

BLUE RIDGE REGIONAL JAIL AUTHORITY

LYNCHBURG, VIRGINIA

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2017

BLUE RIDGE REGIONAL JAIL AUTHORITY
LYNCHBURG, VIRGINIA
FINANCIAL REPORT
YEAR ENDED JUNE 30, 2017

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BLUE RIDGE REGIONAL JAIL AUTHORITY

(A Regional Jail organized and existing pursuant to provisions of Chapter 7.1 of Title 53 of the *Code of Virginia* (1950), as amended)

BOARD MEMBERS, ALTERNATES AND OFFICERS

County of Amherst

Member: E. W. Viar, Sheriff
Alternate: Betty T. Wise, Major
Member: Dean C. Rogers, County Administrator
Alternate: David Proffitt, Assistant County Administrator

County of Appomattox

Member: Barry Letterman, Sheriff (Vice Chairman)
Alternate: Donald Simpson, Major
Member: Susan M. Adams, County Administrator
Alternate: John Spencer, Assistant County Administrator

County of Bedford

Member: Michael J. Brown, Sheriff
Alternate: Ricky Gardner, Major
Member: Carl Boggess, County Administrator
Alternate: Vacant

County of Campbell

Member: Steve A. Hutcherson, Sheriff
Alternate: L. T. Guthrie, Major
Member: Clifton M. Tweedy, Assistant County Administrator (Chairman)
Alternate: Frank J. Rogers, County Administrator

County of Halifax

Member: Fred Clark, Sheriff
Alternate: Thomas Spencer, Major
Member: James M. Halasz, County Administrator
Alternate: Stephanie C. Jackson, Director of Finance

City of Lynchburg

Member: Donald T. Sloan, Sheriff
Alternate: D. Scott Gillispie, Major
Member: Bonnie Svrcek, City Manager
Alternate: Raul M. Diaz, Chief of Police

ADMINISTRATOR

Timothy E. Trent

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

INDEPENDENT AUDITORS' REPORT

TO THE HONORABLE MEMBERS OF
BLUE RIDGE REGIONAL JAIL AUTHORITY
LYNCHBURG, VIRGINIA

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of Blue Ridge Regional Jail Authority, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Blue Ridge 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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of Blue Ridge Regional Jail Authority, as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3-6 and schedules related to pension funding on pages 42-44 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.

Report on Summarized Comparative Information

We have previously audited Blue Ridge Regional Jail Authority's 2016 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 31, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2017 on our consideration of Blue Ridge Regional Jail Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Blue Ridge Regional Jail Authority's internal control over financial reporting and compliance.

Robinson, Fanner, Cox Associates

Charlottesville, Virginia
October 31, 2017

BLUE RIDGE REGIONAL JAIL AUTHORITY

Management's Discussion and Analysis Year Ended June 30, 2017

This management's discussion and analysis of Blue Ridge Regional Jail Authority's financial performance provides an overview of the Authority's financial activities for the fiscal year ended June 30, 2017. Please read this information in conjunction with the Authority's financial statements, which follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Authority presents its financial statements under Governmental Accounting Standards Board (GASB) No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*.

The Authority presents three basic financial statements, including a Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position, and Statement of Cash Flows.

Financial position is measured in terms of resources (assets and deferred outflows of resources) we own and obligations (liabilities and deferred inflows of resources) we owe on a given date. This information is reported on the Statement of Net Position, which reflects the Authority's assets and deferred outflows of resources in relation to its debts to its creditors, employees and bondholders, and deferred inflows. The excess of our assets and deferred outflows over liabilities and deferred inflows of resources is our equity, or net position.

Information regarding the results of operations during the year is reported on the Statement of Revenues, Expenses and Changes in Net Position. This statement shows how much our overall net position increased or decreased during the year as a result of our operations and other factors.

Our Statement of Cash Flows discloses the flow of cash resources into and out of the Authority during the year (from operations, financing and other sources) and how we applied those funds (payment of expenses, repayment of debt, etc.).

FINANCIAL SUMMARY

Financial Position. A comparative summary of the Authority's Statement of Net Position for 2017 and 2016 is presented below:

| Condensed Statement of Net Position | | |
|-------------------------------------|----------------|----------------|
| | 2017 | 2016 |
| Current assets | \$ 22,111,122 | \$ 20,358,154 |
| Restricted assets | 4,680,255 | 4,678,919 |
| Noncurrent assets | 86,301,889 | 88,350,405 |
| Total assets | \$ 113,093,266 | \$ 113,387,478 |
| Deferred outflows of resources | \$ 2,797,488 | \$ 2,125,674 |
| Current liabilities | \$ 8,115,215 | \$ 8,230,770 |
| Noncurrent liabilities | 45,559,772 | 46,946,449 |
| Total liabilities | \$ 53,674,987 | \$ 55,177,219 |
| Deferred inflows of resources | \$ 653,714 | \$ 942,836 |
| Net position: | | |
| Net investment in capital assets | \$ 45,242,749 | \$ 45,056,746 |
| Unrestricted | 16,319,304 | 14,336,351 |
| Total net position | \$ 61,562,053 | \$ 59,393,097 |

FINANCIAL SUMMARY (continued)

The financial position of the Authority continues to remain strong. The Authority's unrestricted net position increased by 13.83% in 2017 compared to an increase of 15.49% in 2016. Total net position increased by 3.65% in 2017 and by 3.46% in 2016.

CHANGE IN NET POSITION

A comparative summary of the Authority's Statement of Revenues, Expenses and Changes in Net Position for 2017 and 2016 is presented below:

| <u>Condensed Statement of Revenues, Expenses and Changes in Net Position</u> | | |
|--|----------------------|----------------------|
| | <u>2017</u> | <u>2016</u> |
| Operating revenues | \$ 33,854,529 | \$ 33,842,904 |
| Operating expenses | <u>30,090,788</u> | <u>30,179,617</u> |
| Net operating income (loss) | \$ 3,763,741 | \$ 3,663,287 |
| Net nonoperating revenues (expenses) | <u>(1,594,785)</u> | <u>(1,676,414)</u> |
| Change in net position | \$ 2,168,956 | \$ 1,986,873 |
| Net position, beginning of year | \$ 59,393,097 | \$ 57,406,224 |
| Net position, end of year | <u>\$ 61,562,053</u> | <u>\$ 59,393,097</u> |

Operating revenues are defined as charges for services to participant localities, outside localities and the Commonwealth based upon inmate days. Operating revenues also include other outside revenue sources.

Operating expenses are comprised of the direct expenses of operating the Jail. These include salaries and benefits, contractual services and other inmate related jail operating costs.

Nonoperating revenues (expenses) consist of Commonwealth of Virginia State Compensation Board personnel cost reimbursements, as well as interest and investment earnings, and interest expense.

