
COLONIAL BEHAVIORAL HEALTH

Williamsburg, Virginia

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2018

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY CERTIFIED PUBLIC ACCOUNTANTS

CHARLOTTESVILLE □ RICHMOND □ FREDERICKSBURG □ STAUNTON □ BLACKSBURG □ LOUISA



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COLONIAL BEHAVIORAL HEALTH

BOARD OF DIRECTORS

At June 30, 2018

John Kuplinski, Chairperson

Bill Karaktin, Vice-Chairperson

Hazel Braxton

June Hagee

Cindy Spitzer

Lynda Dunnigan

Sheri Newcomb

Rebecca Vinroot

Mary Diggs

Dr. Baljit Gill

Peter Walentisch

Charles McAdams

Dr. Alfred Brassel, Jr.

Talbot Vivian

Sue Mellen

PRINCIPAL MANAGEMENT TEAM

David Coe

Executive Director

Keith German

Director of Administrative Services

Dan Longo

Director of Behavioral Services

Marsha Obremski

Director of Child & Adolescent Services

Debbie Townsend

Director of Rehabilitative Services

Nancy Shackleford

Director of Human Resources

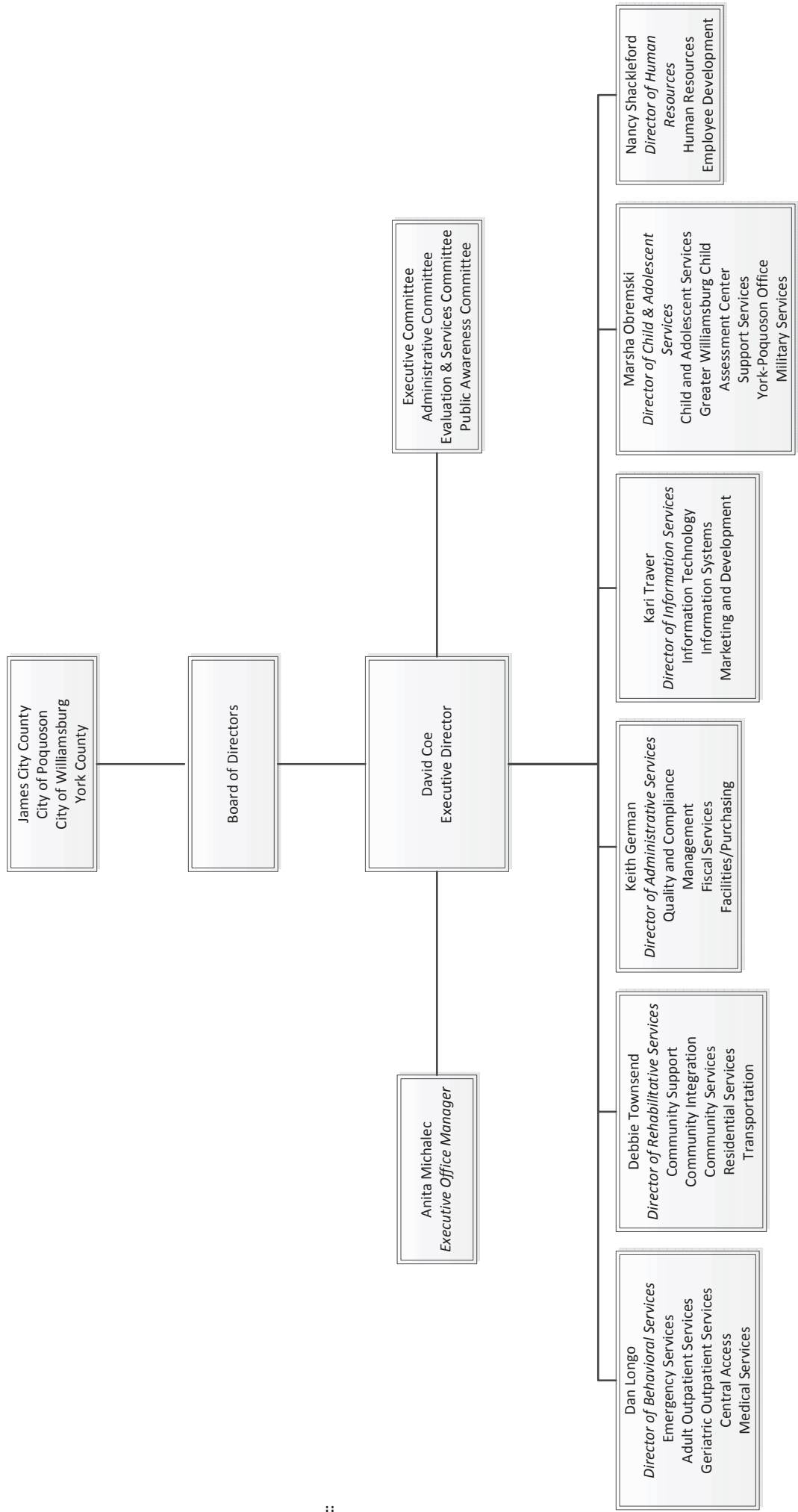
Kari Traver

Director of Information Systems



Colonial Behavioral Health

Executive Administration Organization Chart



ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

To the Board of Directors
Colonial Behavioral Health
Williamsburg, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Colonial Behavioral Health, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Colonial Behavioral Health's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Colonial Behavioral Health, as of June 30, 2018, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 19 to the financial statements, in 2018, the Authority adopted new accounting guidance, GASB Statement Nos. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, and 85 *Omnibus 2017*. Our opinion is not modified with respect to this matter.

Restatement of Beginning Balances

As described in Note 19 to the financial statements, in 2018, the Authority restated beginning balances to reflect the requirement of GASB Statement No. 75. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and schedules related to pension and OPEB funding on pages 4-6, and 65-76 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Report on Summarized Comparative Information

We have previously audited Colonial Behavioral Health's 2017 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated November 13, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2018 on our consideration of Colonial Behavioral Health'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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Colonial Behavioral Health's 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 Colonial Behavioral Health's internal control over financial reporting and compliance.

Robinson, Fawcett, Cox Associates

Charlottesville, Virginia
November 16, 2018

COLONIAL BEHAVIORAL HEALTH

Management's Discussion and Analysis Year Ended June 30, 2018

This Management's Discussion and Analysis is intended to be objective and easily readable information that will supplement the basic financial statements. It represents an opportunity for Colonial Behavioral Health (CBH) management to present an examination of the entity's short- and long-term financial condition. This analysis will emphasize current year transactions and results, in comparison with the prior year, and is based on facts, decisions, and conditions that were known as of the date of the auditors' report.

Fiscal Year 2018 HIGHLIGHTS

- Working in consultation with a third-party expert, MTM Services, CBH analyzed current processes and changes needed to be able to provide Same Day Access (SDA). The purpose of SDA is to provide a clinical assessment to any individual on the day they come to the CSB.
- CBH received funding to begin offering medication-assisted treatment to opioid-dependent adults. This service includes outpatient office-based withdrawal management, ongoing medication management, and counseling services.
- In conjunction with our fiscal agent, York County, CBH began the process of implementing a new integrated ERP system. This multi-year project began with the financial functions in phase one with a go live date of July 2018.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

CBH's annual financial report consists of three basic financial statements: a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows. For ease of presentation, all statements are in a condensed format.

CBH maintains a non-profit corporation, Colonial Community Services, Inc. (CCSI), as a component unit for the purpose of acquiring and holding real property for use by the CBH. All condensed statements are combined, including the values and amounts for CBH and CCSI.

Financial Position. The Statement of Net Position represents, as of the last day of the fiscal year, the assets (cash and other property) owned and deferred outflows of resources and liabilities (debt and other obligations) owed and deferred inflows of resources by CBH. The difference between total assets and deferred outflows of resources and total liabilities and deferred inflows of resources defines the net position (equity), which is generally perceived as a measure of financial solvency.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (CONTINUED)

A summary of CBH's Combined Statement of Net Position for 2018 and 2017 is presented below:

Condensed Combined Statement of Net Position		
	2018	2017
Assets		
Current assets	\$ 4,281,498	\$ 4,239,475
Other assets	1,428,487	-
Capital assets (net of accumulated depreciation)	5,970,191	5,813,474
Total assets	\$ 11,680,176	\$ 10,052,949
Deferred Outflows of Resources	\$ 607,668	\$ 1,094,387
Liabilities		
Current liabilities	\$ 2,015,998	\$ 1,846,841
Long-term liabilities	8,584,951	5,379,943
Total liabilities	\$ 10,600,949	\$ 7,226,784
Deferred Inflows of Resources	\$ 1,352,993	\$ 342,749
Net Position	\$ 333,902	\$ 3,577,803

CBH continues to present a strong balance sheet, with a Current Ratio of 2.12:1. The increase in other current liabilities of \$169,157 led to the current ratio decrease from the FY 2017 Current Ratio of 2.30:1.

Changes in net position. The Statement of Revenues, Expenses and Changes in Net Position is a presentation of the amount of income generated (revenues) and resources consumed (expenses) during the fiscal year. The net difference between revenues and expenses represents the amount Net Position increased or decreased for the year.

A summary of CBH's Statement of Revenues, Expenses and Changes in Net Position for 2018 and 2017 is presented below:

Condensed Combined Statement of Revenues, Expenses and Changes in Net Position		
	2018	2017
Operating revenues	\$ 5,044,787	\$ 5,312,977
Operating expenses	16,423,028	15,890,593
Operating income (loss)	\$ (11,378,241)	\$ (10,577,616)
Net nonoperating income	11,707,357	10,809,815
Change in net position	\$ 329,116	\$ 232,199

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS (CONTINUED)

CBH's Statement of Net Position reflects a challenging financial environment. Operating revenues decreased by \$268,190 or 5.05% from 2017 to 2018 while operating expenses increased by \$532,435 or 3.35%. Nonoperating income increased by 8.30% helping to offset the increase in operating expenses. The resulting Change in Net Position was \$329,116.

