RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

FREDERICKSBURG, VIRGINIA

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2016

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD
Fredericksburg, Virginia

FINANCIAL REPORT - YEAR ENDED JUNE 30, 2016

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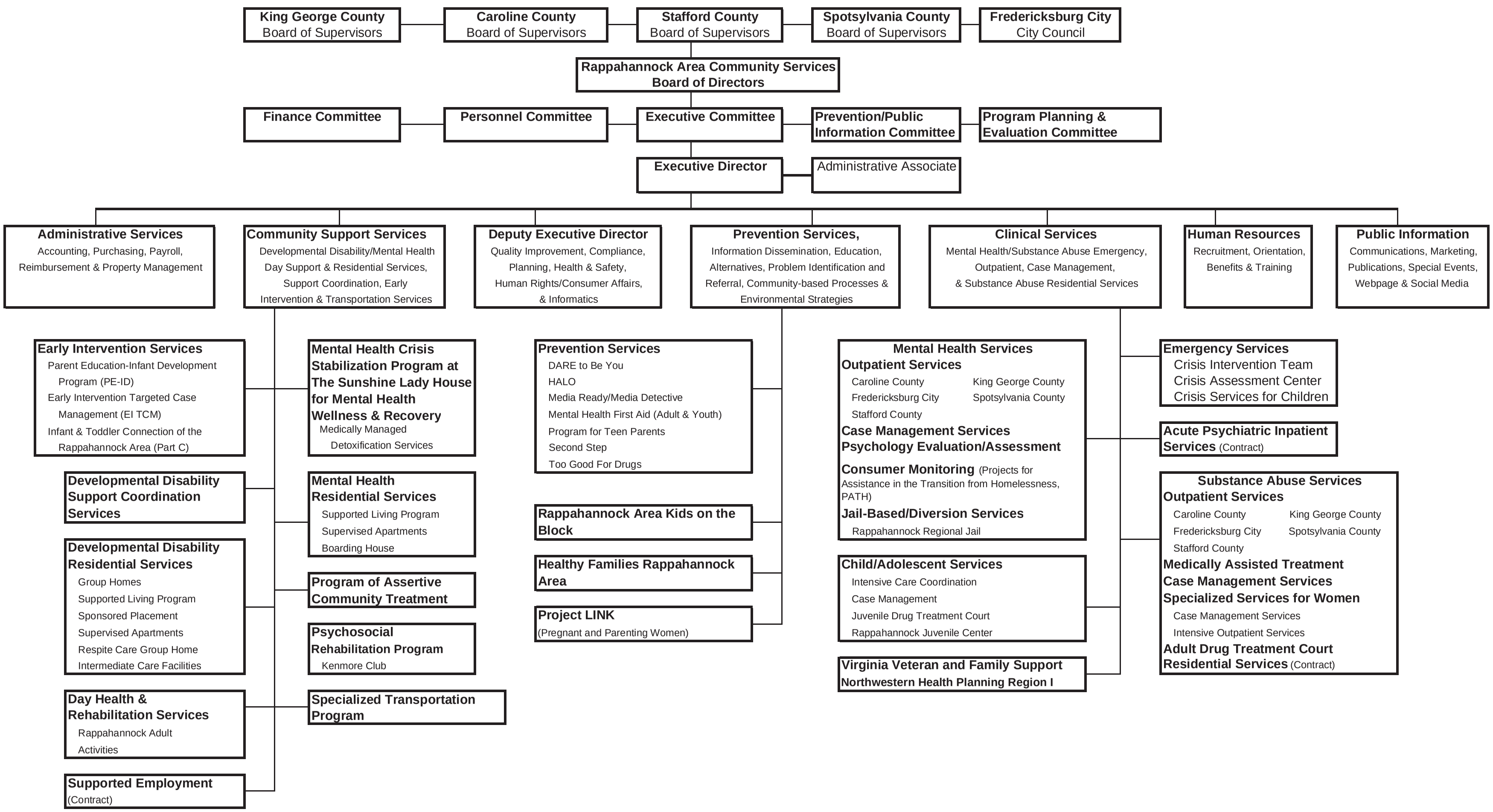
RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

Principal Management Team

Ronald W. Branscome	Executive Director
Rhonda Pellicano	Finance and Administration Director
Sharon Killian	Clinical Services Director
James A. Gillespie	Community Support Service Director
Terry Moore	Human Resources Manager
Jane Yaun	Deputy Executive Director

Rappahannock Area Community Services Board

Table of Organization



Revised June 2016

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Rappahannock Area Community Services Board
Fredericksburg, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Rappahannock Area Community Services Board, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Rappahannock Area Community Services Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Rappahannock Area Community Services Board, as of June 30, 2016, and the respective changes in financial position, and, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 16 to the financial statements, in 2016, the Rappahannock Area Community Services Board adopted new accounting guidance, 79 Certain External Investment Pools and Pool Participants, 82 Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and schedules related to pension and OPEB funding on pages 4-7, and 46-49 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Rappahannock Area Community Services Board's basic financial statements. The combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

Other Information (continued)

The combining financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited the Rappahannock Area Community Services Board's 2015 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated November 20, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 8, 2016, on our consideration of Rappahannock Area Community Services Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rappahannock Area Community Services Board's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
November 8, 2016

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The following Management's Discussion and Analysis (MD&A) of the Rappahannock Area Community Services Board's (RACSB) financial performance provides the reader with an introduction and overview to the financial statements of the RACSB for the fiscal year ended June 30, 2016.

Following this MD&A are the basic financial statements of the RACSB together with the notes thereto which are essential to a full understanding of the data contained in the financial statements. In addition to the basic financial statements and accompanying notes, there is certain required supplementary information regarding the schedule of expenditures of federal awards. Please read this information in conjunction with the RACSB's financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Rappahannock Area Community Services Board presents three basic financial statements for the purpose of analyzing the financial position of the RACSB as of June 30, 2016. These are: (1) a Statement of Net Position; (2) a Statement of Revenues, Expenses and Changes in Net Position; and (3) a Statement of Cash Flows.

RACSB's financial position is measured in terms of resources (assets and deferred outflows) owned and obligations (liabilities and deferred inflows) owed as of June 30, 2016. This information is reported on the statement of net position, which reflects RACSB's assets and deferred outflows in relation to its debts to its suppliers, employees and other creditors, and deferred inflows. The excess of assets and deferred outflows over liabilities and deferred inflows is the net position.

Information regarding the results of RACSB's operations during fiscal year 2016 is reported in the Statement of Revenues, Expenses and Changes in Net Position. This statement shows how much overall net position increased or decreased during the year as a result of operations.

The Statement of Cash Flows discloses the flow of cash resources into and out of RACSB during the fiscal year 2016 (from operations, contributions and other sources) and how those funds were applied (for example: payment of expenses, repayment of debt, purchase of new property, etc.).

Component unit organizations Rappahannock Community Services, Inc., Churchill Drive Group Home, Devon Drive Group Home, Galveston Road Group Home, Igo Road Group Home, Leeland Road Group Home, New Hope Estates Group Home, Piedmont Drive Group Home, Scottsdale Estates Group Home and Stonewall Estates Group Home are included as a part of the financial reporting entity of RACSB.

Financial Summary

Financial Position: A summary of RACSB's Statement of Net Position for fiscal years 2016 and 2015 is presented below.

Condensed Statement of Net Position

	2016	2015
Current assets	$ 24,720,899	$ 17,453,501
Restricted assets	282,156	303,830
Capital assets	23,802,800	22,896,469
Other assets	4,418,593	4,426,552
Total assets	$ 53,224,448	$ 45,080,352
Deferred outflows of resources	$ 772,304	$ 720,781
Total assets and deferred outflows of resources	$ 53,996,752	$ 45,801,133
Current liabilities	$ 10,345,131	$ 4,721,445
Liabilities payable from restricted assets	130,108	147,687
Long-term liabilities	417,491	797,706
Total liabilities	$ 10,892,730	$ 5,666,838
Deferred inflows of resources	$ 1,129,772	$ 1,888,921
Net Position:		
Net Investment in capital assets	$ 23,390,245	$ 22,069,322
Restricted	152,539	156,637
Unrestricted	18,431,466	16,019,415
Total net position	$ 41,974,250	$ 38,245,374
Total liabilities, deferred inflows of resources and net position	$ 53,996,752	$ 45,801,133

The financial position of the Rappahannock Area Community Services Board remains strong. This is evidenced by strong liquidity. The current ratio (current assets /current liabilities) of the RACSB was 2.39 as of June 30, 2016 and 3.65 at June 30, 2015. The liquidity remains strong as a current ratio of 2:1 is considered good.

Change in net position: A summary of the RACSB's Statement of Revenues, Expenses and Changes in Net Position for 2016 and 2015 is presented below.

