APPALACHIAN JUVENILE COMMISSION

FINANCIAL REPORT

June 30, 2017

Blackley, Olinger & Associates, PLLC
Certified Public Accountants

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Certified Public Accountants

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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, 2017, 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, and *Specification for Audits of Counties, Cities and Towns* issued by the Auditor of Public Accounts of the Commonwealth of Virginia.

Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control 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 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, 2017, 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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the postemployment and net pension liabilities and notes to the required supplementary information 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 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 methods of preparing the information and comparing the information for consistency with management's responses to our inquires, 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.

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 are presented for purposes of additional analysis and are not a required part of the financial statements. The Accompanying Schedules are 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 10, 2017, 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, Alinger & Associates, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

Bristol, Tennessee
September 10, 2017

APPALACHIAN JUVENILE COMMISSION
STATEMENT OF FINANCIAL POSITION
June 30, 2017

ASSETS	
Current Assets	
Cash and cash equivalents	$ 2,666,524
Accounts receivable	19,725
Prepaid expenses	1,480
Deferred pension outflows	311,879
Investment - Certificate of Deposit	1,000,000
Total Current Assets	3,999,608
Property and equipment, net	1,777,130
Total Assets	$ 5,776,738
LIABILITIES	
Current Liabilities	
Accounts payable	$ 31,770
Payroll liabilities	804
Accrued compensated absences and salaries	162,975
Current portion - deferred pension inflows	28,137
Current portion - postemployment benefit obligation	20,173
Total Current Liabilities	243,859
Long-term Liabilities	
Deferred pension inflows	58,819
Net pension liability	1,565,791
Postemployment benefit obligation	345,680
Total Long-term Liabilities	1,970,290
Total Liabilities	2,214,149
NET ASSETS	
Unrestricted	3,562,589
Total Liabilities and Net Assets	$ 5,776,738

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

APPALACHIAN JUVENILE COMMISSION
STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

UNRESTRICTED NET ASSETS	
SUPPORT AND REVENUE	
Local revenue - juvenile detention	$ 2,628,941
State revenue - juvenile detention	375,219
State - Commonwealth of Virginia block grant	831,598
Federal funds	62,884
Interest income	20,846
Miscellaneous	33,327
Total Unrestricted Support and Revenue	3,952,815
EXPENSES	3,512,268
Increase (Decrease) in Net Assets	440,547
NET ASSETS AT BEGINNING OF YEAR (Restated)	3,122,042
NET ASSETS AT END OF YEAR	$ 3,562,589

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

APPALACHIAN JUVENILE COMMISSION
STATEMENT OF CASH FLOWS
Year Ended June 30, 2017

CASH FLOWS FROM OPERATING ACTIVITIES	
Increase (decrease) in net assets	$ 440,547
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	99,744
(Increase) decrease in operating assets	
Receivables	(427)
Deferred pension outflows	(120,151)
Increase (decrease) in operating liabilities	
Accounts payable	14,726
Accrued salaries and compensated absences	7,061
Postemployment benefit obligation (Gain)	(12,699)
Net pension liability and deferred pension inflows	74,976
Payroll liabilities	(27,000)
Net cash provided by operating activities	476,777
CASH FLOWS FROM INVESTING ACTIVITIES	
Investments - Certificate of Deposit - Long-term	(1,000,000)
Purchase of property and equipment	(21,692)
Net cash used by investing activities	(1,021,692)
CASH FLOWS FROM FINANCING ACTIVITIES	
Distribution to localities	(125,000)
Net cash used by financing activities	(125,000)
Net increase (decrease) in cash and cash equivalents	(669,915)
CASH AND CASH EQUIVALENTS, Beginning	3,336,439
CASH AND CASH EQUIVALENTS, Ending	$ 2,666,524
SUPPLEMENTAL INFORMATION:	
Interest paid	$ -

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

APPALACHIAN JUVENILE COMMISSION

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APPALACHIAN JUVENILE COMMISSION
NOTES TO 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, 2017.

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, 2017, consisted of the following:

Land	$ 111,714
Building and improvements	3,090,384
Equipment & vehicles	513,514
	3,715,612
Less accumulated depreciation	1,938,482
Total Property and Equipment	$ 1,777,130

Depreciation expense for the current period is $99,744.