Operating revenues showed a modest increase of \$11,625 in 2017. This represents a .03% increase. Local jurisdiction per diem revenue remained unchanged from 2015 and 2016. Comp Board revenues decreased \$60,082 or .4% due to lower personnel costs. Our outside jurisdiction revenue increased 5.56% in 2016 compared to a 22.66% decrease in 2016. This resulted from the new contract with Pittsylvania, which should stabilize this revenue going forward. During the same time, federal per diem revenue decreased 12.45% or \$12,409 due to a decrease in federal inmates housed. Operating expenses decreased \$88,829 or .29% in 2017. This was driven by a decrease of \$312,963 or 2.09% in personnel costs. However, fringes increased by \$136,026 or 2.71% related to the GASB 68 actuarial calculations and other charges increased by \$147,510 or 2.53%.

CASH FLOWS

A comparative summary of the Authority's Statement of Cash Flows for 2017 and 2016 is presented below:

| <u>Condensed Statement of Cash Flows</u> | | |
|--|----------------------|----------------------|
| | <u>2017</u> | <u>2016</u> |
| Cash flows from operating activities | \$ 6,145,892 | \$ 8,731,247 |
| Cash flows from noncapital financing activities | 30,000 | 30,000 |
| Cash flows from capital and related financing activities | (4,729,434) | (4,674,477) |
| Cash flows from investing activities | 85,978 | (2,507,004) |
| Net increase (decrease) in cash and cash equivalents | \$ 1,532,436 | \$ 1,579,766 |
| Cash and cash equivalents, beginning of year | 17,862,997 | 16,283,231 |
| Cash and cash equivalents, end of year | <u>\$ 19,395,433</u> | <u>\$ 17,862,997</u> |

Cash flows from operating activities are comprised of operating revenues combined with expenditures for personnel, benefits and payments to operating suppliers. Cash flows from non-capital transactions are comprised of funds received from nonoperating sources.

Cash flows from (to) capital and related financing activities include the purchase of capital assets and principal and interest paid on capital debt. Cash flows from investing activities include interest and investment earnings, and the purchase and sale of investments.

The net difference in cash and cash equivalents from the beginning to the end of the year was a net increase of \$1,532,436 or 8.58% compared to an increase of \$1,579,766 or 9.70%. A reduction in cash flows from operating activities was offset by an increase in cash flows from investing activities. The positive change in fiscal year 2016 was related to the receipt of prepaid telephone commissions, \$2.6 million of which was invested to maximize earnings. Before that, 2015 showed a decrease related to completion of the energy savings project.

CAPITAL ASSETS

The Authority's net capital assets decreased by \$2,048,516 in fiscal year 2017. Assets of \$718,907 were placed in service in 2017, including a new camera system, new vehicles, a new roof for the Bedford facility, and other equipment at various jail sites. However, depreciation expense totaled \$2,767,423.

Please see Note 5 for more detail on capital assets.

LONG TERM DEBT

Revenue bonds, which were issued on November 1, 1997, were advance refunded in November 2009. Additional bonds were issued on November 19, 2009 to advance refund the 1997 issue and to provide funding for the completion of the Amherst jail facility and the Halifax jail renovations. The total of these bonds was \$56,980,000, which mature in various installments through October 1, 2034. Principal payments of \$2,095,000 were made on these bonds in fiscal year 2017.

Please see Note 6 for more detail on long-term debt.

ALLOCATION OF UNRESTRICTED NET POSTION

In FY 2017, the Authority Board of Directors authorized the allocation of its unrestricted net position. These allocations are detailed in Note 15.

SUMMARY

As demonstrated above, the financial position of the Blue Ridge Regional Jail Authority is measured in terms of resources (assets and deferred outflows) we own and obligations (liabilities and deferred inflows) we owe on a given date. Operating revenues increased .03% in FY 2017. Despite the financial challenges and continued financial burden placed upon the member jurisdictions comprising the BRRJA, we have maintained our total per diem funding from our localities at a level rate for the past five fiscal years. Under the guidance of the Authority Board of Directors supplemental sources of revenue such as outside jurisdiction housing fees have been sought and negotiated. In addition we are beginning to realize the benefits of the Honeywell ESCO energy project, with guaranteed energy efficiency savings carrying forward into the future. Finally, special acknowledgement is extended to the BRRJA employees whose continued dedication and commitment contributed to our stable financial condition.

REQUESTS FOR INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions about this report or need additional information regarding the Authority, contact the Director of Administration at 510 Ninth Street, Lynchburg, Virginia 24504.

- Basic Financial Statements -

BLUE RIDGE REGIONAL JAIL AUTHORITY

Statement of Net Position
At June 30, 2017
(With Comparative Totals for 2016)

| | 2017 | 2016 |
|---|-----------------------|-----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 14,715,178 | \$ 13,184,078 |
| Investments | 5,133,168 | 5,094,765 |
| Accrued revenues and receivables | 2,257,776 | 2,074,311 |
| Prepaid items | 5,000 | 5,000 |
| Total current assets | <u>\$ 22,111,122</u> | <u>\$ 20,358,154</u> |
| Noncurrent assets: | | |
| Restricted assets: | | |
| Cash and cash equivalents | \$ 4,680,255 | \$ 4,678,919 |
| Capital assets: | | |
| Land | \$ 1,495,510 | \$ 1,495,510 |
| Other capital assets, net of accumulated depreciation | 84,806,379 | 86,854,895 |
| Net capital assets | <u>\$ 86,301,889</u> | <u>\$ 88,350,405</u> |
| Total noncurrent assets | <u>\$ 90,982,144</u> | <u>\$ 93,029,324</u> |
| Total assets | <u>\$ 113,093,266</u> | <u>\$ 113,387,478</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred charge on refunding | \$ 114,684 | \$ 161,299 |
| Pension contributions subsequent to measurement date | 1,731,897 | 1,964,375 |
| Items related to measurement of net pension liability | 950,907 | - |
| Total deferred outflows of resources | <u>\$ 2,797,488</u> | <u>\$ 2,125,674</u> |
| LIABILITIES | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | \$ 1,526,493 | \$ 903,059 |
| Compensated absences | 1,324,163 | 1,307,099 |
| Per diems and phone commission received in advance | 2,279,334 | 3,087,950 |
| Interest payable | 624,686 | 651,528 |
| Bonds payable, current portion | 2,360,539 | 2,281,134 |
| Total current liabilities | <u>\$ 8,115,215</u> | <u>\$ 8,230,770</u> |
| Noncurrent liabilities: | | |
| Net pension liability | \$ 2,072,379 | \$ 1,098,517 |
| Bonds payable, noncurrent portion | 43,487,393 | 45,847,932 |
| Total noncurrent liabilities | <u>\$ 45,559,772</u> | <u>\$ 46,946,449</u> |
| Total liabilities | <u>\$ 53,674,987</u> | <u>\$ 55,177,219</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Items related to measurement of net pension liability | \$ 653,714 | \$ 942,836 |
| NET POSITION | | |
| Net investment in capital assets | \$ 45,242,749 | \$ 45,056,746 |
| Unrestricted | 16,319,304 | 14,336,351 |
| Total net position | <u>\$ 61,562,053</u> | <u>\$ 59,393,097</u> |