Cash Flows. The statement of Cash Flows indicates the net increase or decrease of cash resources for CBH during the year and the activities that produced the increase or decrease. The statement concludes with a reconciliation tying the beginning cash balance and results for the year to the ending balance.

A summary of CBH's Statement of Cash Flows for 2018 and 2017 is presented below:

Condensed Combined Statement of Cash Flows		
	2018	2017
Cash flows from operating activities	\$ (10,985,143)	\$ (10,938,420)
Cash flows from non-capital financing activities	11,737,642	10,858,486
Cash flows from capital and related financing activities	(711,248)	(711,023)
Cash flows from investing activities	33,501	20,165
Net cash increase (decrease)	<u>\$ 74,752</u>	<u>\$ (770,792)</u>

CBH's Combined Statement of Cash Flows increased by \$74,752 in 2018. The primary factor for the increased cash position is attributable to the increase in governmental grants and contributions.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets as shown on the Condensed Combined Statement of Net Position total \$5,970,191. Over 84% of this value (\$5,001,057) consists of the value of building and property held by CCSI for use by CBH. The remainder consists of vehicles and office equipment used by CBH. Increases from FY 2017 amounts represent additions of \$481,462 and depreciation expense of \$324,746.

There was no new long-term debt issued during FY2018.

For more information on capital assets and debt administration, see Notes to Financial Statements numbers 4 and 10.

- Basic Financial Statements -

COLONIAL BEHAVIORAL HEALTH

Statement of Net Position
At June 30, 2018
(With Comparative Totals for 2017)

	2018	2017
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 3,543,298	\$ 3,468,546
Accounts receivable, less allowance for uncollectibles	573,225	618,329
Accrued revenue	25,888	53,610
Prepaid items	139,087	98,990
Total current assets	\$ 4,281,498	\$ 4,239,475
Capital Assets:		
Property and equipment, less accumulated depreciation	\$ 5,970,191	\$ 5,813,474
Other Assets:		
Net pension asset	\$ 1,428,487	\$ -
Total assets	\$ 11,680,176	\$ 10,052,949
DEFERRED OUTFLOWS OF RESOURCES		
Pension related items	\$ 444,990	\$ 1,094,387
OPEB related items	162,678	-
Total deferred outflows of resources	\$ 607,668	\$ 1,094,387
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 756,824	\$ 624,670
Compensated absences, current portion	513,793	485,982
Revenue bond, current portion	171,000	166,000
Unearned revenue	574,381	570,189
Total current liabilities	\$ 2,015,998	\$ 1,846,841
Long-Term Liabilities:		
Compensated absences, less current portion	\$ 668,774	\$ 575,606
Net OPEB liabilities	6,117,177	2,452,656
Net pension liability	-	381,681
Revenue bond, less current portion	1,799,000	1,970,000
Total long-term liabilities	\$ 8,584,951	\$ 5,379,943
Total liabilities	\$ 10,600,949	\$ 7,226,784
DEFERRED INFLOWS OF RESOURCES		
Pension related items	\$ 959,245	\$ 342,749
OPEB related items	393,748	-
Total deferred inflows of resources	\$ 1,352,993	\$ 342,749
NET POSITION		
Net investment in capital assets	\$ 4,000,191	\$ 3,677,474
Unrestricted	(3,666,289)	(99,671)
Total net position	\$ 333,902	\$ 3,577,803

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

COLONIAL BEHAVIORAL HEALTH

Statement of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2018

(With Comparative Totals for 2017)

	2018	2017
Operating revenues:		
Net patient service revenue	\$ 5,044,787	\$ 5,312,977
Operating expenses:		
Salaries and benefits	\$ 12,920,173	\$ 12,744,586
Staff development	51,313	61,234
Facility	782,196	477,617
Supplies	427,189	498,869
Travel	165,339	166,903
Contractual and consulting	1,603,044	1,637,871
Depreciation	324,746	275,755
Other	149,028	27,758
Total operating expenses	\$ 16,423,028	\$ 15,890,593
Operating income (loss)	\$ (11,378,241)	\$ (10,577,616)
Nonoperating income (expenses):		
Appropriations:		
Commonwealth of Virginia	\$ 6,239,982	\$ 6,114,475
Federal government	766,572	740,989
Local governments	2,662,400	2,510,000
Other	2,068,688	1,493,022
Interest income	33,501	20,165
Interest expense	(63,786)	(68,836)
Net nonoperating income (expenses)	\$ 11,707,357	\$ 10,809,815
Change in net position	\$ 329,116	\$ 232,199
Net position, beginning of year, as restated	4,786	3,345,604
Net position, end of year	\$ 333,902	\$ 3,577,803

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

COLONIAL BEHAVIORAL HEALTH

Statement of Cash Flows
Year Ended June 30, 2018
(With Comparative Totals for 2017)

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Receipts from customers	\$ 5,121,805	\$ 4,764,348
Payments to suppliers	(3,086,053)	(3,150,752)
Payments to and for employees	(13,020,895)	(12,552,016)
Net cash flows provided by (used for) operating activities	\$ (10,985,143)	\$ (10,938,420)
Cash flows from noncapital financing activities:		
Government grants	\$ 9,668,954	\$ 9,365,464
Other	2,068,688	1,493,022
Net cash flows provided by (used for) noncapital and related financing activities	\$ 11,737,642	\$ 10,858,486
Cash flows from capital and related financing activities:		
Acquisition of capital assets	\$ (481,462)	\$ (481,187)
Interest payments on loans	(63,786)	(68,836)
Principal payments on loans	(166,000)	(161,000)
Net cash flows provided by (used for) capital and related financing activities	\$ (711,248)	\$ (711,023)
Cash flows from investing activities:		
Interest income	\$ 33,501	\$ 20,165
Net increase (decrease) in cash and cash equivalents	\$ 74,752	\$ (770,792)
Cash and cash equivalents, beginning of year	3,468,546	4,239,338
Cash and cash equivalents, end of year	\$ 3,543,298	\$ 3,468,546
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ (11,378,241)	\$ (10,577,616)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	324,746	275,755
Changes in assets and deferred outflows of resources and liabilities and deferred inflows of resources:		
Accounts receivable and accrued revenue	72,826	(177,032)
Prepaid items	(40,098)	(59,002)
Net pension asset	(1,810,168)	124,357
Deferred outflows of resources	486,719	(471,816)
Accounts payable and accrued expenses	132,154	(218,671)
Compensated absences	120,979	(978)
Net OPEB liabilities	91,504	415,685
Unearned revenue	4,192	(374,424)
Net pension liability	-	381,681
Deferred inflows of resources	1,010,244	(256,359)
Cash flows provided by (used for) operating activities	\$ (10,985,143)	\$ (10,938,420)

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

COLONIAL BEHAVIORAL HEALTH

Notes to Financial Statements At June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Description and Purpose of Organization:

Colonial Behavioral Health (CBH) operates as an agent for the Counties of York and James City, and the Cities of Poquoson and Williamsburg in the establishment and operation of community mental health, intellectual disabilities and substance use disorder programs as provided for in Chapter 10 of Title 37.1 of the Code of Virginia (1950), relating to the Virginia Department of Behavioral Health and Developmental Services. In addition, CBH provides a system of community mental health, intellectual disabilities and substance use disorder services which relate to and are integrated with existing and planned programs.

B. Financial Reporting Entity:

For financial reporting purposes, in conformance with the Governmental Accounting Standards Board (GASB) Statement No. 39, *Determining Whether Certain Organizations are Component Units*, CBH includes all organizations which exclusively benefit the entity. All component units included in these financial statements have years which end on June 30.

Blended Component Units:

Blended component units, although legally separate entities are, in substance, part of the CBH's operations, and so data from these units are combined with data of CBH. CBH has the following blended component units.

Colonial Community Services, Inc. is a property holding organization for the CBH and is exempt from taxation under Federal Internal Revenue Code Section 501(c)(3).

C. Basis of Accounting:

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

D. Financial Statement Presentation:

The accompanying financial statements are prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board (GASB) and the Virginia Department of Behavioral Health and Developmental Services. The principles prescribed by GASB represent generally accepted accounting principles applicable to governmental units. All significant intercompany transactions and accounts have been eliminated for the combining statements.

E. Enterprise Fund Accounting:

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

COLONIAL BEHAVIORAL HEALTH

Notes to Financial Statements At June 30, 2018 (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

F. Use of Estimates:

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

G. Cash and Cash Equivalents:

CBH maintains cash accounts with financial institutions in accordance with the Virginia Security for Public Deposits Act of the Code of Virginia. The Act requires financial institutions to meet specific collateralization requirements. Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less at the date of acquisition.

H. Investments:

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

I. Net Client Service Revenue:

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

J. Financial Assistance:

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

The vast majority of fees collected result from Medicaid billings.

K. Capital Assets:

Capital assets acquired are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets ranging from 5 to 40 years and is computed using the straight-line method. Donated capital assets are recorded at acquisition value at the time of the gift. All capital asset purchases of \$5,000 or more are capitalized.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

L. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. Colonial Behavioral Health has one item that qualifies for reporting in this category. It is comprised of certain items related to the measurement of the net pension asset and net OPEB liabilities and contributions to the pension and OPEB plans made during the current year and subsequent to the net pension asset and net OPEB liability measurement date. For more detailed information on these items, reference the related notes.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Colonial Behavioral Health has one type of item that qualifies for reporting in this category. It is comprised of certain items related to the measurement of the net pension asset and net OPEB liabilities are reported as deferred inflows of resources. For more detailed information on these items, reference the related notes.

M. 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 Colonial Behavioral Health's Retirement Plan and the additions to/deductions from the Colonial Behavioral Health'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.