NOTE C. NATURE OF FUNDING POLICIES

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 $831,598 in Virginia block grant funds and $362,821 in Juvenile Community Crime Control Act grant funds for the year ended June 30, 2017. 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. INVESTMENT - CERTIFICATE OF DEPOSITS

On September 29, 2016, the Commission invested in a $1,000,000 three-year public fund certificate of deposits that matures September 26, 2019. The annual percentage yield rate is .80%. The certificates of deposit have been issued through CDARS (Certificate Deposit Account Register Service) by one or more FDIC-insured depository institutions.

NOTE F. 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 return of $125,000 to the localities for fiscal year 2017.

NOTE G. SUBSEQUENT EVENT

Subsequent events have been evaluated through September 10, 2017, which is the date the financial statements were available to be issued.

NOTE H. LEASES

Appalachian Juvenile Commission entered into a lease on May 1, 2014 for additional office space. The terms of this lease is for fourteen months at $1,112 per month which includes the 27% shared utility cost and terminates on June 30, 2018. The Commission may renew the lease for a one year option for three years. The renewal rate shall be a three percent increase in the basic rental rate plus 27% of shared utility cost.

The projected annual lease amounts for the succeeding three year period based upon the lease agreement are as follows:

Schedule of Future Lease Payments:

Fiscal Year Ending	Basic Rate	Plus Additional Rate
June 30, 2018	$13,344	Plus 27% of shared utility expense
June 30, 2019	$13,344	Plus 27% of shared utility expenses
June 30, 2020	$13,344	Plus 27% of shared utility expenses

Office space rental expense (including 27% shared utility expenses) for June 30, 2017 was $13,344.

The Commission also has non-material leases for office equipment which are treated as operating leases in the Statement of Activities.

NOTE I. 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 - Anthem Blue Cross Blue Shield
Behavioral Health and EAP - Anthem Blue Cross Blue Shield
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 are capped at a maximum of $500 per month.

(Continued)

NOTE I. ESTIMATED POSTEMPLOYMENT AND POSTRETIREMENT BENEFITS

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, 2016** Pre-65 $6,000 Post-65 $2,412

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, 2016:

			7/1/2016 to 06/30/2017
A.	**Change in accumulated postretirement benefit obligation**		
	1.	Postretirement benefit obligation at beginning of year	
		a. Actives not fully eligible to retire	$ 230,706
		b. Actives fully eligible to retire	139,999
		c. Retirees	7,847
		d. Total	$ 378,552
			7/1/2016 to 06/30/2017
	2.	Service cost	$ 19,079
	3.	Interest cost	$ 10,649
	4.	Amendments	-
	5.	Actuarial (gain) loss	$ (22,900)
	6.	Benefits paid	$ (19,527)
	7.	Postretirement benefit obligation at end of year	
		a. Actives not fully eligible to retire	$ 208,973
		b. Actives fully eligible to retire	121,645
		c. Retirees	35,235
		d. Total	$ 365,853

			7/1/2016 to 06/30/2017
B.	**Change in plan assets**		
	1.	Fair value of plan assets at beginning of year	
	2.	Actual return on plan assets	-
	3.	Employer contribution	$ 19,527
	4.	Benefits paid	(19,527)
	5.	Fair value of plan assets at end of year	$ -

(Continued)

NOTE I. ESTIMATED POSTEMPLOYMENT AND POSTRETIREMENT BENEFITS

C.	**Funded status**		**6/30/2017**
	1. Postretirement benefit obligation at end of year	$	365,853
	2. Fair value of plan assets at end of year		-
	3. Funded status end of year	$	365,853
	4. Current liability	$	20,173
	5. Non-current liability		345,680
	6. Total	$	365,853

D.	**Components of the net periodic postretirement benefit cost**		**7/1/2016 to 06/30/2017**
	1. Service cost	$	19,079
	2. Interest cost		10,649
	3. Return on plan assets		-
	4. Amortization of transition obligation		-
	5. Amortization of prior service cost		-
	6. Amortization of actuarial (gain) loss		-
	7. Total	$	29,728

E.	**OPEB changes other than net periodic postretirement benefit cost**		**7/1/2016 to 06/30/2017**
	1. New prior service cost	$	-
	2. New actuarial (gain) loss		(22,900)
	3. Amortization of unrecognized amounts		-
	4. Total	$	(22,900)

