RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION

AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2018

DUNHAM, AUKAMP & RHODES, PLC
Certified Public Accountants
Chantilly, Virginia

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION COMMISSIONERS

As of June 30, 2018

Culpeper County
Mr. John Egertson
Mr. Steven L. Walker

Town of Culpeper
Mr. Chris Hively
Ms. Meaghan Taylor, Commission Treasurer

Fauquier County
Mr. Christopher T. Butler
Mr. Paul S. McCulla

Town of Warrenton
Mr. Brannon Godfrey
Mr. Jerry Wood

Town of Remington
Mr. Evan H."Skeet" Ashby, III

Town of The Plains
Mr. Christopher R. Malone

Madison County
Ms. Amber Foster
Mr. John Hobbs

Town of Madison
Mr. William L. Lamar

Orange County
Mr. James P. "Jim" Crozier, Commission Chair
Mr. R. Bryan David

Town of Orange
Ms. Martha B. Roby
Mr. Greg Woods

Town of Gordonsville
Mr. Robert Coiner, Commission Vice-Chair

Rappahannock County
Mr. Garrey W. Curry, Jr.
Mr. Roger Welch

Town of Washington
Mr. John Fox Sullivan

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION

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Dunham, Aukamp & Rhodes, PLC
Certified Public Accountants

4437 Brookfield Corporate Dr., Suite 205-D
Chantilly, VA 20151

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Rappahannock-Rapidan Regional Commission
Culpeper, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of the Rappahannock-Rapidan Regional Commission as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Commission'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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the Rappahannock-Rapidan Regional Commission as of June 30, 2018 and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of revenue and expenses-budget and actual (budgetary basis), the schedule of employer's share of net pension liability and related ratios, and the schedule of employer contributions on pages 3 through 7 and pages 32 through 37 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2018, on our consideration of the Rappahannock-Rapidan Regional Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Rappahannock-Rapidan Regional Commission's internal control over financial reporting and compliance.

Dunham, Aukamp & Rhodes, PLC

Certified Public Accountants
Chantilly, Virginia

December 17, 2018

Management's Discussion and Analysis

As management of the Rappahannock-Rapidan Regional Commission we offer this narrative overview and analysis of the financial performance of the Commission's financial activities for the year ended June 30, 2018.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Commission's basic financial statements. Since the Commission is engaged only in business-type activities, its basic financial statements are comprised of only two components: 1) financial statements and 2) notes to the financial statements.

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

The statement of net position presents information on the Commission's assets, deferred outflow of resources, liabilities and deferred inflow of resources, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

The statement of revenues, expenses and changes in net position presents information showing how the Commission's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of the cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, (i.e. earned but unused vacation leave).

Notes to financial statements. The notes to the financial statements provide additional disclosure required by governmental accounting standards and provide information to assist the reader in understanding the Commission's financial condition. The MD&A is intended to explain the significant changes in financial position and the differences in operation between the current year and prior year.

Financial Highlights FY2018

The financial position of the Rappahannock-Rapidan Regional Commission has experienced a number of fluctuations in recent years due to funding variances. In fiscal years 2013 and 2014, the Commission utilized significant reserve funds to balance revenues with expenditures, primarily as a result of decreasing administrative funding as an allowable grant expense. During the FY2017 budget cycle, the Regional Commission made the determination to begin restoring some of those funds with a goal of maintaining a balance of six months of operating expenses. Methods to achieve this goal included holding positions vacant, controlling spending on operating expenses, and continuing to leverage local resources via additional state and federal grants. As a result, the Commission's net position increased in both FY2017 and FY2018. The Commission's financial position varies throughout the year, with numerous grants and projects spanning multiple fiscal years. FY2018 included several housing, environmental and transportation related grants which represented a significant percentage of the total budget. Operating expenses reflect contractual payments, office expenses, and major expenses such as salaries and employee benefits.

Financial Analysis

The following table reflects the condensed Statements of Net Position:

Summary Statements of Net Position
June 30,

	2018	2017
Current Assets	$337,950	$319,410
Capital Assets (net)	195,153	204,669
Net Pension Asset	449,945	75,913
Total Assets	983,048	599,992
Deferred Outflows of Resources	24,629	58,874
Current Liabilities	86,721	126,126
Long-term Liabilities	191,932	206,355
Total Liabilities	278,653	332,481
Deferred Inflows of Resources	172,357	123
Invested in capital assets, net of debt	(11,204)	(15,445)
Unrestricted	567,871	341,707
Total Net Position	$556,667	$326,262

The Commission's total net position (which is the Commission's bottom line) increased by $230,405 during the year. It should be noted that $167,553 of this increase was due to the current year GASB 68 adjustment and that readily accessible assets increased by $18,540 during the year. This increase in net position reflects our efforts to secure new grants and to manage expenses for the agency. The improved net position also enables the Commission to better manage our cash flow and provide needed cash match for new grants, to maintain staffing levels to support future needs of our member jurisdictions, and to maintain reserve funds for long-term liabilities, including the Commission-owned office building.

