APPALACHIAN JUVENILE COMMISSION

FINANCIAL REPORT

June 30, 2013

APPALACHIAN JUVENILE COMMISSION

CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Appalachian Juvenile Commission
Bristol, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Appalachian Juvenile Commission, which comprise the statement of financial position as of June 30, 2013, and the related statements of activities and cash flows for the year then ended, and the related notes to the financial statements.

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 misstatements, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Appalachian Juvenile Commission as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Accompanying Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of revenue and support, schedule of revenue from Juvenile Detention, and the schedule of expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 18, 2013, on our consideration of the Commission'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 Appalachian Juvenile Commission's internal control over financial reporting and compliance.

Blackley, Olinger & Associates, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

Bristol, Tennessee
September 18, 2013

APPALACHIAN JUVENILE COMMISSION
STATEMENT OF FINANCIAL POSITION
June 30, 2013

ASSETS	
Current Assets	
Cash and cash equivalents	$ 2,583,439
Accounts receivable	11,070
Prepaid insurance	-
Total Current Assets	2,594,509
Property and equipment, net	2,097,816
Total Assets	$ 4,692,325
LIABILITIES	
Current Liabilities	
Accounts payable	$ 21,570
Payroll liabilities	6,710
Accrued compensated absences and salaries	113,330
Current portion - postemployment benefit obligation	27,687
Total Current Liabilities	169,297
Long-term Liabilities	
Postemployment benefit obligation	272,556
Total Long-term Liabilities	272,556
Total Liabilities	441,853
NET ASSETS	
Unrestricted	4,250,472
Total Liabilities and Net Assets	$ 4,692,325

The accompanying notes are an integral part of these financial statements.

APPALACHIAN JUVENILE COMMISSION
STATEMENT OF ACTIVITIES
Year Ended June 30, 2013

UNRESTRICTED NET ASSETS	
SUPPORT AND REVENUE	
Local revenue - juvenile detention	$ 2,451,996
State revenue - juvenile detention	359,480
State - Commonwealth of Virginia block grant	854,243
Federal funds	70,211
Interest income	13,115
Miscellaneous	51,180
Total Unrestricted Support and Revenue	3,800,225
EXPENSES	3,501,505
Increase (Decrease) in Net Assets	298,720
NET ASSETS AT BEGINNING OF YEAR (Restated)	3,951,752
NET ASSETS AT END OF YEAR	$ 4,250,472

The accompanying notes are an integral part of these financial statements.

APPALACHIAN JUVENILE COMMISSION
STATEMENT OF CASH FLOWS
Year Ended June 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Increase (decrease) in net assets	$ 298,720
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	114,618
Loss on sale of equipment	1,950
(Increase) decrease in operating assets	
Receivables	5,626
Prepaid expenses	425
Increase (decrease) in operating liabilities	
Accounts payable	(11,902)
Accrued salaries and compensated absences	18,691
Postemployment benefit obligation (Gain)	(15,274)
Payroll liabilities	1,319
Net cash provided by operating activities	414,173
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(52,832)
Net cash used by investing activities	(52,832)
CASH FLOWS FROM FINANCING ACTIVITIES	
Distribution to localities	(180,000)
Net cash used by financing activities	(180,000)
Net increase (decrease) in cash and cash equivalents	181,341
CASH AND CASH EQUIVALENTS, Beginning	2,402,098
CASH AND CASH EQUIVALENTS, Ending	$ 2,583,439
SUPPLEMENTAL INFORMATION:	
Interest paid	$ -

The accompanying notes are an integral part of these financial statements.

NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organizational History

The Highlands Juvenile Detention Center Commission was organized as of July 1, 1984, and exists by virtue of concurrent resolutions of the counties of Washington, Smyth, and the City of Bristol, all of which are in the Commonwealth of Virginia, which resolutions implement Article 13 of Title 16.1-315 of the Code of Virginia, and as so provided, is a corporate and political public body with all the powers and duties granted to it under the Code of Virginia.

Effective July 1, 2003, the Commission was expanded to allow the counties of Lee, Dickenson, Tazewell, Wise, Russell, Buchanan, Scott and the City of Norton to buy into the Commission's regionalization over a five year period for approximately $980,000.