F.	**Unrecognized amounts and amortization amounts in the following year**		
	1. Unrecognized amounts		**6/30/2017**
	a. Transition obligation	$	-
	b. Prior service cost		-
	c. Net actuarial (gain) / loss		10,377
	d. Total	$	10,377
	2. Amortization amounts in the following year (estimate)		
	a. Transition obligation	$	-
	b. Prior service cost		-
	c. Net actuarial (gain) / loss		-
	d. Total	$	-

(Continued)

NOTE I. ESTIMATED POSTEMPLOYMENT AND POSTRETIREMENT BENEFITS

G. **Assumptions and effects**

		6/30/2017
1.	Actuarial assumptions	
a.	Medical / drug trend rate next year	6.00%
b.	Ultimate trend rate	4.50%
c.	Year ultimate trend rate is achieved	2020
d.	Discount rate used to value end of year accumulated postretirement benefit obligations	3.41%
e.	Discount rate used to value net periodic postretirement benefit cost	2.96%
2.	Effect of a 1% increase in health care cost trend rate on:	
a.	Interest cost plus service cost	$ 2,686
b.	Accumulated postretirement benefit obligation	$ 22,864
3.	Effect of a 1% decrease in health care cost trend rate on:	
a.	Interest cost plus service cost	$ (2,358)
b.	Accumulated postretirement benefit obligation	$ (20,675)
4.	Measurement date	6/30/2017

H. **Estimated future benefit payments**

Benefit payments are shown net of employee contribution.

Year Beginning July 1st:	Estimated Employer Payment
2017	$ 20,173
2018	$ 21,806
2019	$ 21,115
2020	$ 23,772
2021	$ 24,034
2022 - 2026	$ 114,259

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.

2017	$ 20,173

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

Postemployment benefit obligation - current	$ 20,173
Postemployment benefit obligation - long term	345,680
	$ 365,853

NOTE J. 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 providing HIC benefits assumes full liability for that employee.

Membership

Active members	
Number	50
Annual Compensation	$1,886,751
Retired and Eligible Deferred Vested Members	15

Valuation Balance Sheet

Accrued Actuarial Liabilities (Present value of benefits based on credited service to date) payable in respect of:		
(1) Present retired and deferred vested members	$	69,040
(2) Present active members		41,203
(3) Total accrued actuarial liabilities	$	110,243
Present and Prospective Assets		
(4) Present assets	$	21,977
(5) Present value of future accrued liability contributions (Unfunded accrued liabilities)		88,266
(6) Total accrued actuarial liabilities	$	110,243
Discount Rate		7.00%

Summary of Actuarial Assumptions and Methods:

Valuation date	6/30/2016
Investment rate of return	7.0% per annum, compounded annually (net of administrative expenses) Inflation Assumption 2.5 % per year.
Inflation Assumption	2.50 % per year
Actuarial cost method	Entry age normal cost method, allocated as a level percent of payroll, from first funding age to last age before terminal retirement age. Actuarial gains and losses, as they occur, are
Remaining amortization period	19-27 years

NOTE J. HEALTH INSURANCE CREDIT (Continued)

Funding period	The amortization period of the legacy UAAL began at 30 years on June 30, 2013 and will decrease by one in each subsequent valuation until reaching 0 years. Each subsequent year a new base will be added to the UAAL and will be amortized over a closed 20 year period.
Payroll growth rate	3.00%
Administrative Expenses	Administrative expenses are include in the normal cost.
Asset valuation method	Market Value of Assets
Amortization method	Level Percentage of Pay, Closed
Participation Assumption	85.0% of eligible future service retirees will utilize the benefit program. 45.0% of eligible future disability retirees will utilize the benefit. 55.0% of eligible future retirees from vested terminated status will utilize the benefit in the first year after retirement, increasing 5.0% per year until 95.0% participation in the eighth year and beyond.
Percent not using the maximum benefit	5.00%
Percentage of maximum benefit received	70.00%
Annual increase in benefit for non-maximum benefit participants	6.5% in the first year, 4.25% in years 2 and 3, and 3.0% for years 4 and later
Percentage of eligible deferred vested members electing to withdraw from VRS	45.00%
Deferred vested deferral period	Employees are assumed to receive benefits as follows: Plan 1 Member: Age 60 Plan 2 Member: Born prior to 1938: Age 60 Born after 1937 and before 1960: Age 61 Born after 1959: Age 62
Plan 1:	Members hired prior to July 1, 2010 and who were vested as of January 1, 2013.
Plan 2:	Members hired prior or after July 1, 2010 but before January 1, 2014, or members hired prior to July 1, 2010 and who were not vested as of January 1, 2013.
Hybrid Retirement Plan	Political Subdivisions with General Employee Pension Benefit Coverage members hired on or after January 1, 2014 or members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1, 2014 through April 30, 2014.
Normal Retirement Eligibility:	
Plan 1 Members	A member may retire with unreduced pension benefits upon Normal Retirement on or after age 65 with credit for five years of service.
Plan 2 and Hybrid Plan Members	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.