The following summarizes the revenues and expenses of the Commission:

	Changes in Net Position For the Years Ended June 30, 2018	2017
Operating revenues		
Grants	$761,532	$751,705
Dues	143,555	143,555
Other operating revenues	51,326	51,129
Total operating revenues	956,413	946,389
Non-operating revenues		
GASB 68 adjustment	167,553	(13,516)
Interest	1,848	469
Net loss on investments	(335)	-
Loss on disposal of equipment	(451)	-
Total non-operating revenues	168,615	(13,047)
Total Revenues	1,125,028	933,342
Operating Expenses		
Salaries and wages	391,349	346,229
Freedom grant	200,254	189,600
Fringe benefits	98,232	86,343
Farmers Market Promotion Program	48,238	24,826
Regional ride sharing	47,154	43,615
Virginia Housing Development Authority	24,313	19,475
Regional Tourism	10,531	2,071
PATH planning grant	5,113	5,204
Other grant expenses	3,851	4,991
Carver agriculture grant	-	19,000
National Fish and Wildlife Foundation	-	9,729
Other operating expenses	43,265	42,712
Total operating expenses	872,300	793,795
Depreciation and amortization	12,164	12,651
Interest paid on debt	10,159	10,796
Total expenses	894,623	817,242
Change in net position	230,405	116,100
Net position beginning of year	326,262	210,162
Net position end of year	$556,667	$326,262

Revenues

For the fiscal year ended June 30, 2018, total revenues increased by $178,170 from the prior year. However, $167,553 of the additional revenue was the result of the GASB 68 adjustment. Operating revenues increased $10,024 from FY2017 to FY2018. The increased operating revenue is largely due to continued work on the Section 5310 (New Freedom) grants for mobility management and Foothills Express operation through the Department of Rail and Public Transportation, Farmers Market Promotion Program, and closeout of several grants during the year. Additionally, the continuation of grants from the Department of Rail and Public Transportation in support of RRRC's Commuter Services program, and the Rural Transportation Planning grant from the Virginia Department of Transportation are important for RRRC's ability to continue providing support for successful, long-term projects. Finally, RRRC's regional housing efforts were aided by successful grants from the Virginia Homeless Solutions Program, but also from funding allocated by member jurisdictions in support of a 0.5 Full-Time Equivalent housing position.

Expenses

For the fiscal year ended June 30, 2018, total expenses increased by $77,381 from the prior year. Personnel costs such as health insurance and retirement were stable from FY 2017 to FY 2018, although salaries and wages – the largest expense for the Commission – increased by $45,120 with a full staff for most of the fiscal year. Total expenses were lower than our total revenues.

Capital Assets

At the end of fiscal year 2018, the Commission had invested $400,709 in capital assets which consisted of the office building, office furniture and equipment. This amount has been depreciated by $205,556, for a carrying amount of $195,153.

Long-Term Debt

On August 12, 2000 the Commission received loan proceeds in the amount of $376,000 from the Department of Agriculture to finance construction of office facilities. The loan is due in monthly installments of $1,993 through July 12, 2029. Interest on the loan is at 4.75%. The balance of this loan was $206,357 as of June 30, 2018.

Economic Factors and Future Projects

The Commission receives a substantial amount of its support from local and state governments. Reduced administrative funding in many grants resulted in significant decreases in the Commission's fund balance in 2013 and 2014. The Regional Commission was successful in beginning to restore that fund balance in FY 2017 based on controlling expenses and continued success with state and federal grant applications. The Regional Commission expects that revenues and expenses will be more closely balanced in future years. Operating expenses will generally remain at a level in proportion to the revenues.

Presently, management of the Commission is not aware of any significant changes in conditions that would have a significant effect on the financial position or results of activity of the Commission in the near future. However, uncertainty at the federal and state level may cause some long-term changes, depending upon funding priorities and availability of grant funding. In particular, funding for housing, transit, mobility management, and environmental planning has been the subject of discussion at the state and federal levels during the past fiscal year.

The Commission is currently involved in numerous projects including but not limited to agricultural development, rural transportation planning, ridesharing, environmental planning, regional housing, economic development, community development planning, and regional tourism.

Contacting the Commission's Financial Management

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in the report or requests for additional financial information should be directed to the Commission's Executive Director at 420 Southridge Parkway, Suite 106, Culpeper, VA 22701.

