RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

FREDERICKSBURG, VIRGINIA

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2018

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD
Fredericksburg, Virginia

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Fredericksburg, Virginia

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RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

Principal Management Team

Jane Yaun	Executive Director
Rhonda Pellicano	Finance and Administration Director
Sharon Killian	Clinical Services Director
Joe Wickens	Community Support Services Director
Terry Moore	Human Resources Manager
Brandie Williams	Director of Operations

Rappahannock Area Community Services Board

Table of Organization

- King George County Board of Supervisors
- Caroline County Board of Supervisors
- Stafford County Board of Supervisors
- Spotsylvania County Board of Supervisors
- Fredericksburg City City Council

Rappahannock Area Community Services Board of Directors

- Finance Committee
- Personnel Committee
- Executive Committee
- Prevention/Public Information Committee
- Program Planning & Evaluation Committee

Executive Director
- Administrative Associate

Administrative Services
Accounting, Purchasing, Payroll, Reimbursement & Property Management

Community Support Services
Developmental Disability/Mental Health Day Support & Residential Services, Support Coordination, Early Intervention & Transportation Services

- **Early Intervention Services**
  - Parent Education-Infant Development Program (PE-ID)
  - Early Intervention Targeted Case Management (EI TCM)
  - Infant & Toddler Connection of the Rappahannock Area (Part C)
- **Developmental Disability Support Coordination Services**
- **Developmental Disability Residential Services**
  - Group Homes
  - Supported Living Program
  - Sponsored Placement
  - Supervised Apartments
  - Respite Care Group Home
  - Intermediate Care Facilities
- **Day Health & Rehabilitation Services**
  - Rappahannock Adult Activities
- **Mental Health Crisis Stabilization Program at The Sunshine Lady House for Mental Health Wellness & Recovery**
  - Medically Managed Detoxification Services
- **Mental Health Residential Services**
  - Supervised Apartments
  - Boarding House
  - Supported Living
- **Program of Assertive Community Treatment**
- **Psychosocial Rehabilitation Program**
  - Kenmore Club
- **Specialized Transportation Program**

Director of Operations
Quality Assurance, Compliance, Planning, Health & Safety, Human Rights/Consumer Affairs, & Information Technology

Prevention Services
Education, Outreach, Training

- **Prevention Services**
  - DARE to Be You
  - HALO
  - Media Ready/Media Detective
  - Mental Health First Aid (Adult & Youth)
  - Program for Teen Parents
  - Second Step
  - Too Good For Drugs
- **Rappahannock Area Kids on the Block**
- **Healthy Families Rappahannock Area**

Clinical Services
Mental Health/Substance Abuse Emergency, Outpatient, Case Management, & Substance Abuse Residential Services

- **Mental Health Services**
  - **Outpatient Services**
    - Caroline County
    - King George County
    - Fredericksburg City
    - Spotsylvania County
    - Stafford County
  - **Case Management Services**
  - **Psychology Evaluation/Assessment**
  - **Consumer Monitoring** (Projects for Assistance in the Transition from Homelessness, PATH)
  - **Jail-Based/Diversion Services**
    - Rappahannock Regional Jail
- **Child/Adolescent Services**
  - Intensive Care Coordination
  - Case Management
  - Juvenile Drug Treatment Court
  - Rappahannock Juvenile Center
- **Emergency Services**
  - Crisis Intervention Team
  - Crisis Assessment Center
  - Crisis Services for Children
- **Acute Psychiatric Inpatient Services** (Contract)
- **Substance Abuse Services**
  - **Outpatient Services**
    - Caroline County
    - King George County
    - Fredericksburg City
    - Spotsylvania County
    - Stafford County
  - **Medication Assisted Treatment**
  - **Case Management Services**
  - **Specialized Services for Women**
    - Case Management Services
    - Intensive Outpatient Services
  - **Adult Drug Treatment Court**
  - **Residential Services** (Contract)
  - **Project LINK**
    - (Pregnant and Parenting Women)

Human Resources
Recruitment, Orientation, Benefits & Training

Public Information
Marketing, Publications, Special Events, Intranet, Webpage & Social Media

Revised June 2017

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of Rappahannock Area Community Services Board, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Rappahannock Area Community Services Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express 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; 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 opinions.