Effective July 1, 2005, Highlands Juvenile Detention Center Commission and Southwest Regional Group Home merged together to enhance the services to the youth of Southwest Virginia. The combined Commissions operate under the umbrella of one Commission known as the Appalachian Juvenile Commission. As of July 1, 2011 the Commission no longer operates the group home.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual method of accounting.

Cash and Cash Equivalents

Cash and cash equivalents includes all monies in banks and highly liquid investments with maturity dates of three months or less and which are not subject to withdrawal restrictions or penalties.

Donated Property and Equipment

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

NOTE A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

The counties of the Commission jointly own the building the Commission occupies. It was constructed in the year 1972-73 and was occupied in July 1973. The land on which the building resides was donated to the Commission in 1998. The donation was unrestricted. Expenditures for the acquisition of property and equipment with a cost greater than $1,000 and a useful life of greater than one year are capitalized at cost. Depreciation is provided over the estimated useful lives of the building and improvements (40 years) and equipment and furniture (5-15 years) on the straight-line method.

The Commission reviews the carrying value of property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from the use and eventual disposition. In cases where undiscounted expected future cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. The factors considered by management in performing this assessment include current operating results, trends and prospects, the manner in which the property is used, and the effects of obsolescence, demand, competition, and other economic factors. Based on this assessment there was no impairment at June 30, 2013.

Employee Benefits

The cost of employee benefits and compensated absences are accrued as vested to the employee. The Commission does not maintain any unfunded retirement plans. The postemployment and postretirement health benefits are unfunded; thus, no plan assets are set aside for funding.

Financial Statement Presentation

The financial statement presentation follows requirements of the Not-for-Profit Entities Topic of the Financial Accounting Standards Board Accounting Standards Codification. Under the Not-for-Profit Topic, the Commission is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

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.

Income Taxes

Appalachian Juvenile Commission is a not-for-profit organization that is exempt from federal income taxes under Internal Revenue Code Section 501 (c) (3) except on net income derived from unrelated business activities. The Commission did not have any unrelated business income subject to tax. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

NOTE B. PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2013, consisted of the following:

Land	$ 111,714
Building and improvements	673,113
Equipment & vehicles	2,893,597
	3,678,424
Less accumulated depreciation	1,580,608
Total Property and Equipment	$ 2,097,816

Depreciation expense for the current period is $114,618

NOTE C. NATURE OF FUNDING POLICIES

State Funding:

State funding to support locally operated adult and juvenile programs is recorded using block grants. In accordance with Virginia Code Sections 16.1-322.1, 16.1-322.2, 16.1-309.6, and 16.1-309.7, the Commission was awarded initial grants, subject to revisions, to supplement the operation of the local correctional programs. The Commission received $854,243 in Virginia block grant funds and $358,480 in Juvenile Community Crime Control Act grant funds for the year ended June 30, 2013. Pursuant to Sections 16.1-322.2 and 16.1-309.7 of the Code, any unexpended funds at the end of each fiscal year shall be retained by the locality and subsequently expended for operating expenses of the Commission.

NOTE D. CONCENTRATIONS OF RISK

The Commission maintains its operating and capital replacement cash balances at one financial institution located in Bristol TN/VA. The Federal Deposit Insurance Corporation (FDIC) insures accounts up to $250,000. The bank collateralizes any amounts greater than $250,000 as public funds.

NOTE E. SUBSEQUENT EVENT

Subsequent events have been evaluated through September 18, 2013, which is the date the financial statements were available to be issued.

NOTE F. ESTIMATED POSTEMPLOYMENT AND POSTRETIREMENT BENEFITS

The Commission sponsors postemployment health benefits to certain former employees. Effective January 1, 2004, the Commission adopted an unfunded postretirement health and dental plan for all employees.

