

**HARRISONBURG-ROCKINGHAM
COMMUNITY SERVICES BOARD**

FINANCIAL REPORT

June 30, 2015

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

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INTRODUCTORY SECTION

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

DIRECTORY OF PRINCIPAL OFFICIALS

June 30, 2015

Board of Directors

Dr. Pamela Ungar, Chair

Ms. Daphyne Thomas, Vice-Chair

Linda Burner, Secretary

Brian Hanger

Judy Bland

David Briggman

Sheriff Bryan Hutcheson

Sherry Mongold, Treasurer

Sarah Berry

Geraldine Rush

Herbert Salisbury

Ben Risser

Principal Management Team

Lacy T. Whitmore, Jr.

Lynn R. Grigg

Holly Albrite

Ellen Harrison

Karla Souder

John Malone

James Styron, M.D.

Executive Director

Behavioral Health Services Director

Administrative Services Director

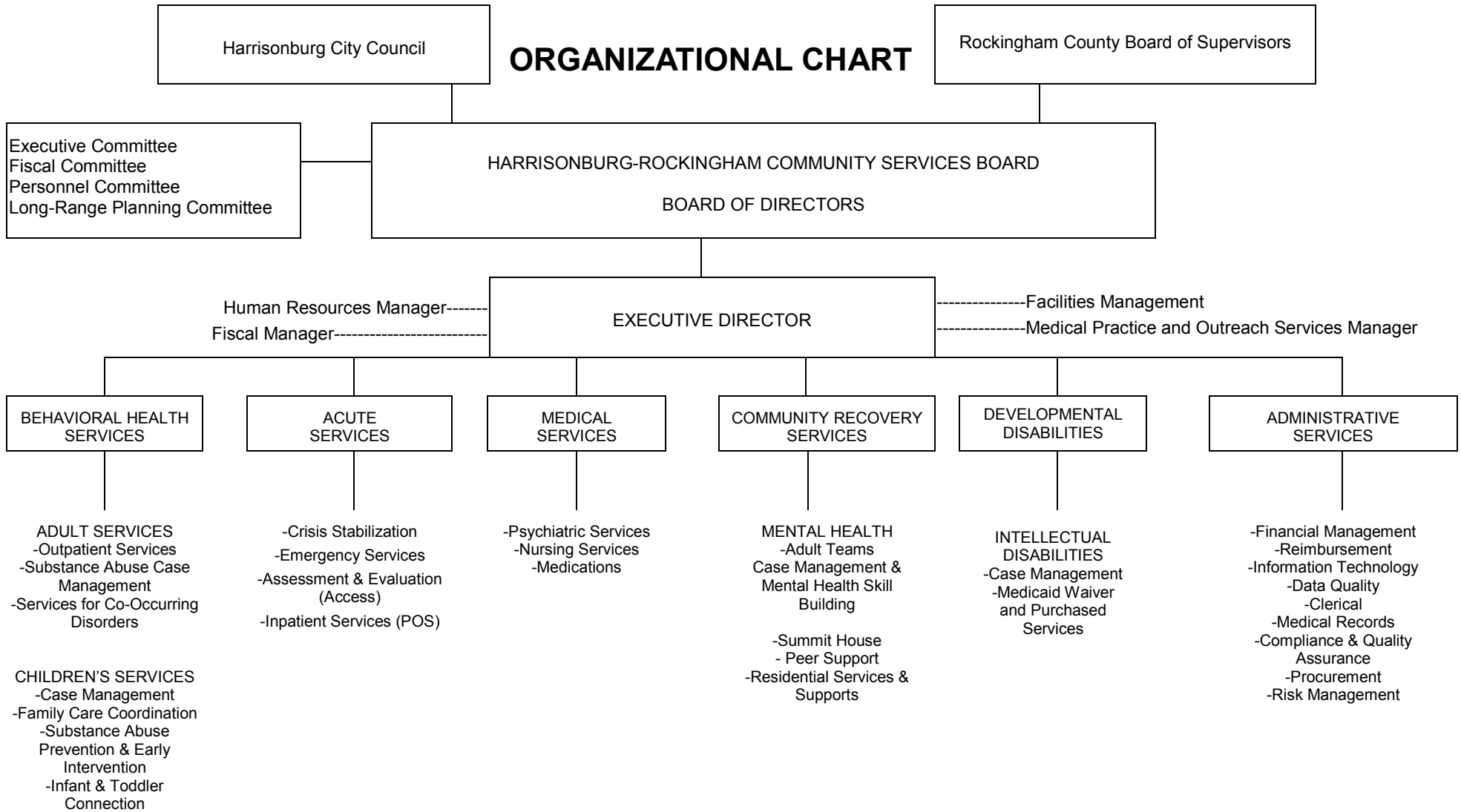
Acute Services Director

Community Recovery Services
Director

Developmental Services Director

Medical Director

ORGANIZATIONAL CHART



The Harrisonburg-Rockingham CSB provides community-based behavioral health and developmental services

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

ORGANIZATIONAL INFORMATION

JUNE 30, 2015

MISSION STATEMENT

The Harrisonburg-Rockingham Community Services Board provides services that promote dignity, choice, recovery, and the highest possible level of participation in work, relationships, and all aspects of community life for individuals and their families whose lives are affected by behavioral health or developmental disorders.

Adopted by the CSB Board of Directors on September 8, 2009

MAJOR PROGRAMS

Harrisonburg-Rockingham Community Services Board provides community-based mental health, intellectual disabilities, and substance abuse programs, including:

24-Hour Emergency Services
Adult Services
Children & Family Services (McNulty Center)
Infant Services

Programs are licensed by the Virginia Department of Behavioral Health and Developmental Services. Services may have eligibility requirements.

FACILITIES

1241 North Main Street, Harrisonburg – Adult Services & Administration
463 East Washington Street, Harrisonburg – Children and Family Services
1888 Pear Street, Harrisonburg – Clubhouse Program
477 East Market Street, Harrisonburg – Residential Program
1241 Harmony Drive, Harrisonburg – Residential Program
1710 Park Road, Harrisonburg – Residential Program
1231 North Main Street, Harrisonburg – Adult Services
1351 North Main Street, Harrisonburg – Financial Offices & IT Services
1353 North Main Street, Harrisonburg – Crisis Stabilization Program and Administrative Offices

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

ORGANIZATIONAL INFORMATION

JUNE 30, 2015

(Continued)

COMPUTER SYSTEMS INFORMATION

The CSB uses Credible Wireless, a web-based electronic health record system. The CSB also uses Microsoft Dynamics SL for financial data and Silver Brook Human Resources for staff data. The CSB computer system also includes:

Windows servers providing authentication and file sharing services; Linux based servers providing router, firewall, mail, Intranet/Internet services, and backup services; approximately 200 desktop PCs running Microsoft Windows, Microsoft Office, and a variety of other productivity and utility applications.

CONTACT INFORMATION

You may contact the Harrisonburg-Rockingham Community Services Board by:

Telephone: (540) 434-1941
TDD: (540) 434-1941
Fax: (540) 434-1791
Web Page: www.hrcsb.org
Mail: 1241 North Main Street
Harrisonburg, VA 22802

FINANCIAL SECTION

**The Financial Section contains
the Basic Financial Statements.**



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Harrisonburg-Rockingham Community Services Board
Harrisonburg, Virginia

Report on the Financial Statements

We have audited the accompanying basic financial statements of Harrisonburg-Rockingham Community Services Board (the "Board"), as of and for the year ended June 30, 2015, and the related notes to the 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.

Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control 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 financial position of Harrisonburg-Rockingham Community Services Board, as of June 30, 2015, and the changes in its financial position and cash flows 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 19 to the financial statements, in 2015 the Board adopted new accounting guidance, GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27, as amended by GASB Statement No. 71*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Board's 2014 financial statements, on which, in our report dated November 26, 2014, we expressed an unmodified opinion. The 2014 financial information is provided for comparative purposes only. For the year ended June 30, 2015, beginning net position has been restated to reflect the impacts of adopting GASB 68, as described in Note 19. However, the information for periods prior to June 30, 2014 is not readily available, therefore the 2014 financial information has not been restated to reflect the effects of the new standard.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information, as listed in the table of contents, 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 Board's basic financial statements. The introductory section and 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

Other Matters (Continued)

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.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 24, 2015 on our consideration of the 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 the Board's internal control over financial reporting and compliance.

Brown, Edwards & Company, S. L. P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 24, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) of the Harrisonburg-Rockingham Community Services Board's (the "Board") activities and financial performance provides the reader with an introduction and overview to the Board's financial statements for the fiscal year ended June 30, 2015.

