Cost-of-Living Adjustment (COLA) in Retirement</b></p> <p><u>Defined Benefit Component:</u><br/>Same as Plan 2.</p> <p><u>Defined Contribution Component:</u><br/>Not applicable.</p> <p><u>Eligibility:</u><br/>Same as Plan 1 and Plan 2.</p>                                   |

Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2016 (continued)

**Note 6—Pension Plan: (Continued)**

*Plan Description (Continued)*

| RETIREMENT PLAN PROVISIONS (CONTINUED)   |   |  |
|--|---|--|
| PLAN 1   | PLAN 2  | HYBRID RETIREMENT PLAN   |
| <p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u><br/>The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> <li>• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.</li> <li>• The member retires on disability.</li> <li>• The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).</li> <li>• The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.</li> <li>• 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.</li> </ul> | <p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u><br/>Same as Plan 1.</p> | <p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u><br/>Same as Plan 1 and Plan 2.</p> |

Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2016 (continued)

**Note 6—Pension Plan: (Continued)**

*Plan Description (Continued)*

| RETIREMENT PLAN PROVISIONS (CONTINUED)   |  |  |
|--|--|--|
| PLAN 1   | PLAN 2   | HYBRID RETIREMENT PLAN   |
| <p><b>Disability Coverage</b><br/>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.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>  | <p><b>Disability Coverage</b><br/>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.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p> | <p><b>Disability Coverage</b><br/>Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</p> <p>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.</p>   |
| <p><b>Purchase of Prior Service</b><br/>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.</p> | <p><b>Purchase of Prior Service</b><br/>Same as Plan 1.</p>  | <p><b>Purchase of Prior Service</b><br/><b><u>Defined Benefit Component:</u></b><br/>Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> <li>•Hybrid Retirement Plan members are ineligible for ported service.</li> <li>•The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.</li> <li>•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.</li> </ul> <p><b><u>Defined Contribution Component:</u></b><br/>Not applicable.</p> |

## Southwest Virginia Regional Jail Authority

### Notes to the Financial Statements June 30, 2016 (continued)

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#### **Note 6—Pension Plan: (Continued)**

##### *Plan Description (Continued)*

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 <http://www.varetire.org/Pdf/Publications/2015-annual-report-pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

##### *Contributions*

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% 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 Southwest Virginia Regional Jail Authority's contractually required contribution rate for the year ended June 30, 2016 was 13.04% 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 Southwest Virginia Regional Jail Authority were \$1,940,571 and \$1,674,795 for the years ended June 30, 2016 and June 30, 2015, respectively.

##### *Net Pension Liability*

The Authority's net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2013, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

At June 30, 2016, the Authority reported an asset of \$366,512 for its proportionate share of the net pension liability. The Southwest Virginia Regional Jail Authority's net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015. The Authority's proportionate share of the same was calculated using 2015 VRS contributions as of June 30, 2015. At June 30, 2015 and 2014, the Authority's proportion was 97.95%.

Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2016 (continued)

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**Note 6—Pension Plan: (Continued)**

*Actuarial Assumptions - General Employees*

The total pension asset for General Employees in the Authority's Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

|                                       |  |
|---------------------------------------|--|
| Inflation                             | 2.5%   |
| 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.

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Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2016 (continued)

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**Note 6—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

Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2016 (continued)

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**Note 6—Pension Plan: (Continued)**

*Actuarial Assumptions - Public Safety Employees*

The total pension liability for Public Safety employees in the Southwest Virginia Regional Jail Authority's Retirement Plan was based on an actuarial valuation as of June 30, 2014, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

|                                       |  |
|---------------------------------------|--|
| Inflation                             | 2.5%   |
| Salary increases, including inflation | 3.5% - 4.75%   |
| Investment rate of return             | 7.0%, net of pension plan investment expense, including inflation* |

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

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Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2016 (continued)

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**Note 6—Pension Plan:** (Continued)

*Actuarial Assumptions - Public Safety Employees (Continued)*

Mortality rates: 60% 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 back 2 years and females set back 2 years