The ASC 715-60 standard on accounting for postretirement benefits other than pensions requires the following disclosure with regard to the retiree medical insurance liability:

Description of the Retiree Medical Insurance Plans:

Plan Type:	Pre 65: Statewide funded plan which includes: Medical (PPO) and Vision - Anthem Blue Cross Blue Shield Prescription Drugs - MEDCO Health Solutions Inc. Behavioral Health and EAP - Value Option Inc. Dental - Delta Dental Plan of Virginia Details of the above can be found in the "Key Advantage with Expanded Benefits" plan booklet. Post 65: Advantage 65, administered by Anthem Blue Cross. Benefits cease 5 years after date of retirement and is capped at a maximum of $500 per month.
Eligibility	Employees are eligible for benefits at a minimum of age 50 with 20 years of service.
Benefit Cost Sharing	Employer's contribution varies according to service at retirement and is outlined as follows: i) 20 years of service - 60% benefit. ii) 25 years of service - 80% benefit. iii) 30 years of service - 100% benefit.
Spouse and Surviving Spouse Benefits:	There are no spousal or surviving spouse benefits.
Annual Medical Premiums:	As of July 1, 2012 Pre-65 $6,000 Post-65 $2,280

The following ASC 715-60 disclosures provide a reconciliation of changes in the plan benefit obligations and fair value of assets and a statement of funded status as of June 30, 2013:

				7/1/2012 to 06/30/2013
A.	**Change in accumulated postretirement benefit obligation**			
	1.	Postretirement benefit obligation at beginning of year		
		a.	Actives not fully eligible to retire	$ 219,748
		b.	Actives fully eligible to retire	49,337
		c.	Retirees	46,432
		d.	Total	$ 315,517

(Continued)

NOTE F. ESTIMATED POSTEMPLOYMENT AND POSTRETIREMENT BENEFITS

			7/1/2012 to 06/30/2013
2.	Service cost		$ 19,369
3.	Interest cost		$ 10,646
4.	Amendments		-
5.	Actuarial (gain) loss		$ (19,137)
6.	Benefits paid		$ (26,152)
7.	Postretirement benefit obligation at end of year		
	a.	Actives not fully eligible to retire	$ 229,255
	b.	Actives fully eligible to retire	45,374
	c.	Retirees	25,614
	d.	Total	$ 300,243

B.	**Change in plan assets**	
1.	Fair value of plan assets at beginning of year	$ -
2.	Actual return on plan assets	-
3.	Employer contribution	26,152
4.	Benefits paid	(26,152)
5.	Fair value of plan assets at end of year	$ -

C.	**Funded status**	6/30/2013
1.	Postretirement benefit obligation at end of year	$ 300,243
2.	Fair value of plan assets at end of year	-
3.	Funded status end of year	$ 300,243
4.	Current liability	$ 27,687
5.	Non-current liability	272,556
6.	Total	$ 300,243

D.	**Components of the net periodic postretirement benefit cost**	7/1/2012 to 06/30/13
1.	Service cost	$ 19,369
2.	Interest cost	10,646
3.	Return on plan assets	-
4.	Amortization of transition obligation	-
5.	Amortization of prior service cost	-
6.	Amortization of actuarial (gain) loss	65
7.	Total	$ 30,080

(Continued)

NOTE F. ESTIMATED POSTEMPLOYMENT AND POSTRETIREMENT BENEFITS

			7/1/2012 to 06/30/13
E.	**OPEB changes other than net periodic postretirement benefit cost**		
	1.	New prior service cost	$ -
	2.	New actuarial (gain) loss	(19,137)
	3.	Amortization of unrecognized amounts	(65)
	4.	Total	$ (19,202)

				6/30/2013
F.	**Unrecognized amounts and amortization amounts in the following year**			
	1.	Unrecognized amounts		
		a.	Transition obligation	$ -
		b.	Prior service cost	-
		c.	Net actuarial (gain) / loss	13,102
		d.	Total	$ 13,102
	2.	Amortization amounts in the following year (estimate)		
		a.	Transition obligation	$ -
		b.	Prior service cost	-
		c.	Net actuarial (gain) / loss	-
		d.	Total	$ -

				6/30/2013
G.	**Assumptions and effects**			
	1.	Actuarial assumptions		
		a.	Medical / drug trend rate next year	7.00%
		b.	Ultimate trend rate	4.50%
		c.	Year ultimate trend rate is achieved	2016
		d.	Discount rate used to value end of year accumulated postretirement benefit obligations	4.15%
		e.	Discount rate used to value net periodic postretirement benefit cost	3.52%
	2.	Effect of a 1% increase in health care cost trend rate on:		
		a.	Interest cost plus service cost	$ 2,580
		b.	Accumulated postretirement benefit obligation	$ 19,806
	3.	Effect of a 1% decrease in health care cost trend rate on:		
		a.	Interest cost plus service cost	$ (2,290)
		b.	Accumulated postretirement benefit obligation	$ (18,096)
	4.	Measurement date		6/30/2013

(Continued)

NOTE F. ESTIMATED POSTEMPLOYMENT AND POSTRETIREMENT BENEFITS

H. **Estimated future benefit payments**

Benefit payments are shown net of employee contribution.