NOTE J. HEALTH INSURANCE CREDIT (Continued)

Early Retirement Eligibility:	
Plan 1 Members	A member may retire with unreduced pension benefits after reaching age 50 with at least 30 years of service credit. A member may retire early with reduced pension benefits after reaching age 50 with at least 10 years of service credit, or age 55 with credit for at least five years of service.
Plan 2 and Hybrid Plan Members	A member may retire early with unreduced pension benefits upon the sum of their age and their service being 90. A member may retire early with reduced pension benefits after reaching age 60 with at least five years of service credit.
Disability Retirement Eligibility:	
a. Non-Hybrid Plan	Plan 1 and Plan 2 members are eligible for disability retirement benefits after reaching age 60 with at least five years of service credit.
b. Hybrid Plan	Hybrid Plan members are eligible from the first day of employment for work-related VLDP disability benefits (or, if the employer opted-out of VLDP during the election period, a comparable plan), but must have a minimum of one year of service to be eligible for non-work related disability benefits.
Mortality Rates:	
a, Pre-Retirement	RP-2000 Employee Mortality Table
b. Post - Retirement	RP-2000 Combine Mortality Table
c. Post-Disablement.	RP-2000 Disabled Life Mortality Table

Annual required contribution rate:

	Rate % of Compensation	Est. Annual Amount
Normal Cost	0.12%	$ 2,277
Accrued Liability	0.28%	5,127
	0.40%	$ 7,404

Unfunded Actuarial Accrued Liability (UAAL) Amortization Schedule

Description	Original Balance	Outstanding Balance as of June 30, 2015	July 1, 2015 Amortization Payment	Outstanding Balances as of June 30, 2016	July 1, 2016 Amortization Payment	Years Remaining as of June 30, 2016
06/30/2013 Legacy UAAL	86,390	$ 88,254	5,030	89,050	5,181	27 years
06/30/2014 Experience (Gain) Loss	(894)	(890)	(65)	(883)	(66)	18 years
06/30/2015 Experience (Gain) Loss	2,345	2,345	164	2,333	169	19 years
06/30/2016 Experience (Gain) Loss	(2,234)	-	-	(2,234)	(157)	20 years
		$ 89,709	$ 5,129	$ 88,266	$ 5,127	

NOTE J. HEALTH INSURANCE CREDIT (Continued)

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
6/30/2016	$ 21,977	$ 110,243	$ 88,266	19.94%	$ 1,886,751	4.68%
6/30/2015	$ 22,644	$ 112,353	$ 89,709	20.15%	$ 1,885,171	4.76%
6/30/2014	$ 22,311	$ 108,781	$ 86,470	20.51%	$ 1,894,219	4.56%
6/30/2013	$ 19,610	$ 106,000	$ 86,390	18.50%	$ 1,774,328	4.87%
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%

NOTE K PENSION PLANS

Defined Contribution Plan:

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

Pensions - Virginia Retirement System

The Virginia Retirement System (VRS) Political Subdivision Retirement Plan is a multi-employer, agent plan. For purposes of measuring the net pension liability, deferred outflows or resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Political Subdivision's Retirement Plan and the additions to/deductions from the Political Subdivision'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 employees contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Plan Description

All full-time, salaried permanent employees of the Political Subdivision are automatically covered by VRS Retirement Plan upon employment. This plan is administered by 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 services, 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 services, 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 a 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:

NOTE K. PENSION PLANS

RETIREMENT PLAN PROVISIONS		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
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.	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.	The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014, are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members") • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • 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.

NOTE K. PENSION PLANS

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013. **Hybrid Opt-In Election** VRS non-hazardous date covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1, through April 30, 2014. The Hybrid Retirement effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members return to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. 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.	**Eligible Members** Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013. **Hybrid Opt-In Election** Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1, through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members return to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. 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.	**Eligible Members** Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • Political subdivision employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014 ***Non-Eligible Members** Some employees are not eligible to participate in the Hybrid Retirement plan. They include: • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees. 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.