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 Rappahannock Area Community Services Board, as of June 30, 2018, and the respective changes in financial position, where applicable, 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 17 to the financial statements, in 2018, the Board 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 18 to the financial statements, in 2018, the Board restated beginning balances to reflect the requirements 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 4-7, and 81-97 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.

Supplementary Information

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

Other Matters: (Continued)

Supplementary Information: (Continued)

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

Report on Summarized Comparative Information

We have previously audited the Rappahannock Area Community Services Board's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 22, 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 19, 2018, on our consideration of Rappahannock Area Community Services Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Rappahannock Area Community Services Board'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 Rappahannock Area Community Services Board's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
November 19, 2018

The following Management's Discussion and Analysis (MD&A) of the Rappahannock Area Community Services Board's (RACSB) financial performance provides the reader with an introduction and overview to the financial statements of the RACSB for the fiscal year ended June 30, 2018.

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

OVERVIEW OF THE FINANCIAL STATEMENTS

The Rappahannock Area Community Services Board presents five basic financial statements for the purpose of analyzing the financial position of the RACSB as of June 30, 2018. These are: (1) a Statement of Net Position; (2) a Statement of Revenues, Expenses and Changes in Net Position; (3) a Statement of Cash Flows; (4) Statement of Fiduciary Net Position; and (5) Statement of Changes in Fiduciary Net Position.

RACSB's financial position is measured in terms of resources (assets and deferred outflows) owned and obligations (liabilities and deferred inflows) owed as of June 30, 2018. This information is reported on the statement of net position, which reflects RACSB's assets and deferred outflows in relation to its debts to its suppliers, employees and other creditors, and deferred inflows. The excess of assets and deferred outflows over liabilities and deferred inflows is the net position.

Information regarding the results of RACSB's operations during fiscal year 2018 is reported in the Statement of Revenues, Expenses and Changes in Net Position. This statement shows how much overall net position increased or decreased during the year as a result of operations.

The Statement of Cash Flows discloses the flow of cash resources into and out of RACSB during fiscal year 2018 (from operations, contributions and other sources) and how those funds were applied (for example: payment of expenses, repayment of debt, purchase of new property, etc.).

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

Financial Summary

Financial Position: A summary of RACSB's Statement of Net Position for fiscal years 2018 and 2017 is presented below.

Condensed Statement of Net Position

	2018	2017
Current assets	$ 24,879,146	$ 25,265,369
Restricted assets	346,376	303,160
Capital assets	23,616,733	24,276,480
Other assets	6,903,668	3,904,463
Total assets	$ 55,745,923	$ 53,749,472
Deferred outflows of resources	$ 752,756	$ 1,389,516
Total assets and deferred outflows of resources	$ 56,498,679	$ 55,138,988
Current liabilities	$ 6,510,732	$ 9,122,528
Liabilities payable from restricted assets	133,822	129,882
Long-term liabilities	1,968,215	533,096
Total liabilities	$ 8,612,769	$ 9,785,506
Deferred inflows of resources	$ 1,945,151	$ 818,516
Net Position:		
Net Investment in capital assets	$ 23,227,780	$ 23,875,788
Restricted	210,412	172,389
Unrestricted	22,502,567	20,486,789
Total net position	$ 45,940,759	$ 44,534,966
Total liabilities, deferred inflows of resources and net position	$ 56,498,679	$ 55,138,988

The financial position of the Rappahannock Area Community Services Board remains strong. This is evidenced by strong liquidity. The current ratio (current assets /current liabilities) of the RACSB was 3.80 as of June 30, 2018 and 2.76 at June 30, 2017. The liquidity remains strong as a current ratio of 2:1 is considered favorable.

Change in net position: A summary of the RACSB's Statement of Revenues, Expenses and Changes in Net Position for 2018 and 2017 is presented below.