Condensed Statement of Revenues, Expenses and Changes in Net Position

	2016	2015
Operating revenue	$ 22,802,735	$ 20,810,861
Operating expenses	35,690,623	32,056,315
Operating income (loss)	$ (12,887,888)	$ (11,245,454)
Net non-operating income	16,610,241	12,920,506
Income before capital contributions	$ 3,722,353	$ 1,675,052
Capital contributions	6,523	-
Change in net position	$ 3,728,876	$ 1,675,052

Financial Summary (continued)

Operating Revenue is the amount of revenue received from providing patient services. The vast majority of those funds, approximately 84% (2016) and 85% (2015), were received from Medicaid (please see Note 13). During 2016 Operating Revenue increased 9.57% as compared to an increase of 15.84% in 2015.

Operating Expenses are comprised of the direct and indirect costs of operating the RACSB. These include salaries and benefits, occupancy, payments to contracting agencies, depreciation, etc. Please see the full Statement of Revenues, Expenses and Changes in Net Position for a complete breakdown of these expenses for 2016 and 2015. During 2016, Operating Expenses increased approximately 11.34% and also decreased .3% in 2015.

Non-Operating Income is comprised of income received as appropriations or grants as well as other income. Appropriations and grants from the State of Virginia constitute 63.80% for 2016, and 56.8% for 2015 of the net non-operating income while grants from the federal government constitute 13.6% for 2016 and 17.7% for 2015. Appropriations from local governments constituted 6.0% for 2016 and 7.4% for 2015. The remaining net Non-Operating Income and Capital Contributions consist of Other Income, Interest Income and Expense, Gains (Losses) on the Disposition of Capital Assets and construction grants. Net Non-Operating Income revenue increased 28.56% in 2016.

Net Position increased $3,728,876 in 2016 and increased $1,675,052 in 2015. This increase was 9.75% in 2016.

Cash flows: A summary of the RACSB's Statement of Cash Flows for 2016 and 2015 is presented below.

Condensed Statement of Cash Flows

		2016		2015
Cash Flows from operating activities	$	(11,295,309)	$	(11,050,282)
Cash Flows from non-capital financing activities		20,084,673		12,328,557
Cash Flows from capital and related financing activities		(2,623,980)		(1,074,427)
Cash Flows from investing activities		169,296		162,782
Net increase (decrease) in cash and cash equivalents	$	6,334,680	$	366,630
Cash and cash equivalents, beginning of year		15,260,285		14,893,655
Cash and cash equivalents, end of year	$	21,594,965	$	15,260,285

Cash flows from operating activities reconcile the Operating Loss recorded on the Statement of Revenues, Expenses and Changes in Net Position to cash provided by operating activities. In this process, the Operating Loss is decreased by the amount of any non-cash transaction (depreciation) and adjusted for changes in assets and liabilities (please see the full Statement of Cash Flows for a full listing of these transactions). Of these adjustments the significant entries are $1,478,261 (2016), and $1,350,782 (2015) in depreciation.

Cash flows from non-capital financing transactions are comprised of income received as appropriations or grants (please see Statement of Revenues, Expenses and Changes in Net Position discussion above). Cash flows from capital and related financing activities are comprised of the acquisition of capital assets by the RACSB, and principal and interest payments on mortgages and loans payable (please see Note 4 for a breakdown of Capital Assets). Cash flows from investing activities are comprised of interest income.

There was a net increase of $6,334,680 in 2016, and a net increase of $366,630 in 2015 in cash and cash equivalents.

Capital Assets and Debt Administration

Capital Assets

On June 30, 2016, the Rappahannock Area Community Services Board had $23,802,800 in Net Capital Assets. This is comprised of $34,324,717 in capital assets less $10,521,917 in accumulated depreciation (please see Note 4). Of the total capital assets, equipment and vehicles (including information technology assets and vehicles) constitutes 19%, land constitutes 10%, and buildings and improvements constitute 70%. Construction in progress constitutes the remaining 1% and consists of renovation projects.

Long-Term Debt

Long-term debt obligations consist of one mortgages payable on rental properties owned by component unit Rappahannock Community Services, Inc. in the total amount of $412,555.

Construction Commitments

In 2016, the Board entered into two construction agreements for the renovations of existing properties. Renovations at 750 Kings Highway have a contract amount of $171,980. At June 30, 2016, the remaining balance was $167,451. The other construction contract was for the property located at 401 Bridgewater of the original contract of $318,187, there was $275,048 remaining as of June 30, 2016.

Summary

The Statement of Net Position shows that, on June 30, 2016, the RACSB had approximately 2.4 times more current assets than current liabilities. In addition, RACSB had long-term debt of $412,555, and $41,974,250 in total net position.

The Statement of Revenues, Expenses and Changes in Net Position show the net position of the RACSB increased $3,728,876 during 2016.

The Statement of Cash Flows shows that cash increased $6,334,680 in 2016.

The financial position of the Rappahannock Area Community Services Board measured in terms of the three basic financial statements presented as of June 30, 2016 is very strong and secure.

- Basic Financial Statements -

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

Statement of Net Position
At June 30, 2016
(With Comparative Totals for 2015)

	2016	2015
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 21,429,789	$ 15,083,854
Cash held in escrow	-	11,960
Accounts receivable, less allowance for uncollectibles	2,892,587	2,120,555
Grants and other receivables	312,818	142,104
Prepaid items	85,705	95,028
Total current assets	$ 24,720,899	$ 17,453,501
Restricted Assets:		
Cash and cash equivalents	$ 165,176	$ 176,431
Grants and other receivables	1,521	1,714
Prepaid items	11,808	11,587
Client funds	103,651	114,098
Total restricted assets	$ 282,156	$ 303,830
Capital Assets:		
Property and equipment, less accumulated depreciation	$ 23,802,800	$ 22,896,469
Other Assets:		
Net pension asset	$ 4,418,593	$ 4,426,552
Total assets	$ 53,224,448	$ 45,080,352
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows of Resources:		
Post measurement date employer pension contributions	$ 772,304	$ 720,781
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued expenses	$ 2,620,926	$ 1,283,348
Compensated absences	851,396	815,413
Accrued health insurance liabilities	1,398,617	1,082,350
Unexpended grant funds and other unearned revenue	5,462,328	1,494,093
Long-term debt, current portion	11,864	46,241
Total current liabilities	$ 10,345,131	$ 4,721,445
Liabilities Payable from Restricted Assets:		
Client funds	$ 103,651	$ 114,098
Accounts payable and accrued expenses	5,596	13,435
Tenant security deposits	20,861	20,154
Total liabilities payable from restricted assets	$ 130,108	$ 147,687
Long-term Liabilities:		
Long-term debt, less current portion	$ 400,691	$ 780,906
Net OPEB obligation	16,800	16,800
Total long-term liabilities	$ 417,491	$ 797,706
Total liabilities	$ 10,892,730	$ 5,666,838
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows of Resources:		
Net difference of actual and expected pension liability earnings	$ 1,129,772	$ 1,888,921
NET POSITION		
Net Position:		
Net investment in capital assets	$ 23,390,245	$ 22,069,322
Restricted	152,539	156,637
Unrestricted	18,431,466	16,019,415
Total net position	$ 41,974,250	$ 38,245,374

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

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2016
(With Comparative Totals for 2015)

		2016		2015
Operating revenue:				
Net patient service revenue	$	22,802,735	$	20,810,861
Operating expenses:				
Salaries and benefits	$	24,921,870	$	23,359,231
Staff development		135,821		133,954
Facilities		1,694,236		1,568,289
Supplies		1,745,796		1,420,324
Travel		714,559		702,588
Contractual and consulting		2,707,444		2,747,523
Depreciation		1,478,261		1,350,782
Other		2,292,636		773,624
Total operating expenses	$	35,690,623	$	32,056,315
Operating income (loss)	$	(12,887,888)	$	(11,245,454)
Nonoperating income (expense):				
Capital contributions:				
Commonwealth of Virginia	$	10,600,083	$	7,337,693
Federal government		2,253,106		2,287,396
Local governments		1,003,534		956,164
Other		2,437,117		1,957,191
Interest income		169,296		162,782
Interest expense		(23,399)		(34,068)
Gain (loss) on disposition of capital assets		170,504		253,348
Net nonoperating income (expense)	$	16,610,241	$	12,920,506
Income before capital contributions	$	3,722,353	$	1,675,052
Capital contributions:				
Construction grants and contributions		6,523		-
Change in net position	$	3,728,876	$	1,675,052
Net position, beginning of year		38,245,374		36,570,322
Net position, end of year	$	41,974,250	$	38,245,374

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

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

Statement of Cash Flows
Year Ended June 30, 2016
(With Comparative Totals for 2015)