N. Other Postemployment Benefits (OPEB):

Group Life Insurance

The Virginia Retirement System (VRS) Group Life Insurance (GLI) Program provides coverage to state employees, teachers, and employees of participating political subdivisions. The GLI Program was established pursuant to §51.1-500 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. The GLI Program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers. For purposes of measuring the net GLI Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the GLI OPEB, and GLI OPEB expense, information about the fiduciary net position of the VRS GLI Program OPEB and the additions to/deductions from the VRS GLI OPEB's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

COLONIAL BEHAVIORAL HEALTH

Notes to Financial Statements At June 30, 2018 (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

N. Other Postemployment Benefits (OPEB): (Continued)

Health Insurance Credit Program

The Colonial Behavioral Health's Health Insurance Credit (HIC) Program was established pursuant to §51.1-1400 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. For purposes of measuring the net HIC OPEB liability, deferred outflows of resources and deferred inflows of resources related to the HIC OPEB, and the related HIC OPEB expense, information about the fiduciary net position of the Virginia Retirement System (VRS) Political Subdivision HIC Program, and the additions to/deductions from the VRS Political Subdivision HIC Program's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

O. Compensated Absences:

Employees are entitled to certain compensated absences based upon length of employment. Sick leave vests with the employee and is recorded as an expense when earned. Up to 25% of accumulated sick leave will be paid upon termination of service with CBH. Vacation and certain other compensated absences also vest with the employee. A provision for the estimated liability for these compensated absences has been recorded in the financial statements.

P. Budgetary Accounting:

CBH follows these procedures in establishing its budgets:

1. In response to Letters of Notification received from the Virginia Department of Behavioral Health and Developmental Services (the Department), CBH submits a Performance Contract to the Department. This application contains complete budgets for all Core Services.
2. CBH's performance reports are filed with the Department during the fiscal year, 45 working days after the end of the second and fourth quarters. The final quarterly report is due by August 31 following the end of the fiscal year, unless extended.
3. If any changes are made during the fiscal year in state or federal block grants or local match funds, CBH submits Performance Contract revisions which reflect these changes in time to be received by the Department by required deadlines.

Q. Operating and Nonoperating Revenues and Expenses:

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

R. Comparative Totals:

Comparative totals are presented for informational purposes only. Certain prior year amounts have been reclassified to conform with the current year presentation.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

S. Net Position:

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

T. Net Position Flow Assumption:

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

NOTE 2 - DEPOSITS AND INVESTMENTS:

Deposits:

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

CBH's primary operating bank account is in the custody of the County of York, Virginia pursuant to fiscal agent and related agreements with the County.

Investments:

State statutes authorize CBH 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).

CBH's investments are also in the custody of the County of York, Virginia pursuant to fiscal agent and related agreements with the County.

Custodial Credit Risk (Investments):

CBH has adopted the County of York guidelines for its investments.

COLONIAL BEHAVIORAL HEALTH

Notes to Financial Statements At June 30, 2018 (Continued)

NOTE 2 - DEPOSITS AND INVESTMENTS: (CONTINUED)

Credit Risk of Debt Securities:

CBH's rated debt investments as of June 30, 2018 were rated by Standard and Poor's and the ratings are presented below using Standard and Poor's rating scale.

Rated Debt Investments Values	
Rated Debt Investments	Fair Quality Ratings
	AAAm
Virginia Local Government Investment Pool	\$ 2,416,420
Total	\$ 2,416,420

Concentration of Credit Risk:

At June 30, 2018 CBH's investment policy regarding the concentration of credit risk was the same as the County of York.

Interest Rate Risk:

CBH has adopted the County of York policy that addresses interest rate risk. The following details the entity's interest rate risk at June 30, 2018.

Investment Type	Fair Value	Less Than One Year
Virginia Local Government Investment Pool	\$ 2,416,420	\$ 2,416,420

External Investment Pool:

The value of the external investment pools is the same as the value of the pool shares. Investments in the Local Government Investment Pool that are not SEC registered are monitored by the Treasurer of Virginia and other applicable state agencies. LGIP is an amortized cost basis portfolio under the provisions of GASB Statement No. 79. There are no withdrawal limitations or restrictions imposed on participants.

There were no involuntary participations in external investment pools. CBH does not sponsor any external investment pools.

Summary of Cash and Cash Equivalents:

	2018	2017
Cash:		
Petty cash	\$ 480	\$ 730
Checking	1,126,398	1,084,887
Total cash	\$ 1,126,878	\$ 1,085,617
Investments	2,416,420	2,382,929
Total cash and cash equivalents	\$ 3,543,298	\$ 3,468,546

COLONIAL BEHAVIORAL HEALTH

Notes to Financial Statements At June 30, 2018 (Continued)

NOTE 3 - ACCOUNTS RECEIVABLE AND ACCRUED REVENUE:

Client Accounts Receivable:

At June 30, 2018 and 2017 CBH had client accounts receivable due, net of estimated uncollectibles of \$575,225 (2018) and \$501,253 (2017) from the following primary sources:

	<u>2018</u>	<u>2017</u>
Virginia Department of Medical Assistance Services (Medicaid)	\$ 236,134	\$ 347,529
Direct client and third party	216,885	185,137
Other	120,206	85,663
Total	<u>\$ 573,225</u>	<u>\$ 618,329</u>

Other than the amounts due for Medicaid charges, there are no other individually significant sources of client fee receivables.

Accrued Revenue:

	<u>2018</u>	<u>2017</u>
Regional DAP	\$ 22,883	\$ 40,522
Others	3,005	13,088
Total	<u>\$ 25,888</u>	<u>\$ 53,610</u>

NOTE 4 - CAPITAL ASSETS:

Capital assets consist of the following:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets not being depreciated:				
Construction in progress	\$ 203,323	\$ 165,119	\$ -	\$ 368,442
Land	959,412	-	-	959,412
Total capital assets not being depreciated	<u>\$ 1,162,735</u>	<u>\$ 165,119</u>	<u>\$ -</u>	<u>\$ 1,327,854</u>
Capital assets being depreciated:				
Building and improvements	\$ 6,416,207	\$ -	\$ -	\$ 6,416,207
Furniture, fixtures and equipment	517,779	10,188	52,925	475,042
Vehicles	1,002,555	306,155	135,300	1,173,410
Total capital assets being depreciated	<u>\$ 7,936,541</u>	<u>\$ 316,343</u>	<u>\$ 188,225</u>	<u>\$ 8,064,659</u>
Accumulated depreciation				
Building and improvements	\$ 2,278,549	\$ 171,308	\$ 52,925	\$ 2,396,932
Furniture, fixtures and equipment	311,227	8,525	-	319,752
Vehicles	696,025	144,913	135,300	705,638
Total accumulated depreciation	<u>\$ 3,285,801</u>	<u>\$ 324,746</u>	<u>\$ 188,225</u>	<u>\$ 3,422,322</u>
Net capital assets being depreciated	<u>\$ 4,650,740</u>	<u>\$ (8,403)</u>	<u>\$ -</u>	<u>\$ 4,642,337</u>
Net capital assets	<u>\$ 5,813,475</u>	<u>\$ 156,716</u>	<u>\$ -</u>	<u>\$ 5,970,191</u>

Total depreciation expense was \$324,746 for 2018 and \$275,755 for 2017.

COLONIAL BEHAVIORAL HEALTH

Notes to Financial Statements At June 30, 2018 (Continued)

NOTE 5 - LEASE COMMITMENTS:

CBH leases facilities from various lessors. The lease terms range from monthly to one year. CBH also leases facilities from its blended component unit under an operating lease that expires in 2019. Rentals paid under this agreement are not on an arms-length basis and totaled \$289,049 for 2018 and \$288,077 for 2017.

Total rent expenses for the year ended June 30, 2018, exclusive of intercompany payments of \$289,049, totaled \$179,193.

Future minimum rentals payable under noncancellable lease agreements are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2019	\$ 122,092
2020	81,708
Total	<u>\$ 203,800</u>

NOTE 6 - CLAIMS AND COMPENSATED ABSENCES:

In accordance with GASB Statement 16, *Accounting for Compensated Absences*, CBH has accrued the liability arising from compensated absences.

CBH employees earn vacation and sick leave based on length of service. CBH has outstanding accrued leave pay totaling \$1,182,567 at June 30, 2018 and \$1,061,588 at June 30, 2017. Upon termination of employment employees are paid their accumulated annual leave up to certain limits.

NOTE 7 - PENSION PLAN:

Plan Description

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

NOTE 7 - 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 different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.	About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.	About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. <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.

NOTE 7 - PENSION PLAN: (CONTINUED)*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
About Plan 1 (Cont.)	About Plan 2 (Cont.)	<p>About the Hybrid Retirement Plan (Cont.)</p> <ul style="list-style-type: none"> • 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.
<p>Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a refund.</p> <p>Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</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>Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</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>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <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-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014. <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.

NOTE 7 - PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p>Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p>*Non-Eligible Members (Cont.) Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>
<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. 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>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.</p>	<p>Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.</p>

NOTE 7 - PENSION PLAN: (CONTINUED)*Plan Description (Continued)*

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

COLONIAL BEHAVIORAL HEALTH

Notes to Financial Statements
At June 30, 2018 (Continued)

NOTE 7 - PENSION PLAN: (CONTINUED)

Plan Description (Continued)

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

NOTE 7 - PENSION PLAN: (CONTINUED)*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Vesting (Cont.)	Vesting (Cont.)	<p>Vesting (Cont.) <u>Defined Contributions Component: (Cont.)</u> 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> <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 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>Calculating the Benefit See definition under Plan 1.</p>	<p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1.</p>

COLONIAL BEHAVIORAL HEALTH

Notes to Financial Statements
At June 30, 2018 (Continued)

NOTE 7 - PENSION PLAN: (CONTINUED)

Plan Description (Continued)

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

COLONIAL BEHAVIORAL HEALTH

Notes to Financial Statements
At June 30, 2018 (Continued)

NOTE 7 - PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Normal Retirement Age VRS: Age 65.</p> <p>Political subdivisions hazardous duty employees: Age 60.</p>	<p>Normal Retirement Age VRS: Normal Social Security retirement age.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Normal Retirement Age <u>Defined Benefit Component:</u> VRS: Same as Plan 2.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</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 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 <u>Defined Benefit Component:</u> 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> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Age 60 with at least five years (60 months) of creditable service.</p>

COLONIAL BEHAVIORAL HEALTH

Notes to Financial Statements
At June 30, 2018 (Continued)

NOTE 7 - PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><u>Eligibility:</u> 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>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>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><u>Eligibility:</u> Same as Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p>

COLONIAL BEHAVIORAL HEALTH

Notes to Financial Statements
At June 30, 2018 (Continued)

NOTE 7 - PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</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. • 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>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>

COLONIAL BEHAVIORAL HEALTH

Notes to Financial Statements
At June 30, 2018 (Continued)

NOTE 7 - PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.	Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.	Disability Coverage Employees of political subdivisions (including Plan 1 and Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.	Purchase of Prior Service Same as Plan 1.	Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions: <ul style="list-style-type: none"> Hybrid Retirement Plan members are ineligible for ported service. <u>Defined Contribution Component:</u> Not applicable.