Condensed Statement of Revenues, Expenses and Changes in Net Position

	2018	2017
Operating revenue	$ 24,614,155	$ 26,119,837
Operating expenses	40,072,555	42,414,029
Operating income (loss)	$ (15,458,400)	$ (16,294,192)
Net non-operating income	18,295,877	18,854,908
Change in net position	$ 2,837,477	$ 2,560,716

Financial Summary (continued)

Operating Revenue is the amount of revenue received from providing patient services. The vast majority of those funds, approximately 89% (2018) and 82% (2017), were received from Medicaid (see Note 13). During 2018 Operating Revenue decreased 5.76% as compared to an increase of 14.55% in 2017.

Operating Expenses are comprised of the direct and indirect costs of operating the RACSB. These include salaries and benefits, occupancy, payments to contracting agencies, depreciation, etc. Please see the full Statement of Revenues, Expenses and Changes in Net Position for a complete breakdown of these expenses for 2018 and 2017. During 2018, Operating Expenses decreased approximately 5.52%, compared to an increase of 13.51% in 2017.

Nonoperating Income is comprised of income received as appropriations or grants as well as other income. Appropriations and grants from the State of Virginia constitute 65.82% for 2018, and 68.54% for 2017 of the net non-operating income while grants from the federal government constitute 13.73% for 2018 and 11.6% for 2017. Appropriations from local governments constituted 7.0% for 2018 and 6.0% for 2017. The remaining net Nonoperating Income and Capital Contributions consist of Other Income, Interest Income and Expense, and Gains (Losses) on the Disposition of Capital Assets. Net Nonoperating Income revenue decreased 2.96% in 2018.

Net Position increased $2,837,477 in 2018 and increased $2,560,716 in 2017.

Cash flows: A summary of the RACSB's Statement of Cash Flows for 2018 and 2017 is presented below.

Condensed Statement of Cash Flows

	2018	2017
Cash flows from operating activities	$ (16,159,699)	$ (15,810,935)
Cash flows from non capital financing activities	16,772,285	17,828,830
Cash flows from capital and related financing activities	(1,204,821)	(2,093,443)
Cash flows from investing activities	319,985	216,512
Net increase (decrease) in cash and cash equivalents	$ (272,250)	$ 140,964
Cash and cash equivalents, beginning of year	21,735,929	21,594,965
Cash and cash equivalents, end of year	$ 21,463,679	$ 21,735,929

Cash flows from operating activities reconcile the Operating Loss recorded on the Statement of Revenues, Expenses and Changes in Net Position to cash provided by operating activities. In this process, the Operating Loss is decreased by the amount of any non-cash transaction (depreciation) and adjusted for changes in assets and liabilities (please see the full Statement of Cash Flows for a complete listing of these transactions). Of these adjustments the significant entries are $1,636,523 (2018), and $1,601,481 (2017) in depreciation.

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

There was a net decrease of $272,250 in 2018, and a net increase of $140,964 in 2017 in cash and cash equivalents.

Capital Assets and Debt Administration

Capital Assets

On June 30, 2018, the Rappahannock Area Community Services Board had $23,616,733 in Net Capital Assets. This is comprised of $36,507,940 in capital assets less $12,891,207 in accumulated depreciation (please see Note 4). Of the total capital assets, equipment and vehicles (including information technology assets and vehicles) constitutes 20%, land constitutes 9%, and buildings and improvements constitute 69%. Construction in progress constitutes the remaining 2% and consists of renovation projects.

Long-Term Debt

Long-term debt obligations consist of one mortgage payable on rental properties owned by component unit Rappahannock Community Services, Inc. in the total amount of $388,953.

Summary

The Statement of Net Position shows that, on June 30, 2018, the RACSB had approximately 3.8 times more current assets than current liabilities. In addition, RACSB had long-term debt of $388,953, and $45,940,759 in total net position.

The Statement of Revenues, Expenses and Changes in Net Position shows the net position of the RACSB increased $2,837,477 during 2018.

The Statement of Cash Flows shows that cash decreased $272,250 in 2018.

The financial position of the Rappahannock Area Community Services Board measured, in terms of the five basic financial statements presented as of June 30, 2018, is very strong and secure.