	2016	2015
Cash flows from operating activities:		
Receipts from customers	$ 22,017,303	$ 20,490,193
Payments to suppliers	(7,804,458)	(7,187,319)
Payments to and for employees	(25,508,154)	(24,353,156)
Cash flows provided by (used for) operating activities	$ (11,295,309)	$ (11,050,282)
Cash flows from noncapital financing activities:		
Government grants	$ 17,654,017	$ 10,613,081
Other	2,430,656	1,715,476
Cash flows provided by (used for) noncapital financing activities	$ 20,084,673	$ 12,328,557
Cash flows from capital and related financing activities:		
Purchase of capital assets	$ (2,422,242)	$ (1,280,028)
Proceed from sale of capital assets	229,730	43,547
Construction grants and contributions	6,523	240,783
Principal payments on mortgages and loans payable	(414,592)	(44,661)
Interest expense	(23,399)	(34,068)
Cash flows provided by (used for) capital and related financing activities	$ (2,623,980)	$ (1,074,427)
Cash flows from investing activities:		
Interest income	$ 169,296	$ 162,782
Net increase (decrease) in cash and cash equivalents	$ 6,334,680	$ 366,630
Cash and cash equivalents, beginning of year (including restricted cash of $176,431)	15,260,285	14,893,655
Cash and cash equivalents, end of year (including restricted cash of $165,176)	$ 21,594,965	$ 15,260,285
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	$ (12,887,888)	$ (11,245,454)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	1,478,261	1,350,782
Changes in assets and liabilities:		
Cash held in escrow	15,584	(615)
Accounts receivable	(771,850)	(320,228)
Prepaid items	8,628	(8,547)
Net pension asset	7,959	(2,805,030)
Deferred outflows	(51,523)	262,723
Accounts payable and accrued expenses	1,648,933	(225,933)
Compensated absences	35,983	38,723
Net OPEB obligation	-	16,800
Deferred inflows	(759,149)	1,888,921
Other	(20,247)	(2,424)
Cash flows provided by (used for) operating activities	$ (11,295,309)	$ (11,050,282)

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

NOTE 1 - Summary of Significant Accounting Policies:

A. Description and Purpose of Organization:

The Board operates as an agent for the Counties of Stafford, King George, Caroline, Spotsylvania and the City of Fredericksburg in the establishment and operation of community mental health, intellectual disabilities and substance abuse programs as provided for in Chapter 10 of Title 37.1 of the Code of Virginia (1950), relating to the Virginia Department of Behavioral Health and Developmental Services. In addition, the Board provides a system of community mental health, intellectual disabilities and substance abuse services which relate to and are integrated with existing and planned programs. The Board's activities also include Healthy Families, Kids on the Block and Rappahannock Adult Activities. The Board was established in 1970.

B. Financial Reporting Entity:

For financial reporting purposes, in conformance with the Governmental Accounting Standards Board Statement 39, *Determining Whether Certain Organizations are Component Units*, the Board includes all organizations for which it is considered financially accountable.

Blended Component Units:

Blended component units, although legally separate entities are, in substance, part of the Organization's operations, and so data from these units are combined with data of the Organization. The Organization has the following blended component units: Rappahannock Community Services, Inc., Churchill Drive Group Home, Devon Drive Group Home, Galveston Road Group Home, Igo Road Group Home, Leeland Road Group Home, New Hope Estates Group Home, Piedmont Drive Group home, Scottsdale Estates Group Home, and Stonewall Estates Group Home. All of these organizations have been included as part of the reporting entity. These entities are not-for-profit organizations exempt under Section 501(c)(3) of the Internal Revenue Code and were organized to own and operate facilities for handicapped individuals. Rappahannock Community Services has a June 30 fiscal year. All of the other organizations have fiscal years which end on December 31. There are no significant intercompany amounts owed to or from Rappahannock Area Community Services Board at June 30, 2016 or 2015.

C. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Board only has one item that qualifies for reporting in this category. It is comprised of contributions to the pension plan made during the current year and subsequent to the net pension asset measurement date, which will be recognized as a reduction of the net pension asset next fiscal year. For more detailed information on these items, reference the pension note.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Board has one type of item that qualifies for reporting in this category. Items related to the measurement of the net pension asset are reported as deferred inflows of resources. These include differences between expected and actual experience, change in assumptions, and the net difference between projected and actual earnings on pension plan investments. For more detailed information on these items, reference the pension note.

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

D. Basis of Accounting:

The Board is funded by federal, state and local funds. Its accounting policies are governed by applicable provisions of these grants and applicable pronouncements and publications of the grantors. The Board utilizes the accrual basis of accounting where revenues are recorded when earned and expenses recorded when due.

E. Financial Statement Presentation:

The accompanying financial statements are prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board and the Virginia Department of Behavioral Health and Developmental Services. The principles prescribed by GASB represent generally accepted accounting principles applicable to governmental units.

F. Enterprise Fund Accounting:

Rappahannock Area Community Services Board is a governmental health care entity and is required to follow the accounting and reporting practices of the Governmental Accounting Standards Board. For financial reporting purposes, the Board utilizes the enterprise fund method of accounting whereby revenue and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

G. Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

H. Cash and Cash Equivalents:

The Board maintains cash accounts with financial institutions in accordance with the Virginia Security for Public Deposits Act of the Code of Virginia. The Act requires financial institutions to meet specific collateralization requirements. Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less at the date of acquisition. The Board considers all certificates of deposit to be cash and cash equivalents. The certificates of deposit have maturity dates of more than three months at the date of acquisition; however, the certificates may be redeemed without interest penalty at any time, and thus are considered to be cash and cash equivalents.

I. Investments:

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

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

J. Net Client Service Revenue:

Net client service revenue is reported at the estimated net realizable amounts from residents, third-party payers, and others for services rendered. Revenue under third-party payer agreements is subject to audit and retroactive adjustment. Retroactive adjustments are reported in operations in the year of settlement.

K. Financial Assistance:

The Board is required to collect the cost of services from third party sources and those individuals who are able to pay. However, the payment of amounts charged is based on individual circumstances and unpaid balances are pursued to the extent of the client's ability to pay. The Board has established procedures for granting financial assistance in cases of hardship. The granting of financial assistance results in a substantial reduction and/or elimination of charges to individual clients. Because the Board does not pursue the collection of amounts determined to qualify for financial assistance, they are not reported as revenue.

L. Rental Income:

Rental income is recognized on a monthly basis pursuant to lease agreements, which generally have terms of one year or less. Rental revenue is reported in other nonoperating income.

M. Capital Assets:

Capital assets acquired that cost $1,000 or more are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Donated capital assets are recorded at their acquisition value at the time of the gift. The range of estimated useful lives for depreciation of capital assets is as follows:

Buildings and improvements	10 to 40 years
Furniture and equipment	3 to 10 years
Equipment and vehicles	4 years

N. Restricted Assets:

The Board segregates monies held on behalf of third parties and restricted donations which have not yet been totally expended for their intended purposes.

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

O. Compensated Absences:

Employees are entitled to certain compensated absences based upon length of employment. Sick leave does not vest with the employee and is recorded as an expense when paid. Vacation pay does vest with the employee and is accrued when earned. Provision for the estimated liability for these compensated absences has been recorded in the financial statements. Because the timing of the use of the benefit is not estimable, all of the liability has been classified as current.

P. Budgetary Accounting:

The Board follows these procedures in establishing its budgets.

1. In response to Letters of Notification received from the Virginia Department of Behavioral Health and Developmental Services (the Department), the Board submits a Performance Contract to the Department. This application contains complete budgets for all Core Services.

2. The Board's Performance reports are filed with the Department during the fiscal year, 45 working days after the end of the second and fourth quarters. The final quarterly report is generally due by August 31, unless extended, following the end of the fiscal year.

3. If any changes are made during the fiscal year in state or federal block grants, or local match funds, the Board submits Performance Contract revisions which reflect these changes in time to be received by the Department by required deadlines.

Q. Fiscal Agent:

The City of Fredericksburg is the fiscal agent for the Rappahannock Area Community Services Board.

R. Comparative Totals:

Amounts for the prior year are presented for comparative and informational purposes only.

S. Operating and Nonoperating Revenues and Expenses:

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

T. Net Position:

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

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

U. Net Position Flow Assumption:

The Organization may fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Organization's policy to consider restricted net position to have been depleted or used before unrestricted net position is applied.

V. Pensions:

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Board's Retirement Plan and the additions to/deductions from the Board's Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Note 2 - Deposits and Investments:

Deposits:

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

Investments:

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

Custodial Credit Risk (Investments):

The Board's investment policy requires the minimizing of custodial credit risk for its investments.

Note 2 - Deposits and Investments: (continued)

Credit Risk of Debt Securities:

As described above, the Board's investment policy mirrors the state statutes relating to investments.

The Board's rated debt investments as of June 30, 2016 were rated by Standard & Poor's and the ratings are presented below using the Standard & Poor's rating scale.

Rated Debt Investments' Values

Rated Debt Investments		Fair Quality Ratings
		AAAm
Virginia Local Government Investment Pool	$	29,861

Concentration of Credit Risk:

The Board's investment policy regarding the concentration of credit risk requires the investment of funds to be diversified by limiting investments to avoid over concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities).

The Board had investments at June 30, 2016, with more than 5% of the total in the securities underlying the repurchase agreement with Union First Market Bank. This investment represented 99% of total investments.

Interest Rate Risk:

The Board's investment policy for interest rate risk requires that securities mature to meet cash requirements for on-going operations and investing primarily in short-term securities, money market mutual funds, or similar investment pools. The following details the Board's investment in repurchase agreements at June 30, 2016.