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report-pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

COLONIAL BEHAVIORAL HEALTH

Notes to Financial Statements At June 30, 2018 (Continued)

NOTE 7 - PENSION PLAN: (CONTINUED)

Employees Covered by Benefit Terms

As of the June 30, 2016 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	62
Inactive members:	
Vested inactive members	50
Non-vested inactive members	81
Inactive members active elsewhere in VRS	<u>49</u>
Total inactive members	180
Active members	<u>164</u>
Total covered employees	<u><u>406</u></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% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The Board's contractually required employer contribution rate for the year ended June 30, 2018 was 5.30% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Board were \$444,990 and \$467,304 for the years ended June 30, 2018 and June 30, 2017, respectively.

Net Pension Asset

The Board's net pension asset was measured as of June 30, 2017. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

COLONIAL BEHAVIORAL HEALTH

Notes to Financial Statements At June 30, 2018 (Continued)

NOTE 7 - PENSION PLAN: (CONTINUED)

Actuarial Assumptions - General Employees

The total pension liability for General Employees in the Board's Retirement Plan was based on an actuarial valuation as of June 30, 2016, 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, 2017.

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

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

Mortality rates:

Largest 10 - Non-Hazardous Duty: 20% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

All Others (Non 10 Largest) - Non-Hazardous Duty: 15% of deaths are assumed to be service related

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

COLONIAL BEHAVIORAL HEALTH

Notes to Financial Statements At June 30, 2018 (Continued)

NOTE 7 - PENSION PLAN: (CONTINUED)

Actuarial Assumptions - General Employees (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

All Others (Non 10 Largest) - Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

COLONIAL BEHAVIORAL HEALTH

Notes to Financial Statements At June 30, 2018 (Continued)

NOTE 7 - PENSION PLAN: (CONTINUED)

Long-Term Expected Rate of Return

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

<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>
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
		*Expected arithmetic nominal return	7.30%

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the employer for the Colonial Behavioral Health 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, 2019 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.

COLONIAL BEHAVIORAL HEALTH

Notes to Financial Statements
At June 30, 2018 (Continued)

NOTE 7 - PENSION PLAN: (CONTINUED)

Changes in Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2016	\$ 24,582,197	\$ 24,200,516	\$ 381,681
Changes for the year:			
Service cost	\$ 854,699	\$ -	\$ 854,699
Interest	1,688,257	-	1,688,257
Changes of assumptions	(164,526)	-	(164,526)
Differences between expected and actual experience	(389,490)	-	(389,490)
Contributions - employer	-	436,666	(436,666)
Contributions - employee	-	421,943	(421,943)
Net investment income	-	2,959,960	(2,959,960)
Benefit payments, including refunds of employee contributions	(928,466)	(928,466)	-
Administrative expenses	-	(16,815)	16,815
Other changes	-	(2,646)	2,646
Net changes	\$ 1,060,474	\$ 2,870,642	\$ (1,810,168)
Balances at June 30, 2017	\$ 25,642,671	\$ 27,071,158	\$ (1,428,487)

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

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

	Rate		
	1% Decrease (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
Net Pension Liability (Asset)	\$ 1,839,298	\$ (1,428,487)	\$ (4,157,227)

COLONIAL BEHAVIORAL HEALTH

Notes to Financial Statements At June 30, 2018 (Continued)

NOTE 7 - PENSION PLAN: (CONTINUED)

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

For the year ended June 30, 2018, the Board recognized pension expense of (\$129,995). At June 30, 2018, the Board 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	\$ -	\$ 449,577
Change of assumptions	-	109,130
Net difference between projected and actual earnings on pension plan investments	-	400,538
Employer contributions subsequent to the measurement date	444,990	-
Total	<u>\$ 444,990</u>	<u>\$ 959,245</u>

\$444,990 reported as deferred outflows of resources related to pensions resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Asset in the fiscal year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year ended June 30</u>	
2019	\$ (578,583)
2020	(120,266)
2021	(6,584)
2022	(253,812)
2023	-
Thereafter	-

NOTE 8 - UNEARNED REVENUE:

Unearned revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Unearned revenue is comprised of the following:

<u>Unearned Revenue</u>	<u>2018</u>	<u>2017</u>
Advanced payment of local private grants	\$ 542,714	\$ 533,000
Unexpended state grant funds	-	37,189
Unexpended federal grant funds	31,667	-
Total	<u>\$ 574,381</u>	<u>\$ 570,189</u>

COLONIAL BEHAVIORAL HEALTH

Notes to Financial Statements At June 30, 2018 (Continued)

NOTE 9 - RISK MANAGEMENT:

CBH participates in the Commonwealth of Virginia Risk Management Pool for professional liability, and director and officer's liability coverage which have \$2,100,000 and \$1,000,000 coverage limits, respectively. Other insurance coverage for property, workers compensation, crime, dishonesty and related coverage are purchased from a commercial insurance carrier. Coverage for these items varies from stated property values to \$5,000,000. There are no surety bonds for directors. There have been no settlements in excess of insurance coverage for the past three years. The primary risks of loss are generally confined to co-insurance and deductible amounts.

NOTE 10 - LONG-TERM OBLIGATIONS:

Changes in Long-Term Obligations:

	Balance July 1, 2017	Additions/ Issuances	Deletions/ Retirements	Balance June 30, 2018	Amount Due In One Year
Revenue bond	\$ 2,136,000	\$ -	\$ 166,000	\$ 1,970,000	\$ 171,000
Compensated absences	1,061,588	120,979	-	1,182,567	513,793
Net OPEB liability - group life insurance *	775,000	72,000	126,000	721,000	-
Net OPEB liability - health insurance credit *	95,000	9,000	27,000	77,000	-
Net OPEB liability - health insurance *	5,216,673	529,397	426,893	5,319,177	-
Total	<u>\$ 9,284,261</u>	<u>\$ 731,376</u>	<u>\$ 745,893</u>	<u>\$ 9,269,744</u>	<u>\$ 684,793</u>

* Balance as of July 1, 2017 restated resulting from implementation of GASB 75

Revenue Bond:

Colonial Community Services, Inc. has a revenue bond payable which was used to retire debt existing at June 30, 2014, and to provide funding for the acquisition of property, construction of three Medicaid Waiver group homes, and other projects. Details of the bond are as follows:

	Balance	Current Portion
\$2,750,000 qualified non-profit revenue and refunding bond, issued through the Economic Development Authority of the County of York, Virginia dated July 19, 2013, annual principal payments ranging from \$145,000 to \$226,000, interest at 2.99% payable semiannually each June 1 and December 1, maturing June 1, 2028.	<u>\$ 1,970,000</u>	<u>\$ 171,000</u>

COLONIAL BEHAVIORAL HEALTH

Notes to Financial Statements At June 30, 2018 (Continued)

NOTE 10 - LONG-TERM OBLIGATIONS: (CONTINUED)

Annual requirements to amortize long-term debt existing at June 30, 2018 at current interest rates are as follows:

Year Ending June 30,	Revenue Bond	
	Principal	Interest
2019	\$ 171,000	\$ 58,903
2020	176,000	53,790
2021	181,000	48,528
2022	188,000	43,116
2023	193,000	37,495
2024-2028	1,061,000	97,175
Total	<u>\$ 1,970,000</u>	<u>\$ 339,007</u>

CBH has no federal arbitrage liability.

NOTE 11 - PARTICIPANT LOCALITY CONTRIBUTIONS:

The participating localities appropriated the following amounts to CBH:

	2018	2017
County of York	\$ 825,000	\$ 825,000
County of James City	1,392,400	1,240,000
City of Williamsburg	255,000	255,000
City of Poquoson	190,000	190,000
Total	<u>\$ 2,662,400</u>	<u>\$ 2,510,000</u>

NOTE 12 - NET PATIENT SERVICE REVENUE SOURCES:

Net patient service revenues were from the following sources:

	2018	2017
Medicaid	\$ 3,780,802	\$ 4,067,562
Direct client and third party	837,929	522,137
Other	426,056	723,278
Total	<u>\$ 5,044,787</u>	<u>\$ 5,312,977</u>

COLONIAL BEHAVIORAL HEALTH

Notes to Financial Statements At June 30, 2018 (Continued)

NOTE 13 - COMMITMENTS AND CONTINGENCIES:

CBH participates in federal assistance programs which are subject to audit by the grantor agencies. CBH believes that it is in compliance with applicable grant requirements, and any disallowances of costs by grantor agencies would not be significant.

CBH has a line of credit with a bank in the amount of \$500,000. There was no activity on the line of credit for the year.

NOTE 14 - MEDICAL AND DENTAL INSURANCE - PAY-AS-YOU-GO (OPEB PLAN):

Plan Description

In addition to the pension benefits described in Note 7, the Colonial Behavioral Health administers a single-employer defined benefit healthcare plan. The plan provides postemployment health care benefits to all eligible permanent employees who meet the requirements under the Board's pension plans. The plan does not issue a publicly available financial report.