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

BLUE RIDGE REGIONAL JAIL AUTHORITY

Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2017
(With Comparative Totals for 2016)

| | <u>2017</u> | <u>2016</u> |
|---|-----------------------------|-----------------------------|
| Operating revenues: | | |
| Care of inmates: | | |
| Local and other per diems | \$ 15,545,086 | \$ 15,565,345 |
| Commonwealth of Virginia jail costs | 2,409,309 | 2,398,913 |
| Commonwealth of Virginia State Compensation Board | 14,121,811 | 14,181,893 |
| Other | <u>1,778,323</u> | <u>1,696,753</u> |
| Total operating revenues | <u>\$ 33,854,529</u> | <u>\$ 33,842,904</u> |
| Operating expenses: | | |
| Personnel | \$ 14,665,062 | \$ 14,978,025 |
| Fringes | 5,162,853 | 5,026,827 |
| Contractual | 1,512,151 | 1,599,931 |
| Other charges | 5,983,299 | 5,835,789 |
| Depreciation | <u>2,767,423</u> | <u>2,739,045</u> |
| Total operating expenses | <u>\$ 30,090,788</u> | <u>\$ 30,179,617</u> |
| Net operating income (loss) | <u>\$ 3,763,741</u> | <u>\$ 3,663,287</u> |
| Nonoperating revenues (expenses): | | |
| Interest and investment income | \$ 124,382 | \$ 145,409 |
| Gain on sale of capital assets | 23,614 | - |
| Rental income | 30,000 | 30,000 |
| Bond interest subsidy | 613,288 | 613,617 |
| Interest expense | <u>(2,386,069)</u> | <u>(2,465,440)</u> |
| Net nonoperating revenues (expenses) | <u>\$ (1,594,785)</u> | <u>\$ (1,676,414)</u> |
| Change in net position | <u>\$ 2,168,956</u> | <u>\$ 1,986,873</u> |
| Net position, beginning of year | <u>\$ 59,393,097</u> | <u>\$ 57,406,224</u> |
| Net position, end of year | <u><u>\$ 61,562,053</u></u> | <u><u>\$ 59,393,097</u></u> |

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

BLUE RIDGE REGIONAL JAIL AUTHORITY

Statement of Cash Flows
Year Ended June 30, 2017
(With Comparative Totals for 2016)

| | 2017 | 2016 |
|---|-----------------------|-----------------------|
| Cash flows from operating activities: | | |
| Receipts from customers | \$ 18,906,502 | \$ 22,819,407 |
| Operating grants | 13,955,950 | 14,156,074 |
| Payments to suppliers | (6,847,574) | (7,691,258) |
| Payments to and for employees | (19,868,986) | (20,552,976) |
| Total cash flows provided by (used for) operating activities | <u>\$ 6,145,892</u> | <u>\$ 8,731,247</u> |
| Cash flows from noncapital financing activities: | | |
| Other | \$ 30,000 | \$ 30,000 |
| Cash flows from capital and related financing activities: | | |
| Purchase of capital assets | \$ (718,907) | \$ (638,603) |
| Sale of capital assets | 23,614 | - |
| Principal paid on capital debt | (2,095,000) | (2,005,000) |
| Interest paid on capital debt, less interest credit | (1,939,141) | (2,030,874) |
| Total cash flows provided by (used for) capital and related financing activities | <u>\$ (4,729,434)</u> | <u>\$ (4,674,477)</u> |
| Cash flows from investing activities: | | |
| Sale (purchase) of investments | \$ (38,404) | \$ (2,652,413) |
| Interest and investment income | 124,382 | 145,409 |
| Total cash flows provided by (used for) investing activities | <u>\$ 85,978</u> | <u>\$ (2,507,004)</u> |
| Net increase (decrease) in cash and cash equivalents | \$ 1,532,436 | \$ 1,579,766 |
| Cash and cash equivalents (unrestricted and restricted), beginning of year | 17,862,997 | 16,283,231 |
| Cash and cash equivalents (unrestricted and restricted), end of year | <u>\$ 19,395,433</u> | <u>\$ 17,862,997</u> |
| Noncash investing, capital and financing activities: | | |
| Increase (decrease) in fair value of investments | <u>\$ (26,508)</u> | <u>\$ 57,621</u> |
| Reconciliation of operating income (loss) to net cash provided by operating activities: | | |
| Operating income (loss) | \$ 3,763,741 | \$ 3,663,287 |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | | |
| Depreciation | 2,767,423 | 2,739,045 |
| Changes in assets, liabilities, and deferred outflows and inflows of resources: | | |
| Accrued revenues and receivables | (183,465) | 417,691 |
| Pension contributions subsequent to measurement date | 232,478 | (34,110) |
| Deferred outflows of resources - pension related | (950,907) | - |
| Accounts payable and accrued expenses | 623,434 | (254,587) |
| Compensated absences | 17,064 | 14,263 |
| Per diems and phone commission received in advance | (808,616) | 2,714,888 |
| Net pension liability | 973,862 | 337,469 |
| Deferred inflows of resources - pension related | (289,122) | (866,699) |
| Net cash provided by (used for) operating activities | <u>\$ 6,145,892</u> | <u>\$ 8,731,247</u> |

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

BLUE RIDGE REGIONAL JAIL AUTHORITY

Fiduciary Funds

Statement of Fiduciary Net Position
At June 30, 2017

| | <u>Agency Funds</u> |
|------------------------------------|-------------------------|
| ASSETS | |
| Cash | \$ 175,531 |
| LIABILITIES | |
| Accounts payable | \$ 59,178 |
| Amounts held for inmates | 98,212 |
| Amounts held for employee benefits | 18,141 |
| Total liabilities | <u>\$ 175,531</u> |

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

BLUE RIDGE REGIONAL JAIL AUTHORITY

Notes to Financial Statements June 30, 2017

NOTE 1 - BASIS OF PRESENTATION:

A. Organization and Purpose:

The Blue Ridge Regional Jail Board was created pursuant to a resolution duly adopted by the Cities of Lynchburg and Bedford, and by the Counties of Appomattox, Bedford and Campbell. These parties agreed to establish a regional jail known as the Blue Ridge Regional Jail Authority, pursuant to the provisions of Chapter 7.1 of Title 53 of the Code of Virginia, and including provisions to allocate costs of construction and operation. Appomattox County withdrew from the agreement and Halifax County replaced Appomattox as a member. Effective June 27, 2007 the Authority expanded its membership to include Amherst and Appomattox counties.

B. Financial Reporting Entity:

The Authority has determined that it is a related organization to the participating localities, in accordance with Governmental Accounting Standards Board (GASB) Statement 14. The Authority is a legally separate organization whose twelve Board members are appointed by the governing bodies of the participating localities. Since none of the participating localities can impose its will on the Authority and since there is no potential financial benefit or burden in the relationship, the participating localities are not financially accountable for the Authority. Accordingly the Authority is not considered a component unit of any of the participating localities.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Financial Statement Presentation:

The accompanying financial statements are prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board. The principles prescribed by GASB represent generally accepted accounting principles applicable to governmental units.