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
STATEMENT OF NET POSITION
JUNE 30, 2018

ASSETS		
Cash and investments	$	241,983
Accounts receivable		95,967
Net pension asset		449,945
Capital assets, net		195,153
Total Assets		983,048
DEFERRED OUTFLOWS OF RESOURCES		
Pension contributions after the measurement date		20,245
Difference between expected and actual experience		4,384
Total Deferred Outflows of Resources		24,629
LIABILITIES		
Accounts payable		41,228
Accrued liabilities		10,489
Accrued annual leave		20,579
Rural Development loan payable		206,357
Total Liabilities		278,653
DEFERRED INFLOWS OF RESOURCES		
Difference between expected and actual experience		136,968
Changes of assumptions		14,297
Net difference between projected and actual earnings on plan investments		21,092
Total Deferred Inflows of Resources		172,357
NET POSITION		
Investment in capital assets, net of related debt		(11,204)
Unrestricted		567,871
Total Net Position	$	556,667

See accompanying notes.

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

Operating Revenues:	
Freedom grant	$ 254,955
Dues	143,555
Rideshare program	118,369
Virginia homeless solution program	84,433
State regional planning grant	75,971
USDA FMPP grant	70,012
Rural transportation program	58,000
Hazard Mitigation	34,959
Virginia Housing Development Authority Research Capacity	23,030
Veteran transportation and community living initiative	12,853
Go Virginia	6,500
Madison county comp plan	5,250
Fauquier Health Foundation	4,947
Goose Creek TMDL	2,650
Madison county planning	1,104
RTAP Scholarship	896
Water supply plan	749
Other Income	
Regional Housing	48,855
Regional tourism	7,000
Miscellaneous	1,575
DCR workshop	750
Total Operating Revenues	956,413
Operating Expenses:	
Annual meeting	3,604
Audit	3,450
DCR workshop	259
Depreciation	12,164
Equipment	2,649
Freedom grant	200,254
Insurance health	40,780
Insurance liability	1,378
Insurance workers' compensation	500
Maintenance and repairs	5,178
Membership dues	2,745
Miscellaneous	147
PATH planning grant	5,113
Payroll taxes	29,280
Postage	539

See accompanying notes.

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

Operating Expenses (Continued):

Printing	$ 1,067
Regional tourism	10,531
Retirement	27,672
Rideshare	47,154
RTAP expense	840
Rural transportation planning	1,179
Salary	391,349
Subscriptions and publications	468
Supplies	4,178
Technology	4,784
Travel	7,784
Utilities	5,035
USDA FMPP	48,238
Virginia Housing Development Authority	24,313
Virginia Homeless Solution program expense	1,832
Total Operating Expenses	884,464
Operating Gain	71,949
Nonoperating Income (Expense)	
GASB 68 actuarial adjustment	167,553
Interest income	1,848
Net loss on Investments	(335)
Loss on disposal of equipment	(451)
Interest expense	(10,159)
Total Nonoperating Expense	158,456
Change in Net Position	230,405
Net Position at beginning of year	326,262
Net Position at end of year	$ 556,667

See accompanying notes.

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018

Cash flows from operating activities:	
Cash received from customers and users	$ 977,121
Payments to suppliers	(506,588)
Payments to employees	(396,851)
Net Cash Provided by Operating Activities	73,682
Cash flows from capital and related financing activities:	
Principal payments on debt	(13,757)
Interest payments on debt	(10,159)
Net Cash Used in Capital and Related Financing Activities	(23,916)
Cash flows from investing activities	
Purchases of new equipment	(3,099)
Proceeds from investments	1,155
Purchases of investments	(75)
Interest earned	1,848
Net Cash Used in Investing Activities	(171)
Net Change in Cash and Cash Equivalents	49,595
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	192,388
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 241,983
Reconciliation of Operating Gain to Net Cash Provided by Operating Activities	
Operating Gain	$ 71,949
Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities:	
Depreciation	12,164
GASB 68 adjustment	167,553
Unrealized loss on investments	(1,415)
Changes in current assets and liabilities:	
Increase in accounts receivable	31,055
Decrease in net pension asset	(374,032)
Increase in deferred outflows	34,245
Increase in accounts payable	(24,222)
Decrease in accrued liabilities	(5,871)
Increase in accrued annual leave	369
Decrease in deferred revenue	(10,347)
Decrease in deferred inflows	172,234
Net Cash Provided by Operating Activities	$ 73,682

See accompanying notes.

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies

The financial statements of the Rappahannock-Rapidan Regional Commission conform to generally accepted accounting principles (GAAP) applicable to government units promulgated by the Government Accounting Standards Board (GASB). The following is a summary of the more significant accounting policies:

A. The Financial Reporting Entity

The Rappahannock-Rapidan Regional Commission was chartered in 1971. The Commission includes the Counties of Culpeper, Fauquier, Madison, Orange and Rappahannock and the towns of Remington, Warrenton, Culpeper, Orange, Madison, Gordonsville, Washington and The Plains. Regional Commissions achieved their being and legal status by the Virginia Area Development Act, passed by the General Assembly on March 13, 1968. The Act was an amendment of Chapters 34 and 35 of the *Code of Virginia* and provided the State with a uniform set of sub-state administrative boundaries and local government the authority to create planning and/or service district commissions, all in an effort to improve state and local relations which would enable government to be more responsive to the needs of its people.