Investment Type		**Fair Value**		**Less Than One Year**
Virginia Local Government Investment Pool	$	29,861	$	29,861
Repurchase agreements		8,169,968		8,169,968
Total	$	8,199,829	$	8,199,829

The repurchase agreements are collateralized by U.S. Government Securities.

Note 2 - Deposits and Investments: (continued)

External Investment Pools:

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

Cash and Cash Equivalents:

A summary of cash and cash equivalents follows:

	2016	2015
Unrestricted:		
Cash on hand and petty cash	$ 485	$ 485
Cash in banks	13,229,475	12,687,210
Investments	8,199,829	2,396,159
Total	$ 21,429,789	$ 15,083,854

The Board serves as the agent for the receipt and disbursement of certain client funds. These amounts are reported as restricted assets on the Statement of Net Position.

Note 3 - Accounts Receivable:

At June 30, 2016 and 2015 the Board had accounts receivable due from the following primary sources:

	2016	2015
Client fees:		
Virginia Department of Medical Assistance Services (Medicaid)	$ 1,788,349	$ 1,631,414
Direct client and third party	871,231	592,235
Other	1,425,924	738,437
Total	$ 4,085,504	$ 2,962,086
Less: Allowances for uncollectibles	1,192,917	841,531
Net client fees receivable	$ 2,892,587	$ 2,120,555
Grants and other:		
Capital grants and contributions	$ -	$ -
Other	314,339	143,818
Total grants and other receivables	$ 314,339	$ 143,818
Total receivables	$ 3,206,926	$ 2,264,373

Note 4 - Capital Assets:

Capital assets (including component units) consist of the following:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	$ 3,229,093	$ 99,200	$ 36,330	$ 3,291,963
Construction in progress	234,452	1,245,696	1,432,480	47,668
Total capital assets not being depreciated	$ 3,463,545	$ 1,344,896	$ 1,468,810	$ 3,339,631
Capital assets being depreciated:				
Building and improvements	$ 22,641,705	$ 1,719,334	$ 39,998	$ 24,321,041
Equipment and vehicles	6,100,818	794,815	231,588	6,664,045
Total capital assets being depreciated	$ 28,742,523	$ 2,514,149	$ 271,586	$ 30,985,086
Accumulated depreciation				
Building and improvements	$ 5,244,868	$ 688,774	$ 46,040	$ 5,887,602
Equipment and vehicles	4,064,731	789,487	219,903	4,634,315
Total accumulated depreciation	$ 9,309,599	$ 1,478,261	$ 265,943	$ 10,521,917
Net capital assets being depreciated	$ 19,432,924	$ 1,035,888	$ 5,643	$ 20,463,169
Net capital assets	$ 22,896,469	$ 2,380,784	$ 1,474,453	$ 23,802,800

Total depreciation expense was $1,478,261 for 2016 and $1,350,782 for 2015.

Note 5 - Lease Commitments:

The Board leases office space and other facilities from various lessors. The lease terms range from monthly to one year.

Total rent expense for the years ended June 30, 2016 and 2015 totaled $363,958 and $355,700, respectively.

Note 6 - Compensated Absences:

In accordance with Governmental Accounting Standards Board Statement No. 16, *Accounting for Compensated Absences*, the Board has accrued the liability arising from compensated absences.

Board employees earn leave based on length of service. The Board has outstanding accrued leave pay totaling $851,396 and $815,413 at June 30, 2016 and 2015, respectively. All of the leave balance is reported as current because the long-term portion is not determinable.

Note 7 - Pension Plan:

Plan Description

All full-time, salaried permanent employees of the Board are automatically covered by VRS Retirement Plan upon employment. This is an agent multiple-employer plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the Code of Virginia, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and, Hybrid. Each of these benefit structures has 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:

RETIREMENT PLAN PROVISIONS		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	**About Plan 2** Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	**About the Hybrid Retirement Plan** The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members") • 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.

<u>Note 7 - Pension Plan: (continued)</u>

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
		• 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.
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 duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.	**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 returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.	**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.

Note 7 - Pension Plan: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	**Hybrid Opt-In Election (Cont.)** Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	***Non-Eligible Members (Cont.)** Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
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 or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	**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.

Note 7 - Pension Plan: (continued)

Plan Description (continued)

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

Note 7 - Pension Plan: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
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** **Defined Benefit Component:** 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. **Defined Contributions Component:** 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.

Note 7 - Pension Plan: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Vesting (Cont.)	**Vesting (Cont.)**	**Vesting (Cont.)** **Defined Contributions Component: (Cont.)** Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • 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 70½.
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.	**Calculating the Benefit** See definition under Plan 1.	**Calculating the Benefit** **Defined Benefit Component:** See definition under Plan 1

Note 7 - Pension Plan: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Calculating the Benefit (Cont.) An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	**Calculating the Benefit (Cont.)**	**Calculating the Benefit (Cont.)** **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 their 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 7 - Pension Plan: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
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 at age 50 with at 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 and have 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 at least 10 years of creditable service.	**Earliest Reduced Retirement Eligibility** **VRS:** Age 60 with at least five years (60 months) of creditable service.	**Earliest Reduced Retirement Eligibility** **Defined Benefit Component:** **VRS:** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.

Note 7 - Pension Plan: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Earliest Reduced Retirement Eligibility (Cont.) **Political subdivisions hazardous duty employees:** 50 with at least five years of creditable service.	**Earliest Reduced Retirement Eligibility (Cont.)** **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Earliest Reduced Retirement Eligibility (Cont.)** **Political subdivisions hazardous duty employees:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. **Eligibility:** For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. 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.

Note 7 - Pension Plan: (continued)

Plan Description (continued)

<table>
<tr><th colspan="3">RETIREMENT PLAN PROVISIONS (CONTINUED)</th></tr>
<tr><th>PLAN 1</th><th>PLAN 2</th><th>HYBRID RETIREMENT PLAN</th></tr>
<tr>
<td>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)

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

<u>Exceptions to COLA Effective Dates:</u>
Same as Plan 1</td>
<td>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)

<u>Exceptions to COLA Effective Dates:</u>
Same as Plan 1 and Plan 2.</td>
</tr>
</table>

Note 7 - Pension Plan: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
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 Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an 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 becoming eligible for non-work-related disability benefits.
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.	**Purchase of Prior Service** Same as Plan 1.	**Purchase of Prior Service** **<u>Defined Benefit Component:</u>** 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. **<u>Defined Contribution Component:</u>** Not applicable.

The system issues a publicly available comprehensive annual financial report (CAFR) that includes financial statements and required supplementary information for the plans administered by VRS. A copy of the most recent report may be obtained from the VRS website at http://www.varetire.org/Pdf/Publications/2015-annual-report-pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Note 7 - Pension Plan: (continued)

Employees Covered by Benefit Terms

As of the June 30, 2014 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	77
Inactive members:	
Vested inactive members	83
Non-vested inactive members	205
Inactive members active elsewhere in VRS	130
Total inactive members	418
Active members	346
Total covered employees	841

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The Board's contractually required contribution rate for the year ended June 30, 2016 was 4.47% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Board were $772,304 and $689,023 for the years ended June 30, 2016 and June 30, 2015, respectively.

Note 7 - Pension Plan: (continued)

Net Pension Asset

The Board's net pension asset was measured as of June 30, 2015. The total pension asset used to calculate the net pension asset was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

Actuarial Assumptions – General Employees

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

Inflation	2.5%
Salary increases, including inflation	3.5% – 5.35%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation*

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

Mortality rates: 14% of deaths are assumed to be service related

Largest 10 – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years

Post-Retirement:

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

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

Note 7 - Pension Plan: (continued)

Actuarial Assumptions – General Employees (Continued)

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

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years

Post-Retirement:

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

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Note 7 - Pension Plan: (continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on pension System investments was determined using a log-normal distribution analysis in which best-estimate ranges of expected future real rates of return (expected returns, net of pension System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

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

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

Note 7 - Pension Plan: (continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Board 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 Asset

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2014	$ 27,114,693	$ 31,541,245	$ (4,426,552)
Changes for the year:			
Service cost	$ 1,514,991	$ -	$ 1,514,991
Interest	1,870,481	-	1,870,481
Differences between expected and actual experience	(442,973)	-	(442,973)
Contributions - employer	-	689,023	(689,023)
Contributions - employee	-	791,251	(791,251)
Net investment income	-	1,473,770	(1,473,770)
Benefit payments, including refunds of employee contributions	(787,076)	(787,076)	-
Administrative expenses	-	(19,191)	19,191
Other changes	-	(313)	313
Net changes	$ 2,155,423	$ 2,147,464	$ 7,959
Balances at June 30, 2015	$ 29,270,116	$ 33,688,709	$ (4,418,593)

Note 7 - Pension Plan: (continued)

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

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

	Rate		
	1% Decrease (6.00%)	**Current Discount (7.00%)**	**1% Increase (8.00%)**
Board			
Net Pension Asset	$ 95,680	$ (4,418,593)	$ (8,077,845)