1. Basis of Accounting:

The Authority utilizes the enterprise fund method of accounting for financial reporting purposes. Enterprise fund accounting uses the accrual basis of accounting where revenues are recorded when earned and expenses are recorded when incurred, regardless of when the cash flows occur.

The accounts of the Authority are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that are comprised of assets, deferred outflows of resources, liabilities, deferred outflows of resources, net position, revenues, and expenses.

Operating revenues and expenses are defined as those items that result from providing services, operating grants and include all transactions and events which are not capital and related financing, noncapital financing or investing activities. Nonoperating revenues are defined as nonoperating grants, investment and other income. Nonoperating expenses are defined as capital and noncapital related financing and other expenses.

BLUE RIDGE REGIONAL JAIL AUTHORITY

Notes to Financial Statements
June 30, 2017 (continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

1. Basis of Accounting: (Continued)

Agency Funds

Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations. The Inmate Trust Fund, Employee Benefit Fund and Flexible Benefit Funds comprise the Authority's Agency Funds. The Inmate Trust Funds account for funds held on behalf of the inmates housed at the various sites. The Employee Benefit and Flexible Benefit Funds are held for the benefit of employees, funded by payroll deductions. The Employee Benefit Fund is used to boost employee morale. The Flexible Benefits Funds are used to reimburse participating employees for claims incurred through their Section 125 Cafeteria Plan account.

2. Cash and Cash Equivalents:

Cash and cash equivalents are stated at cost, which approximates market. Cash and cash equivalents include cash on hand, checking and savings accounts, and short-term, highly liquid investments (including repurchase agreements) with original maturities of three months or less. The Authority maintains cash accounts with financial institutions in accordance with the Virginia Security for Public Deposits Act of the Code of Virginia. The Act requires financial institutions to meet specific collateralization requirements.

3. 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 at amortized cost. All other investments are reported at fair value.

4. Capital Assets:

Capital assets are recorded at cost. Donated capital assets are recorded at acquisition value at the date of gift. The Authority's capitalization threshold is \$5,000.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Costs of construction include legal, bond and loan closing costs, plus interest costs less interest earned on construction funds during the period of construction.

Depreciation is provided using the straight-line method over the estimated useful lives of each asset class as follows:

| | |
|-----------------------------------|----------------|
| Buildings and improvements | 40 to 50 years |
| Land/site improvements | 10 to 15 years |
| Equipment, furniture and fixtures | 5 to 10 years |
| Vehicles | 5 to 7 years |

BLUE RIDGE REGIONAL JAIL AUTHORITY

Notes to Financial Statements

June 30, 2017 (continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

4. Capital Assets: (Continued)

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

5. 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 types of items that qualify for reporting in this category. The first item is the deferred charge on refunding reported in the statement 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 new debt issue or the refunded debt. The other item is related to pension. One component is comprised of contributions to the pension plan made during the current year and subsequent to the net pension liability measurement date, which will be recognized as a reduction of the net pension liability next fiscal year. Certain items related to the measurement of the net pension liability are reported as deferred outflows of resources. These include differences between expected and actual experience, change in assumptions, and the net difference between projected and actual earnings on pension plan investments. For more detailed information on this item, reference the pension note.

In addition to liabilities, the statement of financial position may 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, and the net difference between projected and actual earnings on pension plan investments. For more detailed information on these items, reference the pension note.

6. Compensated Absences:

The Authority's employees earn annual leave (vacation pay) in varying amounts and can accumulate annual leave based on length of service. All employees earn the same sick pay rate regardless of the length of service. Maximum annual leave accumulation hours are the hours allowable at the time of separation or at the end of any calendar year.

Employees terminating their employment are paid, by the Authority, their accumulated annual leave up to the maximum limit. Unused sick leave is not paid at the date of separation.

The liabilities for annual and sick leave have been recorded in accordance with the provisions of GASB No. 16, *Accounting for Compensated Absences*. Accordingly, the amount of annual leave recognized as expense is the amount earned during the year.

BLUE RIDGE REGIONAL JAIL AUTHORITY

Notes to Financial Statements

June 30, 2017 (continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

7. Pensions:

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the 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.

8. Bond Premium:

A premium of \$2,386,481 resulted from the issuance of debt for the advance refunding of the balance of the original bonds used for permanent financing of the jail facilities. This premium is being amortized using the effective interest method over the remaining life of the refunded debt or approximately 13 years.

9. Deferred Bond Defeasance Costs:

Deferred bond defeasance cost resulting from the advance refunding and defeasance of the balance of the original bonds used for permanent financing of the jail facilities totaled \$597,666. This cost is being amortized using the effective interest method over the remaining life of the advanced refunded debt or approximately 13 years. Amortization for 2017 was \$46,615 and \$53,416 for 2016.

10. Revenue Recognition:

Revenues for charges for services to participant localities are based on inmate days for each locality and are recorded when due. Year-end settlements are made with each participant locality and amounts due are reported as receivables and amounts overpaid are reported as unearned revenues.

The Commonwealth of Virginia provides funding for operations and also provides funding for state inmates held on a per-diem basis.

11. Use of Estimates:

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

12. Comparative Totals:

Prior year totals on the financial statements are presented for informational and comparative purposes only. Certain adjustments to the Statement of Net Position amounts have been made to conform to the current year presentation.

BLUE RIDGE REGIONAL JAIL AUTHORITY

Notes to Financial Statements

June 30, 2017 (continued)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

13. 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.

14. Net Position Flow Assumption:

The Authority may fund outlays for a particular purpose from both restricted 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 or used before unrestricted net position is applied.

NOTE 3 - DEPOSITS AND INVESTMENTS:

Deposits:

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

Investments:

The Authority does not have a formal investment policy. However, the Authority does follow state law with regard to its investments.

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

The Authority has no custodial credit risk policy. However, the Authority had no custodial credit risk related to its investments at June 30, 2017.

BLUE RIDGE REGIONAL JAIL AUTHORITY

Notes to Financial Statements
June 30, 2017 (continued)

NOTE 3 - DEPOSITS AND INVESTMENTS: (continued)

Investments: (Continued)

The Authority's rated debt investments as of June 30, 2017 were rated by Standard and Poor's and the ratings are presented below using the Standard and Poor's rating scale.

| Rated Debt Investments | | | | |
|---|----------------------|--------------|--------------|---------------|
| Rated Debt Investments Value | Fair Quality Ratings | | | Total |
| | AAAm | AA- | Unrated | |
| Virginia Local Government Investment Pool | \$ 13,116,177 | \$ - | \$ - | \$ 13,116,177 |
| SNAP bond pool funds | 4,846 | - | - | 4,846 |
| Corporate debt | - | 2,284,463 | 2,816,264 | 5,100,727 |
| Money market mutual funds | 4,675,782 | - | 32,441 | 4,708,223 |
| Total | \$ 17,796,805 | \$ 2,284,463 | \$ 2,848,705 | \$ 22,929,973 |

The Authority does not have a policy related to interest rate risk.

| Investment Maturities | | | |
|---|---------------|------------------|--------------|
| Investment Type | Value | Less than 1 year | 1-5 Years |
| Virginia Local Government Investment Pool | \$ 13,116,177 | \$ 13,116,177 | - |
| SNAP bond pool funds | 4,846 | 4,846 | - |
| Corporate debt | 5,100,727 | 3,568,169 | 1,532,558 |
| Money market mutual funds | 4,708,223 | 4,708,223 | - |
| Total | \$ 22,929,973 | \$ 21,397,415 | \$ 1,532,558 |

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 the 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.