B. Financial Statement Presentation

Management's Discussion and Analysis – GASB Statement #34 requires the financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A).

Enterprise Fund Financial Statements:

The Statement of Net Position is designed to display the financial position of the Commission. Governments will report all capital assets and will report depreciation expense – the cost of "using up" capital assets – in the Statement of Revenues, Expenses and Changes in Net Position. The net position of the government is broken down into three categories – 1) invested in capital assets, net of related debt; 2) restricted; and 3) unrestricted.

C. Basis of Accounting

The accounting and reporting policies of the Commission relating to the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB) the American Institute of Certified Public Accountants in the Publication entitled <u>Audits of State and Local Government Units</u> and by the Financial Accounting Standards Board (when applicable).

D. Budgets and Budgetary Accounting

A budget is prepared for information and fiscal planning purposes. None of the participating entities are required to approve the budget. The budget is adopted as a planning document and is not a legal control on expenses. The budget is prepared on the same basis of accounting as the actual financial statements are prepared except for depreciation and capital asset purchases are expensed.

NOTE 1 – Summary of Significant Accounting Policies (continued)

E. Capital Assets

Property, plant and equipment purchased is stated at cost or estimated cost for all items with an initial costs exceeding $1,000. Donated property is recorded at fair market value prevailing at the date of donation. Depreciation for capital asset has been provided for over the following estimated useful lives using the straight-line method:

Equipment	3-12 years
Buildings	39 years

Activity of the capital assets for the Commission for the year ended June 30, 2018 was as follows:

	Balance July 1, 2017	Additions	Disposals	Balance June 30, 2018
Office furniture and equipment	$ 38,283	$ 3,099	$ (8,928)	$ 32,454
Buildings and improvements	368,255	-	-	368,255
Less:				
Accumulated Depreciation	(201,869)	(12,164)	8,477	(205,556)
Net capital assets	$204,669	$(9,065)	$(451)	$ 195,153

F. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Commission considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

G. Use of Estimates

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

H. Accounts Receivable

Accounts receivable are reported at their gross value when earned as the underlying exchange transaction occurs. Receivables related to non-exchange transactions are recognized when their eligibility requirements have been met. Receivables are reduced by the estimated portion that is expected to be uncollectible. This estimate is made based on collection history and current information regarding the credit worthiness of the debtors. When continued collection activity results in receipts of amounts previously written off, revenue is recognized for the amount collected. Management considers all of the receivables collectible at June 30, 2018, and no allowance for doubtful accounts has been provided.

NOTE 1 – Summary of Significant Accounting Policies (continued)

I. Deferred Outflows/Inflows of Resources

The Commission reports deferred outflows of resources on its statement of net position. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until the applicable period. The Commission has two items that qualify for reporting in this category. They are the employer pension contributions made after the actuarial measurement date and the difference between expected and actual experience. Employer contributions made after the measurement date of June 30, 2018, were $20,245. The difference between expected and actual experience, per the actuarial report dated of June 30, 2017, was $4,384.

The Commission reports deferred inflows of resources on its statement of net position. Deferred inflows of resources represent 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 a future period. The Commission had three items that qualify for reporting in this category. The difference between expected and actual experience; changes of assumptions; and net difference between the projected and actual earnings on plan investments, per the actuarial report dated of June 30, 2017, are $136,968, $14,297 and $21,092, respectively.

J. Pension

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 Commission's Retirement Plan and additions to/deductions from the Commission's Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by 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.

K. Restricted Resources

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, then unrestricted, as they are needed.

L. Advertising Costs

Advertising costs are expensed as incurred.

NOTE 2 - Cash and Investments

State statute authorizes the Commission to invest in obligations of the U. S. Treasury, agencies, and instrumentalities, repurchase agreements, certificates of deposit or time deposits insured by the FDIC, and the local government investment pool. Cash and cash equivalents include amounts in demand deposits as well as short-term, highly liquid investments with a maturity date within three months of the date acquired by the Commission. Deposits are carried at cost, which approximates fair value. At year end, the carrying value of the Commission's bank account balances was $15,713, and the bank balances totaled $25,215.

There is no custodial credit risk to these accounts, as the entire bank balance was covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act (Act). Under the Act, banks holding public deposits in excess of the amounts insured by the FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FSLIC limits. The State Treasury Board is responsible for monitoring compliance by banks and savings and loans. Accordingly, there is no custodial risk for either of the accounts as they are fully collateralized. In addition there is no interest rate risk as the interest rates are adjusted daily.