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

For the year ended June 30, 2016, the Board recognized pension expense of ($62,167). At June 30, 2016, the Board 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	$ -	$ 319,238
Net difference between projected and actual earnings on pension plan investments	-	810,534
Employer contributions subsequent to the measurement date	772,304	-
Total	$ 772,304	$ 1,129,772

Note 7 - Pension Plan: (continued)

$772,304 reported as deferred outflows of resources related to pensions resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30		
2017	$	(444,426)
2018		(444,426)
2019		(392,460)
2020		151,540
2021		-
Thereafter		-

Note 8 - Long-Term Obligations:

Summary of Changes in Long-Term Obligations:

		Mortgages Payable
Balance at July 1, 2015	$	827,147
Add: Issuances/additions		-
Deduct: Retirements		(414,592)
Balance at June 30, 2016	$	412,555

Long-term obligations consists of the following obligations:

		Balance		Current Portion
Union Bank and Trust Company, payable in monthly payments of $2,414, including interest at 4.20%, due in January 2038, secured by real estate on Wolfe Street, Fredericksburg, Virginia	$	412,555	$	11,864
Net OPEB obligation		16,800		-
Total	$	429,355	$	11,864

Note 8 - Long-Term Obligations: (continued)

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

Year Ending	Principal	Interest
2017	$ 11,864	$ 17,101
2018	12,372	16,593
2019	12,901	16,063
2020	13,454	15,511
2021	14,030	14,934
2022-2026	79,692	65,130
2027-2031	98,278	46,544
2032-2036	121,197	23,623
2037-2038	48,767	1,890
Total	$ 412,555	$ 217,389

The estimated fair value of the debt approximates the balance at June 30, 2016.

Note 9 - Deferred Compensation Plan:

The Board provides a deferred compensation plan whereby eligible employees elect to defer a portion of their compensation until some later date. The amount deferred is placed in a contract on behalf of the participant where it is not subject to federal income tax until withdrawn. The Board does not contribute to this plan. The plan assets are not subject to claims of the Board's creditors.

Note 10 - Commitments and Contingencies:

Federal programs in which the Board participates were audited in accordance with the provisions of U. S. Office of Management and Uniform Guidance, *Audits of States, Local Governments and Non-Profit Organizations*. Pursuant to the provisions of this circular all major programs were tested for compliance with applicable grant requirements. While no matters of noncompliance were disclosed by audit, the federal government may subject grant programs to additional compliance tests which may result in disallowed expenditures. In the opinion of management, any future disallowances of current grant program expenditures, if any, would be immaterial.

At June 30, 2016, there were outstanding construction contracts in the amount of approximately $442,499 for the renovations of certain residential facilities.

Note 11 - Risk Management:

The Board participates in the Commonwealth of Virginia Risk Management Pool for general, professional liability, and directors and officers liability coverage which have up to $1,700,000 per occurrence of coverage limits. Other insurance coverage for property, workers compensation, crime, dishonesty and related coverage are purchased from a commercial insurance carrier. Coverage for these items varies from stated property values to $1,000,000. There are no surety bonds for directors. The Board assumes risks related to co-insurance, policy deductibles and claims which exceed insurance coverage. There have been no settlements that have exceeded the insurance coverage in the last three years and there has been no reduction in the amount of insurance coverage from the prior year.

Employee Health Insurance:

In fiscal year 2010 the Board established a self-insurance plan for its employee health program. The program is administered by a private insurance carrier. Premium payments are based on the number of employees insured and benefits.

Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors. Incurred but not reported claims have been accrued based upon history and estimates from the insurance carrier. The change in the estimated claims liability for the last three fiscal years is summarized below.

The claims liability is reported in current liabilities as accrued health insurance liabilities.

Fiscal Year Ended	Estimated Claims Liability Beginning of Fiscal Year	Current Year Claims and Changes in Estimates	Claims Payments	Estimated Claims Liability End of Fiscal Year
June 30, 2016	$ 1,082,350	$ 2,968,728	$ 2,652,461	$ 1,398,617
June 30, 2015	1,344,458	2,455,004	2,717,112	1,082,350
June 30, 2014	1,048,704	2,407,295	2,111,541	1,344,458

Note 12 - Contributions from Local Participating Governmental Units:

The participating local governmental units contributed funds for the Board's operations as follows:

	2016	2015
City of Fredericksburg	$ 215,005	$ 201,005
County of Spotsylvania	295,634	295,633
County of Stafford	311,514	291,051
County of Caroline	98,770	91,800
County of King George	82,611	76,675
Total	$ 1,003,534	$ 956,164

Note 13 - Net Patient Service Revenue Sources:

Net patient service revenues for 2016 and 2015 were from the following sources:

	2016	2015
Medicaid	$ 19,086,571	$ 17,697,083
Direct client and third party	1,383,075	2,086,738
Other	2,333,089	1,027,040
Total	$ 22,802,735	$ 20,810,861

Note 14 - Other Postemployment Benefits - Healthcare Plan:

Retiree Healthcare Plan:

A. Plan Description:

The Board has a defined benefit healthcare plan that covers employees who retire after having worked for the Board continuously the last 15 years or more upon retirement, or who retired because of a line-of-duty disability. These employees have the option of participating in the group health insurance program at their own cost until the age of Medicare eligibility.

The Board will pay the following percentage of premiums of subscriber only coverage for employees 50 years of age or older with the following continuous years of service:

Percentage	Continuous Years of Service
50%	20 to 24
75%	25 to 29
100%	30 years or more

The premium amount paid will be reduced by the amount of the health insurance credit received by the employee from the Virginia Retirement System.

B. Funding Policy:

The Board has elected to fully fund the plan based on an actuarial valuation performed as of January 1, 2015. The total amount determined to be necessary to fund the plan as of January 1, 2009, or $567,000 plus the normal cost of $53,000 and a lifetime membership fee of $5,000, plus additional required contributions have been paid by the Board. The $625,000 less the $5,000 lifetime membership fee plus additional required contributions have been placed in a trust administered by the VACO/VML Pooled OPEB Trust Fund. There were no plan members receiving benefits in fiscal years 2016 or 2015.

Note 14 - Other Postemployment Benefits - Healthcare Plan: (continued)

Retiree Healthcare Plan: (continued)

C. Annual OPEB Cost and Net OPEB Obligation:

The Board's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the Board's annual OPEB cost for the year, the estimated contributions to the Plan, and changes in the Board's net OPEB obligation to the Plan:

Annual Required Contribution (ARC)	$	87,100
Interest on OPEB Obligation		-
Adjustment to ARC		-
Annual OPEB Cost	$	87,100
Contributions Made During FY16		(87,100)
Increase in Net OPEB Obligation	$	-
Net OPEB Obligation - beginning of year		16,800
Net OPEB Obligation - end of year	$	16,800

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

Fiscal Year Ended		Annual OPEB Cost		Amount of OPEB Cost Paid	Percentage of Annual OPEB Cost Contributed		Net OPEB Obligation
June 30, 2016	$	87,100	$	87,100	100.00%	$	16,800
June 30, 2015		80,900		64,100	79.23%		16,800
June 30, 2014		50,600		50,600	100.00%		-

D. Funded Status and Funding Progress:

As of January 1, 2015, the most recent actuarial valuation date, the plan was 116% funded. The actuarial accrued liability for benefits was $1,125,300 and the actuarial value of assets was $1,302,500, resulting in an excess funded accrued actuarial liability (UAAL) of ($177,200). The covered payroll (annual payroll of active employees covered by the plan) was $16,297,400, and the ratio of the UAAL to the covered payroll was (1.09%).

Note 14 - Other Postemployment Benefits - Healthcare Plan: (continued)

Retiree Healthcare Plan: (continued)

D. Funded Status and Funding Progress: (continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

E. Actuarial Methods and Assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets consistent with the long-term perspective of the calculations.

In the January 1, 2015 actuarial valuation, the projected unit credit (PUC) actuarial cost method was used. The actuarial assumptions included a 7.00% investment rate of return (net of administrative expenses), which is a blended rate of the expected long-term investment returns on plan assets, and an annual healthcare cost trend rate based on the Getzen Trend Model of 5.30% initially, reduced by decrements graded to 4.50% over 59 years. The plan had assets of $1,032,500 at January 1, 2015. The actuarial valuation presented the UAAL as being amortized as a level percentage of projected payroll on an open basis over 30 years (24 years remaining at January 1, 2015). However, since the Board fully funded the plan effective for fiscal year 2009, and all required payments have been made, there is no UAAL to be amortized at June 30, 2016.

Retiree Health Insurance Credit Program:

A. Plan Description:

The Board participates in the Health Insurance Credit Program, a plan designed to assist retirees with the cost of health insurance coverage. This program is an agent and cost sharing, multiple-employer defined benefit plan administered by the Virginia Retirement System (VRS). The Virginia General Assembly establishes the dollar amount of the health insurance credit for each year of creditable service. The credit amount and eligibility differs for state, school division, political subdivision, local officer, local social services department and general registrar retirees.