Following this MD&A are the basic financial statements of the Board, together with the notes thereto, which are essential to a full understanding of the data contained in the financial statements. The Rockingham-Harrisonburg Halfway House Corporation is considered to be a component unit for inclusion in the Board's financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Board's basic financial statements. Since the Board is engaged only in business-type activities, its basic financial statements are comprised of only two components: 1) enterprise fund financial statements and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

The enterprise funds of the Board consist of the Harrisonburg-Rockingham Community Services Board and the Rockingham-Harrisonburg Halfway House, Inc.

Enterprise fund financial statements. The enterprise fund financial statements are designed to provide readers with a broad overview of the Board's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on the Board's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as one indicator of the trending financial position of the Board.

The Statement of Revenues, Expenses and Changes in Fund Net Position presents information showing how the Board's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in a future fiscal period (e.g., earned but unused staff vacation leave).

In 2015, the Board adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. The overall effect of this new standard is to reflect the Board's long-term Virginia Retirement System (VRS) obligations directly in the financial statements. Previously, such amounts were mostly disclosed, but were not recognized as long as the Board was current with its required VRS contributions. The new standard not only changes certain measurement methodologies, but also requires certain new disclosures and that the Board record a net pension liability directly on the Statement of Net Position. Beginning net position has been restated as discussed in Note 19, and this has had a significant impact on the Board's net position. However, because similar information has been disclosed in prior years, both in the notes to the financial statements and in required supplementary information, the effect of this new standard is not expected to negatively affect how most governmental entities are viewed by sophisticated readers of their financial statements. Because information to restate prior years is not readily available, the prior year comparative information included in this discussion and analysis has not been restated.

The basic enterprise fund financial statements can be found on pages 5 through 8 of this report.

Notes to financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 9 through 43 of this report.

Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Board's progress in funding its obligation to provide other post-employment benefits (OPEB) for its employees, changes in net pension liability, pension contributions, and changes to pension benefit terms and assumptions. Required supplementary information can be found on page 44.

2015 FINANCIAL HIGHLIGHTS

The Board's financial statements are reported on the full accrual basis as required by generally accepted accounting principles. On this basis, the Board reported revenues of \$11,285,518 and expenditures of \$10,833,909, producing a net gain of \$451,609 for the year.

The Board's net position totaled \$8,773,656 of which \$5,232,321 is available to spend at the discretion of the Board of Directors in support of the Board's mission. All operations are supported through current financial resources.

CONDENSED FINANCIAL SUMMARY

Financial Position: A summary of the Board's Statement of Net Position, including all programs and operations, for 2015 and 2014 is presented below:

Condensed Statement of Net Position

	<u>2015</u>	<u>2014</u>
ASSETS		
Current assets	\$ 6,184,988	\$ 6,127,115
Noncurrent assets	<u>4,500,366</u>	<u>4,440,404</u>
TOTAL ASSETS	10,685,354	10,567,519
DEFERRED OUTFLOWS OF RESOURCES	<u>499,338</u>	<u>-0-</u>
LIABILITIES		
Current liabilities	1,104,010	1,039,131
Long-term liabilities	<u>279,195</u>	<u>299,257</u>
TOTAL LIABILITIES	1,383,205	1,338,388
DEFERRED INFLOWS OF RESOURCES	<u>1,027,831</u>	<u>37,744</u>
NET POSITION		
Net investment in capital assets	3,520,336	3,487,279
Restricted	20,999	8,879
Unrestricted	<u>5,232,321</u>	<u>5,695,229</u>
TOTAL NET POSITION	<u>\$ 8,773,656</u>	<u>\$ 9,191,387</u>

(Continued)

In 2015, the net value of the Board's current assets increased \$57,873 or 0.94%. This increase is primarily from two factors: the Board chose to pay for the completion of a construction project from cash and delayed claims processing of developmental services from Medicaid at fiscal year-end.

The 2015 net pension asset reflects the adoption of GASB No. 68; but 2014 amount is for the periodic prepayments made by the Board to its Virginia Retirement System (VRS) pension plan since 2008.

The net value of the Board's capital assets decreased \$4,443 or 0.12%. The Board completed a construction project to add approximately 3,000 square feet of office and meeting space, replaced heating and cooling units and a residential site deck, and purchased required technology equipment to expand telepsychiatry services. These additions were offset by depreciation.

Deferred outflows of resources section was added to this year's financial statements to reflect contributions made to VRS during the current fiscal year, as required by GASB No. 68. Contribution amount includes both the required amount of \$349,338 and a prepayment amount of \$150,000.

Current liabilities increased \$64,879, or 6.2% over 2014, as the Board recorded increases in accrued salaries and fringe benefits.

Deferred inflows of resources increased \$990,087, of which \$991,969 is attributed to the net difference between projected and actual investment earnings on pension plan investments, as recorded with the adoption of GASB No. 68.

The Board's 2015 beginning net position was restated to reflect the adoption of GASB No. 68, which impacted the ending net position. However, the prior years is not restated because the pension information is not readily available. A multi-year historical compilation of year-end total net position indicates the Board's overall financial condition has tracked a positive trend line.

2015	\$8,773,656
2014	\$9,191,387
2013	\$9,579,742
2012	\$9,144,777
2011	\$8,058,627

Overall, the financial position of the Board remains strong, as evidenced by continuing strong liquidity and modest long-term debt.

Change in Net Position: A summary of the Board's Statement of Revenues, Expenses, and Changes in Fund Net Position including all programs and operations, for 2015 and 2014 is presented below:

Condensed Statement of Revenues, Expenses & Changes in Fund Net Position

	<u>2015</u>	<u>2014</u>
OPERATING REVENUES	\$ 4,529,611	\$ 4,253,450
OPERATING EXPENSES	<u>10,828,692</u>	<u>11,176,720</u>
Operating loss	(6,299,081)	(6,923,270)
NONOPERATING REVENUES (EXPENSES)	<u>6,750,690</u>	<u>6,534,915</u>
Change in net position	<u>\$ 451,609</u>	<u>\$ (388,355)</u>

Operating revenues are defined as the amount of revenue received from providing client services. During 2015, operating revenues increased \$276,161 or 6.5% in comparison with 2014, most of which is attributable to adding staff to expand service capacity during 2014.

Operating expenses are comprised of the direct expenses of operating the Board. These include salaries, benefits, occupancy costs, contractual and professional services provided by others, and depreciation and amortization. The Board's most significant operating expenses consist of salary and benefits. During 2015, operating expenses decreased \$348,028 or 3.1% from 2014. The Board incurred cost increases in salaries and associated fringe benefits from granting a COLA; however, the adoption of GASB No. 68 greatly decreased overall benefit costs by transferring VRS contributions to deferred outflows of resources. The Board also incurred occupancy cost increases after adding additional office and meeting space, but decreased costs after concluding one-time consulting services that were contracted in 2014 and experiencing less demand for purchased services.

Non-operating revenues are comprised of governmental funds, interest income, and other miscellaneous income. The majority of the governmental funds come from the Commonwealth of Virginia through the Virginia Department of Behavioral Health and Developmental Services. Governmental funding is also received from the federal government, the City of Harrisonburg, and Rockingham County. Interest income totaled \$3,757 in 2015, reflecting the continuation of low interest rate earnings from the Board's conservative investments. Non-operating expenses include interest expense associated with long-term debt.

Cash Flows: A summary of the Harrisonburg-Rockingham CSB’s Statement of Cash Flows, including all programs and operations, for 2015 and 2014 is presented below:

Condensed Statement of Cash Flows

	<u>2015</u>	<u>2014</u>
OPERATING ACTIVITIES	\$(6,548,227)	\$(5,869,148)
NON-CAPITAL FINANCING ACTIVITIES	6,753,404	6,521,408
CAPITAL AND RELATED FINANCIAL ACTIVITIES	(316,092)	(353,271)
INVESTING ACTIVITIES	<u>3,778</u>	<u>4,548</u>
Net increase/(decrease) in cash	(107,137)	303,537
Cash – Beginning at July 1	<u>5,334,405</u>	<u>5,030,868</u>
Cash – Ending June 30	<u>\$ 5,227,268</u>	<u>\$ 5,334,405</u>

Cash flows from operating activities include cash received for services less payments made to suppliers and employees. The operating loss recorded on the Statement of Revenues, Expenses and Changes in Fund Net Position is reconciled to net cash used in operating activities through adjustments for depreciation and amortization, pension expense net of employer contributions, net OPEB expense, and changes in current assets and liabilities. Please see the Statement of Cash Flows for a full listing of those transactions.