The value of the positions in the external investment pools (Local Government Investment Pool (LGIP) and SNAP) is the same as the value of the pool shares. As LGIP is not SEC registered, regulatory oversight of the pool 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.

BLUE RIDGE REGIONAL JAIL AUTHORITY

Notes to Financial Statements
June 30, 2017 (continued)

NOTE 3 - DEPOSITS AND INVESTMENTS: (continued)

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, 2017:

Fair Value Measurements Using

| Investment Type | 6/30/2017 | Quoted Prices in Active Markets or Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---------------------------|---------------------|--|---|--|
| Debt Securities: | | | | |
| Corporate debt | \$ 5,100,727 | \$ 5,100,727 | \$ - | - |
| Money market mutual funds | 4,708,223 | 4,708,223 | - | - |
| Total | <u>\$ 9,808,950</u> | <u>\$ 9,808,950</u> | <u>\$ -</u> | <u>-</u> |

BLUE RIDGE REGIONAL JAIL AUTHORITY

Notes to Financial Statements
June 30, 2017 (continued)

NOTE 3 - DEPOSITS AND INVESTMENTS: (continued)

A summary of cash and investments at June 30, 2017 is as follows:

| Per Financial Statements | 2017 | 2016 |
|--|---------------|---------------|
| Statement of Net Position | | |
| Cash and cash equivalents | \$ 14,715,178 | \$ 13,184,078 |
| Cash and cash equivalents - restricted | | |
| Debt service | 4,680,255 | 4,678,919 |
| Total cash and cash equivalents | \$ 19,395,433 | \$ 17,862,997 |
| Investments | 5,133,168 | 5,094,765 |
| Total | \$ 24,528,601 | \$ 22,957,762 |
| Summary of Cash and Investments | | |
| Cash on deposit with banks | \$ 1,598,628 | \$ 2,104,742 |
| Investments | 22,929,973 | 20,853,020 |
| Total | \$ 24,528,601 | \$ 22,957,762 |

Restricted cash and cash equivalents are for bond debt service as required by the bond trustee.

NOTE 4 - ACCRUED REVENUE AND RECEIVABLES:

Accrued revenue consists of amounts due from:

| | 2017 | 2016 |
|--|--------------|--------------|
| Commonwealth of Virginia: | | |
| Department of Corrections: | | |
| Inmate per diem | \$ 788,163 | \$ 768,511 |
| Compensation Board - Operating Costs | 1,340,853 | 1,174,989 |
| Member per diems | - | - |
| Non-member per diems (including federal) | 110,892 | 112,375 |
| Other | 17,868 | 18,436 |
| Total | \$ 2,257,776 | \$ 2,074,311 |

BLUE RIDGE REGIONAL JAIL AUTHORITY

Notes to Financial Statements
June 30, 2017 (continued)

NOTE 5 - CAPITAL ASSETS:

A summary of changes in capital assets is as follows:

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|--|------------------------------|------------------|------------------|---------------------------|
| Capital assets not being depreciated: | | | | |
| Land and land improvements | \$ 1,495,510 | \$ - | \$ - | \$ 1,495,510 |
| Capital assets being depreciated: | | | | |
| Land/site improvements | \$ 281,726 | \$ - | \$ - | \$ 281,726 |
| Buildings and improvements | 107,829,981 | 159,000 | - | 107,988,981 |
| Equipment, furniture, fixtures | 8,269,877 | 440,691 | - | 8,710,568 |
| Vehicles | 1,444,153 | 119,216 | 126,534 | 1,436,835 |
| Total capital assets being depreciated | \$ 117,825,737 | \$ 718,907 | \$ 126,534 | \$ 118,418,110 |
| Accumulated depreciation | | | | |
| Land/site improvements | \$ 170,079 | \$ 20,806 | \$ - | \$ 190,885 |
| Buildings and improvements | 22,446,756 | 2,398,765 | - | 24,845,521 |
| Equipment, furniture, fixtures | 7,266,394 | 225,580 | - | 7,491,974 |
| Vehicles | 1,087,613 | 122,272 | 126,534 | 1,083,351 |
| Total accumulated depreciation | \$ 30,970,842 | \$ 2,767,423 | \$ 126,534 | \$ 33,611,731 |
| Net capital assets being depreciated | \$ 86,854,895 | \$ (2,048,516) | \$ - | \$ 84,806,379 |
| Total net capital assets | \$ 88,350,405 | \$ (2,048,516) | \$ - | \$ 86,301,889 |

NOTE 6 - LONG-TERM LIABILITIES:

The following is a summary of changes in long-term liabilities for the year.

| | <u>Beginning Balance</u> | <u>Issuance/ Increase</u> | <u>Retirement/ Decrease</u> | <u>Ending Balance</u> |
|-----------------------|------------------------------|-------------------------------|---------------------------------|---------------------------|
| Revenue Bonds | \$ 47,485,000 | \$ - | \$ 2,095,000 | \$ 45,390,000 |
| Premium on Bonds | 644,066 | - | 186,134 | 457,932 |
| Net Pension Liability | 1,098,517 | 4,977,510 | 4,003,648 | 2,072,379 |
| | \$ 49,227,583 | \$ 4,977,510 | \$ 6,284,782 | \$ 47,920,311 |

BLUE RIDGE REGIONAL JAIL AUTHORITY

Notes to Financial Statements
June 30, 2017 (continued)

NOTE 6 - LONG-TERM LIABILITIES: (continued)

The amounts required to amortize long-term liabilities are as follows:

| Fiscal Year | Total | |
|-------------|---------------|---------------|
| | Principal | Interest |
| 2018 | \$ 2,205,000 | \$ 2,448,942 |
| 2019 | 2,300,000 | 2,351,701 |
| 2020 | 2,400,000 | 2,246,364 |
| 2021 | 2,525,000 | 2,123,761 |
| 2022 | 2,660,000 | 1,990,895 |
| 2023-2027 | 10,895,000 | 8,211,689 |
| 2028-2032 | 13,175,000 | 4,738,553 |
| 2033-2035 | 9,230,000 | 832,828 |
| Total | \$ 45,390,000 | \$ 24,944,733 |

Details of long-term liabilities are as follows:

| | Total | Current Portion |
|---|---------------|-----------------|
| \$23,680,000 refunding revenue bonds, issued November 19, 2009 to finance construction of jail facilities, maturing in various annual installments through October 1, 2021, interest at rates from 4.15% to 5.2% | \$ 12,090,000 | \$ 2,205,000 |
| \$33,300,000 refunding revenue bonds, issued November 19, 2009 to finance construction of jail facilities, maturing in various annual installments ranging from \$2,030,000 to \$3,195,000 from October 1, 2022 through October 1, 2034, interest at rates from 5.17% to 5.915% | 33,300,000 | - |
| Total | \$ 45,390,000 | \$ 2,205,000 |
| Add: Unamortized bond premium | 457,932 | 155,539 |
| Net long-term debt | \$ 45,847,932 | \$ 2,360,539 |
| Net pension liability | \$ 2,072,379 | \$ - |
| Total long-term liabilities | \$ 47,920,311 | \$ 2,360,539 |

The Authority is in compliance with federal arbitrage regulations.