Year Beginning January 1st:	Estimated Employer Payment
2013	$ 27,687
2014	$ 12,800
2015	$ 10,676
2016	$ 17,547
2017	$ 19,059
2018 - 2022	$ 105,497

I. **Expected employer contribution for next fiscal year**

For non-funded plans, employer contributions equal benefit payments (above) for net of retiree contributions for the next fiscal year.

2013	$ 27,687

The total postemployment benefit obligation is reflected on the Statement of Financial Position as follows:

Postemployment benefit obligation - current	$ 27,687
Postemployment benefit obligation - long term	272,556
	$ 300,243

NOTE G. PENSION PLANS

Defined Contribution Plans:

The Commission has a 457 defined contribution plan which is 100% funded by employee contributions.

Defined Benefit Plan:

Plan Description

The Commission contributes to the Virginia Retirement System (VRS), an agent and cost-sharing multiple-employer defined benefit pension plan administered by the VRS. Benefits vest after five years of service. Members earn one month of service credit for each month they are employed and their employer is paying into the VRS. Members are eligible to purchase prior public service, active duty military service, certain periods of leave and previously refunded VRS service as credit in their plan.

(Continued)

NOTE G. PENSION PLANS (Continued)

Plan Description

VRS administers two defined benefit plans for local government employees - Plan 1 and Plan 2. During 2013, Plan 1 was renamed to Prior Plan for members vested as of January 1, 2013 and Plan 1 members hired prior to July 1, 2010 who were not vested and Plan 2 members were renamed to New Plan.

> Members, (members hired before July 1, 2010) who are vested as of January 1, 2013 are covered under Plan 1 (Prior Plan). A member may retire early with unreduced pension benefits after reaching age 50 with a least 30 years of service credit. A member may retire early with reduced pension benefits after reaching age 50 with at least ten years of service credit, or age 55 with credit for at least five years of service.
>
> New Plan Members are Plan 1 Members who are not vested as of January 1, 2013 and all Plan 2 Members (Members hired on or after July 1, 2010). Under the New Plan a member may retire with unreduced pension benefits upon Normal Retirement once they attain their normal Social Security retirement age and have at least five years of service credit. New plan members may retire early with unreduced pension benefits upon the sum of their age and their service being 90 (Rule of 90). A member may retire early with reduced pension benefits after reaching age 60 with at least five years of service credit.

The VRS Basic Benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the member's average final compensation multiplied by the member's total service credit. Under the Prior Plan (Plan 1), average final compensation is the average of the member's 36 consecutive months of highest compensation. Under the New Plan, the average final compensation is the average of the member's 60 consecutive months of highest compensation. The Prior Plan average final compensation (AFC) is 1.7% times years of service. Under the New Plan the average final compensation (AFC) is 1.70% times years of service up to January 1, 2013 plus 1.65% of AFC times years of service from January 1, 2013. At retirement, members can elect the Basic Benefit, the Survivor Option, a Partial Lump-Sum Option Payment (PLOP) or the Advance Pension Option. A retirement reduction factor is applied to the Basic Benefit amount for members electing the Survivor Option, PLOP or Advance Pension Option or those retiring with a reduced benefit.

Prior Plan members qualify for a cost-of-living adjustment (COLA) increase on July 1 of the second calendar year after retirement. Automatic cost-of-living increases are calculated as the first 3% of the Consumer Price Index increase plus half of each percentage increase from 3% to 7%. New Plan members qualify for cost-of living increases on July 1, of the second calendar year after retirement. Automatic cost-of living increases are calculated as the first 2% increase of the Consumer Price Index plus half of each percent from 2% to 4% with a maximum cost-of-living increases of 3%.