Cash flows from non-capital financing activities include cash received from state, federal, and local governments and other miscellaneous sources. Cash flows from capital and related financing activities are comprised of the acquisition and sale of fixed assets, plus principal and interest payments associated with long-term debt. Cash flows from investing activities are comprised of interest received.

For the year, there was a \$107,137 net decrease in cash, bringing the year end cash total to \$5,227,268. In comparison with the benchmark of the 2015 Performance Contract budget of \$10,396,076, year-end cash measured 50.3%. In 2014 year end cash was 53.0% of the budget, and in 2013 it was 52.9%.

Looking ahead, it is management’s opinion that adequate cash reserves will be essential given the continuing slow economic recovery, potential service delivery and reimbursement reform under the Certified Community Behavioral Health Clinic structure, and expected start-up and/or expansion of services (e.g. Crisis Intervention Team Assessment Center, mobile crisis, Medicaid Waiver reform, etc.). The strategic plan under development by Management Team and the Board includes goals directed at facility and staffing enhancements as the agency works to position itself in the changing healthcare environment. Additionally, based on same-day access volumes, management is certain there will be continuing high demand for Board services from uninsured and underinsured local residents. Overall, an adequate financial “safety net” of cash reserves best positions the Board to manage through these challenging times, including multiple regulatory changes and the daunting array of healthcare reforms, while fulfilling the Board’s community mission.

LONG-TERM DEBT

The Board has a mortgage payable of \$65,625. As described in the accompanying notes, the Board also has a Guidance Line of Credit with SunTrust Bank, which was not accessed during 2015.

CAPITAL AND OTHER ASSETS

At the end of 2015, the Board had a total of \$3,585,961 in net capital assets, of which \$715,207 is held by the Rockingham-Harrisonburg Halfway House, Inc. The total is comprised of \$6,531,779 in capital assets less \$2,945,818 in accumulated depreciation.

Asset classes include: land (8.6%), land improvements (4.8%), buildings (42.7%), building improvements (28.0%), equipment (5.9%), vehicles (5.8%), and software (4.2%).

CONTACTING THE BOARD'S FINANCIAL MANAGEMENT

This financial report is designed to provide local citizens, our clients and their families, and all taxpayers with a general overview of the Board's finances. Questions regarding this report or requests for additional financial information should be made to Karla E. Carickhoff, Fiscal Manager, 1241 North Main Street, Harrisonburg, VA 22802; telephone (540) 434-1941.

BASIC FINANCIAL STATEMENTS

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

STATEMENT OF NET POSITION

June 30, 2015

	2015	(For Comparative Purposes Only) 2014
	<hr/>	<hr/>
ASSETS		
Current assets		
Cash and cash equivalents (Note 2)	\$ 5,129,555	\$ 5,245,106
Accounts receivable, net (Note 3)	895,177	730,164
Miscellaneous accounts receivable	15,723	18,033
Due from other governments (Note 4)	25,113	24,078
Prepaid expenses	21,707	20,435
Cash and cash equivalents, restricted for representative payee beneficiaries (Note 2)	97,713	89,299
Total current assets	<hr/> 6,184,988	<hr/> 6,127,115
Noncurrent assets		
Net pension asset (Note 10)	914,405	850,000
Capital assets, net (Note 5)	3,585,961	3,590,404
Total noncurrent assets	<hr/> 4,500,366	<hr/> 4,440,404
Total assets	<hr/> 10,685,354	<hr/> 10,567,519
DEFERRED OUTFLOWS OF RESOURCES		
Pension contributions subsequent to the measurement date (Note 10)	<hr/> 499,338	<hr/> -
LIABILITIES		
Current liabilities		
Accounts payable and other current liabilities	99,655	183,637
Accrued payroll and related liabilities	512,611	374,636
Accrued interest	281	442
Amounts held for representative payee beneficiaries, payable from restricted assets	97,713	89,299
Current portion of long-term liabilities (Note 6)	393,750	391,117
Total current liabilities	<hr/> 1,104,010	<hr/> 1,039,131
Long-term liabilities (Note 6)	279,195	299,257
Total liabilities	<hr/> 1,383,205	<hr/> 1,338,388
DEFERRED INFLOWS OF RESOURCES		
Net difference between projected and actual investment earnings on pension plan investments (Note 10)	991,969	-
Unearned revenues (Note 8)	35,862	37,744
Total deferred inflows of resources	<hr/> 1,027,831	<hr/> 37,744
NET POSITION		
Net investment in capital assets	3,520,336	3,487,279
Restricted (Note 12)	20,999	8,879
Unrestricted	5,232,321	5,695,229
Total net position	<hr/> <hr/> \$ 8,773,656	<hr/> <hr/> \$ 9,191,387

The Notes to Financial Statements are an integral part of this statement.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
Year Ended June 30, 2015

	2015	(For Comparative Purposes Only) 2014
	<u> </u>	<u> </u>
OPERATING REVENUES		
Net client service revenue (Note 13)	\$ 4,529,611	\$ 4,253,450
OPERATING EXPENSES		
Salaries	6,983,270	6,975,338
Benefits	1,503,694	1,816,863
Facility, equipment, and vehicle	573,140	501,359
Contractual and professional services	808,897	928,162
Depreciation and amortization	277,657	265,549
Other	682,034	689,449
	<u> </u>	<u> </u>
Total operating expenses	10,828,692	11,176,720
	<u> </u>	<u> </u>
Operating loss	(6,299,081)	(6,923,270)
	<u> </u>	<u> </u>
NONOPERATING REVENUES (EXPENSES)		
Commonwealth of Virginia grants	5,004,866	4,929,730
Federal grants	567,326	556,965
Contributions from participating local governments (Note 14)	1,003,335	868,985
Interest income	3,757	4,360
Interest expense	(5,217)	(7,563)
Other income	176,623	182,438
	<u> </u>	<u> </u>
Net nonoperating revenues	6,750,690	6,534,915
	<u> </u>	<u> </u>
Change in net position	451,609	(388,355)
	<u> </u>	<u> </u>
NET POSITION AT JULY 1, as restated (Note 19)	8,322,047	9,579,742
	<u> </u>	<u> </u>
NET POSITION AT JUNE 30	\$ 8,773,656	\$ 9,191,387
	<u> </u>	<u> </u>

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

STATEMENT OF CASH FLOWS
Year Ended June 30, 2015

	2015	(For Comparative Purposes Only) 2014
	<u> </u>	<u> </u>
OPERATING ACTIVITIES		
Receipts from clients, private insurers, Medicaid, and others	\$ 4,362,716	\$ 4,791,456
Payments to suppliers	(2,149,325)	(1,943,498)
Payments to and for employees	(8,770,032)	(8,741,897)
Other receipts	8,414	24,791
	<u> </u>	<u> </u>
Net cash used in operating activities	<u>(6,548,227)</u>	<u>(5,869,148)</u>
NON-CAPITAL FINANCING ACTIVITIES		
Contributions from local, state, and federal governments	6,574,492	6,340,294
Other receipts	178,912	181,114
	<u> </u>	<u> </u>
Net cash provided by non-capital financing activities	<u>6,753,404</u>	<u>6,521,408</u>
CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(273,214)	(308,047)
Principal paid on debt	(37,500)	(37,500)
Interest paid on debt	(5,378)	(7,724)
	<u> </u>	<u> </u>
Net cash used in capital and related financing activities	<u>(316,092)</u>	<u>(353,271)</u>
INVESTING ACTIVITIES		
Interest received	3,778	4,548
	<u> </u>	<u> </u>
Net increase (decrease) in cash and cash equivalents	(107,137)	303,537
CASH AND CASH EQUIVALENTS		
Beginning at July 1	5,334,405	5,030,868
	<u> </u>	<u> </u>
Ending at June 30	<u>\$ 5,227,268</u>	<u>\$ 5,334,405</u>
RECONCILIATION TO STATEMENT OF NET POSITION		
Cash and cash equivalents	\$ 5,129,555	\$ 5,245,106
Cash and cash equivalents, restricted for representative payee beneficiaries	97,713	89,299
	<u> </u>	<u> </u>
	<u>\$ 5,227,268</u>	<u>\$ 5,334,405</u>

(Continued)

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

STATEMENT OF CASH FLOWS
Year Ended June 30, 2015

	2015	(For Comparative Purposes Only) 2014
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (6,299,081)	\$ (6,923,270)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	277,657	265,549
Pension expense net of employer contributions	(441,114)	-
Decrease (increase) in:		
Accounts receivable, net	(165,013)	535,900
Prepaid expenses	(1,272)	84,619
Increase (decrease) in:		
Accounts payable and other current liabilities	(83,982)	90,853
Accrued payroll and related liabilities	137,975	43,755
Compensated absences	2,633	(8,150)
Other post-employment benefits	17,438	14,699
Unearned revenue	(1,882)	2,106
Amounts held for representative payee beneficiaries, payable from restricted assets	8,414	24,791
	<u>8,414</u>	<u>24,791</u>
Net cash used in operating activities	<u>\$ (6,548,227)</u>	<u>\$ (5,869,148)</u>

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 1. Summary of Significant Accounting Policies

Financial reporting entity:

Harrisonburg-Rockingham Community Services Board (the "Board") is a jointly governed entity that operates as an agent for the City of Harrisonburg and the County of Rockingham in the establishment and operation of community behavioral health, developmental services, and substance abuse programs as provided for in Chapter 5 of Title 37.2 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 behavioral health, developmental services, and substance abuse services which relate to and are integrated with existing and planned programs. Substantially all of the entity's funding is from service fees, the Commonwealth of Virginia, the Federal Government, and the aforementioned localities.