- Basic Financial Statements -

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

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

	2018	2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 21,227,956	$ 21,540,808
Accounts receivable, less allowance for uncollectibles	3,254,751	3,258,857
Grants and other receivables	178,738	378,173
Prepaid items	217,701	87,531
Total current assets	$ 24,879,146	$ 25,265,369
Restricted Assets:		
Cash and cash equivalents	$ 235,723	$ 195,121
Grants and other receivables	9,236	-
Prepaid items	11,216	11,030
Client funds	90,201	97,009
Total restricted assets	$ 346,376	$ 303,160
Capital Assets:		
Property and equipment, less accumulated depreciation	$ 23,616,733	$ 24,276,480
Other Assets:		
Net pension asset	$ 6,810,237	$ 3,904,463
Net OPEB assets	93,431	-
Total other assets	6,903,668	3,904,463
Total assets	$ 55,745,923	$ 53,749,472
DEFERRED OUTFLOWS OF RESOURCES		
Pension related items	$ 467,364	$ 1,389,516
OPEB related items	285,392	-
Total deferred outflows of resources	$ 752,756	$ 1,389,516
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued expenses	$ 1,775,355	$ 1,937,371
Compensated absences	986,046	912,944
Accrued health insurance liabilities	654,126	1,566,229
Unexpended grant funds and other unearned revenue	3,083,467	4,693,612
Long-term debt, current portion	11,738	12,372
Total current liabilities	$ 6,510,732	$ 9,122,528
Liabilities Payable from Restricted Assets:		
Client funds	$ 90,201	$ 97,009
Accounts payable and accrued expenses	23,620	13,121
Tenant security deposits	20,001	19,752
Total liabilities payable from restricted assets	$ 133,822	$ 129,882
Long-term Liabilities:		
Long-term debt, less current portion	$ 377,215	$ 388,320
Net OPEB liabilities	1,591,000	144,776
Total long-term liabilities	$ 1,968,215	$ 533,096
Total liabilities	$ 8,612,769	$ 9,785,506
DEFERRED INFLOWS OF RESOURCES		
Pension related items	$ 1,713,604	$ 818,516
OPEB related items	231,547	-
Total deferred inflows of resources	1,945,151	818,516
NET POSITION		
Net investment in capital assets	$ 23,227,780	$ 23,875,788
Restricted	210,412	172,389
Unrestricted	22,502,567	20,486,789
Total net position	$ 45,940,759	$ 44,534,966

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

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2018
(With Comparative Totals for 2017)

		2018		2017
Operating revenue:				
Net patient service revenue	$	24,614,155	$	26,119,837
Operating expenses:				
Salaries and benefits	$	27,498,339	$	27,249,761
Staff development		213,377		189,267
Facilities		1,656,892		1,925,693
Supplies		1,607,977		2,432,773
Travel		687,434		683,053
Contractual and consulting		4,249,252		4,262,700
Depreciation		1,636,523		1,601,481
Other		2,522,761		4,069,301
Total operating expenses	$	40,072,555	$	42,414,029
Operating income (loss)	$	(15,458,400)	$	(16,294,192)
Nonoperating income (expense):				
Capital contributions:				
Commonwealth of Virginia	$	12,043,192	$	12,923,758
Federal government		2,512,591		2,187,191
Local governments		1,274,915		1,123,248
Other		2,363,919		2,428,127
Interest income		319,985		216,512
Interest expense		(17,258)		(17,101)
Gain (loss) on disposition of capital assets		(201,467)		(6,827)
Net nonoperating income (expense)	$	18,295,877	$	18,854,908
Change in net position	$	2,837,477	$	2,560,716
Net position, beginning of year, as restated		43,103,282		41,974,250
Net position, end of year	$	45,940,759	$	44,534,966