Note 14 - Other Postemployment Benefits - Healthcare Plan: (continued)

Retiree Health Insurance Credit Program: (continued)

A. Plan Description: (continued)

An employee of the Board, who retires under VRS with at least 15 years of total creditable service under the System and is enrolled in a health insurance plan, is eligible to receive a monthly health insurance credit of $1.50 per year of creditable service up to a maximum monthly credit of $45. However, such credit shall not exceed the health insurance premium for the retiree. Disabled retirees automatically receive the maximum monthly health insurance credit of $45.

Benefit provisions and eligibility requirements are established by Title 51.1, Chapter 14 of the Code of Virginia. The VRS actuarially determines the amount necessary to fund all credits provided, reflects the cost of such credits in the applicable employer contribution rate pursuant to Section 51.1-145, and prescribes such terms and conditions as are necessary to carry out the provisions of the health insurance credit program. VRS issues separate financial statements as previously discussed in Note 7.

B. Funding Policy:

As a participating local political subdivision, the Board is required to contribute the entire amount necessary to fund participation in the program using the actuarial basis specified by the Code of Virginia and the VRS Board of Trustees. The Board's contribution rate for the fiscal year ended 2016 was .09% of annual covered payroll.

C. Annual OPEB Cost and Net OPEB Obligation:

The annual cost of OPEB under Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, is based on the annual required contribution (ARC). The Board is required to contribute the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

For 2016, the Board's contribution of $15,545 was equal to the ARC and OPEB cost. The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 and the two preceding years are as follows:

Three-Year Trend Information

Fiscal Year Ending	Annual OPEB Cost (ARC)	Percentage of ARC Contributed	Net OPEB Obligation
June 30, 2016	$ 15,545	100%	$ -
June 30, 2015	13,542	100%	-
June 30, 2014	21,434	100%	-

Note 14 - Other Postemployment Benefits - Healthcare Plan: (continued)

Retiree Health Insurance Credit Program: (continued)

D. Funded Status and Funding Progress:

The funded status of the plan as of June 30, 2015, the most recent actuarial valuation date, is as follows:

Actuarial accrued liability (AAL)	$	268,680
Actuarial value of plan assets (AVA)	$	239,793
Unfunded actuarial accrued liability (UAAL)	$	28,887
Funded ratio (actuarial value of plan assets/AAL)		89.25%
Current payroll (active plan members)	$	16,254,706
UAAL as a percentage of covered payroll		0.18%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future and reflect a long-term perspective. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

E. Actuarial Methods and Assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used included techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The entry age normal cost method was used to determine the plan's funding liabilities and costs. The actuarial assumptions included a 7.0% investment rate of return, compounded annually, including an inflation component of 2.5%, and a payroll growth rate of 3%. The UAAL is being amortized as a level percentage of payroll on an open basis. The remaining open amortization period at June 30, 2015 was 19-28 years.

Note 15 - Restricted Net Position:

Restricted net position consists of the net position of the component units with HUD funding less the net investment in capital assets or $152,539 at June 30, 2016 and $156,637 at June 30, 2015. The net position is considered restricted due to the regulatory oversight over the Organization by the U.S. Department of Housing and Urban Development and the restrictions on the use of the property pursuant to the acceptance of capital advance funds by the Organization.

Note 16 - Adoption of Accounting Principles:

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

The Board implemented the provisions of the above Statement during the fiscal year ended June 30, 2016. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. There was no material impact on the Board's financial statement as a result of the implementation of Statement No. 79. All required disclosures are located in Note 2.

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

The Board early implemented provisions of the above Statement during the fiscal year ended June 30, 2016. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans,* No. 68, *Accounting and Financial Reporting for Pensions,* and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.* Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. No restatement was required as a result of this implementation.

Note 17 - Upcoming Pronouncements:

Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016.

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension,* improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. This Statement is effective for fiscal years beginning after June 15, 2017.

Statement No. 77, *Tax Abatement Disclosures,* will increase the disclosure of tax abatement agreements to disclose information about the agreements. The requirements of this Statement improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015.

Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this Statement are effective for reporting periods beginning after December 15, 2015.

Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14*, improves financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016.

Statement No. 81, *Irrevocable Split-Interest Agreements*, improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

Management is currently evaluating the impact these standards will have on the financial statements when adopted.

- Required Supplementary Information -

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Schedule of OPEB Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded (Excess Funded) Actuarial Accrued Liability (UAAL) (3)-(2)	Funded Ratio (2)/(3)	Covered Payroll	UAAL as a % of Payroll (4)/(6)
(1)	(2)	(3)	(4)	(5)	(6)	(7)
Virginia Retirement System Health Insurance Credit						
June 30, 2015	$ 239,793	$ 268,680	$ 28,887	89.25%	$ 16,254,706	0.18%
June 30, 2014	224,725	249,014	24,289	90.25%	15,841,566	0.15%
June 30, 2013	182,976	237,374	54,398	77.08%	14,154,842	0.38%
Other Postemployment Benefits						
January 1, 2015	$ 1,302,500	$ 1,125,300	$ (177,200)	115.75%	$ 16,297,400	-1.09%
January 1, 2013	1,020,900	797,600	(223,300)	128.00%	13,873,200	-1.61%
January 1, 2011	828,600	668,700	(159,900)	123.91%	13,016,200	-1.23%

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

Schedule of Components of and Changes in Net Pension Liability (Asset) and Related Ratios
Year Ended June 30, 2016

		2015		2014
Total pension liability				
Service cost	$	1,514,991	$	1,453,677
Interest		1,870,481		1,701,667
Changes of benefit terms		-		-
Differences between expected and actual experience		(442,973)		-
Changes in assumptions		-		-
Benefit payments, including refunds of employee contributions		(787,076)		(700,350)
Net change in total pension liability	$	2,155,423	$	2,454,994
Total pension liability - beginning		27,114,693		24,659,699
Total pension liability - ending (a)	$	29,270,116	$	27,114,693
Plan fiduciary net position				
Contributions - employer	$	689,023	$	983,504
Contributions - employee		791,251		761,729
Net investment income		1,473,770		4,236,654
Benefit payments, including refunds of employee contributions		(787,076)		(700,350)
Administrative expense		(19,191)		(21,737)
Other		(313)		224
Net change in plan fiduciary net position	$	2,147,464	$	5,260,024
Plan fiduciary net position - beginning		31,541,245		26,281,221
Plan fiduciary net position - ending (b)	$	33,688,709	$	31,541,245
Political subdivision's net pension asset - ending (a) - (b)	$	(4,418,593)	$	(4,426,552)
Plan fiduciary net position as a percentage of the total pension asset		115.10%		116.33%
Covered payroll	$	16,124,859	$	15,309,883
Political subdivision's net pension asset as a percentage of covered payroll		-27.40%		-28.91%

Schedule is intended to show information for 10 years. Information prior to the 2014 valuation is not available. However, additional years will be included as they become available.

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

Schedule of Employer Contributions
Year Ended June 30, 2016

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2016	$ 772,304	$ 772,304	$ -	$ 17,277,503	4.47%
2015	720,781	720,781	-	16,124,859	4.47%
2014	987,487	987,487	-	15,309,883	6.45%
2013	913,196	913,196	-	14,158,083	6.45%
2012	597,811	597,811	-	12,773,732	4.68%
2011	579,292	579,292	-	12,378,029	4.68%
2010	505,793	505,793	-	12,071,424	4.19%
2009	485,486	485,486	-	11,586,778	4.19%
2008	254,534	254,534	-	10,785,336	2.36%
2007	226,691	226,691	-	9,605,548	2.36%

Current year contributions are from Rappahannock Area Community Services Board records and prior year contributions are from the VRS actuarial valuation performed each year.

In 2015, Covered Employee Payroll (as defined by GASB 68) included the total payroll for employees covered under the pension plan whether that payroll is subject to pension coverage or not. This definition was modified in GASB Statement No. 82 and now is the payroll on which contributions to a pension plan are based. The ratios presented use the same measure.

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2015 is not material.