Benefits Provided

Postemployment benefits are provided to eligible retirees include medical and dental insurance. The benefits that are provided for active employees are the same for eligible retirees, spouses and dependents of eligible retirees. All permanent employees of Colonial Behavioral Health who meet eligibility requirements of the pension plan are eligible to receive postemployment health care benefits.

Plan Membership

At June 30, 2018 (measurement date), the following employees were covered by the benefit terms:

Total active employees with coverage	\$	159
Total retirees with coverage		<u>6</u>
Total	\$	<u><u>165</u></u>

Contributions

The Board does not pre-fund benefits; therefore, no assets are accumulated in a trust fund. The current funding policy is to pay benefits directly from general assets on a pay-as-you-go basis. The funding requirements are established and may be amended by the Board. The amount paid by the Colonial Behavioral Health for OPEB as the benefits came due during the year ended June 30, 2018 was \$75,007.

Total OPEB Liability

The Board's total OPEB liability was measured as of June 30, 2018. The total OPEB liability was determined by an actuarial valuation as of June 30, 2016.

COLONIAL BEHAVIORAL HEALTH

Notes to Financial Statements At June 30, 2018 (Continued)

NOTE 14 - MEDICAL AND DENTAL INSURANCE - PAY-AS-YOU-GO (OPEB PLAN): (CONTINUED)

Actuarial Assumptions

The total OPEB liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50% per year as of June 30, 2017 and June 30, 2018
Salary Increases	5.35% as of June 30, 2017 decreasing to 3.50% over 20 years
Discount Rate	3.50% for accounting and funding disclosures as of June 30, 2017, 3.87% for June 30, 2018

Mortality rates for Active employees and healthy retirees were based on a RPH-2000 Total Dataset Mortality Table fully generational using scale AA while mortality rates for disabled retirees were based on a RPH-2000 Disabled Mortality Table fully generational using scale AA.

The date of the most recent actuarial experience study for which significant assumptions were based is not available.

The Long-Term Expected Rate of Return on OPEB Plan investments is 3.50% as of July 1, 2017.

Discount Rate

The discount rate used when OPEB plan investments are insufficient to pay for future benefit payments is selected from a range of 20-Year Municipal Bond Indices and include the Bond Buyer 11-Bond GO Index, the S&P Municipal Bond 20-Year High Grade Rate Index, and the Fidelity 20-Year GO Municipal Bond Index. The final equivalent single discount rate used for this year's valuation is 3.87% as of the end of the fiscal year with the expectation that the Board will continue contributing the Actuarially Determined Contribution and paying the pay-go cost from the OPEB Trust.

COLONIAL BEHAVIORAL HEALTH

Notes to Financial Statements
At June 30, 2018 (Continued)

NOTE 14 - MEDICAL AND DENTAL INSURANCE - PAY-AS-YOU-GO (OPEB PLAN): (CONTINUED)

Changes in Total OPEB Liability

		Primary Government Total OPEB Liability
Balances at June 30, 2017	\$	5,216,673
Changes for the year:		
Service cost		336,342
Interest		193,055
Changes in assumptions		(351,886)
Benefit payments		(75,007)
Net changes		102,504
Balances at June 30, 2018	\$	5,319,177

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following amounts present the total OPEB liability of the Board, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.87%) or one percentage point higher (4.87%) than the current discount rate:

Rate		
1% Decrease (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
\$ 6,344,086	\$ 5,319,177	\$ 4,502,980

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the Board, as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.40% decreasing annually to an ultimate rate of 4.80%) or one percentage point higher (6.40% decreasing annually to an ultimate rate of 5.80%) than the current healthcare cost trend rates:

Rates		
1% Decrease (4.40% decreasing to 3.80%)	Healthcare Cost Trend (5.40% decreasing to 4.80%)	1% Increase (6.40% decreasing to 5.80%)
\$ 4,296,984	\$ 5,319,177	\$ 6,662,786

COLONIAL BEHAVIORAL HEALTH

Notes to Financial Statements At June 30, 2018 (Continued)

NOTE 14 - MEDICAL AND DENTAL INSURANCE - PAY-AS-YOU-GO (OPEB PLAN): (CONTINUED)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended June 30, 2018, the Board recognized OPEB expense in the amount of \$478,399. At June 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in assumptions	\$ -	\$ 300,888
Employer contributions subsequent to the measurement date	<u>45,600</u>	<u>-</u>
Total	<u>\$ 45,600</u>	<u>\$ 300,888</u>

\$45,600 reported as deferred outflows of resources related to OPEB resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the fiscal year ended June 30, 2019. Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense in future reporting periods as follows:

<u>Year Ended June 30</u>	
2019	\$ (50,998)
2020	(50,998)
2021	(50,998)
2022	(50,998)
2023	(50,998)
Thereafter	(45,898)

Additional disclosures on changes in total OPEB liability and related ratios. can be found in the required supplementary information following the notes to the financial statements.

NOTE 15 - HEALTH INSURANCE CREDIT (HIC) PROGRAM:

Plan Description

All full-time, salaried permanent employees of participating political subdivisions are automatically covered by the VRS Political Subdivision Health Insurance Credit Program upon employment. This is an agent multiple-employer plan administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The health insurance credit is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

COLONIAL BEHAVIORAL HEALTH

Notes to Financial Statements
At June 30, 2018 (Continued)

NOTE 15 - HEALTH INSURANCE CREDIT (HIC) PROGRAM: (CONTINUED)

Plan Description (Continued)

The specific information about the Political Subdivision Health Insurance Credit Program OPEB, including eligibility, coverage and benefits is set out in the table below:

POLITICAL SUBDIVISION HEALTH INSURANCE CREDIT PROGRAM PLAN PROVISIONS	
Eligible Employees	
The Political Subdivision Retiree Health Insurance Credit Program was established July 1, 1993 for retired political subdivision employees of employers who elect the benefit and who retire with at least 15 years of service credit.	
Eligible employees of participating employers are enrolled automatically upon employment. They include:	
<ul style="list-style-type: none"> • Full-time permanent salaried employees of the participating political subdivision who are covered under the VRS pension plan. 	
Benefit Amounts	
The political subdivision's Retiree Health Insurance Credit Program provides the following benefits for eligible employees:	
<ul style="list-style-type: none"> • <u>At Retirement</u> - For employees who retire, the monthly benefit is \$1.50 per year of service per month with a maximum benefit of \$45.00 per month. • <u>Disability Retirement</u>- For employees who retire on disability or go on long-term disability under the Virginia Local Disability Program (VLDP), the monthly benefit is \$45.00 per month. 	
Health Insurance Credit Program Notes:	
<ul style="list-style-type: none"> • The monthly Health Insurance Credit benefit cannot exceed the individual premium amount. • No health insurance credit for premiums paid and qualified under LODA; however, the employee may receive the credit for premiums paid for other qualified health plans. • Employees who retire after being on long-term disability under VLDP must have at least 15 years of service credit to qualify for the health insurance credit as a retiree. 	

Employees Covered by Benefit Terms

As of the June 30, 2016 actuarial valuation, the following employees were covered by the benefit terms of the HIC OPEB plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	<u>26</u>
Inactive members:	
Vested inactive members	6
Non-vested inactive members	-
Inactive members active elsewhere in VRS	-
Total inactive members	<u>6</u>
Active members	164
Total covered employees	<u><u>196</u></u>

NOTE 15 - HEALTH INSURANCE CREDIT (HIC) PROGRAM: (CONTINUED)

Contributions

The contribution requirements for active employees is governed by §51.1-1402(E) 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. The Board's contractually required employer contribution rate for the year ended June 30, 2018 was .17% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the Board to the Health Insurance Credit Program were \$15,414 and \$14,989 for the years ended June 30, 2018 and June 30, 2017, respectively.

Net HIC OPEB Liability

The Board's net Health Insurance Credit OPEB liability was measured as of June 30, 2017. The total Health Insurance Credit OPEB liability was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Actuarial Assumptions

The total HIC OPEB liability was based on an actuarial valuation as of June 30, 2016, 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, 2017.

Inflation	2.5%
Salary increases, including inflation:	
Locality - General employees	3.5%-5.35%
Locality - Hazardous Duty employees	3.5%-4.75%
Investment rate of return	7.0%, net of investment expenses, including inflation*

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

COLONIAL BEHAVIORAL HEALTH

Notes to Financial Statements At June 30, 2018 (Continued)

NOTE 15 - HEALTH INSURANCE CREDIT (HIC) PROGRAM: (CONTINUED)

Actuarial Assumptions (Continued)

Mortality Rates - Largest Ten Locality Employers - General Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

COLONIAL BEHAVIORAL HEALTH

Notes to Financial Statements At June 30, 2018 (Continued)

NOTE 15 - HEALTH INSURANCE CREDIT (HIC) PROGRAM: (CONTINUED)

Actuarial Assumptions (Continued)

Mortality Rates - Non-Largest Ten Locality Employers - General Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

NOTE 15 - HEALTH INSURANCE CREDIT (HIC) PROGRAM: (CONTINUED)*Long-Term Expected Rate of Return*

The long-term expected rate of return on the System's 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 System's 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>
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
		*Expected arithmetic nominal return	7.30%

*The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total HIC OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that 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, 2019, the rate contributed by the entity for the HIC OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the HIC OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total HIC OPEB liability.