(Continued)

NOTE G. PENSION PLANS (continued)

Funding Policy

Plan members are required by Title 51.1 of the Code of Virginia (1950), as amended, to contribute 5.00% of their annual reported compensation to the VRS. All or part of the 5.00% member contribution may be assumed by the employer. In addition, the Appalachian Juvenile Commission is required to contribute the remaining amounts necessary to fund its participation in the VRS using the actuarial basis specified by the Code of Virginia and approved by the VRS Board of Trustees. The Appalachian Juvenile Commission's contribution rate for the fiscal year ended June 30, 2013 was 12.63% of the annual covered payroll.

Annual Pension Cost

For the year ended June 30, 2013, the Commission's annual pension cost of $221,670 for VRS was equal to the Commission's required and actual contributions.

Three-Year Trend Information for Appalachian Juvenile Detention:

Fiscal Year Ending	Annual Pension Cost (APC)	% of APC Contributed	Pension Obligation
6/30/2013	$ 221,670	100.00%	0.00%
6/30/2012	$ 228,672	100.00%	0.00%
6/30/2011	$ 257,607	100.00%	0.00%
6/30/2010	$ 254,500	100.00%	0.00%

The FY 2012 required contribution was determined as part of the June 30, 2009 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2012 included (a) an investment rate of return (net of administrative expenses) of 7.0%, (b) projected salary increases was 3.75% -5.60% for Non-LEO members and 3.50% - 4.75% for LEO members, and (c) a cost-of-living adjustment of 2.50% for prior plan members and 2.25% for new plan member. Both the investment rate of return and the projected salary increases also include an inflation component of 2.50%. The actuarial value of the Appalachian Juvenile Commission's assets is equal to the modified market value of assets. This method uses techniques that smooth the effects of short-term volatility in the market value of assets over a five-year period. Appalachian Juvenile Commission's unfunded actuarial accrued liability is being amortized as level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2013 for the Unfunded Actuarial Accrued liability (UAAL) was 28 years.

(Continued)

NOTE G. PENSION PLANS (continued)

Funding Status and Funding Progress

As of June 30, 2012, the most recent actuarial valuation date, the plan was 62.56% funded. The actuarial accrued liability for benefits was $5,068,886, and the actuarial value of assets was $3,171,210, resulting in an unfunded actuarial accrued liability (UAAL) of $1,897,676. The covered payroll (annual payroll of active employees covered by the plan) was $1,655,568, and the ratio of the UAAL to the covered payroll was 114.62%.

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

Valuation as of	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio Assets as % of AAL	Annual Covered Payroll	UAAL as of % of Covered Payroll
6/30/2012	$ 3,171,210	$ 5,068,886	$1,897,676	62.56%	$1,655,568	114.62%
6/30/2011	$ 3,168,269	$ 5,050,343	$1,882,074	62.73%	$1,829,736	102.86%
6/30/2010	$ 3,022,906	$ 4,795,120	$1,772,214	63.04%	$1,827,936	96.95%
6/30/2009	$ 3,193,646	$ 4,252,025	$1,058,379	75.11%	$1,932,605	54.76%
6/30/2008	$ 2,966,017	$ 3,940,781	$ 974,764	75.26%	$1,838,268	53.03%

Notes to Required Supplementary Information:

1. Valuation date — 6/30/2012
2. Actuarial cost method — Entry age normal
3. Amortization method — Level percent of pay, open
4. Payroll growth rate — 3.00%
5. Remaining amortization period — 29 years (decreasing by one each year in subsequent valuations until reaching 20 years)
6. Asset valuation method — Five-year smoothed market value
7. Actuarial assumptions
   a. Investment rate of return (inflation of 2.50%) — 7.00%
   b. Projected salary increases (inflation of 2.50%)
      - Non-LEO — 3.75% to 5.60%
      - LEO employees — 3.50% to 4.75%
   c. Cost-of-living adjustment
      - Prior Plan Members — 2.50%
      - New Plan Members — 2.25%

(Continued)

NOTE G. PENSION PLANS (continued)

Actuarial Present Value of Future Benefits:	6/30/2012
1. Active Members	
a. Retirement benefits	$ 2,773,102
b. Termination benefits	237,226
c. Disability benefits	412,500
d. Death benefits	124,649
e. Total	$ 3,547,477
2. Retired members	
a. Service retirements	$ 2,159,044
b. Disability retirements	410,372
c. Beneficiaries	-
d. Total	$ 2,569,416
3. Terminated members with future benefits	
a. Vested terminations	$ 71,684
b. Nonvested terminations	33,230
c. Total	$ 104,914
4. Total present value of future benefits	$ 6,221,805

