APPALACHIAN JUVENILE COMMISSION

FINANCIAL REPORT

June 30, 2014

Blackley, Olinger & Associates, PLLC
Certified Public Accountants

APPALACHIAN JUVENILE COMMISSION

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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, 2014, 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 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, 2014, 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 are presented for purposes of additional analysis and are 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 15, 2014, 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 15, 2014

APPALACHIAN JUVENILE COMMISSION
STATEMENT OF FINANCIAL POSITION
June 30, 2014

ASSETS	
Current Assets	
Cash and cash equivalents	$ 2,490,206
Accounts receivable	13,685
Prepaid expenses	1,480
Total Current Assets	2,505,371
Property and equipment, net	2,021,835
Total Assets	$ 4,527,206
LIABILITIES	
Current Liabilities	
Accounts payable	$ 27,606
Payroll liabilities	31,832
Accrued compensated absences and salaries	130,283
Current portion - postemployment benefit obligation	10,922
Total Current Liabilities	200,643
Long-term Liabilities	
Postemployment benefit obligation	316,463
Total Long-term Liabilities	316,463
Total Liabilities	517,106
NET ASSETS	
Unrestricted	4,010,100
Total Liabilities and Net Assets	$ 4,527,206

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

APPALACHIAN JUVENILE COMMISSION
STATEMENT OF ACTIVITIES
Year Ended June 30, 2014

UNRESTRICTED NET ASSETS	
SUPPORT AND REVENUE	
Local revenue - juvenile detention	$ 2,612,161
State revenue - juvenile detention	363,321
State - Commonwealth of Virginia block grant	836,612
Federal funds	88,972
Interest income	12,356
Miscellaneous	42,553
Total Unrestricted Support and Revenue	3,955,975
EXPENSES	3,721,346
Increase (Decrease) in Net Assets	234,629
NET ASSETS AT BEGINNING OF YEAR (Restated)	3,775,471
NET ASSETS AT END OF YEAR	$ 4,010,100

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

APPALACHIAN JUVENILE COMMISSION
STATEMENT OF CASH FLOWS
Year Ended June 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Increase (decrease) in net assets	$ 234,629
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	113,929
(Increase) decrease in operating assets	
Receivables	(2,615)
Prepaid expenses	(1,480)
Increase (decrease) in operating liabilities	
Accounts payable	6,036
Accrued salaries and compensated absences	16,953
Postemployment benefit obligation (Gain)	27,142
Payroll liabilities	25,122
Net cash provided by operating activities	419,716
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(37,949)
Net cash used by investing activities	(37,949)
CASH FLOWS FROM FINANCING ACTIVITIES	
Distribution to localities	(475,000)
Net cash used by financing activities	(475,000)
Net increase (decrease) in cash and cash equivalents	(93,233)
CASH AND CASH EQUIVALENTS, Beginning	2,583,439
CASH AND CASH EQUIVALENTS, Ending	$ 2,490,206
SUPPLEMENTAL INFORMATION:	
Interest paid	$ -

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

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, 2014.

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, 2014, consisted of the following:

Land	$ 111,714
Building and improvements	3,063,794
Equipment & vehicles	486,855
	3,662,363
Less accumulated depreciation	1,640,528
Total Property and Equipment	$ 2,021,835

Depreciation expense for the current period is $113,929

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 $836,612 in Virginia block grant funds and $362,821 in Juvenile Community Crime Control Act grant funds for the year ended June 30, 2014. 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 15, 2014, 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, 2013 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, 2014:

			7/1/2013 to 06/30/2014
A.	**Change in accumulated postretirement benefit obligation**		
	1.	Postretirement benefit obligation at beginning 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

(Continued)

NOTE F. ESTIMATED POSTEMPLOYMENT AND POSTRETIREMENT BENEFITS

			7/1/2013 to 06/30/2014
2.	Service cost		$ 16,373
3.	Interest cost		$ 11,693
4.	Amendments		-
5.	Actuarial (gain) loss		$ 9,283
6.	Benefits paid		$ (10,207)
7.	Postretirement benefit obligation at end of year		
	a.	Actives not fully eligible to retire	$ 183,722
	b.	Actives fully eligible to retire	143,663
	c.	Retirees	-
	d.	Total	$ 327,385

B.	**Change in plan assets**	
1.	Fair value of plan assets at beginning of year	$ -
2.	Actual return on plan assets	-
3.	Employer contribution	10,207
4.	Benefits paid	(10,207)
5.	Fair value of plan assets at end of year	$ -