NOTE K. PENSION PLANS

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	**Retirement Contributions** Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.	**Retirement Contributions** A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

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.	**Creditable Service** Same as Plan 1.	**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 in 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. **<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.

NOTE K. PENSION PLANS

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
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. Members are always 100% vested in the contributions that they make.	**Vesting** Same as Plan 1.	**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. **<u>Define 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. Members are always 100% vested in the contributions that they make. Upon retirement of leaving covered employment, a member is eligible to withdraw a percentage of employer contribution to the defined contribution component of the plan, base on service. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70 1/2.

NOTE K. PENSION PLANS

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

NOTE K. PENSION PLANS

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

NOTE K. PENSION PLANS

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Cost-of-Living Adjustment (COLA) in Retirement The Cost-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. **Eligibility:** For members who retire with a 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 calendar year following the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.	**Cost-of-Living Adjustment (COLA) in Retirement** The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%. **Eligibility:** Same as Plan 1.	**Cost-of-Living Adjustment (COLA) in Retirement** **Defined Benefit Component:** Same as Plan 2. **Defined Contribution Component:** Not applicable. **Eligibility:** Same as Plan 1 and Plan 2
Exceptions to COLA Effective Dates: The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following: • 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).	**Exceptions to COLA Effective Dates:** Same as Plan 1.	**Exceptions to COLA Effective Dates:** Same as Plan 1 and Plan 2.

NOTE K. PENSION PLANS

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Exceptions to COLA Effective Date: **(Continued)** • 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.		
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	**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. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	**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 and employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before become eligible for non-work-related disability benefits.

NOTE K. PENSION PLANS

Purchase of Prior Service	**Purchase of Prior Service**	**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.	Same as Plan 1.	**Defined Benefit Component:** Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one - year period, the rate for most categories of service will change to actuarial cost. **Defined Contribution Component:** Not applicable.

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:

Inactive members or their beneficiaries currently receiving benefits	24
Inactive members:	
Vested inactive members	7
Non-vested inactive members	11
Inactive members active elsewhere in VRS	9
Total inactive members	27
Active members	52
Total covered employees	103

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.

NOTE K PENSION PLANS

Contributions (Continued)

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.

Consistent with the phased-in funding being used for state and teacher employer contributions; political subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended, June 30, 2016, the alternate rate was the employer contribution rate used in fiscal year 2012 or 80% of the actuarially determined employer contribution rate from the June 30 2013 actuarial valuations, whichever was greater.

The political subdivision's contractually required contribution rate for the year ended June 30, 2017 was 8.76 % 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 cost of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contribution to the pension plan from the political subdivision were $195,960 and $191,728 for the years ended June 30, 2017 and June 30, 2016, respectively.

Net Pension Liability

The political subdivisions 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, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Actuarial Assumptions - General Employees

The total pension liability for General Employees in the Political Subdivision'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.

NOTE K. PENSION PLANS

Actuarial Assumptions - General Employees (Continued)

Inflation	2.50%
Salary increases, including Inflation	3.5 % - 5.35%
Investment rate of return	7.0 percent, 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 were 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 were 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.

NOTE K. PENSION PLANS

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - Non-LEOS:

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

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 Avg 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%

NOTE K. PENSION PLANS

*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%.

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 Political Subdivision 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)	Total Pension Liability (a) - (b)
Balance at June 30, 2015	$ 5,722,529	$ 4,348,436	$ 1,374,093
Change for the year:			
Service Cost	184,496	-	184,496
Interest	391,804	-	391,804
Differences between expected			-
and actual experience	(22,813)	-	(22,813)
Contributions - employer	-	191,698	(191,698)
Contributions - employee	-	94,566	(94,566)
Net investment income	-	78,225	(78,225)
Benefit payments, including			
refunds of employee contributions	(250,665)	(250,665)	-
Administrative expenses		(2,667)	2,667
Other changes	-	(33)	33
Net changes	302,822	111,124	191,698
Balance at June 30, 2016	$ 6,025,351	$ 4,459,560	$ 1,565,791

NOTE K. PENSION PLANS

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

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

	1% Decrease (6%)	Current Discount Rate (7%)	1% Increase (8%)
Political subdivision's Net Pension Liability	$ 2,416,294	$ 1,565,791	$ 870,211