Development of Annual Required Contribution Rate:	6/30/2012
1. Covered payroll	$ 1,655,568
2. Present value of future pay	$ 13,785,534
3. Total normal cost	$ 160,264
4. Normal cost rate	
a. Total normal cost rate	9.68%
b. Less: member contribution rate	5.00%
c. Employer normal cost rate	4.68%
5. Actuarial accrued liability	
a. Actives	$ 2,394,557
b. Inactives	2,674,329
c. Total	$ 5,068,886
6. Actuarial value of assets	$ 3,171,210
7. Unfunded actuarial accrued liability (UAAL)	$ 1,897,676
8. UAAL as a percentage of covered payroll	114.62%
9. UAAL amortization rate	6.40%
10. Funding period in years	29 Years
11. Recommended employer contribution rate	11.08%

(Continued)

NOTE G. PENSION PLANS (continued)

Annual Required Contribution Rate:

1. Annual required contribution rate

a.	Contribution rate	11.08%
b.	Funding period in years	29 Years
c.	Amortization factor based on funding period The amortization factor is based on an interest rate of 7.0% and a payroll growth rate of 3.0%	17.8892

NOTE H. HEALTH INSURANCE CREDIT

Summary of Main Benefit Provisions as Interpreted for Valuation Purposes:

Political subdivisions participating in the Virginia Retirement System (VRS) may elect to provide a credit toward the cost of health insurance coverage for any former state employee who retired under VRS with at least 15 years of total creditable service. The amount of each monthly health insurance credit shall be $1.50 per year of creditable service, which amount shall be paid monthly to any retired employee participating in the Health Insurance Credit Program. However, such credit shall not exceed the health insurance premium for retiree.

Disabled retirees automatically receive a maximum monthly credit of $45. If an eligible employee has worked for more that one employer in VRS, for the purpose of this valuation, the most current (or last) employer assumes full liability for that employee.

Summary of Actuarial Assumptions and Methods as Interpreted for Valuation Purposes:

Valuation date	6/30/2012
Actuarial cost method	Entry Age Normal
Amortization method	Level Percentage of Pay, Open
Remaining amortization period	29 years from valuation date decreasing by one year each year in subsequent valuations until reaching 20 years (open amortization, computed as level percent of payroll).
Asset valuation method	Market Value of Assets
Participation Assumption:	85% of current employees will utilize the benefit program.
Deferred termination benefit period	Employees are assumed to receive benefits at age 65 for Prior Plan Members or their Normal Social Security retirement age for New Plan Members.

(Continued)

NOTE H. HEALTH INSURANCE CREDIT (Continued)

Actuarial assumptions:

Investment Rate of Return**	7% per annum, compounded annually (net of administrative expenses)
Payroll Growth Rate	3% per annum.
**Inflation Assumption	2.5% per year.
Mortality Rates:	
Pre-Retirement & Post-Retirement	1994 Group Annuity Mortality Tables
Post-Disablement	70% of PBGC for males; 90% of PBGC for Females

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

Valuation as of	Actuarial Value of Assets	Actuarial Accr. Liability (AAL) Projected Unit Credit	Unfunded AAL (UAAL)	Funded Ratio Assets as % of AAL	Annual Covered Payroll	UAAL as of % of Covered Payroll
6/30/2012	$ 18,114	$ 104,483	$ 86,369	17.34%	$ 1,655,568	5.22%
6/30/2011	$ 20,308	$ 103,581	$ 83,273	19.61%	$ 1,829,736	4.55%
6/30/2010	$ 18,663	$ 88,970	$ 70,307	20.98%	$ 1,827,936	3.85%
6/30/2009	$ 14,993	$ 72,247	$ 57,254	20.75%	$ 1,932,605	2.96%
6/30/2008	$ 15,235	$ 90,367	$ 75,132	16.86%	$ 1,838,268	4.09%
6/30/2007	$ 10,335	$ 79,617	$ 69,282	12.98%	$ 1,822,416	3.80%

NOTE I. RESTATEMENT OF FUND BALANCE

In October, 2011, the commission agreed to return to the localities any profits that exceeded six percent of net income. The beginning net assets on the statement of activities was restated to reflect a 2013 return of $180,000 to the localities for fiscal year 2011. A reserve of $202,000 was retained for future capital replacement needs.