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

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

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

	2018	2017
Cash flows from operating activities:		
Receipts from customers	$ 24,618,261	$ 25,740,167
Payments to suppliers	(11,005,973)	(14,054,872)
Payments to and for employees	(29,771,987)	(27,496,230)
Net cash flow provided by (used for) operating activities	$ (16,159,699)	$ (15,810,935)
Cash flows from noncapital financing activities:		
Government grants	$ 14,414,000	$ 15,400,126
Other	2,358,285	2,428,704
Net cash flow provided by (used for) noncapital financing activities	$ 16,772,285	$ 17,828,830
Cash flows from capital and related financing activities:		
Purchase of capital assets	$ (1,175,854)	$ (2,090,284)
Proceeds from sale of capital assets	-	25,805
Principal payments on mortgages and loans payable	(11,709)	(11,863)
Interest expense	(17,258)	(17,101)
Net cash flow provided by (used for) capital and related financing activities	$ (1,204,821)	$ (2,093,443)
Cash flows from investing activities:		
Interest income	$ 319,985	$ 216,512
Net increase (decrease) in cash and cash equivalents	$ (272,250)	$ 140,964
Cash and cash equivalents, beginning of year (including restricted cash of $195,121)	21,735,929	21,594,965
Cash and cash equivalents, end of year (including restricted cash of $235,723)	$ 21,463,679	$ 21,735,929
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	$ (15,458,400)	$ (16,294,192)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	1,636,523	1,601,481
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
Accounts receivable	4,106	(366,270)
Prepaid items	(130,188)	(1,048)
Net pension asset	(2,905,774)	514,130
Net OPEB assets	(93,431)	-
Deferred outflows of resources	636,760	(617,212)
Accounts payable and accrued expenses	(1,050,063)	(512,527)
Compensated absences	73,102	61,548
Net OPEB liabilities	14,540	127,976
Deferred inflows of resources	1,126,635	(311,256)
Other	(13,509)	(13,565)
Net cash provided by (used for) operating activities	$ (16,159,699)	$ (15,810,935)

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

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

Statement of Fiduciary Net Position
Fiduciary Funds
At June 30, 2018

		Trust Funds
ASSETS		
Investments designated for postemployment benefits other than pensions:		
Fixed Income	$	466,778
Equity Securities		1,200,286
Real Estate		155,593
Other		400,096
Total assets	$	2,222,753
NET POSITION		
Net position restricted for postemployment benefits other than pensions	$	2,222,753

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

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2018

		Trust Funds
ADDITIONS		
Contributions:		
Employer	$	175,677
Total contributions	$	175,677
Investment Income:		
From investment activities:		
Net increase (decrease) in fair value of investments	$	181,705
Total investment earnings	$	181,705
Total additions	$	357,382
DEDUCTIONS		
Retirement and disability benefits	$	37,282
Administrative expenses		2,579
Total deductions	$	39,861
Change in net position	$	317,521
NET POSITION RESTRICTED FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS		
Net position, beginning of the year		1,905,232
Net position, ending of the year	$	2,222,753

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Description and Purpose of Organization:

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

B. Financial Reporting Entity:

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

Blended Component Units:

Blended component units, although legally separate entities are, in substance, part of the Organization's operations, and so data from these units are combined with data of the Organization. The Organization has the following blended component units: Rappahannock Community Services, Inc., Churchill Drive Group Home, Devon Drive Group Home, Galveston Road Group Home, Igo Road Group Home, Leeland Road Group Home, New Hope Estates Group Home, Piedmont Drive Group home, Scottsdale Estates Group Home, and Stonewall Estates Group Home. All of these organizations have been included as part of the reporting entity. These entities are not-for-profit organizations exempt under Section 501(c)(3) of the Internal Revenue Code and were organized to own and operate facilities for handicapped individuals. Rappahannock Community Services has a June 30 fiscal year. All of the other organizations have fiscal years which end on December 31. There are no significant intercompany amounts owed to or from Rappahannock Area Community Services Board at June 30, 2018 or 2017.

C. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Board 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 assets and 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. The Board has one type of item that qualifies for reporting in this category. Certain items related to the measurement of the net pension asset and net OPEB assets and liabilities are reported as deferred inflows of resources. For more detailed information on these items, reference the pension and OPEB notes.