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

Largest 10 – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

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

All Others (Non 10 Largest) – Non-LEOS:
- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

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

- Supplementary Information -

Combining Financial Statements

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

Combining Statement of Net Position
At June 30, 2016

	Rappahannock Area Community Services Board	Rappahannock Area Community Services, Inc.	Churchill Drive Group Home	Devon Drive Group Home
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 21,081,441	$ 348,348	$ -	$ -
Accounts receivable, less allowance for uncollectibles	2,892,587	-	-	-
Grants and other receivables	312,818	-	-	-
Prepaid items	63,465	22,240	-	-
Total current assets	$ 24,350,311	$ 370,588	$ -	$ -
Restricted Assets:				
Cash and cash equivalents	$ -	$ 10,516	$ 11,066	$ 8,129
Grants and other receivables	-	-	-	-
Prepaid items	-	-	1,414	1,132
Client funds	103,651	-	-	-
Total restricted assets	$ 103,651	$ 10,516	$ 12,480	$ 9,261
Capital Assets:				
Property and equipment, less accumulated depreciation	$ 18,129,428	$ 1,553,656	$ 651,748	$ 167,042
Other Assets:				
Net pension asset	4,418,593	$ -	$ -	$ -
Total assets	$ 47,001,983	$ 1,934,760	$ 664,228	$ 176,303
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Outflows of Resources:				
Post measurement date employer pension contributions	$ 772,304	$ -	$ -	$ -
LIABILITIES				
Current Liabilities:				
Accounts payable and accrued expenses	$ 2,617,107	$ 3,819	$ -	$ -
Compensated absences	851,396	-	-	-
Accrued health insurance liabilities	1,398,617	-	-	-
Unexpended grant funds and other unearned revenue	5,462,328	-	-	-
Long-term debt, current portion	-	11,864	-	-
Total current liabilities	$ 10,329,448	$ 15,683	$ -	$ -
Liabilities Payable from Restricted Assets:				
Client funds	$ 103,651	$ -	$ -	$ -
Accounts payable and accrued expenses	-	-	417	338
Tenant security deposits	-	11,007	1,216	614
Total liabilities payable from restricted assets	$ 103,651	$ 11,007	$ 1,633	$ 952
Long-term Liabilities:				
Long-term debt, less current portion	$ -	$ 400,691	$ -	$ -
Net OPEB obligation	16,800	-	-	-
Total long-term liabilities	$ 16,800	$ 400,691	$ -	$ -
Total liabilities	$ 10,449,899	$ 427,381	$ 1,633	$ 952
DEFERRED INFLOWS OF RESOURCES				
Deferred Inflows of Resources:				
Net difference of actual and expected pension asset earnings	$ 1,129,772	$ -	$ -	$ -
NET POSITION				
Net Position:				
Net investment in capital assets	$ 18,129,428	$ 1,141,101	$ 651,748	$ 167,042
Restricted	-	-	10,847	8,309
Unrestricted	18,065,188	366,278	-	-
Total net position	$ 36,194,616	$ 1,507,379	$ 662,595	$ 175,351

Galveston Road Group Home	Igo Road Group Home	Leeland Road Group Home	New Hope Estates Group Home	Piedmont Drive Group Home	Scottsdale Estates Group Home	Stonewall Estates Group Home	Intercompany Eliminations	Total
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 21,429,789
-	-	-	-	-	-	-	-	2,892,587
-	-	-	-	-	-	-	-	312,818
-	-	-	-	-	-	-	-	85,705
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 24,720,899
$ 13,514	$ 26,381	$ 5,533	$ 41,008	$ 24,717	$ 18,059	$ 6,253	$ -	$ 165,176
-	1,521	-	-	-	-	-	-	1,521
1,313	1,457	1,196	1,520	1,134	1,274	1,368	-	11,808
-	-	-	-	-	-	-	-	103,651
$ 14,827	$ 29,359	$ 6,729	$ 42,528	$ 25,851	$ 19,333	$ 7,621	$ -	$ 282,156
$ 634,264	$ 407,142	$ 184,971	$ 657,531	$ 332,516	$ 894,670	$ 189,832	$ -	$ 23,802,800
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 4,418,593
$ 649,091	$ 436,501	$ 191,700	$ 700,059	$ 358,367	$ 914,003	$ 197,453	$ -	$ 53,224,448
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 772,304
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,620,926
-	-	-	-	-	-	-	-	851,396
-	-	-	-	-	-	-	-	1,398,617
-	-	-	-	-	-	-	-	5,462,328
-	-	-	-	-	-	-	-	11,864
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 10,345,131
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 103,651
69	908	400	129	404	2,465	466	-	5,596
1,493	900	1,171	1,395	561	1,448	1,056	-	20,861
$ 1,562	$ 1,808	$ 1,571	$ 1,524	$ 965	$ 3,913	$ 1,522	$ -	$ 130,108
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 400,691
-	-	-	-	-	-	-	-	16,800
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 417,491
$ 1,562	$ 1,808	$ 1,571	$ 1,524	$ 965	$ 3,913	$ 1,522	$ -	$ 10,892,730
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,129,772
$ 634,264	$ 407,142	$ 184,971	$ 657,531	$ 332,516	$ 894,670	$ 189,832	$ -	$ 23,390,245
13,265	27,551	5,158	41,004	24,886	15,420	6,099	-	152,539
-	-	-	-	-	-	-	-	18,431,466
$ 647,529	$ 434,693	$ 190,129	$ 698,535	$ 357,402	$ 910,090	$ 195,931	$ -	$ 41,974,250

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

Combining Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2016

	Rappahannock Area Community Services Board	Rappahannock Area Community Services, Inc.	Churchill Drive Group Home	Devon Drive Group Home
Operating revenue:				
Net patient service revenue	$ 22,802,735	$ -	$ -	$ -
Operating expenses:				
Salaries and benefits	$ 24,921,870	$ -	$ -	$ -
Staff development	135,821	-	-	-
Facilities	1,345,977	380,475	27,347	25,772
Supplies	1,745,796	-	-	-
Travel	714,559	-	-	-
Contractual and consulting	2,707,444	-	-	-
Depreciation	1,230,928	94,285	29,320	8,206
Other	2,263,546	27,600	-	-
Total operating expenses	$ 35,065,941	$ 502,360	$ 56,667	$ 33,978
Operating income (loss)	$ (12,263,206)	$ (502,360)	$ (56,667)	$ (33,978)
Nonoperating income (expense):				
Capital contributions:				
Commonwealth of Virginia	$ 10,600,083	$ -	$ -	$ -
Federal government	2,253,106	-	-	-
Local governments	1,003,534	-	-	-
Other	1,850,726	504,040	29,442	38,340
Interest income	167,489	1,747	3	3
Interest expense	-	(23,399)	-	-
Gain (loss) on disposition of capital assets	(3,676)	175,770	-	(634)
Net nonoperating income (expense)	$ 15,871,262	$ 658,158	$ 29,445	$ 37,709
Income/(loss) before capital contributions	$ 3,608,056	$ 155,798	$ (27,222)	$ 3,731
Capital contributions:				
Construction grants and contributions	-	6,523	-	-
Change in net position	$ 3,608,056	$ 162,321	$ (27,222)	$ 3,731
Net position, beginning of year	32,586,560	1,345,058	689,817	171,620
Net position, end of year	$ 36,194,616	$ 1,507,379	$ 662,595	$ 175,351

Galveston Road Group Home	Igo Road Group Home	Leeland Road Group Home	New Hope Estates Group Home	Piedmont Drive Group Home	Scottsdale Estates Group Home	Stonewall Estates Group Home	Intercompany Eliminations	Total
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 22,802,735
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 24,921,870
-	-	-	-	-	-	-	-	135,821
27,776	30,317	25,909	30,623	25,734	34,014	24,607	(284,315)	1,694,236
-	-	-	-	-	-	-	-	1,745,796
-	-	-	-	-	-	-	-	714,559
-	-	-	-	-	-	-	-	2,707,444
23,697	13,203	10,019	20,236	11,099	27,541	9,727	-	1,478,261
-	2,348	-	-	5,665	-	-	(6,523)	2,292,636
$ 51,473	$ 45,868	$ 35,928	$ 50,859	$ 42,498	$ 61,555	$ 34,334	$ (290,838)	$ 35,690,623
$ (51,473)	$ (45,868)	$ (35,928)	$ (50,859)	$ (42,498)	$ (61,555)	$ (34,334)	$ 290,838	$ (12,887,888)
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 10,600,083
-	-	-	-	-	-	-	-	2,253,106
-	-	-	-	-	-	-	-	1,003,534
31,704	36,103	52,248	66,790	29,352	36,510	52,700	(290,838)	2,437,117
3	10	1	13	8	11	8	-	169,296
-	-	-	-	-	-	-	-	(23,399)
-	-	-	-	(319)	-	(637)	-	170,504
$ 31,707	$ 36,113	$ 52,249	$ 66,803	$ 29,041	$ 36,521	$ 52,071	$ (290,838)	$ 16,610,241
$ (19,766)	$ (9,755)	$ 16,321	$ 15,944	$ (13,457)	$ (25,034)	$ 17,737	$ -	$ 3,722,353
-	-	-	-	-	-	-	-	6,523
$ (19,766)	$ (9,755)	$ 16,321	$ 15,944	$ (13,457)	$ (25,034)	$ 17,737	$ -	$ 3,728,876
667,295	444,448	173,808	682,591	370,859	935,124	178,194	-	38,245,374
$ 647,529	$ 434,693	$ 190,129	$ 698,535	$ 357,402	$ 910,090	$ 195,931	$ -	$ 41,974,250