The Board is not considered a component unit of the County of Rockingham, Virginia or the City of Harrisonburg, Virginia since neither of these entities has oversight responsibilities for the Board, nor is either entity legally obligated to fund any deficit of the Board.

Blended component unit:

The Rockingham-Harrisonburg Halfway House, Inc. (the "Halfway House") is an affiliated organization whose primary purpose is to hold title to certain real property which is rented primarily to the Harrisonburg-Rockingham Community Services Board.

Although legally a separate entity, the Halfway House is, in substance, part of the Board's operations. Financial information from this unit is combined with the financial statements of the Board as a blended component unit. The Board and this entity are collectively referred to herein as the "Board."

Measurement focus and basis of accounting:

The Board is a governmental health care entity and follows the accounting and reporting practices of the Governmental Accounting Standards Board. The Board's financial statements consist of a single enterprise fund, and are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Board distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Board's principal ongoing operations. The principal operating revenues of the Board are fees collected from clients and the related collections from the various third-party insurers including Medicaid. Operating expenses consist of the direct and indirect costs of fulfilling the programs of the Board. All other revenues and expenses are reported as nonoperating revenues and expenses.

Use of estimates:

Management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities as well as the reported revenues and expenses. Actual results could differ from those estimates.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

Use of estimates: (Continued)

The allowance for uncollectible accounts is a significant estimate that involves a great deal of judgment and the consideration of many factors. By nature, this estimate is not precise and requires re-evaluation as the conditions and factors change. Key factors that affect this calculation are delays in collection from third parties, the need to rebill multiple third-party payers, rate adjustments and settlements with third-party payers, and the financial assistance provided to clients based on their ability to pay.

Cash and cash equivalents:

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Valuation of receivables:

Receivables are reported net of the estimated allowance for uncollectible accounts. Management estimates this allowance using historical collection data and the aging of accounts receivable.

Net client service revenue:

Net client service revenue is reported at the estimated net realizable amounts from clients, 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.

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 varies 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 of charges to individual clients. Because the Board does not pursue the collection of amounts determined to qualify for financial assistance, such amounts are not reported as revenue.

Capital assets:

Capital assets include property and equipment with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at date of donation. The costs of normal maintenance and repairs that do not materially add to the value of an asset or its life are expensed.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

Capital assets: (Continued)

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	8-25 years
Buildings	20-40 years
Building improvements	5-25 years
Equipment	5-20 years
Vehicles	5 years
Software	5 years

Restricted assets:

The Board segregates funds held on behalf of the representative payee beneficiaries.

Deferred outflows/inflows of resources:

In addition to assets, the statements which present financial position report a separate section for deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense) until then. The Board has only one item that qualifies for reporting in this category, which consists of contributions subsequent to the measurement date for pensions; this will be applied to the net pension liability in the next fiscal year.

In addition to liabilities, the statements which present financial position report a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The Board has two types of items. The first is unearned revenue, which consists of amounts received, but for which revenue recognition criteria have not been met. The second is the net difference between projected and actual earnings on pension plan investments. This difference will be recognized in pension expense over a closed five year period.

Income taxes:

The Rockingham-Harrisonburg Halfway House, Inc. is exempt from federal and state income tax under Section 501(c)(3) of the *Internal Revenue Code*. Harrisonburg-Rockingham Community Services Board is exempt from such taxes as a governmental entity. Accordingly, the accompanying financial statements do not reflect a provision for income taxes.

Compensated absences:

Employees are entitled to certain compensated absences based upon length of employment. Vacation and certain other compensated absences vest with the employee. A provision for these vested 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.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS June 30, 2015

Note 1. Summary of Significant Accounting Policies (Continued)

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 Political Subdivision's Retirement Plan and the additions to/deductions from the Political Subdivision's Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Comparative information:

The basic financial statements include certain prior year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Board's financial statements for the prior year from which the summarized information was derived. Certain reclassifications have been made to the prior year reported amounts to provide a more comparable presentation with the current year reporting presentation.

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 amount 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).

Credit risk:

At June 30, the Board's investments were all in the State Treasurer's Local Government Investment Pool, which has been assigned a credit rating of AAAM by Standard & Poor's (S&P).

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 2. Deposits and Investments (Continued)

Credit risk: (Continued)

At June 30, 2015, the Board had no significant exposure to interest rate, foreign currency, or concentration of credit risks.

The Board's deposits and investments consist of the following:

Deposits and investments:	
Cash on hand	\$ 1,520
Deposits	3,348,351
Local Government Investment Pool	<u>1,877,397</u>
	<u>\$ 5,227,268</u>
Statement of net position:	
Cash and cash equivalents	\$ 5,129,555
Cash and cash equivalents, restricted for representative payee beneficiaries	<u>97,713</u>
	<u>\$ 5,227,268</u>

Note 3. Accounts Receivable

Accounts receivable consist of the following:

Virginia Department of Medical Assistance Services (Medicaid)	\$ 612,816
Direct client	1,047,951
Third-party insurers	141,345
Other	<u>24,572</u>
	1,826,684
Allowance for uncollectible accounts	<u>(931,507)</u>
	<u>\$ 895,177</u>

Note 4. Due From Other Governments

Amounts are due from other governments or governmental agencies for the reimbursement of expenditures and fees for services provided under various programs and grants, and consist of the following:

Region I Diversion Fund	\$ 6,400
USDA	5,521
Horizon Behavioral Health	7,295
Other	<u>5,897</u>
	<u>\$ 25,113</u>

(Continued)

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 5. Capital Assets

Capital asset activity for the year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, nondepreciable				
Land	\$ 559,404	\$ -	\$ -	\$ 559,404
Construction in progress	171,740	-	(171,740)	-
Capital assets, nondepreciable	<u>731,144</u>	<u>-</u>	<u>(171,740)</u>	<u>559,404</u>
Capital assets, depreciable				
Land improvements	312,615	-	-	312,615
Buildings	2,786,871	-	-	2,786,871
Building improvements	1,401,385	437,501	(5,275)	1,833,611
Equipment	388,401	7,453	(11,483)	384,371
Vehicles	379,595	-	-	379,595
Software	275,312	-	-	275,312
Capital assets, depreciable	5,544,179	444,954	(16,758)	5,972,375
Less accumulated depreciation	<u>(2,684,919)</u>	<u>(277,657)</u>	<u>16,758</u>	<u>(2,945,818)</u>
Capital assets, depreciable, net	<u>2,859,260</u>	<u>167,297</u>	<u>-</u>	<u>3,026,557</u>
Capital assets, net	<u>\$ 3,590,404</u>	<u>\$ 167,297</u>	<u>\$ (171,740)</u>	<u>\$ 3,585,961</u>

Note 6. Long-Term Liabilities

The following is a summary of changes in long-term liabilities:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Notes payable	\$ 103,125	\$ -	\$ 37,500	\$ 65,625	\$ 37,500
Other post-employment benefits	233,632	17,438	-	251,070	-
Compensated absences	<u>353,617</u>	<u>2,633</u>	<u>-</u>	<u>356,250</u>	<u>356,250</u>
	<u>\$ 690,374</u>	<u>\$ 20,071</u>	<u>\$ 37,500</u>	<u>\$ 672,945</u>	<u>\$ 393,750</u>

(Continued)

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 6. Long-Term Liabilities (Continued)

Annual debt service requirements are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 37,500	\$ 3,039
2017	28,125	735
	<u>\$ 65,625</u>	<u>\$ 3,774</u>

Details of notes payable are as follows:

	<u>Interest Rate</u>	<u>Date Issued</u>	<u>Final Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Balance Due</u>
SunTrust Note Payable	6.17%	March 2007	March 2017	\$ 375,000	<u>\$ 65,625</u>

Note 7. Line of Credit

The Board maintains a \$300,000 unsecured guidance line of credit with SunTrust Bank. Borrowings under the line of credit will accrue interest at a variable rate (30 day LIBOR plus 1.50%; reset monthly). The line of credit may be renewed annually. At June 30, 2015, there were no amounts outstanding.