The Commission is a participant in the Virginia Investment Pool, a jointly-administered investment pool. Jointly-administered investment pools, such as VIP, are allowable investment as identified in the Investment of Public Funds Act. Participants own and control VIP, which is a governmental trust under Section 115 of the Internal Revenue Code. Public Trust Advisors, LLC (PTA) serves as Investment Manager. PTA is a Securities and Exchange Commission registered, independent investment advisor with significant local government investment pool experience. PTA manages more than $30 billion in public funds nationwide. Wells Fargo Bank is VIP's custodian bank.

The investment pool has not been assigned a risk category since the Commission is not issued securities, but rather owns an undivided interest in the assets of the pool. At June 30, 2018 the Commission's balance in the investment pool was $226,270 and included the follow investments:

VIP Liquidity Pool Account	$126,605
VIP Long Term Bond Fund	99,665

NOTE 3 – Rural Development Loan

The Commission received loan proceeds in the amount of $376,000 from the Department of Agriculture on August 12, 2000. The loan is secured by the Commission's real estate and due in monthly installments of $1,993 including interest of 4.75% through July 12, 2029.

Current year debt activity was as follows:

Beginning Balance	Increases	Decreases	Ending Balance
$220,114	$ -	$ 13,757	$206,357

NOTE 3 – Rural Development Loan (continued)

Mandatory debt service requirements consist of the following:

Year Ending June 30,	Principal	Interest
2019	$ 14,425	$ 9,491
2020	15,126	8,790
2021	15,860	8,056
2022	16,630	7,286
2023	17,437	6,479
2024-2028	100,744	18,836
2029-2030	26,135	756
Total	$ 206,357	$ 59,694

NOTE 4 – Defined Benefit Pension Plan

Pensions

The Virginia Retirement System (VRS) Political Subdivision Retirement Plan is a multi-employer, agent plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Commission's Retirement Plan and the additions to/deductions from the Commission'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. Investment are reported at fair value.

Plan Description

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

The System administers three different benefit structures for covered employees – Plan 1, Plan 2, and, Hybrid. Each of these benefit structures has a different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

NOTE 4 – Defined Benefit Pension Plan (continued)

<table>
<tr><th colspan="3">RETIREMENT PLAN PROVISIONS</th></tr>
<tr><th>PLAN 1</th><th>PLAN 2</th><th>HYBRID RETIREMENT</th></tr>
<tr>
<td>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.</td>
<td>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.</td>
<td>About the Hybrid Retirement Plan
The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan.
• The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.
• The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.
• In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.</td>
</tr>
<tr>
<td>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 refund.

Hybrid Opt-In Election
VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</td>
<td>Eligible Members
Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

Hybrid Opt-In Election
Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</td>
<td>Eligible Members
Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:
• Political subdivision employees*
• Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014

*Non-Eligible Members
Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:
• Political subdivision employees who are covered by enhanced benefits for hazardous duty employees</td>
</tr>
</table>

NOTE 4 – Defined Benefit Pension Plan (Continued)

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.	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.	Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	**Retirement Contributions** Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.	**Retirement Contributions** A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages
Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	**Creditable Service** Same as Plan 1.	**Creditable Service** **Defined Benefit Component:** Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. **Defined Contributions Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

NOTE 4 – Defined Benefit Pension Plan (Continued)

Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make	**Vesting** Same as Plan 1.	**Vesting** **<u>Defined Benefit Component:</u>** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. **<u>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. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. 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** See definition under Plan 1.	**Calculating the Benefit** **Defined Benefit Component:** See definition under Plan 1 **<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.

NOTE 4 – Defined Benefit Pension Plan (Continued)

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.
Normal Retirement Age VRS: Age 65. **Political subdivisions hazardous duty employees:** Age 60.	**Normal Retirement Age VRS:** Normal Social Security retirement age. **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Normal Retirement Age** Defined Benefit Component: VRS: Same as Plan 2. **Political subdivisions hazardous duty employees:** Not applicable. **<u>Defined Contribution Component:</u>** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

NOTE 4 – Defined Benefit Pension Plan (Continued)

Earliest Unreduced Retirement Eligibility **VRS:** Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. **Political subdivisions hazardous duty employees:** Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	**Earliest Unreduced Retirement Eligibility VRS:** Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Earliest Unreduced Retirement Eligibility** **Defined Benefit Component:** **VRS:** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. **Political subdivisions hazardous duty employees:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility **VRS:** Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service. **Political subdivisions hazardous duty employees:** 50 with at least five years of creditable service.	**Earliest Reduced Retirement Eligibility** **VRS:** Age 60 with at least five years (60 months) of creditable service. **Political subdivisions hazardous duty employees:** Same as Plan 1.	**Earliest Reduced Retirement Eligibility** **Defined Benefit Component: VRS:** Age 60 with at least five years (60 months) of creditable service. **Political subdivisions hazardous duty employees:** Not applicable. **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
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%.	**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%.	**Cost-of-Living Adjustment (COLA) in Retirement** **Defined Benefit Component:** Same as Plan 2. **Defined Contribution Component:** Not applicable.