C.	**Funded status**	6/30/2014
1.	Postretirement benefit obligation at end of year	$ 327,385
2.	Fair value of plan assets at end of year	-
3.	Funded status end of year	$ 327,385
4.	Current liability	$ 10,922
5.	Non-current liability	316,463
6.	Total	$ 327,385

D.	**Components of the net periodic postretirement benefit cost**	7/1/2013 to 06/30/14
1.	Service cost	$ 16,373
2.	Interest cost	11,693
3.	Return on plan assets	-
4.	Amortization of transition obligation	-
5.	Amortization of prior service cost	-
6.	Amortization of actuarial (gain) loss	-
7.	Total	$ 28,066

(Continued)

NOTE F. ESTIMATED POSTEMPLOYMENT AND POSTRETIREMENT BENEFITS

			7/1/2013 to 06/30/14
E.	**OPEB changes other than net periodic postretirement benefit cost**		
	1.	New prior service cost	$ -
	2.	New actuarial (gain) loss	9,283
	3.	Amortization of unrecognized amounts	-
	4.	Total	$ 9,283

F.	**Unrecognized amounts and amortization amounts in the following year**			
	1.	Unrecognized amounts		6/30/2014
		a.	Transition obligation	$ -
		b.	Prior service cost	-
		c.	Net actuarial (gain) / loss	22,385
		d.	Total	$ 22,385
	2.	Amortization amounts in the following year (estimate)		
		a.	Transition obligation	$ -
		b.	Prior service cost	-
		c.	Net actuarial (gain) / loss	-
		d.	Total	$ -

G.	**Assumptions and effects**			
	1.	Actuarial assumptions		6/30/2014
		a.	Medical / drug trend rate next year	7.00%
		b.	Ultimate trend rate	4.50%
		c.	Year ultimate trend rate is achieved	2019
		d.	Discount rate used to value end of year accumulated postretirement benefit obligations	3.76%
		e.	Discount rate used to value net periodic postretirement benefit cost	4.15%
	2.	Effect of a 1% increase in health care cost trend rate on:		
		a.	Interest cost plus service cost	$ 2,669
		b.	Accumulated postretirement benefit obligation	$ 22,530
	3.	Effect of a 1% decrease in health care cost trend rate on:		
		a.	Interest cost plus service cost	$ (2,338)
		b.	Accumulated postretirement benefit obligation	$ (20,211)
	4.	Measurement date		6/30/2014

(Continued)

NOTE F. ESTIMATED POSTEMPLOYMENT AND POSTRETIREMENT BENEFITS

H. **Estimated future benefit payments**

Benefit payments are shown net of employee contribution.

Year Beginning July 1st:	Estimated Employer Payment
2014	$ 10,922
2015	$ 10,040
2016	$ 18,484
2017	$ 22,525
2018	$ 21,321
2019 - 2023	$ 130,816

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.

2014	$ 10,922

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

Postemployment benefit obligation - current	$ 10,922
Postemployment benefit obligation - long term	316,463
	$ 327,385

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 1.70% 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, 2014 was 11.05% of the annual covered payroll.

Annual Pension Cost

For the year ended June 30, 2014, the Commission's annual pension cost of $237,739 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
6/30/2014	$	237,739	100.00%	0.00%
6/30/2013	$	221,670	100.00%	0.00%
6/30/2012	$	228,672	100.00%	0.00%

The FY 2014 required contribution was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions at June 30, 2013 included (a) an investment rate of return (net of administrative expenses) of 7.0%, (b) projected salary increases was between 3.50% -5.35% members and depending on the member's service and classification (members with general employee benefits or with LEOS/Fire coverage), and (c) a cost-of-living adjustment of 2.50% for Plan 1 members and 2.25% for Plan 2 members. 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 30 years.

(Continued)

NOTE G. PENSION PLANS (continued)

Funding Status and Funding Progress

As of June 30, 2013, the most recent actuarial valuation date, the plan was 63.75% funded. The actuarial accrued liability for benefits was $5,252,698, and the actuarial value of assets was $3,348,350, resulting in an unfunded actuarial accrued liability (UAAL) of $1,904,348. The covered payroll (annual payroll of active employees covered by the plan) was $1,774,328, and the ratio of the UAAL to the covered payroll was 107.33%.