Note 8. Unearned Revenues

Unearned revenues consist of the following:

Unspent grant proceeds	\$ 22,685
Unearned service fees	13,177
	<u>\$ 35,862</u>

Note 9. Lease Commitments

The Board leases several facilities from Rockingham-Harrisonburg Halfway House, Inc. All lease agreements expire annually on June 30th. Rental expense for 2015 totaled \$91,680, all of which are intercompany amounts and eliminated in the accompanying financial statements.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

**NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

Note 9. Lease Commitments (Continued)

Other leases:

At year end, the Board had contracts for twelve operating leases with noncancelable lease terms. These equipment leases were for copiers and a postage meter with asset lives of four years or less. The future minimum rental payments are shown below:

	<u>Fiscal Year</u>	
	2016	\$ 21,181
	2017	8,530
	2018	4,887
	2019	<u>2,779</u>
Total		<u>\$ 37,377</u>

Note 10. Defined Benefit Pension Plan

Plan Description

All full-time, salaried permanent employees of Harrisonburg-Rockingham Community Services Board (the "Political Subdivision") are automatically covered by VRS Retirement Plan upon employment. This plan is 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.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

**NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

Note 10. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

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

(Continued)

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

**NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

Note 10. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Eligible Members	Eligible Members	Eligible Members
<p>Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p>Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p>	<p>Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p>
Hybrid Opt-In Election	Hybrid Opt-In Election	<ul style="list-style-type: none"> • Political subdivision employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 through April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.
<p>VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p>	<p>Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p>	*Non-Eligible Members
<p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p>	<p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p>	<p>Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p>
<p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<ul style="list-style-type: none"> • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.
<p>Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p>Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

**NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

Note 10. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Retirement Contributions	Retirement Contributions	Retirement Contributions
<p>Employees contribute 5.00% 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 5.00% member contribution but all employees will be paying the full 5.00% 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.</p>	<p>Employees contribute 5.00% 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 5.00% member contribution but all employees will be paying the full 5.00% by July 1, 2016.</p>	<p>A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

**NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

Note 10. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

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

**NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

Note 10. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

<p>Vesting</p> <p>Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p>Vesting</p> <p>Same as Plan 1.</p>	<p>Vesting</p> <p><u>Defined Benefit Component:</u></p> <p>Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contributions Component:</u></p> <p>Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p>
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HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

**NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

Note 10. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

		<p>Vesting (Continued)</p> <p><u>Defined Contributions Component: (Continued)</u></p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p>
<p>Calculating the Benefit</p> <p>The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier, and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>	<p>Calculating the Benefit</p> <p>See definition under Plan 1.</p>	<p>Calculating the Benefit</p> <p><u>Defined Benefit Component:</u></p> <p>See definition under Plan 1.</p> <p><u>Defined Contribution Component:</u></p> <p>The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

**NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

Note 10. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Average Final Compensation	Average Final Compensation	Average Final Compensation
A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier	Service Retirement Multiplier	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%.	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.	<u>Defined Benefit Component:</u> VRS: The retirement multiplier for the defined benefit component is 1.00%.
Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.	Sheriffs and regional jail superintendents: Same as Plan 1.	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: 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.	Political subdivision hazardous duty employees: Same as Plan 1.	Political subdivision hazardous duty employees: Not applicable.
		<u>Defined Contribution Component:</u> Not applicable.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

**NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

Note 10. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

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

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

**NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

Note 10. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Earliest Reduced Retirement Eligibility	Earliest Reduced Retirement Eligibility	Earliest Unreduced Retirement Eligibility
<p>VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p>	<p>VRS: Age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p><u>Defined Benefit Component:</u></p> <p>VRS: Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u></p> <p>Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Cost-of-Living Adjustment (COLA) in Retirement</p> <p>The Cost-of-Living Adjustment (COLA) matches the first 3.00% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4.00%) up to a maximum COLA of 5.00%.</p> <p><u>Eligibility:</u></p> <p>For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement</p> <p>The Cost-of-Living Adjustment (COLA) matches the first 2.00% increase in the CPI-U and half of any additional increase (up to 2.00%), for a maximum COLA of 3.00%.</p> <p><u>Eligibility:</u></p> <p>Same as Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement</p> <p><u>Defined Benefit Component:</u></p> <p>Same as Plan 2.</p> <p><u>Defined Contribution Component:</u></p> <p>Not applicable.</p> <p><u>Eligibility:</u></p> <p>Same as Plan 1 and Plan 2.</p>

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

**NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

Note 10. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Cost-of-Living Adjustment (COLA) in Retirement (Continued)	Cost-of-Living Adjustment (COLA) in Retirement (Continued)	Cost-of-Living Adjustment (COLA) in Retirement (Continued)
<p><u>Eligibility:</u> (Continued)</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p>		
<p><u>Exceptions to COLA Effective Dates:</u></p> <p>The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. 	<p><u>Exceptions to COLA Effective Dates:</u></p> <p>Same as Plan 1.</p>	<p><u>Exceptions to COLA Effective Dates:</u></p> <p>Same as Plan 1 and Plan 2.</p>

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

**NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

Note 10. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

<p>Cost-of-Living Adjustment (COLA) in Retirement (Continued)</p> <p><u>Exceptions to COLA Effective Dates:</u> (Continued)</p> <ul style="list-style-type: none"> • The member dies in service and the member’s survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. 		
<p>Disability Coverage</p> <p>Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.70% on all service, regardless of when it was earned, purchased, or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p>Disability Coverage</p> <p>Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased, or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>Disability Coverage</p> <p>Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

**NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

Note 10. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Purchase of Prior Service	Purchase of Prior Service	Purchase of Prior Service
<p>Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p>	<p>Same as Plan 1.</p>	<p><u>Defined Benefit Component:</u></p> <p>Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4.00% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost. <p><u>Defined Contribution Component:</u></p> <p>Not applicable.</p>

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 10. Defined Benefit Pension Plan (Continued)

Employees Covered by Benefit Terms

As of the June 30, 2013 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	41
Inactive members:	
Vested inactive members	30
Non-vested inactive members	19
Inactive members active elsewhere in VRS	48
Total inactive members	97
Active members	115
Total covered employees	<u>253</u>

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5.00% 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 political subdivision's contractually required contribution rate for the year ended June 30, 2015 was 6.31% 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 employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were \$349,338 and \$392,818 for the years ended June 30, 2015 and June 30, 2014, respectively. An additional contribution of \$150,000 was also contributed in 2015.

Net Pension Liability

The political subdivision's net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2013, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

**NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

Note 10. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Political Subdivision's Retirement Plan was based on an actuarial valuation as of June 30, 2013, 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, 2014.

Inflation	2.50%
Salary increases, including inflation	3.50 – 5.35%
Investment rate of return	7.00%, 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 7.00%. However, since the difference was minimal, and a more conservative 7.00% 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 7.00% to simplify preparation of pension liabilities.

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

Largest 10 – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

**NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

Note 10. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions – General Employees (Continued)

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 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

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 10. Defined Benefit 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:

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
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 %		 <u>5.83 %</u>
	Inflation		<u>2.50 %</u>
	* Expected arithmetic nominal return		<u>8.33 %</u>

* 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%.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 10. Defined Benefit 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 Political Subdivision Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) – (b)
Balances at June 30, 2013	\$ 14,238,562	\$ 13,826,404	\$ 412,158
Changes for the year:			
Service cost	557,796	-	557,796
Interest	983,105	-	983,105
Differences between expected and actual experience	-	-	-
Contributions – employer	-	392,818	(392,818)
Contributions – employee	-	269,140	(269,140)
Net investment income	-	2,216,981	(2,216,981)
Benefit payments, including refunds of employee contributions	(388,420)	(388,420)	-
Administrative expenses	-	(11,592)	11,592
Other changes	-	117	(117)
Net changes	<u>1,152,481</u>	<u>2,479,044</u>	<u>(1,326,563)</u>
Balances at June 30, 2014	<u>\$ 15,391,043</u>	<u>\$ 16,305,448</u>	<u>\$ (914,405)</u>

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 10. Defined Benefit Pension Plan (Continued)

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

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

	<u>1.00% Decrease (6.00%)</u>	<u>Current Discount Rate (7.00%)</u>	<u>1.00% Increase (8.00%)</u>
Political subdivision's net pension liability (asset)	\$ 1,238,433	\$ (914,405)	\$ (2,693,979)

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

For the year ended June 30, 2015, the political subdivision recognized pension expense of \$58,224. At June 30, 2015, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ -
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	991,969
Employer contributions subsequent to the measurement date	<u>449,338</u>	<u>-</u>
Total	<u>\$ 449,338</u>	<u>\$ 991,969</u>

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

**NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

Note 10. Defined Benefit Pension Plan (Continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

The \$449,338 reported as deferred outflows of resources related to pensions resulting from the Political Subdivision’s contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Reduction to Pension Expense
2016	\$ (247,992)
2017	(247,992)
2018	(247,992)
2019	(247,993)

Payables to the Pension Plan

At June 30, 2015, approximately \$49,746 was payable to the Virginia Retirement System for the legally required contributions related to June 2015 payroll.