NOTE 4 – Defined Benefit Pension Plan (Continued)

Eligibility: For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.	**Eligibility:** Same as Plan 1	**Eligibility:** Same as Plan 1 and Plan 2.
Exceptions to COLA Effective Dates: The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member Is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.	**Exceptions to COLA Effective Dates:** Same as Plan 1	**Exceptions to COLA Effective Dates:** Same as Plan 1 and Plan 2.

NOTE 4 – Defined Benefit Pension Plan (Continued)

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 Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before 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** **Defined Benefit Component:** Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. **Defined Contribution Component:** Not applicable.

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan's 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.

NOTE 4 – Defined Benefit 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:

		Number
Inactive Members or Their Beneficiaries Currently Receiving Benefits		2
Inactive Members		
Vested inactive members	4	
Non-vested inactive members	6	
Active members active elsewhere in VRS	4	
Total Inactive Members		14
Active Members		5
Total covered employees		21

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 Commission's contractually required contribution rate for the year ended June 30, 2018 was 2.90% 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 employee during the year, with an additional amount to finance any unfunded accrued liability. Contribution to the pension plan from the Commission was $20,245 and $16,670 for the years ended June 30, 2018 and June 30, 2017, respectively.

Net Pension Liability

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

NOTE 4 – Defined Benefit Pension Plan (Continued)

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Commission'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 125% 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.

NOTE 4 – Defined Benefit Pension Plan (Continued)

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:

Largest 10 – Non-Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy and disabled	Update 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	Increase rate from 14% to 20%

All Other (Non 10 Largest) – Non-Hazardous Duty:

Mortality Rates (Pre-retirement, post-retirement healthy and disabled	Update 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	Increase rate from 14% to 20%

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:

NOTE 4 – Defined Benefit Pension Plan (Continued)

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
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 carious 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 Political Subdivision Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 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.

NOTE 4 – Defined Benefit Pension Plan (Continued)

Change in the Net Pension Liability:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at June 30, 2016	$1,102,723	$1,178,636	$(75,913)
Changes for the year:			
Service cost	34,046		34,046
Interest	76,384		76,384
Change in assumption	(29,189)		(29,189)
Differences between expected and actual experience	(279,643)		(279,643)
Contributions – employer		16,670	(16,670)
Contributions – employee		14,694	(14,694)
Net investment income		145,211	(145,211)
Benefit payments, including refunds of employee contributions	(23,038)	(23,038)	0
Administrative expense		(815)	815
Other changes	0	(130)	130
Net changes	(221,440)	152,592	(374,032)
Balances at June 30, 2017	$881,283	$1,331,228	$(449,945)

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

The following presents the net pension liability of the Commission using the discount rate of 7%, as well as what the Commission's net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (6%) or one percentage-point higher (8%) than the current rate:

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
Commission's Net Pension Liability	$(316,836)	$(449,945)	$(557,859)

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

For the year ended June 30, 2018, the Commission recognized pension benefit of $146,292. At June 30, 2018, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	$4,384	$ 136,968
Changes in assumptions	-	14,297
Net difference between projected and actual earnings on plan investments	-	21,092
Employer contributions subsequent to the Measurement Date	20,245	-
Total	$24,629	$172,357

NOTE 4 – Defined Benefit Pension Plan (Continued)

$4,384 reported as deferred outflows of resources related to pensions resulting from Commission's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in future reporting periods as follows:

Year ending June 30,	
2019	$(158,533)
2020	4,047
2021	(999)
2022	(12,488)
2023	-
Thereafter	-

NOTE 5 – Commitments and Contingencies

The Commission receives a substantial amount of its support from local and state governments. A significant reduction in the level of this support, if this were to occur, could have an adverse effect on the Commission's programs and activities.

NOTE 6 – Evaluation of Subsequent Events

The Commission has evaluated subsequent events through December 17, 2018, the date which the financial statements were available to be issued.

Dunham, Aukamp & Rhodes, PLC
Certified Public Accountants

4437 Brookfield Corporate Dr., Suite 205-D
Chantilly, VA 20151

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

To the Board of Commissioners
Rappahannock-Rapidan Regional Commission:
Culpeper, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate remaining fund information of the Rappahannock-Rapidan Regional Commission as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Rappahannock-Rapidan Regional Commission's basic financial statements, and have issued our report thereon dated December 17, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Rappahannock-Rapidan Regional Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rappahannock-Rapidan Regional Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of Rappahannock-Rapidan Regional Commission's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 over financial reporting 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.