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

D. Basis of Accounting:

The Board is funded by Federal, State and local funds. Its accounting policies are governed by applicable provisions of these grants and applicable pronouncements and publications of the grantors. The Board utilizes the accrual basis of accounting where revenues are recorded when earned and expenses recorded when incurred, regardless of when the related cash flow takes place.

E. Financial Statement Presentation:

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

F. Enterprise Fund Accounting:

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

G. Use of Estimates:

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

H. Cash and Cash Equivalents:

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

I. Investments:

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

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

J. Net Client Service Revenue:

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

K. Financial Assistance:

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

L. Rental Income:

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

M. Capital Assets:

Capital assets acquired that cost $5,000 or more are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Donated capital assets are recorded at their acquisition value at the time of the gift. The range of estimated useful lives for depreciation of capital assets is as follows:

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

N. Restricted Assets:

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

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

O. Compensated Absences:

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

P. Budgetary Accounting:

The Board follows these procedures in establishing its budgets.

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

2. The Board's Performance reports are filed with the Department at the start of the fiscal year, and mid-year through the fiscal year. The final report is generally due by August 31, unless extended, following the end of the fiscal year.

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

Q. Fiscal Agent:

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

R. Comparative Totals:

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

S. Operating and Nonoperating Revenues and Expenses:

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

T. Net Position:

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

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

U. Net Position Flow Assumption:

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

V. Pensions:

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

W. 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.

Health Insurance Credit Program

The Board 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.

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

W. Other Postemployment Benefits (OPEB): (continued)

Political Subdivision Employee Virginia Local Disability Program (VLDP)

For purposes of measuring the net VLDP OPEB liability, deferred outflows of resources and deferred inflows of resources related to the VLDP OPEB, and the VLDP OPEB expense, information about the fiduciary net position of the VRS Political Subdivision Employee VLDP; and the additions to/deductions from the VRS Political Subdivision Employee VLDP'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.

NOTE 2 - DEPOSITS AND INVESTMENTS:

Deposits:

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

Investments:

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

Custodial Credit Risk (Investments):

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

NOTE 2 - DEPOSITS AND INVESTMENTS: (CONTINUED)

Credit Risk of Debt Securities:

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

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

Rated Debt Investments' Values

Rated Debt Investments		Fair Quality Ratings AAAm
Virginia Local Government Investment Pool	$	30,534

Concentration of Credit Risk:

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

The Board had investments at June 30, 2018, with more than 5% of the total in the securities underlying the repurchase agreement with Union First Market Bank. This investment represented 99% of total investments.

Interest Rate Risk:

The Board's investment policy for interest rate risk requires that securities mature to meet cash requirements for on-going operations and investing primarily in short-term securities, money market mutual funds, or similar investment pools. The following details the Board's investments at June 30, 2018.

Investment Type		Fair Value		Less Than One Year
Virginia Local Government Investment Pool	$	30,534	$	30,534
Repurchase agreements		5,361,078		5,361,078
Total	$	5,391,612	$	5,391,612

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

NOTE 2 - DEPOSITS AND INVESTMENTS: (CONTINUED)

External Investment Pools:

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

Cash and Cash Equivalents:

A summary of unrestricted cash and cash equivalents follows:

	2018	2017
Unrestricted:		
Cash on hand and petty cash	$ 535	$ 485
Cash in banks	15,835,809	15,869,060
Investments	5,391,612	5,671,263
Total	$ 21,227,956	$ 21,540,808

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

NOTE 3 - ACCOUNTS RECEIVABLE:

At June 30, 2018 and 2017 the Board had accounts receivable due from the following primary sources:

	2018	2017
Client fees:		
Virginia Department of Medical Assistance Services (Medicaid)	$ 2,382,264	$ 2,561,834
Direct client and third party	1,153,573	1,199,883
Other	1,627,031	1,618,741
Total	$ 5,162,868	$ 5,380,458
Less: Allowances for uncollectibles	1,908,117	2,121,601
Net client fees receivable	$ 3,254,751	$ 3,258,857
Grants and other:		
Other	$ 187,974	$ 378,173
Total grants and other receivables	$ 187,974	$ 378,173
Total receivables	$ 3,442,725	$ 3,637,030