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
6/30/2013	$ 3,348,350	$ 5,252,698	$1,904,348	63.75%	$1,774,328	107.33%
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%

Notes to Required Supplementary Information:

1. Valuation date — 6/30/2013
2. Actuarial cost method — Entry age normal
3. Amortization method — Level percent of pay, Closed
4. Payroll growth rate — 3.00%
5. Remaining amortization period — 30 years (decreasing by one each year in subsequent valuations until reaching 0 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 5.35%
      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:	6/30/2013
1. Active Members	
a. Retirement benefits	$ 3,061,545
b. Termination benefits	232,758
c. Disability benefits	280,897
d. Death benefits	93,642
e. Total	$ 3,668,842
2. Retired members	
a. Service retirements	$ 2,179,660
b. Disability retirements	619,809
c. Beneficiaries	-
d. Total	$ 2,799,469
3. Terminated members with future benefits	
a. Vested terminations	$ 95,400
b. Nonvested terminations	28,718
c. Total	$ 124,118
4. Total present value of future benefits	$ 6,592,430

Development of Annual Required Contribution Rate:	6/30/2013
1. Covered payroll	$ 1,774,328
2. Present value of future pay	$ 14,968,322
3. Total normal cost	$ 162,908
4. Normal cost rate	
a. Total normal cost rate	9.18%
b. Less: member contribution rate	5.00%
c. Employer normal cost rate	4.18%
5. Actuarial accrued liability	
a. Actives	$ 2,329,110
b. Inactives	2,923,588
c. Total	$ 5,252,698
6. Actuarial value of assets	$ 3,348,350
7. Unfunded actuarial accrued liability (UAAL)	$ 1,904,348
8. UAAL as a percentage of covered payroll	107.33%
9. UAAL amortization rate	5.89%
10. Funding period	30 Years
11. Recommended employer contribution rate for 2015 & 2016	10.07%

(Continued)

NOTE G. PENSION PLANS (continued)

Annual Required Contribution Rate:	6/30/2013
1. Annual required contribution rate	
a. Contribution rate	10.07%
b. Funding period in years	30 Years
c. Amortization factor based on funding period	18.2204
The amortization factor is based on an interest rate of 7.0% and a payroll growth rate of 3.0%	

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	6/30/2013
Actuarial cost method	Entry Age Normal
Amortization method	Level Percentage of Pay, Closed
Asset valuation method	Market Value of Assets
Actuarial Assumptions:	
Investment rate of return	7.0% per annum, compounded annually (net of administrative expenses) Inflation Assumption 2.5 % per year.
Payroll growth rate	3.00%
Funding period	30 years from valuation date decreasing by one year each year in subsequent valuations until reaching 0 years (closed amortization, computed as level percent of payroll.
Annual required contribution rate	.42% of compensation for fiscal year 2014 and .38% for fiscal year 2015.

NOTE H. HEALTH INSURANCE CREDIT (Continued)

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
Hybrid Retirement Plan	The valuation assumes no eligible members will elect to opt into the Hybrid Retirement Plan during the election window to be held January 1 through April 30, 2014.

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
6/30/2013	$ 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%
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%

NOTE I. HYBRID RETIREMENT PLAN

The Virginia Retirement System (VRS) implemented a Hybrid Retirement Plan starting January 1, 2014. The Hybrid Retirement Plan is funded through mandatory and voluntary contributions made by the employee and employer to both the defined benefit and the defined contribution components of the plan.

Defined Benefit Component

Both the member and the employer make contributions to fund the defined benefit component of the Hybrid Retirement Plan. Members contribute a mandatory 4.0% of creditable compensation each month to their defined benefit member contribution on a pre-tax salary reduction basis. The actual amount contributed by the employer to the defined benefit component of the hybrid plan will be the total employer rate for that employee, less any employer contributions to the defined contribution component of the plan for that employee.

Defined Contribution Component

The defined contribution component of the Hybrid Retirement Plan offers two options: the Hybrid 401 (a) Cash Match Plan and the Commonwealth of Virginia Hybrid 457 Deferred Compensation Plan.

The defined contribution component of the Hybrid Retirement Plan provides the Hybrid 401(a) Cash Match Plan. Members contribute a mandatory 1 percent of their creditable compensation each month to their 401(a) plan account. Employers also contribute a mandatory 1% as well as matching contributions on any voluntary contributions a member makes and deposits to the employee plan account. Members invest these contributions through their hybrid 401(a) plan.

Hybrid 401(a) Cash Match Plan:

Members contribute a mandatory 1 percent of their creditable compensation each month to their 401(a) account.

Employers contribute a mandatory 1.0%, plus match contributions on any voluntary contributions a member makes.