Net interest cost including amortization charges, interest accruals and credits for bond premium and deferred defeasance cost totaled \$2,386,069 for 2017 of which none was capitalized.

BLUE RIDGE REGIONAL JAIL AUTHORITY

Notes to Financial Statements
June 30, 2017 (continued)

NOTE 7 - PENSION PLAN:

Plan Description

All full-time, salaried permanent employees of the Authority are automatically covered by a 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>About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> | <p>About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> | <p>About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members")</p> <ul style="list-style-type: none"> • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. |

BLUE RIDGE REGIONAL JAIL AUTHORITY

Notes to Financial Statements
June 30, 2017 (continued)

NOTE 7 - PENSION PLAN: (continued)

Plan Description (continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|---|---|---|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| | | <ul style="list-style-type: none"> • 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. |
| <p>Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</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>Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</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>Eligible Members 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"> • Political subdivision employees* • 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. <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees. |

BLUE RIDGE REGIONAL JAIL AUTHORITY

Notes to Financial Statements
June 30, 2017 (continued)

NOTE 7 - PENSION PLAN: (continued)

Plan Description (continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|--|---|---|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p> | <p>Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p> | <p>*Non-Eligible Members (Cont.) Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service 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>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees are paying the full 5% as of 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>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees are paying the full 5% as of July 1, 2016.</p> | <p>Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p> |

BLUE RIDGE REGIONAL JAIL AUTHORITY

Notes to Financial Statements
June 30, 2017 (continued)

NOTE 7 - PENSION PLAN: (continued)

Plan Description (continued)

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

BLUE RIDGE REGIONAL JAIL AUTHORITY

Notes to Financial Statements
June 30, 2017 (continued)

NOTE 7 - PENSION PLAN: (continued)

Plan Description (continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|--|---|---|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p> | <p>Vesting Same as Plan 1.</p> | <p>Vesting <u>Defined Benefit Component:</u> 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>Defined Contributions Component:</u> 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> |

BLUE RIDGE REGIONAL JAIL AUTHORITY

Notes to Financial Statements
June 30, 2017 (continued)

NOTE 7 - PENSION PLAN: (continued)

Plan Description (continued)

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

BLUE RIDGE REGIONAL JAIL AUTHORITY

Notes to Financial Statements
June 30, 2017 (continued)

NOTE 7 - PENSION PLAN: (continued)

Plan Description (continued)

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

BLUE RIDGE REGIONAL JAIL AUTHORITY

Notes to Financial Statements
June 30, 2017 (continued)

NOTE 7 - PENSION PLAN: (continued)

Plan Description (continued)

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

BLUE RIDGE REGIONAL JAIL AUTHORITY

Notes to Financial Statements
June 30, 2017 (continued)

NOTE 7 - PENSION PLAN: (continued)

Plan Description (continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|---|--|--|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p> | <p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p> | <p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p> |
| <p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><u>Eligibility:</u> 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>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><u>Eligibility:</u> Same as Plan 1.</p> | <p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p> |

BLUE RIDGE REGIONAL JAIL AUTHORITY

Notes to Financial Statements
June 30, 2017 (continued)

NOTE 7 - 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> 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"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. | <p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1.</p> | <p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p> |

BLUE RIDGE REGIONAL JAIL AUTHORITY

Notes to Financial Statements
June 30, 2017 (continued)

NOTE 7 - PENSION PLAN: (continued)

Plan Description (continued)

| RETIREMENT PLAN PROVISIONS (CONTINUED) | | |
|--|--|--|
| PLAN 1 | PLAN 2 | HYBRID RETIREMENT PLAN |
| <p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p> | <p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p> | <p>Disability Coverage 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>Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p> | <p>Purchase of Prior Service Same as Plan 1.</p> | <p>Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> •Hybrid Retirement Plan members are ineligible for ported service. •The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. •Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost. <p><u>Defined Contribution Component:</u> Not applicable.</p> |

BLUE RIDGE REGIONAL JAIL AUTHORITY

Notes to Financial Statements
June 30, 2017 (continued)

NOTE 7 - PENSION PLAN: (continued)

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2016-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Employees Covered by Benefit Terms

As of the June 30, 2015 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

| | <u>Number</u> |
|--|-------------------|
| Inactive members or their beneficiaries currently receiving benefits | 110 |
| Inactive members: | |
| Vested inactive members | 24 |
| Non-vested inactive members | 115 |
| Inactive members active elsewhere in VRS | 92 |
| Total inactive members | <u>231</u> |
| Active members | <u>402</u> |
| Total covered employees | <u><u>743</u></u> |

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% 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 Authority's contractually required contribution rate for the year ended June 30, 2017 was 12.05% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

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 Authority were \$1,731,897, and \$1,964,375 for the years ended June 30, 2017 and June 30, 2016, respectively.

BLUE RIDGE REGIONAL JAIL AUTHORITY

Notes to Financial Statements
June 30, 2017 (continued)

NOTE 7 - PENSION PLAN: (continued)

Net Pension Liability

The Authority's net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

Actuarial Assumptions - General Employees

The total pension liability for General Employees in the Authority's Retirement Plan was based on an actuarial valuation as of June 30, 2015, 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, 2016.

| | |
|---------------------------------------|--|
| 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.

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

BLUE RIDGE REGIONAL JAIL AUTHORITY

Notes to Financial Statements
June 30, 2017 (continued)

NOTE 7 - PENSION PLAN: (continued)

Actuarial Assumptions - General Employees (continued)

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, 2015 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

Actuarial Assumptions - Public Safety Employees

The total pension liability for Public Safety employees in the Authority's Retirement Plan was based on an actuarial valuation as of June 30, 2015, 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, 2016.

| | |
|---------------------------------------|--|
| 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.

BLUE RIDGE REGIONAL JAIL AUTHORITY

Notes to Financial Statements
June 30, 2017 (continued)

NOTE 7 - 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, 2015 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

BLUE RIDGE REGIONAL JAIL AUTHORITY

Notes to Financial Statements
June 30, 2017 (continued)

NOTE 7 - 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%.

BLUE RIDGE REGIONAL JAIL AUTHORITY

Notes to Financial Statements
June 30, 2017 (continued)

NOTE 7 - 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.