For the year ended June 30, 2017, the political subdivision recognized pension expense of $150,755. At June 30, 2017, the political subdivision 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	$ -	$ 86,956
Change in assumptions	-	-
Net difference between projected and actual earnings on plan investments	115,919	-
Employer contributions subsequent to the measurement date	195,960	-
Total	$ 311,879	$ 86,956

$195,960 reported as deferred outflows of resources related to pensions resulting from the Commission's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the 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 as follows:

Year ended June 30		
2018	$	(28,137)
2019	$	(28,139)
2020	$	43,735
2021	$	41,504
Thereafter	$	-

REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2016

APPALACHIAN JUVENILE COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Changes in the Political Subdivision's Net Pension Liability and Related Ratios

	June 30, 2016	June 30, 2015
Total pension liability		
Service Cost	$ 184,496	$ 185,069
Interest	391,804	378,373
Changes of benefit terms	-	-
Changes in assumptions	-	-
Differences between expected and actual experience	(22,813)	(121,020)
Benefit Payments, including refunds of employee contributions	(250,665)	(250,433)
Net change in total pension liability	302,822	191,989
Total pension liability - beginning	5,722,529	5,530,540
Total pension liability - Ending (a)	$ 6,025,351	$ 5,722,529
Plan fiduciary net position		
Contributions - employer	$ 191,698	$ 189,972
Contributions -employee	94,566	94,008
Net investment income	78,225	191,524
Benefit Payments, including refunds of employee contributions	(250,665)	(250,433)
Administrative expense	(2,667)	(2,545)
Other	(33)	(41)
Net change in plan fiduciary net position	111,124	222,485
Plan fiduciary net position - beginning	4,348,436	4,125,951
Plan fiduciary net position - ending (b)	$ 4,459,560	$ 4,348,436
Political subdivision's net pension liability ending (a) - (b)	$ 1,565,791	$ 1,374,093
Plan fiduciary net position as a percentage of the total pension liability	74.01%	75.99%
Covered-employee payroll	$ 1,903,550	$ 1,915,810
Political subdivision's net pension liability as a percentage of covered-employer payroll	82.26%	71.72%

APPALACHIAN JUVENILE COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EMPLOYER CONTRIBUTIONS					
For the Years Ended June 30, 2015 through 2017					
	Contractually Required Contribution	Contributions in Relation to Contractually Required Contributions	Contribution Deficiency (Excess)	Employer's Covered Employee Payroll	Contributions as a % of Covered Employee Payroll
Date	(1)	(2)	(3)	(4)	(5)
2017	$ 195,960	$ 195,960	$ -	$ 1,903,550	10.29%
2016	$ 191,728	$ 191,728	$ -	$ 1,915,810	10.01%
2015	$ 189,915	$ 189,915	$ -	$ 1,892,396	10.04%
Schedule is intended to show information for 10 years. Since 2017 is the 3rd year for this presentation, no other data is available. However, additional years will be included as they become available.					

Notes to Required Supplementary Information
For the Year Ended June 30, 2017

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

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

Largest 10 – Non-LEOS:
- Update mortality rate
- 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 rate
- Decrease in male rates of disability

All Others (Non 10 Largest) – Non-LEOS:
- Update mortality rate
- 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 rate
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

ACCOMPANYING INFORMATION

APPALACHIAN JUVENILE COMMISSION
SCHEDULE OF SUPPORT AND REVENUE
Year Ended June 30, 2017

	BUDGET	SECURE	ALTERNATIVES	DRUG COURT	TOTAL
Local revenue					
Juvenile detention	$ 2,467,908	$ 1,802,637	$ 626,304	$ 75,000	$ 2,503,941
State support and revenue					
Secure detention	825,000	831,598	-	-	831,598
Non-secure detention	360,000	-	362,821	-	362,821
Drug Court	12,398	-	-	12,398	12,398
	1,197,398	831,598	362,821	12,398	1,206,817
Federal support					
E-Rate funds	35,000	22,561	8,439	-	31,000
USDA funds	43,000	24,360	-	-	24,360
Other grants and funding	10,000	7,524	-	-	7,524
	88,000	54,445	8,439	-	62,884
Fund Balance Transfer from localities	125,000	125,000	-	-	125,000
Interest income	12,000	20,847	-	-	20,847
Miscellaneous	35,200	8,046	280	25,000	33,326
	172,200	153,893	280	25,000	179,173
Total support and revenue	$ 3,925,506	$ 2,842,573	$ 997,844	$ 112,398	$ 3,952,815