COLONIAL BEHAVIORAL HEALTH

Notes to Financial Statements
At June 30, 2018 (Continued)

NOTE 15 - HEALTH INSURANCE CREDIT (HIC) PROGRAM: (CONTINUED)

Changes in Net HIC OPEB Liability

	Increase (Decrease)		
	Total HIC OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net HIC OPEB Liability (Asset) (a) - (b)
Balances at June 30, 2016	\$ 256,762	\$ 161,355	\$ 95,407
Changes for the year:			
Service cost	\$ 7,174	\$ -	\$ 7,174
Interest	17,672	-	17,672
Assumption changes	(8,182)	-	(8,182)
Contributions - employer	-	14,989	(14,989)
Net investment income	-	19,056	(19,056)
Benefit payments	(8,606)	(8,606)	-
Administrative expenses	-	(317)	317
Other changes	-	1,343	(1,343)
Net changes	\$ 8,058	\$ 26,465	\$ (18,407)
Balances at June 30, 2017	\$ 264,820	\$ 187,820	\$ 77,000

Sensitivity of the Board's Health Insurance Credit Net OPEB Liability to Changes in the Discount Rate

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

	Rate		
	1% Decrease (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
Board's Net HIC OPEB Liability	104,024	77,000	54,560

COLONIAL BEHAVIORAL HEALTH

Notes to Financial Statements At June 30, 2018 (Continued)

NOTE 15 - HEALTH INSURANCE CREDIT (HIC) PROGRAM: (CONTINUED)

Health Insurance Credit Program OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Health Insurance Credit Program OPEB

For the year ended June 30, 2018, the Board recognized Health Insurance Credit Program OPEB expense of \$9,845. At June 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to the Board's Health Insurance Credit Program from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on HIC OPEB plan investments	\$ -	\$ 6,013
Change in assumptions	-	6,847
Employer contributions subsequent to the measurement date	<u>15,414</u>	<u>-</u>
Total	<u>\$ 15,414</u>	<u>\$ 12,860</u>

Health Insurance Credit Program OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Health Insurance Credit Program OPEB: (Continued)

\$15,414 reported as deferred outflows of resources related to the HIC OPEB resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the Net HIC OPEB Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the HIC OPEB will be recognized in the HIC OPEB expense in future reporting periods as follows:

<u>Year Ended June 30</u>	
2019	\$ (2,838)
2020	(2,838)
2021	(2,838)
2022	(3,839)
2023	(1,325)
Thereafter	(172)

Health Insurance Credit Program Plan Data

Information about the VRS Political Subdivision Health Insurance Credit Program is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

NOTE 16 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN):*Plan Description*

All full-time, salaried permanent employees of the state agencies, teachers, and employees of participating political subdivisions are automatically covered by the VRS Group Life Insurance Program upon employment. This is a cost-sharing multiple-employer plan administered by the Virginia Retirement System (the System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

In addition to the Basic Group Life Insurance benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the Group Life Insurance Program OPEB.

The specific information for Group Life Insurance Program OPEB, including eligibility, coverage and benefits is set out in the table below:

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS
<p>Eligible Employees</p> <p>The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement:</p> <ul style="list-style-type: none"> • City of Richmond • City of Portsmouth • City of Roanoke • City of Norfolk • Roanoke City School Board <p>Basic group life insurance coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.</p>

NOTE 16 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)*Plan Description (Continued)*

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS (CONTINUED)
<p>Benefit Amounts</p> <p>The benefits payable under the Group Life Insurance Program have several components.</p> <ul style="list-style-type: none"> • <u>Natural Death Benefit</u> - The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. • <u>Accidental Death Benefit</u> - The accidental death benefit is double the natural death benefit. • <u>Other Benefit Provisions</u> - In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include: <ul style="list-style-type: none"> ○ Accidental dismemberment benefit ○ Safety belt benefit ○ Repatriation benefit ○ Felonious assault benefit ○ Accelerated death benefit option
<p>Reduction in Benefit Amounts</p> <p>The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.</p>
<p>Minimum Benefit Amount and Cost-of-Living Adjustment (COLA)</p> <p>For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute. The amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently \$8,111.</p>

Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% x 60%) and the employer component was 0.52% (1.31% x 40%). Employers may elect to pay all or part of the employee contribution; however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the Group Life Insurance Program from the entity were \$47,300 and \$46,008 for the years ended June 30, 2018 and June 30, 2017, respectively.

NOTE 16 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)***GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB***

At June 30, 2018, the entity reported a liability of \$721,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2017 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the participating employer's proportion was .04797% as compared to .04431% at June 30, 2016.

For the year ended June 30, 2018, the participating employer recognized GLI OPEB expense of \$18,000. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2018, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 54,000	\$ 16,000
Net difference between projected and actual earnings on GLI OPEB program investments	-	27,000
Change in assumptions	-	37,000
Employer contributions subsequent to the measurement date	<u>47,300</u>	<u>-</u>
Total	<u>\$ 101,300</u>	<u>\$ 80,000</u>

COLONIAL BEHAVIORAL HEALTH

Notes to Financial Statements At June 30, 2018 (Continued)

NOTE 16 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB (Continued)

\$47,300 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

<u>Year Ended June 30</u>	
2019	\$ (7,000)
2020	(7,000)
2021	(7,000)
2022	(5,000)
2023	-
Thereafter	-

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2016, 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, 2017.

Inflation	2.5%
Salary increases, including inflation:	
General state employees	3.5% - 5.35%
Teachers	3.5%-5.95%
SPORS employees	3.5%-4.75%
VaLORS employees	3.5%-4.75%
JRS employees	4.5%
Locality - General employees	3.5%-5.35%
Locality - Hazardous Duty employees	3.5%-4.75%
Investment rate of return	7.0%, net of investment expenses, including inflation*

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

COLONIAL BEHAVIORAL HEALTH

Notes to Financial Statements At June 30, 2018 (Continued)

NOTE 16 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

Actuarial Assumptions (Continued)

Mortality Rates - General State Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

COLONIAL BEHAVIORAL HEALTH

Notes to Financial Statements At June 30, 2018 (Continued)

NOTE 16 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

Actuarial Assumptions (Continued)

Mortality Rates - Teachers

Pre-Retirement:

RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

Post-Retirement:

RP-2014 White Collar Employee Rates to age 49, White Collar Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; 115% of rates for males and females.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

COLONIAL BEHAVIORAL HEALTH

Notes to Financial Statements At June 30, 2018 (Continued)

NOTE 16 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

Actuarial Assumptions (Continued)

Mortality Rates - SPORS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

COLONIAL BEHAVIORAL HEALTH

Notes to Financial Statements At June 30, 2018 (Continued)

NOTE 16 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

Actuarial Assumptions (Continued)

Mortality Rates - VaLORS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

COLONIAL BEHAVIORAL HEALTH

Notes to Financial Statements At June 30, 2018 (Continued)

NOTE 16 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

Actuarial Assumptions (Continued)

Mortality Rates - JRS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males set back 1 year, 85% of rates; females set back 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% compounding increase from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change

COLONIAL BEHAVIORAL HEALTH

Notes to Financial Statements At June 30, 2018 (Continued)

NOTE 16 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

Actuarial Assumptions (Continued)

Mortality Rates - Largest Ten Locality Employers - General Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

COLONIAL BEHAVIORAL HEALTH

Notes to Financial Statements At June 30, 2018 (Continued)

NOTE 16 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

Actuarial Assumptions (Continued)

Mortality Rates - Non-Largest Ten Locality Employers - General Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

Mortality Rates - Largest Ten Locality Employers - Hazardous Duty Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

COLONIAL BEHAVIORAL HEALTH

Notes to Financial Statements At June 30, 2018 (Continued)

NOTE 16 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

Actuarial Assumptions (Continued)

Mortality Rates - Largest Ten Locality Employers - Hazardous Duty Employees (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	increased rate from 60% to 70%

Mortality Rates - Non-Largest Ten Locality Employers - Hazardous Duty Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

COLONIAL BEHAVIORAL HEALTH

Notes to Financial Statements At June 30, 2018 (Continued)

NOTE 16 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

Actuarial Assumptions (Continued)

Mortality Rates - Non-Largest Ten Locality Employers - Hazardous Duty Employees (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

NET GLI OPEB Liability

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the Group Life Insurance Program is as follows (amounts expressed in thousands):

		Group Life Insurance OPEB Program
Total GLI OPEB Liability	\$	2,942,426
Plan Fiduciary Net Position		1,437,586
Employers' Net GLI OPEB Liability (Asset)	\$	<u>1,504,840</u>
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability		48.86%

The total GLI OPEB liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net GLI OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

NOTE 16 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)***Long-Term Expected Rate of Return***

The long-term expected rate of return on the System's 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 System's 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>
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
		*Expected arithmetic nominal return	7.30%

*The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance 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, 2019, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

COLONIAL BEHAVIORAL HEALTH

Notes to Financial Statements At June 30, 2018 (Continued)

NOTE 16 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

Sensitivity of the Employer's Proportionate Share of the Net GLI OPEB Liability to Changes in the Discount Rate

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

	Rate		
	1% Decrease	Current Discount	1% Increase
	(6.00%)	(7.00%)	(8.00%)
Board's proportionate share of the Group Life Insurance Program			
Net OPEB Liability	\$ 933,000	\$ 721,000	\$ 550,000

Group Life Insurance Program Fiduciary Net Position

Detailed information about the Group Life Insurance Program's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

NOTE 17 - RESERVATION OF NET POSITION:

Unrestricted net position has been reserved for:

Contingencies	\$ 300,000
Board designation	123,184
Total	<u>\$ 423,184</u>

NOTE 18 - UPCOMING PRONOUNCEMENTS:

Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

NOTE 18 - UPCOMING PRONOUNCEMENTS: (CONTINUED)

Statement No. 87, *Leases*, increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, clarifies which liabilities governments should include when disclosing information related to debt. It defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, it requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

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

COLONIAL BEHAVIORAL HEALTH

Notes to Financial Statements At June 30, 2018 (Continued)

NOTE 19 - ADOPTION OF ACCOUNTING PRINCIPLE:

The Board implemented the financial reporting provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* during the fiscal year ended June 30, 2018. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to postemployment benefits other than pensions (other postemployment benefits or OPEB). Note disclosure and required supplementary information requirements about OPEB are also addressed. The requirements of this Statement will improve accounting and financial reporting by state and local governments for OPEB. In addition, the Board implemented Governmental Accounting Standards Board Statement No. 85, *Omnibus 2017* during the fiscal year ended June 30, 2018. This Statement addresses practice issues identified during implementation and application of certain GASB statements for a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)). The implementation of these Statements resulted in the following restatement of net position:

Net Position as reported at June 30, 2017	\$ 3,577,803
Implementation of GASB 75	<u>(3,573,017)</u>
Net Position as restated at June 30, 2017	\$ <u><u>4,786</u></u>

- Required Supplementary Information -

COLONIAL BEHAVIORAL HEALTH

Schedule of Changes in Net Pension Liability (Asset) and Related Ratios
For the Years Ended June 30, 2015 through June 30, 2018

	2017	2016	2015	2014
Total pension liability				
Service cost	\$ 854,699	\$ 795,788	\$ 768,126	\$ 800,602
Interest	1,688,257	1,617,582	1,516,141	1,416,803
Changes in assumptions	(164,526)	-	-	-
Differences between expected and actual experience	(389,490)	(491,830)	(3,556)	-
Benefit payments, including refunds of employee contributions	(928,466)	(895,303)	(767,826)	(828,733)
Net change in total pension liability	\$ 1,060,474	\$ 1,026,237	\$ 1,512,885	\$ 1,388,672
Total pension liability - beginning	24,582,197	23,555,960	22,043,075	20,654,403
Total pension liability - ending (a)	\$ 25,642,671	\$ 24,582,197	\$ 23,555,960	\$ 22,043,075
Plan fiduciary net position				
Contributions - employer	\$ 436,666	\$ 606,799	\$ 560,643	\$ 651,201
Contributions - employee	421,943	398,577	355,647	363,855
Net investment income	2,959,960	424,830	1,040,717	3,068,218
Benefit payments, including refunds of employee contributions	(928,466)	(895,303)	(767,826)	(828,733)
Administrative expense	(16,815)	(14,527)	(13,907)	(16,235)
Other	(2,646)	(177)	(221)	161
Net change in plan fiduciary net position	\$ 2,870,642	\$ 520,199	\$ 1,175,053	\$ 3,238,467
Plan fiduciary net position - beginning	24,200,516	23,680,317	22,505,264	19,266,797
Plan fiduciary net position - ending (b)	\$ 27,071,158	\$ 24,200,516	\$ 23,680,317	\$ 22,505,264
CBH's net pension liability (asset) - ending (a) - (b)	\$ (1,428,487)	\$ 381,681	\$ (124,357)	\$ (462,189)
Plan fiduciary net position as a percentage of the total pension liability	105.57%	98.45%	100.53%	102.10%
Covered payroll	\$ 8,817,048	\$ 7,940,954	\$ 7,219,337	\$ 7,020,849
CBH's net pension liability (asset) as a percentage of covered payroll	-16.20%	4.81%	-1.72%	-6.58%

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

COLONIAL BEHAVIORAL HEALTH

Schedule of Employer Contributions - Pension Plan For the Years Ended June 30, 2009 through June 30, 2018

Date	Contributions in Relation to				Contributions as a % of Covered Payroll (5)
	Contractually Required Contribution (1)	Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	
2018	\$ 444,990	\$ 444,990	\$ -	\$ 9,067,190	4.91%
2017	467,304	467,304	-	8,817,048	5.30%
2016	622,571	622,571	-	7,940,954	7.84%
2015	565,996	565,996	-	7,219,337	7.84%
2014	651,535	651,535	-	7,020,849	9.28%
2013	628,377	628,377	-	6,771,303	9.28%
2012	478,168	478,168	-	6,792,164	7.04%
2011	465,218	465,218	-	6,608,207	7.04%
2010	334,343	334,343	-	6,542,917	5.11%
2009	354,786	354,786	-	6,942,983	5.11%

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

COLONIAL BEHAVIORAL HEALTH

Notes to Required Supplementary Information - Pension Plan For the Year Ended June 30, 2018

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 is not material.

Changes of assumptions - The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest 10 - Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

All Others (Non 10 Largest) - Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

COLONIAL BEHAVIORAL HEALTH

Schedule of Changes in Total OPEB Liability and Related Ratios For the Year Ended June 30, 2018

	<u>2018</u>
Total OPEB liability	
Service cost	\$ 336,342
Interest	193,055
Changes in assumptions	(351,886)
Benefit payments	(75,007)
Net change in total OPEB liability	\$ 102,504
Total OPEB liability - beginning	5,216,673
Total OPEB liability - ending	\$ <u>5,319,177</u>
 Covered payroll	 \$ 8,080,700
 CBH's total OPEB liability as a percentage of covered payroll	 65.83%

Schedule is intended to show information for 10 years. Additional years will be included as they become available.

COLONIAL BEHAVIORAL HEALTH

Notes to Required Supplementary Information - Medical and Dental Plan For the Year Ended June 30, 2018

Valuation Date: 6/30/2016
Measurement Date: 6/30/2018

No assets are accumulated in a trust that meets the criteria in GASB 75 to pay related benefits.

Methods and assumptions used to determine OPEB liability:

Actuarial Cost Method	Entry age normal level % of salary
Discount Rate	3.50% as of June 30, 2017; 3.87% as of June 30, 2018
Inflation	2.50% per year as of June 30, 2017; 2.50% per year as of June 30, 2018
Healthcare Trend Rate	The healthcare trend rate assumption starts at 6.90% in 2016 and gradually declines to 4.10% by the year 2097
Salary Increase Rates	The salary increase rate starts at 5.35% salary increase for 1 year of service and gradually declines to 3.50% salary increase for 20 or more years of service
Retirement Age	The average age at retirement is 62
Mortality Rates	The mortality rates for active and healthy retirees was calculated using the RP-2000 Total Dataset Mortality Table fully generational using scale AA. The mortality rates for disabled retirees and calculated using the PRH-2000 Disabled Mortality Table fully generational using scale MP-2000.

COLONIAL BEHAVIORAL HEALTH

Schedule of Changes in the CBH's Net OPEB Liability and Related Ratios Health Insurance Credit Program (HIC) For the Year Ended June 30, 2018

	<u>2017</u>
Total HIC OPEB Liability	
Service cost	\$ 7,174
Interest	17,672
Changes in assumptions	(8,182)
Benefit payments	(8,606)
Net change in total HIC OPEB liability	\$ 8,058
Total HIC OPEB Liability - beginning	256,762
Total HIC OPEB Liability - ending (a)	<u><u>\$ 264,820</u></u>
 Plan fiduciary net position	
Contributions - employer	\$ 14,989
Net investment income	19,056
Benefit payments	(8,606)
Administrative expense	(317)
Other	940
Net change in plan fiduciary net position	\$ 26,062
Plan fiduciary net position - beginning	161,355
Plan fiduciary net position - ending (b)	<u><u>\$ 187,417</u></u>
 CBH's net HIC OPEB liability - ending (a) - (b)	 \$ 77,403
 Plan fiduciary net position as a percentage of the total HIC OPEB liability	 70.77%
 Covered payroll	 \$ 8,817,048
 CBH's net HIC OPEB liability as a percentage of covered payroll	 0.88%

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

COLONIAL BEHAVIORAL HEALTH

Schedule of Employer Contributions Health Insurance Credit Program (HIC)

For the Years Ended June 30, 2017 through June 30, 2018

Date	Contributions in Relation to					Contributions as a % of Covered Payroll (5)
	Contractually Required Contribution (1)	Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)		
2018	\$ 15,414	\$ 15,414	\$ -	\$ 9,067,190		0.17%
2017	14,989	14,989	-	8,817,048		0.17%

Schedule is intended to show information for 10 years. Information prior to the 2017 is not available. However, additional years will be included as they become available.

COLONIAL BEHAVIORAL HEALTH

Notes to Required Supplementary Information Health Insurance Credit Program (HIC) For the Year Ended June 30, 2018

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions - The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest Ten Locality Employers - General Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Non-Largest Ten Locality Employers - General Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

COLONIAL BEHAVIORAL HEALTH

Schedule of CBH's Share of Net OPEB Liability
Group Life Insurance Program
For the Year Ended June 30, 2018

Date	Employer's Proportion of the Net GLI OPEB Liability	Employer's Proportionate Share of the Net GLI OPEB Liability	Employer's Covered Payroll	Employer's Proportionate Share of the Net GLI OPEB Liability as a Percentage of Covered Payroll (3)/(4)	Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability
2017	0.04797% \$	721,000 \$	8,817,048	8.18%	48.86%

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

COLONIAL BEHAVIORAL HEALTH

Schedule of Employer Contributions
Group Life Insurance Program
For the Years Ended June 30, 2017 and June 30, 2018

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2018	\$ 47,664	\$ 47,664	\$ -	\$ 9,067,190	0.53%
2017	46,008	46,008	-	8,817,048	0.52%

Schedule is intended to show information for 10 years. Information prior to 2017 is not available. However, additional years will be included as they become available.