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

Combining Statement of Cash Flows
Year Ended June 30, 2016

	Rappahannock Area Community Services Board	Rappahannock Area Community Services, Inc.	Churchill Drive Group Home	Devon Drive Group Home
Cash flows from operating activities:				
Receipts from customers	$ 22,017,303	$ -	$ -	$ -
Payments to suppliers	(7,419,459)	(414,816)	(28,230)	(25,645)
Payments to and for employees	(25,508,154)	-	-	-
Cash flows provided by (used for) operating activities	$ (10,910,310)	$ (414,816)	$ (28,230)	$ (25,645)
Cash flows from noncapital financing activities:				
Government grants	$ 17,654,017	$ -	$ -	$ -
Other	1,850,726	504,040	25,921	38,343
Cash flows provided by (used for) noncapital financing activities	$ 19,504,743	$ 504,040	$ 25,921	$ 38,343
Cash flows from capital and related financing activities:				
Purchase of capital assets	$ (2,219,028)	$ (85,979)	$ -	$ (11,720)
Proceeds from sale of capital assets	676	229,054	-	-
Construction grants and contributions	-	6,523	-	-
Principal payments on mortgages and loans payable	-	(414,592)	-	-
Interest expense	-	(23,399)	-	-
Cash flows provided by (used for) capital and related financing activities	$ (2,218,352)	$ (288,393)	$ -	$ (11,720)
Cash flows from investing activities:				
Interest income	$ 167,489	$ 1,747	$ 3	$ 3
Net increase (decrease) in cash and cash equivalents	$ 6,543,570	$ (197,422)	$ (2,306)	$ 981
Cash and cash equivalents, beginning of year	14,537,871	556,286	13,372	7,148
Cash and cash equivalents, end of year	$ 21,081,441	$ 358,864	$ 11,066	$ 8,129
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	$ (12,263,206)	$ (502,360)	$ (56,667)	$ (33,978)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	1,230,928	94,285	29,320	8,206
Changes in assets and liabilities:				
Cash held in escrow	-	11,960	-	-
Accounts receivable	(772,032)	227	-	-
Prepaid items	8,850	-	(30)	(23)
Net pension asset	7,959	-	-	-
Deferred outflows of resources	(51,523)	-	-	-
Accounts payable and accrued expenses	1,665,280	(12,204)	(853)	150
Compensated absences	35,983	-	-	-
Deferred inflows of resources	(759,149)	-	-	-
Other	(13,400)	(6,724)	-	-
Cash flows provided by (used for) operating activities	$ (10,910,310)	$ (414,816)	$ (28,230)	$ (25,645)

Galveston Road Group Home	Igo Road Group Home	Leeland Road Group Home	New Hope Estates Group Home	Piedmont Drive Group Home	Scottsdale Estates Group Home	Stonewall Estates Group Home	Intercompany Eliminations	Total
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 22,017,303
(28,501)	(30,603)	(26,239)	(31,452)	(32,189)	(34,172)	(23,990)	290,838	(7,804,458)
-	-	-	-	-	-	-	-	(25,508,154)
$ (28,501)	$ (30,603)	$ (26,239)	$ (31,452)	$ (32,189)	$ (34,172)	$ (23,990)	$ 290,838	$ (11,295,309)
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 17,654,017
32,026	32,479	52,596	66,910	29,352	36,510	52,591	(290,838)	2,430,656
$ 32,026	$ 32,479	$ 52,596	$ 66,910	$ 29,352	$ 36,510	$ 52,591	$ (290,838)	$ 20,084,673
$ -	$ -	$ (26,390)	$ (34,660)	$ -	$ -	$ (44,465)	$ -	$ (2,422,242)
-	-	-	-	-	-	-	-	229,730
-	-	-	-	-	-	-	-	6,523
-	-	-	-	-	-	-	-	(414,592)
-	-	-	-	-	-	-	-	(23,399)
$ -	$ -	$ (26,390)	$ (34,660)	$ -	$ -	$ (44,465)	$ -	$ (2,623,980)
$ 3	$ 10	$ 1	$ 13	$ 8	$ 11	$ 8	$ -	$ 169,296
$ 3,528	$ 1,886	$ (32)	$ 811	$ (2,829)	$ 2,349	$ (15,856)	$ -	$ 6,334,680
9,986	24,495	5,565	40,197	27,546	15,710	22,109	-	15,260,285
$ 13,514	$ 26,381	$ 5,533	$ 41,008	$ 24,717	$ 18,059	$ 6,253	$ -	$ 21,594,965
$ (51,473)	$ (45,868)	$ (35,928)	$ (50,859)	$ (42,498)	$ (61,555)	$ (34,334)	$ 290,838	$ (12,887,888)
23,697	13,203	10,019	20,236	11,099	27,541	9,727	-	1,478,261
-	3,624	-	-	-	-	-	-	15,584
-	(1,276)	178	-	-	-	1,053	-	(771,850)
(25)	(31)	(25)	(32)	(23)	(3)	(30)	-	8,628
-	-	-	-	-	-	-	-	7,959
-	-	-	-	-	-	-	-	(51,523)
(700)	(255)	(415)	(797)	(767)	(155)	(351)	-	1,648,933
-	-	-	-	-	-	-	-	35,983
-	-	-	-	-	-	-	-	(759,149)
-	-	(68)	-	-	-	(55)	-	(20,247)
$ (28,501)	$ (30,603)	$ (26,239)	$ (31,452)	$ (32,189)	$ (34,172)	$ (23,990)	$ 290,838	$ (11,295,309)

- Compliance -

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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
Rappahannock Area Community Services Board
Fredericksburg, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the Rappahannock Area Community Services Board, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Rappahannock Area Community Services Board's basic financial statements and have issued our report thereon dated November 8, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Rappahannock Area Community Services Board'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 Rappahannock Area Community Services Board's internal control. Accordingly, we do not express an opinion on the effectiveness of Rappahannock Area Community Services Board's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Rappahannock Area Community Services Board'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 Rappahannock Area Community Services Board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Robinson, Farmer, Cox Associates
Charlottesville, Virginia
November 8, 2016

Independent Auditors' Report on Compliance For Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

To the Board of Directors
Rappahannock Area Community Services Board
Fredericksburg, Virginia

Report on Compliance for Each Major Federal Program

We have audited the Rappahannock Area Community Services Board's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Rappahannock Area Community Services Board's major federal programs for the year ended June 30, 2016. Rappahannock Area Community Services Board's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Rappahannock Area Community Services Board's basic financial statements include the operations of the component unit organizations Churchill Drive Group Home, Devon Drive Group Home, Galveston Road Group Home, Igo Road Group Home, Leeland Road Group Home, New Hope Estates Group Home, Piedmont Drive Group Home, Scottsdale Estates Group Home and Stonewall Estates Group Home, which received $4,562,751 in federal awards which is not included in the schedule of expenditures of federal awards during the year ended June 30, 2016. Our audit, described below, did not include the operations of the above component units because the component unit engaged other auditors to perform an audit of compliance the Uniform Guidance.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Rappahannock Area Community Services Board's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Rappahannock Area Community Services Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Rappahannock Area Community Services Board's compliance.

Opinion on Each Major Federal Program

In our opinion, the Rappahannock Area Community Services Board complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control over Compliance

Management of the Rappahannock Area Community Services Board is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Rappahannock Area Community Services Board's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Rappahannock Area Community Services Board's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Robinson, Farmer, Cox Associates
Charlottesville, Virginia
November 8, 2016

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number		Expenditures
Department of Agriculture				
Pass-Through Payments:				
Virginia Department of Agriculture				
Child and Adult Care Food Program	10.558	Not available	$	44,967
Department of Transportation				
Pass-Through Payments:				
Virginia Department of Highway and Rail Transportation				
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	Not available	$	279,020
Department of Health and Human Services				
Pass-Through Payments:				
Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services:				
Projects for Assistance in Transition from Homelessness (PATH)	93.150	Not available	$	98,144
Block Grants for Community Mental Health Services	93.958	Not available		88,975
Block Grants for Prevention and Treatment of Substance Abuse	93.959	Not available		1,029,202
Virginia Department of Health:				
ACA Maternal Infant and Early Childhood Home Visiting Program	93.505	Not available		293,303
Total Department of Health and Human Services			$	1,509,624
Department of Education				
Pass-Through Payments:				
Virginia Department of Education:				
Special Education - Grants for Infants and Families	84.181	Not available	$	419,495
Total expenditures of federal awards			$	2,253,106

Notes to the Schedule of Expenditures of Federal Awards

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Rappahannock Area Community Services Board under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Uniform Guidance, Audits of States, Local Governments, and Non-Profit Organizations. Because the Schedule presents only a selected portion of the operations of Rappahannock Area Community Services Board, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Rappahannock Area Community Services Board. Such expenditures are recognized following the cost principles contained in OMB A-87, *Cost Principles for States, Local and Indian Tribal Governments* wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note B - Summary of Significant Accounting Policies

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting.

(2) Pass-through entity identifying numbers are presented where available.

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

Schedule of Findings and Questioned Costs
Year Ended June 30, 2016

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified	None reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFS Section 200.516(a)	No

Identification of major programs:

CFDA #	Name of Federal Program or Cluster
93.959	Block Grants for Prevention and Treatment of Substance Abuse

Dollar threshold used to distinguish between Type A and Type B programs	$750,000
Auditee qualified as low-risk auditee?	Yes

Section II - Financial Statement Findings

There are no financial statement findings to report.

Section III - Federal Award Findings and Questioned Costs

There are no federal award findings and questioned costs to report.

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2016

There were no items reported in fiscal year 2015.

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