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

APPALACHIAN JUVENILE COMMISSION
SCHEDULE OF REVENUE FROM JUVENILE DETENTION
Year Ended June 30, 2017

	SECURE	ALTERNATIVES	DRUG COURT	TOTAL
City of Bristol	$ 149,848	$ 53,124	$ -	$ 202,972
Buchanan County	67,732	24,012	-	91,744
Dickenson County	56,708	20,104	-	76,812
Lee County	134,724	47,760	25,000	207,484
City of Norton	91,616	32,480	-	124,096
Russell County	201,008	71,260	-	272,268
Scott County	197,190	69,914	25,000	292,104
Smyth County	185,044	65,600	-	250,644
Tazewell County	192,107	68,105	-	260,212
Washington County	181,782	64,450	-	246,232
Wise County	308,845	109,495	25,000	443,340
Bristol VA Schools	4,533	-	-	4,533
Carroll County	7,000	-	-	7,000
Galax	2,975	-	-	2,975
Henry	1,225	-	-	1,225
Wythe County	20,300	-	-	20,300
Total localities	1,802,637	626,304	75,000	2,503,941
Commonwealth of Virginia	-	-	-	-
Total localities and state	$ 1,802,637	$ 626,304	$ 75,000	$ 2,503,941

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

APPALACHIAN JUVENILE COMMISSION
SCHEDULE OF EXPENSES
Year Ended June 30, 2017

	BUDGET	SECURE	ALTERNATIVES	DRUG COURT	TOTAL
Salaries and wages	$ 2,156,475	$ 1,510,668	$ 537,891	$ 42,308	$ 2,090,867
Payroll tax expense	186,325	114,000	38,997	3,272	156,269
Employee health and dental insurance	594,900	352,304	129,396	7,140	488,840
Employee disability and life	11,600	7,727	2,892	235	10,854
Postemployment / retirement benefits (gain)	219,950	84,129	53,143	4,380	141,652
Workman's compensation insurance	24,800	16,378	5,343	421	22,142
Food	108,000	72,931	-	-	72,931
Medical services	18,000	16,061	-	-	16,061
Medical supplies	6,000	4,311	-	-	4,311
Medication	9,000	1,218	-	-	1,218
Ward expenses	5,008	3,621	-	-	3,621
Recreational supplies	250	-	-	-	-
Utilities	71,500	54,339	859	-	55,198
Communications	53,750	29,756	14,200	1,246	45,202
Educational supplies	3,275	3,240	-	-	3,240
Office supplies	21,500	7,006	677	1,551	9,234
Household and cleaning supplies	5,500	4,954	-	-	4,954
Kitchen supplies	15,000	12,686	-	-	12,686
Travel	156,150	6,925	127,829	8,946	143,700
Training	5,750	1,998	89	-	2,087
Commission expense	2,000	1,204	-	-	1,204
Repairs and maintenance - equipment	24,000	14,370	3,657	-	18,027
Non-capitalized equipment	8,750	6,902	1,396	-	8,298
Detention payments-Secure	1,375	1,280	-		1,280
Professional fees	21,600	21,072	30	-	21,102
Drug/alcohol screening	650	420	33	-	453

(Continued)

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

APPALACHIAN JUVENILE COMMISSION
SCHEDULE OF EXPENSES
Year Ended June 30, 2017

	BUDGET	SECURE	ALTERNATIVES	DRUG COURT	TOTAL
Program services	22,398	-	-	19,272	19,272
Mental health	-	-	-	-	-
Dues and professional membership	750	582	-	-	582
Security Supplies	200	108	-	-	108
Insurance expense	12,700	10,183	1,653	127	11,963
Repairs and maintenance-building	30,000	21,197	-	-	21,197
Office space rental	14,000	-	13,344	-	13,344
Electronic monitoring	11,000	-	10,527	-	10,527
Substance abuse testing	450	-	-	100	100
Depreciation	102,900	97,572	2,172	-	99,744
Total expenses	$ 3,925,506	$ 2,479,142	$ 944,128	$ 88,998	$ 3,512,268

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

B&O *Blackley, Olinger & Associates, PLLC*
Certified Public Accountants

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

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 Standards* 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, 2017, and the related statement 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 10, 2017.

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.

Board of Directors
Appalachian Juvenile Commission
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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

Bristol, Tennessee
September 10, 2017