Post-Retirement:

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

Post-Disablement:

RP-2000 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 back 2 years and females set back 2 years

Post-Retirement:

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

Post-Disablement:

RP-2000 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 - LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) - LEOS:

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

Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2016 (continued)

**Note 6—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:

| Asset Class (Strategy)    | Target Allocation | Arithmetic Long-Term Expected Rate of Return | Weighted Average Long-Term Expected Rate of Return |
|---------------------------|-------------------|--|--|
| U.S. Equity               | 19.50%            | 6.46%  | 1.26%  |
| Developed Non U.S. Equity | 16.50%            | 6.28%  | 1.04%  |
| Emerging Market Equity    | 6.00%             | 10.00%                                       | 0.60%  |
| Fixed Income              | 15.00%            | 0.09%  | 0.01%  |
| Emerging Debt             | 3.00%             | 3.51%  | 0.11%  |
| Rate Sensitive Credit     | 4.50%             | 3.51%  | 0.16%  |
| Non Rate Sensitive Credit | 4.50%             | 5.00%  | 0.23%  |
| Convertibles              | 3.00%             | 4.81%  | 0.14%  |
| Public Real Estate        | 2.25%             | 6.12%  | 0.14%  |
| Private Real Estate       | 12.75%            | 7.10%  | 0.91%  |
| Private Equity            | 12.00%            | 10.41%                                       | 1.25%  |
| Cash                      | 1.00%             | -1.50%                                       | -0.02%   |
| Total                     | 100.00%           |  | 5.83%  |
|                           |                   | Inflation                                    | 2.50%  |
|                           |                   | *Expected arithmetic nominal return          | 8.33%  |

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

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Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2016 (continued)

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**Note 6—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 Authority 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 Net Pension Liability to Changes in the Discount Rate*

The following presents the net pension liability of the Authority using the discount rate of 7.00%, as well as what the Authority’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%)        |
| Southwest Virginia Regional Jail Authority |              |              |                |
| Net Pension Liability                      | \$ 3,054,897 | \$ (366,512) | \$ (3,153,427) |

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Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2016 (continued)

**Note 6—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 Southwest Virginia Regional Jail Authority recognized pension expense of \$936,939. At June 30, 2016, the Southwest Virginia Regional Jail Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|  | <u>Deferred Outflows<br/>of Resources</u> | <u>Deferred Inflows<br/>of Resources</u> |
|--|---|--|
| Differences between expected and actual experience                               | \$ -                                      | \$ 525,042                               |
| Net difference between projected and actual earnings on pension plan investments | -   | 456,142                                  |
| Employer contributions subsequent to the measurement date                        | <u>1,940,571</u>                          | <u>-</u>                                 |
| Total  | <u>\$ 1,940,571</u>                       | <u>\$ 981,184</u>                        |

\$1,940,571 reported as deferred outflows of resources related to pensions resulting from the Southwest Virginia Regional Jail Authority's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year ended June 30</u> |                  |
|---------------------------|------------------|
| 2017                      | \$ (322,398)     |
| 2018                      | (322,398)        |
| 2019                      | (322,399)        |
| 2020                      | (13,989)         |
| Thereafter                | <u>-</u>         |
| Total                     | <u>(981,184)</u> |

Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2016 (continued)

**Note 7-Capital Assets:**

Capital asset activity for the year ended June 30, 2016 was as follows:

Primary Government:

|   | Beginning<br>Balance   | Increases             | Decreases              | Ending<br>Balance      |
|---|------------------------|-----------------------|------------------------|------------------------|
| <b>Governmental Activities:</b>             |                        |                       |                        |                        |
| Capital assets not being depreciated:       |                        |                       |                        |                        |
| Land  | \$ 1,176,628           | \$ -                  | \$ -                   | \$ 1,176,628           |
| Construction in Progress                    | 35,337,922             | -                     | (35,337,922)           | -                      |
| Total capital assets not being depreciated  | <u>\$ 36,514,550</u>   | <u>\$ -</u>           | <u>\$ (35,337,922)</u> | <u>\$ 1,176,628</u>    |
| Capital assets being depreciated            |                        |                       |                        |                        |
| Buildings and Improvements                  | \$ 75,076,659          | \$ 35,337,922         | \$ -                   | \$ 110,414,581         |
| Machinery and Equipment                     | 2,807,123              | 486,061               | -                      | 3,293,184              |
| Total capital assets being depreciated      | <u>\$ 77,883,782</u>   | <u>\$ 35,823,983</u>  | <u>\$ -</u>            | <u>\$ 113,707,765</u>  |
| Accumulated depreciation:                   |                        |                       |                        |                        |
| Buildings and Improvements                  | \$ (18,699,446)        | \$ (2,771,984)        | \$ -                   | \$ (21,471,430)        |
| Machinery and Equipment                     | (1,924,427)            | (265,378)             | -                      | (2,189,805)            |
| Total accumulated depreciation              | <u>\$ (20,623,873)</u> | <u>\$ (3,037,362)</u> | <u>\$ -</u>            | <u>\$ (23,661,235)</u> |
| Total capital assets being depreciated, net | <u>\$ 57,259,909</u>   | <u>\$ 32,786,621</u>  | <u>\$ -</u>            | <u>\$ 90,046,530</u>   |
| Governmental activities capital assets, net | <u>\$ 93,774,459</u>   | <u>\$ 32,786,621</u>  | <u>\$ (35,337,922)</u> | <u>\$ 91,223,158</u>   |

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

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

## Southwest Virginia Regional Jail Authority

### Notes to the Financial Statements June 30, 2016 (continued)

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#### **Note 8-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.

#### **Note 9-Other Postemployment Benefits - Health Insurance:**

From an accrual accounting perspective, the cost of other postemployment 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 351 employees that are eligible for the program. In addition, 100 percent of premiums are the responsibility of the retiree.

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Southwest Virginia Regional Jail Authority

Notes to the Financial Statements  
June 30, 2016 (continued)

**Note 9-Other Postemployment Benefits - Health Insurance: (continued)**

B. Funding Policy (continued)

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<br/>Dependent</u> | <u>Family</u> |
|--------------------|----------------|-----------------------------------|---------------|
| KA Expanded (PPO): | \$ 598         | \$ 1,106                          | \$ 1,615      |
| KA 500 (PPO):      | 514            | 951                               | 1,388         |
| 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.

C. Annual OPEB Cost and Net OPEB Obligation

For 2016, the Authority's annual OPEB cost (expense) of \$235,607 did not equal the ARC of \$237,300. The obligation calculation is as follows:

|  |                 |
|--|-----------------|
| Annual required contribution               | \$ 237,300      |
| Interest on net OPEB obligation            | 29,974          |
| Adjustment to annual required contribution | <u>(31,667)</u> |
| Annual OPEB cost (expense)                 | 235,607         |
| Contributions made                         | <u>48,400</u>   |
| Increase in net OPEB obligation            | 187,207         |
| Net OPEB obligation - beginning of year    | <u>856,392</u>  |
| Net OPEB obligation - end of year          | \$ 1,043,599    |

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

| <u>Fiscal<br/>Year Ended</u> | <u>Annual<br/>OPEB Cost</u> | <u>Annual OPEB Cost<br/>Contributed</u> | <u>Net OPEB<br/>Obligation</u> |
|------------------------------|-----------------------------|---|--------------------------------|
| 6/30/2016                    | \$ 235,607                  | 20.54%                                  | \$ 1,043,599                   |
| 6/30/2015                    | 223,358                     | 20.51%                                  | 856,392                        |
| 6/30/2014                    | 234,809                     | 24.23%                                  | 678,834                        |

## Southwest Virginia Regional Jail Authority

### Notes to the Financial Statements June 30, 2016 (continued)

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#### Note 9-Other Postemployment Benefits - Health Insurance: (continued)