Metro: (703) 631-8940 FAX: (703) 631-8939 Toll Free 1-877-631-8940

Compliance and Other Matters

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

Purpose of this Report

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

Dunham, Aukamp & Rhodes, PLC

Certified Public Accountants
Chantilly, Virginia

December 17, 2018

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2018

	Original Budget	Final Budget	Actual Budgetary-Basis	Variance Favorable (Unfavorable)
Operating Revenues:				
DCR Workshop	$ -	$ 750	$ 750	$ -
Dues	143,555	143,555	143,555	-
Freedom Grant	245,000	245,000	255,587	10,587
Go Virginia	10,000	6,500	6,500	-
Goose Creek TMDL	2,650	2,650	2,650	-
Hazard Mitigation	54,000	54,000	40,180	(13,820)
Madison County Comp Plan	5,250	5,250	5,250	-
Other Income	-	-	1,575	1,575
Pet Waste Containment	-	1,079	1,079	-
Regional Housing	48,604	48,604	48,855	251
Regional Tourism	7,000	7,000	7,000	-
Rideshare Program	118,400	118,400	114,323	(4,077)
RTAP Scholarship	-	665	896	231
Rural Transportation Planning	58,000	58,000	60,038	2,038
State Regional Planning Grant	75,971	75,971	75,971	-
Town of Remingtion Zoning	-	1,000	-	(1,000)
USDA FMPP Grant	83,000	83,000	64,749	(18,251)
Veteran's Transportation Grant (VTCLI)	26,158	26,158	26,158	-
VHDA Research Capacity	37,571	37,571	37,572	1
Virginia Homeless Solution Program	84,000	84,000	84,433	433
Total Operating Revenues	999,159	999,153	977,121	(22,032)
Operating Expenses:				
Advertising	500	500	-	500
America's wine country	1,100	1,100	-	1,100
Annual meeting	4,000	4,000	3,604	396
Audit	3,400	3,400	3,450	(50)
Carver school expenses	-	6,164	6,164	-
DCR workshop	-	500	259	241
Equipment	7,000	7,000	3,920	3,080
Freedom grant	200,000	200,000	201,349	(1,349)
Hazard Mitigation	4,000	4,000	-	4,000
Insurance health	50,100	50,100	40,780	9,320
Insurance liability	1,350	1,350	1,378	(28)
Insurance workers' compensation	486	486	500	(14)
Maintenance and repairs	11,937	11,937	5,178	6,759
Membership dues	4,000	4,000	2,745	1,255
Miscellaneous	500	500	147	353
PATH planning grant	6,000	6,000	5,876	124

See accompanying notes.

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
SCHEDULE OF REVENUES AND EXPENSES-BUDGET AND ACTUAL (BUDGETARY BASIS) (Continued)
FOR THE YEAR ENDED JUNE 30, 2018

	Original Budget	Final Budget	Actual Budgetary-Basis	Variance Favorable (Unfavorable)
Operating Expenses (Continued):				
Payroll taxes	$ 31,600	$ 31,600	$ 29,280	$ 2,320
Pet waste containment	-	1,079	-	1,079
Postage	750	750	539	211
Printing	1,500	1,500	1,067	433
Regional tourism	11,500	11,500	10,531	969
Retirement	31,000	31,000	27,672	3,328
Rideshare	50,000	50,000	48,220	1,780
RTAP expense	-	665	840	(175)
Rural transportation planning	2,000	2,000	1,179	821
Salary	413,000	413,000	391,349	21,651
Subscriptions and publications	750	750	468	282
Supplies	4,000	4,000	4,178	(178)
Technology	6,000	6,000	4,784	1,216
Town of Remington zoning ordinance	-	1,000	-	1,000
Travel	8,000	8,000	7,784	216
Utilities	6,200	6,200	5,035	1,165
USDA FMPP	61,000	61,000	50,695	10,305
Virginia Housing Development Authority	38,870	38,870	38,855	15
Veteran transportation and community living initiative	1,000	1,000	-	1,000
Virginia Homeless Solution program expense	3,000	3,000	1,832	1,168
Total Operating Expenses	996,893	1,007,380	899,658	77,903
Operating Gain/(Loss)	2,266	(8,227)	77,463	85,690
Nonoperating Income (Expense)				
GASB 68 adjustment	-	-	167,553	167,553
Interest income	350	350	1,848	1,498
Investment loss	-	-	(335)	(335)
Loss on disposal of equipment	-	-	(451)	(451)
Interest expense	(23,916)	(23,916)	(23,916)	-
Total Nonoperating Income (Expense)	(23,566)	(23,566)	144,699	167,553
Net Gain/(Loss)	$ (21,300)	$ (31,793)	$ 222,162	$ 253,243

See accompanying notes.