APPALACHIAN JUVENILE COMMISSION
SCHEDULE OF SUPPORT AND REVENUE
Year Ended June 30, 2013

	BUDGET	SECURE	ALTERNATIVES	DRUG COURT	TOTAL
Local revenue					
Juvenile detention	$ 2,239,700	$ 1,578,696	$ 618,300	$ 75,000	$ 2,271,996
State support and revenue					
Secure detention	850,000	855,243	-	-	855,243
Alternative detention	360,000	-	358,480	-	358,480
	1,210,000	855,243	358,480	-	1,213,723
Federal support					
E-Rate funds	20,000	29,398	2,925	-	32,323
USDA funds	32,000	37,832	-	-	37,832
Other grants and funding	-	56	-	-	56
	52,000	67,286	2,925	-	70,211
Fund Balance Transfer	180,000	180,000	-	-	180,000
Interest income	10,000	13,115	-	-	13,115
Miscellaneous	27,000	25,165	1,015	25,000	51,180
	217,000	218,280	1,015	25,000	244,295
Total support and revenue	$ 3,718,700	$ 2,719,505	$ 980,720	$ 100,000	$ 3,800,225

The accompanying notes are an integral part of these financial statements.

APPALACHIAN JUVENILE COMMISSION
SCHEDULE OF REVENUE FROM JUVENILE DETENTION
Year Ended June 30, 2013

	SECURE	ALTERNATIVES	DRUG COURT	TOTAL
City of Bristol	$ 176,808	$ 70,696	$ -	$ 247,504
Buchanan County	45,336	18,128	-	63,464
Dickenson County	47,188	18,872	-	66,060
Lee County	101,488	40,580	25,000	167,068
City of Norton	63,024	25,200	-	88,224
Russell County	140,940	56,352	-	197,292
Scott County	119,792	47,900	25,000	192,692
Smyth County	120,416	48,140	-	168,556
Tazewell County	264,628	105,800	-	370,428
Washington County	133,892	53,532	-	187,424
Wise County	332,888	133,100	25,000	490,988
Bristol VA Schools	1,606	-	-	1,606
Carroll County	27,590	-	-	27,590
City of Galax	1,705	-	-	1,705
Wythe County	1,395	-	-	1,395
Total localities	1,578,696	618,300	75,000	2,271,996
Commonwealth of Virginia	1,000	358,480	-	359,480
Total localities and state	$ 1,579,696	$ 976,780	$ 75,000	$ 2,631,476

The accompanying notes are an integral part of these financial statements.

APPALACHIAN JUVENILE COMMISSION
SCHEDULE OF EXPENSES
Year Ended June 30, 2013

	BUDGET	SECURE	ALTERNATIVES	DRUG COURT	TOTAL
Salaries and wages	$ 1,853,000	$ 1,305,350	$ 471,517	$ 41,875	$ 1,818,742
Payroll tax expense	321,300	240,352	55,492	3,692	299,536
Employee health and dental insurance	449,000	302,836	115,538	7,258	425,632
Employee disability, life and retirement	246,050	165,207	60,175	5,135	230,517
Postemployment/retirement benefits (gain)	-	(15,274)	-	-	(15,274)
Workman's compensation insurance	34,700	21,818	7,427	560	29,805
Food	107,000	106,513	-	-	106,513
Medical services	22,000	14,984	-	-	14,984
Medical supplies	4,800	4,786	-	-	4,786
Medication	15,000	13,184	-	-	13,184
Ward expenses	9,000	8,998	-	-	8,998
Recreational supplies	500	-	-	-	-
Utilities	67,350	60,231	-	-	60,231
Communications	51,700	34,162	14,671	1,509	50,342
Educational supplies	3,000	1,180	-	-	1,180
Office supplies	22,800	10,542	2,168	2,878	15,588
Household and cleaning supplies	10,000	6,528	-	-	6,528
Kitchen supplies	22,000	21,866	-	-	21,866
Travel	166,000	6,717	135,783	7,982	150,482
Training	7,100	3,155	200	-	3,355
Commission expense	15,300	15,240	-	-	15,240
Repairs and maintenance - equipment	21,600	14,651	5,546	-	20,197
Non-capitalized equipment	14,200	9,394	2,183	-	11,577
Detention payments	150	150	-	-	150
Professional fees	21,050	19,956	21	48	20,025
Drug/alcohol screening	1,100	1,049	-	27	1,076

(Continued)

The accompanying notes are an integral part of these financial statements.