Employers **must match the first 1.0%** of a member's voluntary contribution with a corresponding contribution of 1.0% of the member's creditable compensation.

Each additional 0.5% increase a member makes will be matched by the employer with a .025% contribution. Note: **An employer's maximum amount for match is 2.5%.**

Hybrid 457 Deferred Compensation Plan:

Allows members to accumulate additional voluntary contributions on a tax-deferred basis until they leave employment or withdraw their funds from the plan.

Maximum amount for voluntary contributions is 4% (in 0.5 increments) of a member's creditable compensation.

NOTE I. HYBRID RETIREMENT PLAN (Continued)

Eligibility

New members with no previous VRS service credit whose membership date is on or after January 1, 2014 are eligible and required to participate in the Hybrid Retirement Plan. Eligible new members include the following:

State employees; school division employees, political subdivision employees and others Excluded are political subdivision members who are covered by enhanced benefits for hazardous-duty employees.

Members who have eligible service from previous employment may be able to purchase a portion of this service as creditable service in their plan.

Defined Benefit Vesting

Defined benefit vesting is the minimum length of service members need 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. VRS Plan 1 or VRS Plan 2 members with at least five years (60months) of creditable service who opt into the Hybrid Retirement Plan will stay vested.

Defined Contribution Vesting

Defined contribution vesting is the minimum length of service members need to be eligible to withdraw employer contributions from the defined contribution component of the plan. Members are always 100% vested in the employee contributions.

Upon retirement or leaving covered employment, members are eligible to withdraw a percentage of employer contributions. Employer contributions are vested and may be withdrawn as follows:

(a) After two years, members are 50% vested and may with draw 50% of employer contributions.
(b) After three years, members are 75% vested and may withdraw 75% of employer contributions.
(c) After four or more years, members are 100% vested and may withdraw 100% of employer contributions.

For the year ended June 30, 2014, the Commission's annual pension cost of $48 for the Hybrid Retirement Plan was equal to the Commission's required and actual contributions.

NOTE J. 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 $1,080 per month which includes the 27% shared utility cost and terminates on June 30, 2015. 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, 2015	$12,187	Plus 27% of shared utility expense
June 30, 2016	$12,557	Plus 27% of shared utility expenses
June 30, 2017	$12,926	Plus 27% of shared utility expenses

Office space rental expense (including 27% shared utility expenses) for June 30, 2014 was $13,560.

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

NOTE K. 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 $ 475,000 to the localities for fiscal year 2014.

ACCOMPANYING INFORMATION

APPALACHIAN JUVENILE COMMISSION
SCHEDULE OF SUPPORT AND REVENUE
Year Ended June 30, 2014

	BUDGET	SECURE	ALTERNATIVES	DRUG COURT	TOTAL
Local revenue					
Juvenile detention	$ 2,099,900	$ 1,430,561	$ 631,600	$ 75,000	$ 2,137,161
State support and revenue					
Secure detention	822,000	837,112	-	-	837,112
Alternative detention	348,000	-	362,821	-	362,821
	1,170,000	837,112	362,821	-	1,199,933
Federal support					
E-Rate funds	20,000	21,394	8,913	-	30,307
USDA funds	32,000	41,507	-	-	41,507
Other grants and funding	-	17,158	-	-	17,158
	52,000	80,059	8,913	-	88,972
Fund Balance Transfer	475,000	475,000	-	-	475,000
Interest income	12,000	12,356	-	-	12,356
Miscellaneous	28,000	17,193	360	25,000	42,553
	515,000	504,549	360	25,000	529,909
Total support and revenue	$ 3,836,900	$ 2,852,281	$ 1,003,694	$ 100,000	$ 3,955,975

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

APPALACHIAN JUVENILE COMMISSION
SCHEDULE OF REVENUE FROM JUVENILE DETENTION
Year Ended June 30, 2014

	SECURE	ALTERNATIVES	DRUG COURT	TOTAL
City of Bristol	$ 170,234	$ 77,170	$ -	$ 247,404
Buchanan County	47,070	21,338	-	68,408
Dickenson County	44,172	20,024	-	64,196
Lee County	87,975	39,881	25,000	152,856
City of Norton	57,325	25,987	-	83,312
Russell County	130,105	58,979	-	189,084
Scott County	120,754	54,730	25,000	200,484
Smyth County	128,993	58,475	-	187,468
Tazewell County	231,426	104,910	-	336,336
Washington County	99,012	44,884	-	143,896
Wise County	276,234	125,222	25,000	426,456
Bristol VA Schools	2,386	-	-	2,386
Carroll County	32,860	-	-	32,860
Wythe County	2,015	-	-	2,015
Total localities	1,430,561	631,600	75,000	2,137,161
Commonwealth of Virginia	500	362,821	-	363,321
Total localities and state	$ 1,431,061	$ 994,421	$ 75,000	$ 2,500,482