Changes in Net Pension Liability

| | Increase (Decrease) | | |
|--|--------------------------------------|--|--|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) |
| Balances at June 30, 2015 | \$ 34,855,025 | \$ 33,756,508 | \$ 1,098,517 |
| Changes for the year: | | | |
| Service cost | \$ 2,558,425 | \$ - | \$ 2,558,425 |
| Interest | 2,398,797 | - | 2,398,797 |
| Differences between expected and actual experience | (656,322) | - | (656,322) |
| Contributions - employer | - | 1,959,823 | (1,959,823) |
| Contributions - employee | - | 740,014 | (740,014) |
| Net investment income | - | 647,489 | (647,489) |
| Benefit payments, including refunds of employee contributions | (1,172,989) | (1,172,989) | - |
| Administrative expenses | - | (20,026) | 20,026 |
| Other changes | - | (262) | 262 |
| Net changes | \$ 3,127,911 | \$ 2,154,049 | \$ 973,862 |
| Balances at June 30, 2016 | \$ 37,982,936 | \$ 35,910,557 | \$ 2,072,379 |

BLUE RIDGE REGIONAL JAIL AUTHORITY

Notes to Financial Statements
June 30, 2017 (continued)

NOTE 7 - PENSION PLAN: (continued)

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 | | |
|--|------------------------|--------------------------------|------------------------|
| | 1% Decrease (6.00%) | Current Discount (7.00%) | 1% Increase (8.00%) |
| Authority Net Pension Liability (Asset) | 7,622,352 | 2,072,379 | (2,504,135) |

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

For the year ended June 30, 2017, the Authority recognized pension expense of \$1,693,656. At June 30, 2017, the Authority reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ - | \$ 653,714 |
| Net difference between projected and actual earnings on pension plan investments | 950,907 | - |
| Employer contributions subsequent to the measurement date | 1,731,897 | - |
| Total | \$ 2,682,804 | \$ 653,714 |

\$1,731,897 reported as deferred outflows of resources related to pensions resulting from the Authority's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

| Year ended June 30 | |
|--------------------|--------------|
| 2018 | \$ (128,154) |
| 2019 | (128,153) |
| 2020 | 324,232 |
| 2021 | 229,268 |
| 2022 | - |
| Thereafter | - |

BLUE RIDGE REGIONAL JAIL AUTHORITY

Notes to Financial Statements
June 30, 2017 (continued)

NOTE 8 - LITIGATION:

There were no matters of litigation involving the Authority which would materially affect the Authority's financial position should any court decisions on pending matters not be favorable to the Authority.

NOTE 9 - RISK MANAGEMENT:

The Authority contracts with commercial insurance carriers for property, liability, and health insurance. There have been no settlements which exceeded insurance coverage in the past three years. Unemployment insurance is fully self-insured. The Authority's liability is generally limited to insurance policy deductibles unless claims exceed policy amounts. Insurance claims have not exceeded policy amounts in the last three years.

NOTE 10 - UNEARNED REVENUE:

In June 2015, the Authority entered into a contract with Securus Technologies for telephone services. In August 2015, the financial agreement was signed and on August 21, 2015, the Authority received a payment of \$3,732,276.46 representing 5 years of phone commission, net of the management fee. The funds were invested in LGIP and with Raymond James to maximize earnings. The unearned revenue balance at June 30, 2017 was \$2,279,334.

NOTE 11 - LEASE AGREEMENT WITH CITY OF LYNCHBURG:

Effective July 1, 2000, the Authority entered into a lease agreement with the City of Lynchburg. The City's Sheriff's Department will lease office facilities for \$24,000 per year for 21 years from the Authority. The Authority gave the City credit for \$200,000 which represents the City's cost for the regional jail master plan.

The \$200,000 cost of the master plan was charged as a capital expense in fiscal 2001. This unearned lease revenue was amortized at the rate of \$24,000 per year until the credit was reduced to zero. The City began paying rent to the Authority in fiscal year 2009. The \$24,000 lease revenue is reported in nonoperating revenue.

Estimated rental payments to be received under this agreement are:

| | | |
|-------|----|---------------|
| 2018 | \$ | 24,000 |
| 2019 | | 24,000 |
| 2020 | | 24,000 |
| 2021 | | 24,000 |
| Total | \$ | <u>96,000</u> |

BLUE RIDGE REGIONAL JAIL AUTHORITY

Notes to Financial Statements
June 30, 2017 (continued)

NOTE 12 - COMMONWEALTH OF VIRGINIA JAIL COSTS REVENUE:

The Commonwealth of Virginia deducts a Federal Overhead Recovery amount from the quarterly per diem payment made to the Authority. This amount represents the State Compensation Board's recovery of state-funded personnel costs associated with housing federal inmates. During the fiscal years ended June 30, 2017 and 2016, the Authority's share of this recovery was \$120,946 and \$99,574, respectively. Commonwealth of Virginia jail costs revenue amounts of \$2,409,309 (2017) and \$2,398,913 (2016) reported in the financial statements are net of any aid to localities budget refund. Federal recovery charges are reflected as a reduction of federal per diems.

NOTE 13 - OTHER POSTEMPLOYMENT BENEFITS:

The Authority pays a health insurance credit up to \$45 per month to each employee with 15 years or more of service (including prior years of service with other jails or the Virginia Department of Corrections), or 5 years in the event of disability. The payments are made until the death of the person covered. There were 25 persons in the plan at June 30, 2017. Payments under the plan in fiscal year 2017 totaled \$9,914 and \$7,792 in fiscal year 2016. These payments are expensed as incurred.

NOTE 14 - CONTRACTS:

The Authority enters into contracts for various services. The more significant contracts are for food services and inmate medical, mental health, and medical laboratory services. The food service contract was entered into on May 5, 2017 and is for three years. A contract for medical services was entered into on September 30, 2017 and also extends three years. Total payments made under food, pharmaceutical and medical contracts in fiscal year 2017 were \$1,299,933; \$858,933; and \$907,273, respectively. Total estimated payments scheduled for fiscal year 2018 food, pharmaceutical, and medical services are \$1,355,457; \$869,047; and \$998,473, respectively.

NOTE 15 - ALLOCATION OF UNRESTRICTED NET POSITION:

At June 30, 2017, the Authority has allocated its unrestricted net position as follows:

| | | |
|---------------------------------|----|--------------------------|
| Designated: | | |
| Operating reserve funds | \$ | 4,967,048 |
| Debt service reserve | | 3,459,744 |
| Committed: | | |
| Capital reserves | | 899,340 |
| Unassigned | | <u>6,993,172</u> |
| Total unrestricted net position | \$ | <u><u>16,319,304</u></u> |

The Authority maintains a formal fund balance policy which provides guidance in establishing and maintaining reserve fund balances. As of June 30, 2017 all reserve balances were in compliance with the stated policy.

BLUE RIDGE REGIONAL JAIL AUTHORITY

Notes to Financial Statements

June 30, 2017 (continued)

NOTE 16 - UPCOMING PRONOUNCEMENT:

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.

Management is currently evaluating the impact this standard will have on the financial statements when adopted.

NOTE 17 - SUBSEQUENT EVENT:

In September 2017, the Authority gifted 2.169 acres of land at the Amherst facility to Amherst County.