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
SCHEDULE OF REVENUES AND EXPENSES
BUDGET AND ACTUAL - BUDGETARY BASIS
BUDGET-TO-GAAP RECONCILIATION
FOR THE YEAR ENDED JUNE 30, 2018

Note A - Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenue and Expenditures

Sources/inflows of resources	
Actual amounts (budgetary basis) from budgetary comparison schedule	$ 977,121
Collection of receivables accrued as of June 30, 2017 are revenue budgetary purposes but not for GAAP purposes.	(127,022)
Deferred grant revenue as of June 30, 2017	10,347
Receivables accrued as of June 30, 2018 are revenue for GAAP purposes but not for budgetary purposes.	95,967
Total operating revenue as reported on the statement of revenues, expenses and changes in net position.	$ 956,413
Uses/outflows of resources	
Actual amounts (budgetary basis) from budgetary comparison schedule	$ 899,658
Payments of accounts payable recorded as of June 30, 2017, are expenditures for budgetary purposes but not for GAAP purposes.	(58,466)
Purchases of equipment for the year ended June 30, 2018, are expenditures for budgetary purposes but not for GAAP purposes.	(3,099)
Payables accrued as of June 30, 2018 are expenses for GAAP purposes but not for budgetary purposes.	34,207
Depreciation expense is a expense for GAAP purposes but not for budgetary purposes.	12,164
Total operating expenses as reported on the statement of revenues, expenses and changes in net position.	$ 884,464

See accompanying notes.

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY AND RELATED RATIOS

	2017	2016	2015	2014
Total Pension Liability				
Service Cost	$ 34,046	$ 46,439	$ 45,136	$ 44,023
Interest on total pension liability	76,384	67,864	60,928	54,411
Changes in assumptions	(29,189)	-	-	-
Differences between expected and actual experience	(279,643)	22,652	(589)	-
Benefit payments, including refunds of employee contributions	(23,038)	(7,427)	(5,370)	(5,293)
Net change in total pension liability	(221,440)	129,528	100,105	93,141
Total pension liability - beginning	1,102,723	973,195	873,090	779,949
Total pension liability - ending (a)	$ 881,283	$ 1,102,723	$ 973,195	$ 873,090
Plan fiduciary net position				
Contributions - employer	$ 16,670	$ 20,601	$ 21,713	$ 24,294
Contributions - employee	14,694	16,585	17,468	17,147
Net investment income	145,211	22,505	49,158	140,644
Benefit payments, including refunds of employee contributions	(23,038)	(7,427)	(5,370)	(5,293)
Administrative expense	(815)	(2,049)	(630)	(720)
Other	(130)	(5)	(11)	7
Net change in plan fiduciary net position	152,592	50,210	82,328	176,079
Plan fiduciary net position - beginning	1,178,636	1,128,426	1,046,098	870,019
Plan fiduciary net position - ending (b)	$ 1,331,228	$ 1,178,636	$ 1,128,426	$ 1,046,098
Commission's Net pension asset - ending (a)-(b)	$ (449,945)	$ (75,913)	$ (155,231)	$ (173,008)
Plan fiduciary net position as a percentage of the total Pension liability	151.06%	106.88%	115.95%	119.82%
Covered - employee payroll	$ 367,005	$ 268,691	$ 351,496	$ 342,940
Commission's net pension liability as percentage of covered-employee payroll	-122.60%	-28.25%	-44.16%	-50.45%

See accompanying notes.

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR THE YEARS ENDED JUNE 30, 2009 TRHOUGH 2018

Date	Contractually Required Contributions (1)	Contributions in Relation to Contractually Required Contributions (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2018	$ 11,349	$ 20,245	$ (8,896)	$ 391,349	5.17%
2017	$ 10,643	$ 16,670	$ (6,027)	$ 367,005	4.54%
2016	16,766	20,601	(3,835)	268,691	7.67%
2015	21,933	21,713	220	351,496	6.18%
2014	24,383	24,294	89	342,940	7.08%
2013	24,383	28,323	(3,940)	342,940	8.26%
2012	26,840	29,446	(2,606)	322,209	9.14%
2011	26,111	28,702	(2,591)	313,452	9.16%
2010	15,365	19,279	(3,914)	307,307	6.27%
2009	13,665	17,534	(3,869)	273,307	6.42%

See accompanying notes.

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
For the Year Ended June 30, 2018

NOTE 1 – Change of Benefit Terms

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

NOTE 2 – 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-healthy, and disabled	Update to a more current mortality table – RP-2014 projected to
Retirement Rates	Lowered rates at older ages and changed final retirement from 7(
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	Increase rate from 14% to 20%

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

Mortality Rates (Pre-retirement, post-healthy, and disabled	Update to a more current mortality table – RP-2014 projected to
Retirement Rates	Lowered rates at older ages and changed final retirement from 7(
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	Increase rate from 14% to 15%