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

APPALACHIAN JUVENILE COMMISSION
SCHEDULE OF EXPENSES
Year Ended June 30, 2014

	BUDGET	SECURE	ALTERNATIVES	DRUG COURT	TOTAL
Salaries and wages	$ 2,054,400	$ 1,489,047	$ 509,845	$ 40,675	$ 2,039,567
Payroll tax expense	178,300	126,892	40,570	3,490	170,952
Employee health and dental insurance	517,450	361,246	137,052	7,308	505,606
Employee disability, life and retirement	252,550	179,053	63,513	5,235	247,801
Postemployment/retirement benefits (gain)	-	27,142	-	-	27,142
Workman's compensation insurance	20,350	14,724	4,667	368	19,759
Food	122,000	114,375	-	-	114,375
Medical services	22,000	20,247	-	-	20,247
Medical supplies	5,000	3,238	-	-	3,238
Medication	13,100	13,076	-	-	13,076
Ward expenses	6,000	4,088	-	-	4,088
Recreational supplies	500	-	-	-	-
Utilities	80,000	64,028	-	-	64,028
Communications	53,400	34,709	14,605	1,432	50,746
Educational supplies	3,000	2,747	-	-	2,747
Office supplies	24,600	10,581	1,518	3,248	15,347
Household and cleaning supplies	8,000	5,593	-	-	5,593
Kitchen supplies	17,000	16,846	-	-	16,846
Travel	161,100	10,986	129,257	7,150	147,393
Training	7,500	2,070	685	-	2,755
Commission expense	15,000	14,782	-	-	14,782
Repairs and maintenance - equipment	22,400	15,918	6,355	-	22,273
Non-capitalized equipment	14,800	8,445	1,283	-	9,728
Professional fees	23,200	22,188	90	-	22,278
Drug/alcohol screening	850	813	-		813

(Continued)

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

APPALACHIAN JUVENILE COMMISSION
SCHEDULE OF EXPENSES
Year Ended June 30, 2014

	BUDGET	SECURE	ALTERNATIVES	DRUG COURT	TOTAL
Program services	11,500	-	-	1,078	1,078
Mental health	250	-	-	-	-
Dues and professional membership	800	670	-	-	670
Insurance expense	13,550	9,202	2,137	134	11,473
Repairs and maintenance-building	40,000	25,425	-	-	25,425
Office space rental	15,000	-	13,560	-	13,560
Electronic monitoring	15,000	-	14,031	-	14,031
Substance abuse testing	500	-	-	-	-
Depreciation	117,800	108,467	5,462	-	113,929
Total expenses	$ 3,836,900	$ 2,706,598	$ 944,630	$ 70,118	$ 3,721,346

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

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 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, 2014, 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 15, 2014.

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. **We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. (2014-01 and 2014-02)**

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 15, 2014

Appalachian Juvenile Commission
Schedule of Findings and Responses

2014-01

Appalachian Juvenile Commission internal control procedures include two signatures as part of the approval for payment of an invoice. During the audit testing, we noted four checks were not properly signed with two signatures. Checks without proper endorsements could allow for unauthorized checks to be issued and not be detected in a timely matter.

We recommend the Executive Director approve all checks that do not have two signatures when reviewing and approving the bank statement. This could be done by reviewing the supporting documentation and initially the check on the bank statement or a cover report of procedures performed in the review of the bank statement.

Response: When reviewing the bank statement, we will review the supporting documentation and approve any check clearing the bank without having two signatures. We will also review each batch of checks before mailing to ensure all checks mailed have the required authorized two signatures.

2014-02

During the audit and review of the internal control procedures for approval of payment of invoices, we noted that only some of the invoices were marked with initials for payment. The current internal control procedures do not require initials on each cancelled invoice but on the computer-generated check register that accompanies the check and supporting documentation.

We recommend that an additional level of approval be added and noted on each invoice that documents the invoice has been reviewed and approved for payment by the Director of Finance as well as any other Department if necessary.

Response: We will cancel invoices with the initials of Director of Finance and any Department approvals if deemed necessary for proof of accuracy and approval.