APPALACHIAN JUVENILE COMMISSION
SCHEDULE OF EXPENSES
Year Ended June 30, 2013

	BUDGET	SECURE	ALTERNATIVES	DRUG COURT	TOTAL
Program services	11,700	-	1,996	932	2,928
Mental health	250	-	-	-	-
Dues and professional membership	750	625	-	-	625
Security supplies	1,500	1,448	-	-	1,448
Insurance expense	15,300	9,641	1,945	150	11,736
Repairs and maintenance-building	40,000	25,303	-	-	25,303
Office space rental	15,000	-	10,999	-	10,999
Electronic monitoring	16,000	-	16,638	-	16,638
Substance abuse testing	500	-	-	-	-
(Gain) loss on disposal of assets	-	1,950	-	-	1,950
Depreciation	132,000	108,552	6,313	(247)	114,618
Total expenses	$ 3,718,700	$ 2,521,094	$ 908,612	$ 71,799	$ 3,501,505

The accompanying notes are an integral part of these financial statements.

Blackley, Olinger & Associates, PLLC
Certified Public Accountants

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

To the Board of Directors
Appalachian Juvenile Commission
Bristol, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standard* issued by the Comptroller General of the United States, the financial statements of Appalachian Juvenile Commission, which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 18, 2013.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Blackley Olinger & Associates, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

September 18, 2013

Blackley, Olinger & Associates, PLLC

Certified Public Accountants

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September 18, 2013

To the Board of Directors
Appalachian Juvenile Commission
Bristol, VA

We have audited the financial statements of the Appalachian Juvenile Commission for the year ended June 30, 2013, and have issued our report thereon dated September 18, 2013. Professional standards require that we provide you information about our responsibilities under generally accepted auditing standard, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 9, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Appalachian Juvenile Commission are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2013. We noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

> Management's estimates of the pension and post-employment benefit obligations are based on actuarial data received from licensed actuaries. We evaluated the key factors and assumptions used to develop the pension and post-employment benefit obligations in determining that they are reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has recorded all proposed audit adjustments that could in our judgment, either individually or in the aggregate, have a significant effect on the Organization's financial reporting.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated September 18, 2013.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Organization's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

<u>Other Information in Documents Containing Audited Financial Statements</u>

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with U.S. generally accepted accounting principles, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Directors and management of Appalachian Juvenile Commission and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Blackley, Olinger & Associates, PLLC

Certified Public Accountants

APPALACHIAN JUVENILE COMMISSION
Trends
FISCAL YEAR ENDING

	2013	2012	2011	2010	2009	2008
STATEMENT OF FINANCIAL POSITION						
CASH	$ 2,583,439	$ 2,402,098	$ 1,555,268	$ 1,219,111	$ 938,678	$ 604,995
TOTAL ASSETS	$ 4,692,325	$ 4,580,772	$ 3,823,136	$ 3,596,846	$ 3,389,625	$ 3,101,448
TOTAL LIABILITIES	$ 441,853	$ 449,020	$ 406,303	$ 538,245	$ 453,960	$ 467,065
NET ASSETS	$ 4,250,472	$ 4,131,752	$ 3,416,833	$ 3,058,601	$ 2,935,665	$ 2,634,383
STATEMENT OF ACTIVITIES						
SUPPORT & RENENUE	$ 3,800,225	$ 3,947,069	$ 4,098,802	$ 3,898,744	$ 4,130,163	$ 4,023,121
EXPENSES	3,501,505	3,232,150	3,640,570	3,775,809	3,828,881	3,788,491
INCREASE IN NET ASSETS	$ 298,720	$ 714,919	$ 458,232	$ 122,935	$ 301,282	$ 234,630