- Required Supplementary Information -

BLUE RIDGE REGIONAL JAIL AUTHORITY

Schedule of Changes in Net Pension Liability (Asset) and Related Ratios
For the Years Ended June 30, 2015 through June 30, 2017

| | 2016 | 2015 | 2014 |
|---|----------------------|----------------------|----------------------|
| Total pension liability | | | |
| Service cost | \$ 2,558,425 | \$ 2,497,987 | \$ 2,450,436 |
| Interest | 2,398,797 | 2,162,432 | 1,922,890 |
| Differences between expected and actual experience | (656,322) | (216,343) | - |
| Benefit payments, including refunds of employee contributions | (1,172,989) | (961,865) | (940,731) |
| Net change in total pension liability | \$ 3,127,911 | \$ 3,482,211 | \$ 3,432,595 |
| Total pension liability - beginning | 34,855,025 | 31,372,814 | 27,940,219 |
| Total pension liability - ending (a) | \$ 37,982,936 | \$ 34,855,025 | \$ 31,372,814 |
| Plan fiduciary net position | | | |
| Contributions - employer | \$ 1,959,823 | \$ 1,930,265 | \$ 2,275,898 |
| Contributions - employee | 740,014 | 728,359 | 707,078 |
| Net investment income | 647,489 | 1,466,375 | 4,050,423 |
| Benefit payments, including refunds of employee contributions | (1,172,989) | (961,865) | (940,731) |
| Administrative expense | (20,026) | (18,075) | (19,905) |
| Other | (262) | (317) | 213 |
| Net change in plan fiduciary net position | \$ 2,154,049 | \$ 3,144,742 | \$ 6,072,976 |
| Plan fiduciary net position - beginning | 33,756,508 | 30,611,766 | 24,538,790 |
| Plan fiduciary net position - ending (b) | \$ 35,910,557 | \$ 33,756,508 | \$ 30,611,766 |
| Authority's net pension liability - ending (a) - (b) | \$ 2,072,379 | \$ 1,098,517 | \$ 761,048 |
| Plan fiduciary net position as a percentage of the total pension liability | 94.54% | 96.85% | 97.57% |
| Covered payroll | \$ 14,859,114 | \$ 14,601,097 | \$ 14,182,865 |
| Authority's net pension liability as a percentage of covered payroll | 13.95% | 7.52% | 5.37% |

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.

BLUE RIDGE REGIONAL JAIL AUTHORITY

Schedule of Employer Contributions
For the Years Ended June 30, 2008 through June 30, 2017

| Date | Contractually Required Contribution (1) | Contributions in Relation to Contractually Required Contribution (2) | Contribution Deficiency (Excess) (3) | Employer's Covered Payroll (4) | Contributions as a % of Covered Payroll (5) |
|------|--|---|---|---|---|
| 2017 | \$ 1,731,897 | \$ 1,731,897 | \$ - | \$ 14,446,030 | 11.99% |
| 2016 | 1,964,375 | 1,964,375 | - | 14,859,114 | 13.22% |
| 2015 | 1,930,265 | 1,930,265 | - | 14,601,097 | 13.22% |
| 2014 | 2,280,605 | 2,280,605 | - | 14,182,865 | 16.08% |
| 2013 | 2,196,041 | 2,196,041 | - | 13,656,973 | 16.08% |
| 2012 | 1,583,531 | 1,583,531 | - | 11,978,299 | 13.22% |
| 2011 | 1,333,435 | 1,333,435 | - | 10,086,501 | 13.22% |
| 2010 | 1,290,189 | 1,290,189 | - | 9,916,902 | 13.01% |
| 2009 | 1,284,111 | 1,284,111 | - | 9,870,181 | 13.01% |
| 2008 | 1,108,511 | 1,108,511 | - | 9,715,256 | 11.41% |

BLUE RIDGE REGIONAL JAIL AUTHORITY

Notes to Required Supplementary Information Year Ended June 30, 2017

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2016 is not material.

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

Largest 10 - Non-LEOS:

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

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

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

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

All Others (Non 10 Largest) - LEOS:

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

- Other Supplementary Information -

BLUE RIDGE REGIONAL JAIL AUTHORITY

Agency Funds

Combining Statement of Changes in Assets and Liabilities
Year Ended June 30, 2017

| | Balance July 1, 2016 | Additions | Deductions | Balance June 30, 2017 |
|------------------------------------|----------------------------|--------------|--------------|-----------------------------|
| Inmate Trust Funds | | | | |
| Assets: | | | | |
| Cash | \$ 150,360 | \$ 2,159,562 | \$ 2,152,532 | \$ 157,390 |
| Liabilities: | | | | |
| Accounts payable | \$ 69,022 | \$ 59,178 | \$ 69,022 | \$ 59,178 |
| Amounts held for inmates | 81,338 | 2,100,384 | 2,083,510 | 98,212 |
| Total liabilities | \$ 150,360 | \$ 2,159,562 | \$ 2,152,532 | \$ 157,390 |
| Employee Benefit Fund | | | | |
| Assets: | | | | |
| Cash | \$ 14,994 | \$ 10,758 | \$ 10,720 | \$ 15,032 |
| Liabilities: | | | | |
| Amounts held for employee benefits | \$ 14,994 | \$ 10,758 | \$ 10,720 | \$ 15,032 |
| Flexible Benefits Fund | | | | |
| Assets: | | | | |
| Cash | \$ 3,034 | \$ 22,691 | \$ 22,616 | \$ 3,109 |
| Liabilities: | | | | |
| Amounts held for employee benefits | \$ 3,034 | \$ 22,691 | \$ 22,616 | \$ 3,109 |
| TOTALS: | | | | |
| Assets: | | | | |
| Cash | \$ 168,388 | \$ 2,193,011 | \$ 2,185,868 | \$ 175,531 |
| Liabilities: | | | | |
| Accounts payable | \$ 69,022 | \$ 59,178 | \$ 69,022 | \$ 59,178 |
| Amounts held for inmates | 81,338 | 2,100,384 | 2,083,510 | 98,212 |
| Amounts held for employee benefits | 18,028 | 33,449 | 33,336 | 18,141 |
| Total liabilities | \$ 168,388 | \$ 2,193,011 | \$ 2,185,868 | \$ 175,531 |

- Compliance -

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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

TO THE HONORABLE MEMBERS OF
BLUE RIDGE REGIONAL JAIL AUTHORITY
LYNCHBURG, VIRGINIA

We have audited, 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, the financial statements of the business-type activities and aggregate remaining fund information of Blue Ridge Regional Jail Authority as of and for the year ended June 30, 2017, and the related notes to financial statements, which collectively comprise Blue Ridge Regional Jail Authority's basic financial statements and have issued our report thereon dated October 31, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Blue Ridge 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 Blue Ridge Regional Jail Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Blue Ridge 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 Authority's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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 Blue Ridge 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 Blue Ridge Regional Jail Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Blue Ridge Regional Jail Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Robinson, Fawcett, Cox Associates
Charlottesville, Virginia
October 31, 2017