##### D. Funded Status and Funding Progress

The funded status of the Plan for the Authority as of January 1, 2015, is as follows:

|   |    |            |
|---|----|------------|
| Actuarial accrued liability (AAL)                   | \$ | 1,404,300  |
| Actuarial value of plan assets                      |    | -          |
| Unfunded actuarial accrued liability (UAAL)         | \$ | 1,404,300  |
| Funded ratio (actuarial value of plan assets / AAL) |    | 0.00%      |
| Covered payroll (active plan members)               | \$ | 11,931,500 |
| UAAL as a percentage of covered payroll             |    | 11.77%     |

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.

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.

As of January 1, 2015, 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 2.50 percent, investment's rate of return at 3.50 percent, and a health care trend rate of 6.60 percent graded to 4.50 percent over 63 years. The UAAL is being amortized as a level percentage over the remaining amortization period, which at January 1, 2015, was 30 years.

## Southwest Virginia Regional Jail Authority

### Notes to the Financial Statements June 30, 2016 (continued)

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#### Note 10-Litigation:

As of June 30, 2016, 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 11 - 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. No formal study or estimate of the impact of this standard has been performed.

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. No formal study or estimate of the impact of this standard has been performed.

## Required Supplementary Information

SOUTHWEST VIRGINIA REGIONAL JAIL AUTHORITY  
Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual-General Fund  
For the Year Ended June 30, 2016