Note 11. Other Post-Employment Benefits Program

Plan Description:

The Board offers two other post-employment benefits (OPEB) programs:

Health Insurance for Retirees: Employees who retire from employment from the Board and are not yet eligible for Medicare may elect to continue participation in the Board’s group health insurance plan. Health benefits include medical and vision coverage. Coverage is for the retiree only. Dependents and spouses of retirees may continue medical coverage through COBRA only. Retirees contribute 100% of the premium cost for retiree coverage.

Participants must meet eligibility requirements based on service earned with the Board and prior service earned through other Virginia agencies to be eligible to receive benefits upon retirement. Participants who do not retire directly from active service are eligible for the health benefit through COBRA only. Participants must meet one of the following criteria to be eligible for benefits:

- Non-Medicare Eligible Retirees – Participants must retire from the Board with at least 5 years of continuous service with the Board and have participated in the group health insurance plan for the last 5 years of employment.
- Medicare Eligible Retirees – Participants must have attained age 65 with a minimum of 15 years of service with VRS. Of the required 15 years of service, the last 5 years must be with the Board and covered by the group health insurance plan.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 11. Other Post-Employment Benefits Program

Plan Description: (Continued)

VRS Health Insurance Credit Program: 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 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.

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 §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 10.

Funding Policy:

Health Insurance for Retirees: The annual contribution requirements of plan members and the Board are determined annually by the Board. The Board has chosen to fund healthcare benefits on a pay-as-you-go basis.

VRS Health Insurance Credit Program: The Board is required to contribute the amount necessary to fund its participation in the VRS health insurance credit program using the actuarial basis specified by the *Code of Virginia* and the VRS Board of Trustees. The Board's contribution rate for fiscal year ended June 30, 2015 was 0.20% of the annual covered payroll.

Annual OPEB Cost and Net OPEB Obligation:

The annual cost of other post-employment benefits (OPEB) is based the on annual required contribution (ARC), an actuarially determined amount. 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 over a period not to exceed thirty years. The difference between the OPEB annual expense and cash payments for OPEB benefits is treated as a liability in financial statements when the liability is not prefunded.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

**NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

Note 11. Other Post-Employment Benefits Program (Continued)

Annual OPEB Cost and Net OPEB Obligation: (Continued)

The following table shows the changes of the Board’s OPEB obligation:

	Health Insurance for Retirees
Annual required contribution	\$ 22,200
Interest on OPEB obligation	8,177
Actuarial loss	<u>(8,639)</u>
Annual OPEB cost	21,738
Contributions made	<u>(4,300)</u>
Change in net OPEB obligation	17,438
Net OPEB obligation – beginning of year	<u>233,632</u>
Net OPEB obligation – end of year	<u><u>\$ 251,070</u></u>

Health Insurance for Retirees: The annual pay-as-you-go cost for healthcare benefits was \$22,200 for fiscal year 2015, as determined in the most recent actuarial valuation dated January 1, 2015. The Board has elected not to prefund healthcare benefits at this time. The Board has chosen to recognize the entire \$251,070 unfunded actuarial accrued liability in fiscal year 2015.

VRS Health Insurance Credit Program: The Board’s annual health insurance credit contribution of \$10,647 was equal to the Board’s required and actual contributions.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

**NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

Note 11. Other Post-Employment Benefits Program (Continued)

Annual OPEB Cost and Net OPEB Obligation: (Continued)

The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2015 and the two preceding years are as follows:

	<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
Health Insurance for Retirees:				
	June 30, 2013	\$ 22,445	40.10%	\$ 218,933
	June 30, 2014	\$ 23,599	37.71%	\$ 233,632
	June 30, 2015	\$ 21,738	19.78%	\$ 251,070
VRS Health Insurance Credit:				
	June 30, 2013	\$ 12,396	100%	\$ -
	June 30, 2014	\$ 13,405	100%	\$ -
	June 30, 2015	\$ 10,647	100%	\$ -

Funded Status and Funding Progress:

The funded status of the Health Insurance for Retirees Plan as of January 1, 2015, the most recent actuarial valuation date is as follows:

Actuarial accrued liability (AAL)	\$ 177,000
Actuarial value of plan assets	\$ -
Unfunded actuarial accrued liability	\$ 177,000
Funded ratio (actuarial value of plan assets/AAL)	- %
Covered payroll (active plan members)	\$ 5,217,000
UAAL as a percentage of covered payroll	3.39%

The funded status of the VRS Health Insurance Credit Program as of June 30, 2014, the most recent actuarial valuation date is as follows:

Actuarial accrued liability (AAL)	\$ 212,287
Actuarial value of plan assets	\$ 144,829
Unfunded actuarial accrued liability	\$ 67,458
Funded ratio (actuarial value of plan assets/AAL)	68.22%
Covered payroll (active plan members)	\$ 5,372,694
UAAL as a percentage of covered payroll	1.26%

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

**NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

Note 11. Other Post-Employment Benefits Program (Continued)

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 revisions as actual results are compared with past expectations and the new estimates are made about the future. The schedules of funding progress, presented as Required Supplementary Information following the notes to the financial statements, present trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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 the 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.

Health Insurance for Retirees: In the January 1, 2015, the most recent actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 3.50% rate of return, payroll growth at 3.00%, and an annual healthcare cost trend rate of 6.50%, graded to 4.50% over 70 years. The unfunded actuarial accrued liability is being amortized using the level percent of payroll over a period of 30 years.

VRS Health Insurance Credit Program: In the June 30, 2014, the most recent actuarial valuation date, the entry age normal actuarial cost method was used. The actuarial assumptions include a 7.00% rate of return, with 2.50% inflation, and payroll growth at 3.00%. Market value of assets was used for the asset valuation method. The unfunded actuarial accrued liability is being amortized using the level percentage of pay, closed, over 29 years.

Note 12. Net Position

The following unrestricted net position has been designated by the Board at June 30, 2015. The Board can change these designations.

Technology Investment	\$ 206,314
Reimbursement Reserve	<u>100,000</u>
Total designated net position	<u>\$ 306,314</u>

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

**NOTES TO FINANCIAL STATEMENTS
June 30, 2015**

Note 12. Net Position (Continued)

Restricted net position consisted of the following at June 30, 2015:

Substance Abuse – Federal	\$	16,389
State Funding		<u>4,610</u>
Total restricted net position	\$	<u><u>20,999</u></u>

Note 13. Net Client Service Revenue

Net client revenue arose from the following sources:

Medicaid	\$	3,873,626
Direct client fees		213,934
Third-party		263,121
Other		<u>178,930</u>
	\$	<u><u>4,529,611</u></u>

Note 14. Contributions from Participating Local Governments

Contributions from participating local governments were as follows:

County of Rockingham	\$	539,653
City of Harrisonburg		<u>463,682</u>
	\$	<u><u>1,003,335</u></u>

Note 15. Commitments and Contingencies

Certain state and federal grants and programs are subject to audit to determine compliance with their requirements. In the opinion of management, any future disallowances of current grant program expenditures, if any, would be immaterial.

Note 16. Risk Management

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; the health of and injuries to employees, and natural disasters. The Board participates in the Virginia Association of Counties Group Self-Insurance Risk Pool for various liability coverages which have up to \$4,000,000 in coverage limits. The Board participates in the Virginia Municipal League Risk Pool for workers compensation coverage.

The Board may be involved in potential lawsuits arising in the ordinary course of business. It is management's belief that any liability resulting from such lawsuits would not be material to the Board's financial position.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 16. Risk Management (Continued)

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.