Notes to Required Supplementary Information
Group Life Insurance Program
For the Year Ended June 30, 2018

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions - The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

General State Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

Teachers

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change

SPORS Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

VaLORS Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

Notes to Required Supplementary Information
Group Life Insurance Program
For the Year Ended June 30, 2018 (Continued)

JRS Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change

Largest Ten Locality Employers - General Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Non-Largest Ten Locality Employers - General Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

Largest Ten Locality Employers - Hazardous Duty Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

Non-Largest Ten Locality Employers - Hazardous Duty Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

- Other Supplementary Information -
Combining Financial Statements

COLONIAL BEHAVIORAL HEALTH

Combining Statement of Net Position
At June 30, 2018

	Colonial Behavioral Health	Colonial Community Services Inc.	Inter- Company Eliminations	Total
ASSETS				
Current Assets:				
Cash and cash equivalents	\$ 3,409,930	\$ 133,368	\$ -	\$ 3,543,298
Accounts receivable, less allowance for uncollectibles	573,225	-	-	573,225
Accrued revenue	25,888	-	-	25,888
Prepaid items	162,173	668	(23,754)	139,087
Total current assets	\$ 4,171,216	\$ 134,036	\$ (23,754)	\$ 4,281,498
Capital Assets:				
Property and equipment, less accumulated depreciation	\$ 600,692	\$ 5,369,499	\$ -	\$ 5,970,191
Other Assets:				
Net pension asset	\$ 1,428,487	\$ -	\$ -	\$ 1,428,487
Total assets	\$ 6,200,395	\$ 5,503,535	\$ (23,754)	\$ 11,680,176
DEFERRED OUTFLOWS OF RESOURCES				
Pension related items	\$ 444,990	\$ -	\$ -	\$ 444,990
OPEB related items	162,678	-	-	162,678
Total deferred outflows of resources	\$ 607,668	\$ -	\$ -	\$ 607,668
LIABILITIES				
Current Liabilities:				
Accounts payable and accrued expenses	\$ 748,930	\$ 7,894	\$ -	\$ 756,824
Compensated absences, current portion	513,793	-	-	513,793
Revenue bond, current portion	-	171,000	-	171,000
Unearned revenue	574,381	23,754	(23,754)	574,381
Total current liabilities	\$ 1,837,104	\$ 202,648	\$ (23,754)	\$ 2,015,998
Long-Term Liabilities:				
Compensated absences, less current portion	\$ 668,774	\$ -	\$ -	\$ 668,774
Net OPEB liabilities	6,117,177	-	-	6,117,177
Revenue bond, less current portion	-	1,799,000	-	1,799,000
Total long-term liabilities	\$ 6,785,951	\$ 1,799,000	\$ -	\$ 8,584,951
Total liabilities	\$ 8,623,055	\$ 2,001,648	\$ (23,754)	\$ 10,600,949
DEFERRED INFLOWS OF RESOURCES				
Pension related items	\$ 959,245	\$ -	\$ -	\$ 959,245
OPEB related items	393,748	-	-	393,748
Total deferred inflows of resources	\$ 1,352,993	\$ -	\$ -	\$ 1,352,993
NET POSITION				
Net investment in capital assets	\$ 600,692	\$ 3,399,499	\$ -	\$ 4,000,191
Unrestricted	(3,768,677)	102,388	-	(3,666,289)
Total net position	\$ (3,167,985)	\$ 3,501,887	\$ -	\$ 333,902

COLONIAL BEHAVIORAL HEALTH

Combining Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2018

	Colonial Behavioral Health	Colonial Community Services Inc.	Inter- Company Eliminations	Total
Operating revenues:				
Net patient service revenue	\$ 5,044,787	\$ -	\$ -	\$ 5,044,787
Operating expenses:				
Salaries and benefits	\$ 12,920,173	\$ -	\$ -	\$ 12,920,173
Staff development	51,313	-	-	51,313
Facility	1,048,983	22,262	(289,049)	782,196
Supplies	427,189	-	-	427,189
Travel	165,339	-	-	165,339
Contractual and consulting	1,603,044	-	-	1,603,044
Depreciation	149,085	175,661	-	324,746
Other	145,444	3,584	-	149,028
Total operating expenses	\$ 16,510,570	\$ 201,507	\$ (289,049)	\$ 16,423,028
Operating income (loss)	\$ (11,465,783)	\$ (201,507)	\$ 289,049	\$ (11,378,241)
Nonoperating income (expenses):				
Appropriations:				
Commonwealth of Virginia	\$ 6,239,982	\$ -	\$ -	\$ 6,239,982
Federal government	766,572	-	-	766,572
Local governments	2,662,400	-	-	2,662,400
Other	2,068,688	289,049	(289,049)	2,068,688
Interest income	33,491	10	-	33,501
Interest expense	-	(63,786)	-	(63,786)
Net nonoperating income (expenses)	\$ 11,771,133	\$ 225,273	\$ (289,049)	\$ 11,707,357
Change in net position	\$ 305,350	\$ 23,766	\$ -	\$ 329,116
Net position, beginning of year, as restated	(3,473,335)	3,478,121	-	4,786
Net position, end of year	\$ (3,167,985)	\$ 3,501,887	\$ -	\$ 333,902

COLONIAL BEHAVIORAL HEALTH

Combining Statement of Cash Flows
Year Ended June 30, 2018

	Colonial Behavioral Health	Colonial Community Services Inc.	Inter- Company Eliminations	Total
Cash flows from operating activities:				
Receipts from customers	\$ 5,121,805	\$ -	\$ -	\$ 5,121,805
Payments to suppliers	(3,349,224)	(25,878)	289,049	(3,086,053)
Payments to and for employees	(13,020,895)	-	-	(13,020,895)
Net cash flows provided by (used for) operating activities	\$ (11,248,314)	\$ (25,878)	\$ 289,049	\$ (10,985,143)
Cash flows from noncapital financing activities:				
Government grants	\$ 9,668,954	\$ -	\$ -	\$ 9,668,954
Other	2,068,688	289,049	(289,049)	2,068,688
Net cash flows provided by (used for) noncapital and related financial activities	\$ 11,737,642	\$ 289,049	\$ (289,049)	\$ 11,737,642
Cash flows from capital and related financing activities:				
Acquisition of capital assets	\$ (316,343)	\$ (165,119)	\$ -	\$ (481,462)
Interest payments on loans	-	(63,786)	-	(63,786)
Principal payments on loans	-	(166,000)	-	(166,000)
Net cash flows provided by (used for) capital and related financing activities	\$ (316,343)	\$ (394,905)	\$ -	\$ (711,248)
Cash flows from investing activities:				
Interest income	\$ 33,491	\$ 10	\$ -	\$ 33,501
Net increase (decrease) in cash and cash equivalents	\$ 206,476	\$ (131,724)	\$ -	\$ 74,752
Cash and cash equivalents, beginning of year	3,203,454	265,092	-	3,468,546
Cash and cash equivalents, end of year	\$ 3,409,930	\$ 133,368	\$ -	\$ 3,543,298
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ (11,465,783)	\$ (201,507)	\$ 289,049	\$ (11,378,241)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	149,085	175,661	-	324,746
Changes in assets and deferred outflows of resources and liabilities and deferred inflows of resources:				
Accounts receivable and accrued revenue	72,826	-	-	72,826
Prepaid items	(40,066)	(32)	-	(40,098)
Net pension asset/liability	(1,810,168)	-	-	(1,810,168)
Deferred outflows of resources	486,719	-	-	486,719
Accounts payable and accrued expenses	132,154	-	-	132,154
Compensated absences	120,979	-	-	120,979
Net OPEB liabilities	91,504	-	-	91,504
Unearned revenue	4,192	-	-	4,192
Deferred inflows of resources	1,010,244	-	-	1,010,244
Cash flows provided by (used for) operating activities	\$ (11,248,314)	\$ (25,878)	\$ 289,049	\$ (10,985,143)

- Compliance -

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Colonial Behavioral Health
Williamsburg, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of Colonial Behavioral Health, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Colonial Behavioral Health's basic financial statements and have issued our report thereon dated November 16, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Colonial Behavioral Health'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 Colonial Behavioral Health's internal control. Accordingly, we do not express an opinion on the effectiveness of Colonial Behavioral Health's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Robinson, Fawcett, Cox Associates

Charlottesville, Virginia
November 16, 2018

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

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

To the Board of Directors
Colonial Behavioral Health
Williamsburg, Virginia

Report on Compliance for Each Major Federal Program

We have audited the Colonial Behavioral Health's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Colonial Behavioral Health's major federal programs for the year ended June 30, 2018. Colonial Behavioral Health's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Colonial Behavioral Health's compliance.

Opinion on Each Major Federal Program

In our opinion, the Colonial Behavioral Health complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of the Colonial Behavioral Health 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 Colonial Behavioral Health's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Colonial Behavioral Health'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 a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

Robinson, Fawcett, Cox Associates

Charlottesville, Virginia
November 16, 2018

COLONIAL BEHAVIORAL HEALTH

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Expenditures
Department of Health and Human Services:			
Pass-through payments:			
Virginia Department of Behavioral Health and Developmental Services:			
Opioid STR	93.788	Not available	\$ 66,500
Block Grants for Community Mental Health Services	93.958	Not available	48,856
Block Grants for Prevention and Treatment of Substance Abuse	93.959	Not available	424,820
Total Department of Health and Human Services			\$ 540,176
Department of Education:			
Pass-through payments:			
Virginia Department of Behavioral Health and Developmental Services			
Special Education - Grants for Infants and Families	84.181	Not available	\$ 226,396
Total Expenditures of Federal Awards			\$ 766,572

Notes to the Schedule of Expenditures of Federal Awards

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Colonial Behavioral Health under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Uniform Guidance. Because the Schedule presents only a selected portion of the operations of Colonial Behavioral Health, it is not intended to and does not present the financial position, changes in net position, or cash flows of Colonial Behavioral Health.

Note B - Summary of Significant Accounting Policies

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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

Note C - Subrecipients

No awards were passed through to subrecipients.

Note D - De Minimis Cost Rate

The Board did not elect to use the 10-percent de minimis indirect cost rate under Uniform Guidance.

Note E - Loan Balances

COLONIAL BEHAVIORAL HEALTH

Schedule of Findings and Questioned Costs Year Ended June 30, 2018

Section I - Summary of Auditors' Results

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)?	No
Identification of major programs:	
<u>CFDA #</u> <u>Name of Federal Program or Cluster</u>	
93.959 Block Grants for Prevention and Treatment of Substance Abuse	
Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee?	Yes

Section II - Financial Statement Findings

There are no financial statement findings to report.

Section III - Federal Award Findings and Questioned Costs

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

COLONIAL BEHAVIORAL HEALTH

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2018

There were no prior year findings.