|  | Budgeted Amounts     |                      | Actual<br>Amounts    | Variance with<br>Final Budget-<br>Positive<br>(Negative) |
|--|----------------------|----------------------|----------------------|--|
|  | Original             | Final                |                      |  |
| Revenues:                                  |                      |                      |                      |  |
| Revenue from local sources:                |                      |                      |                      |  |
| Charges to participating jurisdictions:    |                      |                      |                      |  |
| Buchanan County                            | \$ 1,818,350         | \$ 1,818,350         | \$ 1,699,976         | \$ (118,374)   |
| Dickenson County                           | 1,181,349            | 1,181,349            | 1,182,328            | 979  |
| Lee County                                 | 1,864,678            | 1,864,678            | 1,813,766            | (50,912)   |
| Russell County                             | 2,964,953            | 2,964,953            | 2,262,416            | (702,537)  |
| Scott County                               | 1,748,859            | 1,748,859            | 1,700,652            | (48,207)   |
| Smyth County                               | 1,911,005            | 1,911,005            | 1,891,860            | (19,145)   |
| Tazewell County                            | 4,409,817            | 4,409,817            | 4,368,039            | (41,778)   |
| Washington County                          | 2,640,662            | 2,640,662            | 2,591,714            | (48,948)   |
| City of Norton                             | 231,637              | 231,637              | 281,834              | 50,197   |
| Wise County                                | 3,405,064            | 3,405,064            | 2,730,512            | (674,552)  |
| Charges to Federal Government              | 1,186,250            | 1,186,250            | 1,244,685            | 58,435   |
| Interest Income                            | 20,000               | 20,000               | 120,729              | 100,729  |
| Miscellaneous:                             |                      |                      |                      |  |
| Work Release Program                       | 38,000               | 38,000               | 34,382               | (3,618)  |
| Inmate Telephone Income                    | -                    | -                    | 984,031              | 984,031  |
| Home Monitoring                            | 2,000                | 2,000                | 11,463               | 9,463  |
| Commissary Commissions                     | 833,000              | 833,000              | 765,174              | (67,826)   |
| Co-payment and Medical Services            | 190,000              | 190,000              | 156,557              | (33,443)   |
| Other Miscellaneous Revenue                | 618,480              | 618,480              | 1,110,161            | 491,681  |
| <b>Total revenue from local sources</b>    | <b>\$ 25,064,103</b> | <b>\$ 25,064,103</b> | <b>\$ 24,950,279</b> | <b>\$ (113,824)</b>                                      |
| Intergovernmental:                         |                      |                      |                      |  |
| Revenue from the Commonwealth:             |                      |                      |                      |  |
| Categorical aid:                           |                      |                      |                      |  |
| Reimbursement of salaries and fringes      | \$ 15,370,000        | \$ 15,370,000        | \$ 14,634,266        | \$ (735,734)   |
| Reimbursement - construction               | -                    | -                    | 17,966,485           | 17,966,485   |
| State per diem warrant                     | 3,772,000            | 3,772,000            | 4,732,756            | 960,756  |
| Other                                      | 250,000              | 250,000              | 1,643,450            | 1,393,450  |
| <b>Total revenue from the Commonwealth</b> | <b>\$ 19,392,000</b> | <b>\$ 19,392,000</b> | <b>\$ 38,976,957</b> | <b>\$ 19,584,957</b>                                     |
| <b>Total revenues</b>                      | <b>\$ 44,456,103</b> | <b>\$ 44,456,103</b> | <b>\$ 63,927,236</b> | <b>\$ 19,471,133</b>                                     |
| Expenditures:                              |                      |                      |                      |  |
| Operating Expenditures:                    |                      |                      |                      |  |
| Employee Costs                             | \$ 25,456,553        | \$ 25,456,553        | \$ 23,305,781        | \$ 2,150,772   |
| Contractual Services                       | 939,740              | 939,740              | 782,065              | 157,675  |
| Support Services                           | 66,970               | 66,970               | 51,197               | 15,773   |
| Utilities                                  | 2,619,600            | 2,619,600            | 2,371,970            | 247,630  |
| Medical Services                           | 1,160,200            | 1,160,200            | 2,287,512            | (1,127,312)  |
| Medical Supplies                           | 1,523,900            | 1,523,900            | 1,158,303            | 365,597  |
| Insurance                                  | 4,009,000            | 4,009,000            | 4,195,821            | (186,821)  |
| Travel                                     | 52,500               | 52,500               | 44,779               | 7,721  |
| Office Supplies                            | 88,900               | 88,900               | 85,711               | 3,189  |
| Facility and Maintenance Supplies          | 713,000              | 713,000              | 616,310              | 96,690   |
| Inmate Supplies                            | 447,700              | 447,700              | 442,924              | 4,776  |
| Correctional Supplies                      | 109,000              | 109,000              | 147,710              | (38,710)   |
| Food Services                              | 2,568,840            | 2,568,840            | 2,148,444            | 420,396  |
| Equipment                                  | 11,000               | 11,000               | 838,503              | (827,503)  |
| Capital Projects                           | -                    | -                    | 17,391               | (17,391)   |

SOUTHWEST VIRGINIA REGIONAL JAIL AUTHORITY  
Schedule of Revenues, Expenditures and Changes in Fund Balances  
Budget and Actual-General Fund  
For the Year Ended June 30, 2016

|   | Budgeted Amounts     |                      | Actual<br>Amounts    | Variance with<br>Final Budget-<br>Positive<br>(Negative) |
|---|----------------------|----------------------|----------------------|--|
|   | Original             | Final                |                      |  |
| Expenditures: (continued)                                 |                      |                      |                      |  |
| Debt Services:  |                      |                      |                      |  |
| Principal   | \$ 1,224,400         | \$ 1,224,400         | \$ 19,598,874        | \$ (18,374,474)  |
| Interest  | 3,464,800            | 3,464,800            | 2,979,277            | 485,523  |
| Total expenditures  | <u>\$ 44,456,103</u> | <u>\$ 44,456,103</u> | <u>\$ 61,072,572</u> | <u>\$ (16,616,469)</u>                                   |
| Excess (deficiency) of revenues over (under) expenditures | \$ 0                 | \$ 0                 | \$ 2,854,664         | \$ 2,854,664   |
| Net change in fund balance                                | \$ 0                 | \$ 0                 | \$ 2,854,664         | \$ 2,854,664   |
| Fund balance, beginning of year                           | -                    | -                    | 17,033,726           | 17,033,726   |
| Fund balance, end of year                                 | <u>\$ 0</u>          | <u>\$ 0</u>          | <u>\$ 19,888,390</u> | <u>\$ 19,888,390</u>                                     |