Note 17. Donated Inventory

The pharmaceutical suppliers for the Board donated pharmaceutical supplies to be used in the Mental Health Program. At year end, the Board held approximately \$141,406 in prescription medication inventory. This value was determined using the average retail cost method. Since the Board merely acts as agent for the pharmaceutical companies by passing the medication through to its intended beneficiaries, the donation, distribution, and resulting inventories of the pharmaceutical supplies are not reflected in these financial statements.

Note 18. Deferred Compensation Plan

The Board maintains for its employees two deferred compensation plans, each created in accordance with *Internal Revenue Code* Section 457. The plans permit employees to defer a portion of their salary until future years. The deferred compensation plan benefits are not available to employees until termination, retirement, death, or unforeseeable emergency. The respective plans are with the International City Managers Association (ICMA) Retirement Corporation and the Commonwealth of Virginia Deferred Compensation Plan.

Note 19. Adoption of New Standard and Prior Period Restatement

In the current year the Board adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27, as amended by GASB Statement No. 71*. This standard replaces the requirements of GASB Statements No. 27 and No. 50 as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. The new Statement requires governments providing defined benefit pensions to recognize the long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the pension plan are determined, and assumptions and methods used to calculate the pension liability. Comparative prior year information, to the extent presented, has not been restated because the necessary information is not available.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS
June 30, 2015

Note 19. Adoption of New Standard and Prior Period Restatement (Continued)

The following is a summary of the restatements to net position resulting from the adoption of GASB Statement No. 68:

Net position, July 1, 2014, as previously reported	\$ 9,191,387
Recognition of pension related liabilities and deferred outflows in accordance with GASB No. 68	<u>(869,340)</u>
Net position, July 1, as restated	<u>\$ 8,322,047</u>

Note 20. New Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following statements which are not yet effective.

GASB Statement No. 72, *Fair Value Measurement and Application* addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. This Statement will be effective for the year ending June 30, 2016.

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pensions* 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 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement will be effective for the year ending June 30, 2017.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement will be effective for the year ending June 30, 2018.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

Note 20. New Accounting Standards (Continued)

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* identifies – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. This Statement will be effective for the year ending June 30, 2016 and should be applied retroactively. Earlier application is permitted.

Management has not yet evaluated the effects, if any, of adopting these standards.

**REQUIRED
SUPPLEMENTARY INFORMATION**

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

**SCHEDULE OF OPEB FUNDING PROGRESS
June 30, 2015**

Actuarial Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (e)	UAAL as % of Covered Payroll (c/e)
	(a)	(b)	(c)	(d)	(e)	(f)
** Health Insurance for Retirees:						
January 1, 2009	\$ -	\$ 191,500	\$ 191,500	- %	\$ 4,463,100	4.29%
January 1, 2012	-	164,100	164,100	-	4,973,500	3.30
January 1, 2015	-	177,000	177,000	-	5,217,000	3.39
VRS Health Insurance Credit Program:						
June 30, 2012	\$ 98,348	\$ 193,216	\$ 94,868	50.90%	\$ 4,786,261	1.98%
June 30, 2013	118,780	202,865	84,085	58.55	5,139,416	1.64
June 30, 2014	144,829	212,287	67,458	68.22	5,372,694	1.26

** OPEB actuarial valuations are performed every 3 years and the valuation at January 1, 2009 was the initial valuation.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
June 30, 2015**

Total Pension Liability	
Service cost	\$ 557,796
Interest on total pension liability	983,105
Benefit payments, including refunds of employee contributions	<u>(388,420)</u>
Net change in total pension liability	1,152,481
Total pension liability – beginning	<u>14,238,562</u>
Total pension liability – ending	<u>15,391,043</u>
Plan Fiduciary Net Position	
Contributions – employer	392,818
Contributions – employee	269,140
Net investment income	2,216,981
Benefit payments, including refunds of employee contributions	(388,420)
Administrative expenses	(11,592)
Other	<u>117</u>
Net change in plan fiduciary net position	2,479,044
Plan fiduciary net position – beginning	<u>13,826,404</u>
Plan fiduciary net position – ending	<u>16,305,448</u>
Net pension liability (asset) – ending	<u>\$ (914,405)</u>
Plan fiduciary net position as a percentage of total pension liability	<u>106%</u>
Covered employee payroll	<u>\$ 5,602,002</u>
Net pension asset as a percentage of covered employee payroll	<u>-16%</u>

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
June 30, 2015**

Year Ended June 30	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Payroll
2015	\$ 349,338	\$ 499,338	\$ (150,000)	\$ 5,677,634	9%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

Timing: Actuarially determined contribution rates are calculated based on the actuarial valuation two years prior.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION June 30, 2015

Note 1. Changes of Benefit Terms

There have been no significant changes to the Virginia Retirement System (System) benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012 (fiscal year 2014 for the teacher cost sharing pool). The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining the System after the valuation date of June 30, 2013, and the impact on the liabilities as of the measurement date of June 30, 2014 are minimal.

Note 2. 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

Teacher cost-sharing pool

- Update mortality table
- Adjustments to the rates of service retirement
- Decrease in rates of withdrawals for 3 through 9 years of service
- Decrease in rates of disability
- Reduce rates of salary increase by 0.25% per year

**OTHER
SUPPLEMENTARY INFORMATION**

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

COMBINING STATEMENT OF NET POSITION

June 30, 2015

	Harrisonburg- Rockingham Community Services Board	Rockingham- Harrisonburg Halfway House, Inc.	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 4,130,586	\$ 998,969	\$ 5,129,555
Accounts receivable, net	895,177	-	895,177
Miscellaneous accounts receivable	15,723	-	15,723
Due from other governments	25,113	-	25,113
Prepaid expenses	21,707	-	21,707
Cash and cash equivalents, restricted for representative payee beneficiaries	97,713	-	97,713
Total current assets	<u>5,186,019</u>	<u>998,969</u>	<u>6,184,988</u>
Noncurrent assets			
Net pension asset	914,405	-	914,405
Capital assets, net	2,870,754	715,207	3,585,961
Total noncurrent assets	<u>3,785,159</u>	<u>715,207</u>	<u>4,500,366</u>
Total assets	<u>8,971,178</u>	<u>1,714,176</u>	<u>10,685,354</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension contributions made subsequent to the measurement date	499,338	-	499,338
LIABILITIES			
Current liabilities			
Accounts payable and other current liabilities	99,655	-	99,655
Accrued payroll and related liabilities	512,611	-	512,611
Accrued interest	281	-	281
Amounts held for representative payee beneficiaries, payable from restricted assets	97,713	-	97,713
Current portion of long-term liabilities	393,750	-	393,750
Total current liabilities	<u>1,104,010</u>	<u>-</u>	<u>1,104,010</u>
Long-term liabilities	279,195	-	279,195
Total liabilities	<u>1,383,205</u>	<u>-</u>	<u>1,383,205</u>
DEFERRED INFLOWS OF RESOURCES			
Net difference between projected and actual investment earnings on pension plan investments	991,969	-	991,969
Unearned revenues	35,862	-	35,862
Total deferred inflows of resources	<u>1,027,831</u>	<u>-</u>	<u>1,027,831</u>
NET POSITION			
Net investment in capital assets	2,805,129	715,207	3,520,336
Restricted	20,999	-	20,999
Unrestricted	4,233,352	998,969	5,232,321
Total net position	<u>\$ 7,059,480</u>	<u>\$ 1,714,176</u>	<u>\$ 8,773,656</u>

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

**COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
Year Ended June 30, 2015**

	Harrisonburg- Rockingham Community Services Board	Rockingham- Harrisonburg Halfway House, Inc.	Inter- Company Eliminations	Total
OPERATING REVENUES				
Net client service revenue	\$ 4,529,611	\$ -	\$ -	\$ 4,529,611
OPERATING EXPENSES				
Salaries	6,983,270	-	-	6,983,270
Benefits	1,503,694	-	-	1,503,694
Facility, equipment, and vehicle	664,820	-	(91,680)	573,140
Contractual and professional services	808,847	50	-	808,897
Depreciation and amortization	226,081	51,576	-	277,657
Other	682,009	25	-	682,034
Total operating expenses	10,868,721	51,651	(91,680)	10,828,692
Operating loss	(6,339,110)	(51,651)	91,680	(6,299,081)
NONOPERATING REVENUES (EXPENSES)				
Commonwealth of Virginia grants	5,004,866	-	-	5,004,866
Federal grants	567,326	-	-	567,326
Contributions from participating local governments	1,003,335	-	-	1,003,335
Interest income	3,220	537	-	3,757
Interest expense	(5,217)	-	-	(5,217)
Other income	176,623	91,680	(91,680)	176,623
Net nonoperating revenues	6,750,153	92,217	(91,680)	6,750,690
Change in net position	411,043	40,566	-	451,609
NET POSITION, at July 1, as restated	6,648,437	1,673,610	-	8,322,047
NET POSITION, at June 30	\$ 7,059,480	\$ 1,714,176	\$ -	\$ 8,773,656