Southwest Virginia Regional Jail Authority  
 Schedule of OPEB Funding Progress  
 For the Year Ended June 30, 2016

Other Postemployment Benefits (OPEB) - Health Insurance

| Actuarial<br>Valuation<br>as of<br>(1) | Actuarial<br>Value of<br>Assets<br>(2) | Actuarial<br>Accrued<br>Liability (AAL)<br>(3) | Unfunded<br>AAL (UAAL)<br>(3) - (2)<br>(4) | Funded Ratio<br>(2)/(3)<br>(5) | Covered<br>Payroll<br>(6) | UAAL as a<br>% of Covered<br>Payroll (4)/(6)<br>(7) |
|--|--|--|--|--------------------------------|---------------------------|---|
| January 1, 2015                        | \$ -                                   | \$ 1,404,300                                   | \$ 1,404,300                               | 0.00%                          | \$ 11,931,500             | 11.77%  |
| 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%   |

Southwest Virginia Regional Jail Authority  
 Schedule of the Authority's Proportionate Share of the Net Pension Liability (Asset)  
 June 30, 2016

Southwest Virginia Regional Jail Authority's Pension Plan (a cost-sharing multiple employer plan administered by the VRS)

| Actuarial<br>Valuation<br>Date | Proportion of the<br>Net Pension Liability (NPL)/<br>(Asset (NPA)) | Proportionate Share<br>of the NPL (NPA) | Covered<br>Payroll | Proportionate<br>Share of the NPL (NPA)<br>as a Percentage of<br>Covered Payroll<br>(3)/(4) | Pension Plan's<br>Fiduciary Net<br>Position as a<br>Percentage of Total<br>Pension Liability<br>(6) |
|--------------------------------|--|---|--------------------|---|---|
| (1)                            | (2)  | (3)                                     | (4)                | (5)   | (6)   |
| 2015                           | 97.95%   | \$ (366,512)                            | \$ 12,885,513      | -2.84%  | 101.72%   |
| 2014                           | 97.95%   | 241,115                                 | 11,570,726         | 2.08%   | 98.74%  |

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.



Southwest Virginia Regional Jail Authority  
 Schedule of Employer Contributions  
 June 30, 2016

Southwest Virginia Regional Jail Authority's Pension Plan (a cost-sharing multiple employer plan administered by the VRS)

| Actuarial<br>Valuation<br>Date<br>(1) | Contractually<br>Required<br>Contribution<br>(1) | Contributions in<br>Relation to<br>Contractually<br>Required<br>Contribution<br>(2) | Contribution<br>Deficiency (Excess)<br>(1) - (2)<br>(3) | Employer's<br>Covered Payroll<br>(4) | Contributions<br>as a % of<br>Covered Payroll<br>(2)/(4)<br>(5) |
|---------------------------------------|--|---|---|--------------------------------------|---|
| 2016                                  | \$ 1,940,571                                     | \$ 1,940,571  | -   | \$ 14,922,738                        | 13.00%  |
| 2015                                  | 1,674,795  | 1,674,795   | -   | 12,885,513                           | 13.00%  |

Current year contributions are from Authority records and prior year contributions are from the VRS actuarial valuation performed each year.

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.

Southwest Virginia Regional Jail Authority  
Notes to Required Supplementary Information  
June 30, 2016

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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 are not material.

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

Largest 10 - Non-LEOS:

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

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

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

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

All Others (Non 10 Largest) - LEOS:

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

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**COMPLIANCE SECTION**

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# ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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## 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*

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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; 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, each major fund and remaining fund information of Southwest Virginia Regional Jail Authority as of and for the year ended June 30, 2016, 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 September 22, 2016.

### 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, Faimer, Cox Associates*

Blacksburg, Virginia  
September 22, 2016