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

**COMBINING STATEMENT OF CASH FLOWS
Year Ended June 30, 2015**

	Harrisonburg- Rockingham Community Services Board	Rockingham- Harrisonburg Halfway House, Inc.	Inter- Company Eliminations	Total
OPERATING ACTIVITIES				
Receipts from clients, private insurers, Medicaid, and others	\$ 4,362,716	\$ -	\$ -	\$ 4,362,716
Payments to suppliers	(2,240,930)	(75)	91,680	(2,149,325)
Payments to and for employees	(8,770,032)	-	-	(8,770,032)
Other receipts	8,414	-	-	8,414
Net cash used in operating activities	<u>(6,639,832)</u>	<u>(75)</u>	<u>91,680</u>	<u>(6,548,227)</u>
NON-CAPITAL FINANCING ACTIVITIES				
Contributions from local, state, and federal governments	6,574,492	-	-	6,574,492
Other receipts	178,912	91,680	(91,680)	178,912
Net cash provided by non-capital financing activities	<u>6,753,404</u>	<u>91,680</u>	<u>(91,680)</u>	<u>6,753,404</u>
CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	(273,214)	-	-	(273,214)
Principal paid on debt	(37,500)	-	-	(37,500)
Interest paid on debt	(5,378)	-	-	(5,378)
Net cash used in capital and related financing activities	<u>(316,092)</u>	<u>-</u>	<u>-</u>	<u>(316,092)</u>
INVESTING ACTIVITIES				
Interest received	3,220	558	-	3,778
Net increase (decrease) in cash and cash equivalents	<u>(199,300)</u>	<u>92,163</u>	<u>-</u>	<u>(107,137)</u>
CASH AND CASH EQUIVALENTS				
Beginning at July 1	4,427,599	906,806	-	5,334,405
Ending at June 30	<u>\$ 4,228,299</u>	<u>\$ 998,969</u>	<u>\$ -</u>	<u>\$ 5,227,268</u>
RECONCILIATION TO STATEMENT OF NET POSITION				
Cash and cash equivalents	\$ 4,130,586	\$ 998,969	\$ -	\$ 5,129,555
Cash and cash equivalents, restricted for payee program	97,713	-	-	97,713
	<u>\$ 4,228,299</u>	<u>\$ 998,969</u>	<u>\$ -</u>	<u>\$ 5,227,268</u>

(Continued)

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

**COMBINING STATEMENT OF CASH FLOWS
Year Ended June 30, 2015**

	Harrisonburg- Rockingham Community Services Board	Rockingham- Harrisonburg Halfway House, Inc.	Inter- Company Eliminations	Total
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES				
Operating loss	\$ (6,339,110)	\$ (51,651)	\$ 91,680	\$ (6,299,081)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Depreciation and amortization	226,081	51,576	-	277,657
Pension expense net of employer contributions	(441,114)	-	-	(441,114)
Decrease (increase) in:				
Accounts receivable, net	(165,013)	-	-	(165,013)
Prepaid expenses	(1,272)	-	-	(1,272)
Increase (decrease) in:				
Accounts payable and other current liabilities	(83,982)	-	-	(83,982)
Accrued payroll and related liabilities	137,975	-	-	137,975
Compensated absences	2,633	-	-	2,633
Other post-employment benefits	17,438	-	-	17,438
Unearned revenues	(1,882)	-	-	(1,882)
Amounts held for representative payee beneficiaries, payable from restricted assets	8,414	-	-	8,414
Net cash used in operating activities	<u>\$ (6,639,832)</u>	<u>\$ (75)</u>	<u>\$ 91,680</u>	<u>\$ (6,548,227)</u>

COMPLIANCE SECTION

INDEPENDENT AUDITOR’S 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
Harrisonburg-Rockingham Community Services Board
Harrisonburg, Virginia

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of Harrisonburg-Rockingham Community Services Board (the “Board”), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which comprise the Board’s basic financial statements, and have issued our report thereon dated November 24, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 the Board’s internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 and therefore, material weaknesses may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. **We did identify a certain deficiency in internal control as described in the accompanying schedule of findings and questioned costs as Item 14-01 that we consider to be a significant deficiency.**

Compliance and Other Matters

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

Harrisonburg-Rockingham Community Services Board's Response to Finding

The Board's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Board's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 entity'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 Board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 24, 2015

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY
OMB CIRCULAR A-133**

To the Board of Directors
Harrisonburg-Rockingham Community Services Board
Harrisonburg, Virginia

Report on Compliance for the Major Federal Program

We have audited Harrisonburg-Rockingham Community Services Board's (the "Board") compliance with the types of compliance requirements described in the OMB Circular A-133, *Compliance Supplement* that could have a direct and material effect on the Board's major federal program for the year ended June 30, 2015. The Board's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Board's major federal program 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 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 the major federal program. However, our audit does not provide a legal determination of the Board's compliance.

Opinion on Each Major Federal Program

In our opinion, Harrisonburg-Rockingham 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 its major federal program for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the 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 Board's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Brown, Edwards & Company, S. L. P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 24, 2015

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2015**

<u>Federal Granting Agency/Recipient State Agency/ Grant Program/Grant Number</u>	<u>Federal Catalog Number</u>	<u>Expenditures</u>
<u>United States Department of Agriculture</u>		
Pass-Through Payments:		
Virginia Department of Agriculture and Consumer Services:		
Child and Adult Care Food Program	10.558	\$ <u>28,559</u>
 <u>Department of Education</u>		
Pass-Through Payments:		
Virginia Department of Behavioral Health and Developmental Services:		
Early Intervention Services Cluster:		
Special Education Grants for Infants and Families	84.181	<u>95,004</u>
 <u>Department of Health and Human Services</u>		
Pass-Through Payments:		
Virginia Department of Behavioral Health and Developmental Services		
Block Grants for Community Mental Health Services	93.958	40,156
Block Grants for the Prevention and Treatment of Substance Abuse	93.959	<u>395,309</u>
Total Department of Health and Human Services		<u>435,465</u>
Total expenditures of federal awards		<u>\$ 559,028</u>

Note: The schedule of expenditures of federal awards presents the activity of all federal award programs of the Board and is presented on the accrual basis of accounting.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

SUMMARY OF COMPLIANCE MATTERS

June 30, 2015

As more fully described in the Independent Auditor's 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*, we performed tests of the Board's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia

Cash and Investment Laws

Local Retirement Systems

Debt Provisions

Procurement Laws

Uniform Disposition of Unclaimed Property Act

FEDERAL COMPLIANCE MATTERS

Compliance Supplement for Single Audits of State and Local Governments

Provisions and conditions of agreements related to federal programs selected for testing.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

June 30, 2015

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an **unmodified opinion** on the financial statements.
2. **One significant deficiency** relating to the audit of the financial statements is reported in the Independent Auditor's 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*.
3. **No instances of noncompliance** material to the financial statements were disclosed.
4. **No significant deficiencies** relating to the audit of the major federal award program were reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133.
5. The auditor's report on compliance for the major federal award program expresses an **unmodified opinion**.
6. The audit disclosed **no audit findings relating to the major program**.
7. The program tested as major was:
Block Grants for the Prevention and Treatment of Substance Abuse CFDA # 93.959
8. The threshold for distinguishing Type A and B programs was **\$300,000**.
9. The Board was determined to be a low-risk auditee.

B. FINDINGS – FINANCIAL STATEMENT AUDIT

14-1: Segregation of Duties (Significant Deficiency)

Condition:

A fundamental concept of internal controls is the separation of duties. No one employee should have access to both physical assets and the related accounting records, or to all phases of a transaction. System access rights of personnel should be evaluated to determine only necessary access is granted.

Recommendation:

Steps should be taken to eliminate performance of conflicting duties where possible or to implement effective compensating controls.

Management's Response:

Management understands the concern expressed with this finding and has corrected issues where practical. Some changes have been made and additional compensating controls have been put in place where feasible. We will continue to evaluate other possibilities and implement additional changes if warranted. However, current staffing levels may limit the separation of duties in regards to some of these functions.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
June 30, 2015**

C. FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAM AUDIT

None.

D. FINDINGS AND QUESTIONED COSTS – COMMONWEALTH OF VIRGINIA

None.