NOTE 4 - CAPITAL ASSETS:

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

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	$ 3,291,963	$ -	$ 29,095	$ 3,262,868
Construction in progress	86,315	829,909	208,792	707,432
Total capital assets not being depreciated	$ 3,378,278	$ 829,909	$ 237,887	$ 3,970,300
Capital assets being depreciated:				
Building and improvements	$ 25,352,793	$ 209,131	$ 229,271	$ 25,332,653
Equipment and vehicles	7,200,759	351,605	347,377	7,204,987
Total capital assets being depreciated	$ 32,553,552	$ 560,736	$ 576,648	$ 32,537,640
Accumulated depreciation				
Building and improvements	$ 6,670,604	$ 827,480	$ 67,407	$ 7,430,677
Equipment and vehicles	4,984,746	809,043	333,259	5,460,530
Total accumulated depreciation	$ 11,655,350	$ 1,636,523	$ 400,666	$ 12,891,207
Net capital assets being depreciated	$ 20,898,202	$ (1,075,787)	$ 175,982	$ 19,646,433
Net capital assets	$ 24,276,480	$ (245,878)	$ 413,869	$ 23,616,733

Total depreciation expense was $1,636,523 for 2018 and $1,601,481 for 2017.

NOTE 5 - LEASE COMMITMENTS:

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

Total rent expense for the years ended June 30, 2018 and 2017 totaled $338,710 and $367,443, respectively.

NOTE 6 - COMPENSATED ABSENCES:

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

Board employees earn leave based on length of service. The Board has outstanding accrued leave pay totaling $986,046 and $912,944 at June 30, 2018 and 2017, respectively. All of the leave balance is reported as current because the long-term portion is not determinable.

NOTE 7 - PENSION PLAN:

Plan Description

All full-time, salaried 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.

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. • 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.)**	**About the Hybrid Retirement Plan (Cont.)** • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a 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.	**Eligible Members** Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013. **Hybrid Opt-In Election** Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.	**Eligible Members** Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • Political subdivision employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014. ***Non-Eligible Members** Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.

NOTE 7 - PENSION PLAN: (CONTINUED)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	**Hybrid Opt-In Election (Cont.)** Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	***Non-Eligible Members (Cont.)** Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. 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.

NOTE 7 - PENSION PLAN: (CONTINUED)

Plan Description (continued)

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

NOTE 7 - PENSION PLAN: (CONTINUED)

Plan Description (continued)

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

NOTE 7 - PENSION PLAN: (CONTINUED)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Vesting (Cont.)	**Vesting (Cont.)**	**Vesting (Cont.)** **Defined Contribution Component: (Cont.)** Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.	**Calculating the Benefit** See definition under Plan 1.	**Calculating the Benefit** **Defined Benefit Component:** See definition under Plan 1.

NOTE 7 - PENSION PLAN: (CONTINUED)

Plan Description (continued)

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

NOTE 7 - PENSION PLAN: (CONTINUED)

Plan Description (continued)

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

NOTE 7 - PENSION PLAN: (CONTINUED)

Plan Description (continued)

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

NOTE 7 - PENSION PLAN: (CONTINUED)

Plan Description (continued)

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

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

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

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

NOTE 7 - PENSION PLAN: (CONTINUED)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.	**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** **Defined Benefit Component:** Same as Plan 1, with the following exception: • 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 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 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:

	Number
Inactive members or their beneficiaries currently receiving benefits	105
Inactive members:	
Vested inactive members	91
Non-vested inactive members	232
Inactive members active elsewhere in VRS	144
Total inactive members	467
Active members	376
Total covered employees	948

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 2.46% 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 $467,364 and $470,988 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.

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 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 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.

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%

NOTE 7 - PENSION PLAN: (CONTINUED)

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
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%.

NOTE 7 - PENSION PLAN: (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the employer for the Board Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 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.

Changes in Net Pension Asset

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2016	$ 30,971,331	$ 34,875,794	$ (3,904,463)
Changes for the year:			
Service cost	$ 1,497,145	$ -	$ 1,497,145
Interest	2,123,849	-	2,123,849
Changes of assumptions	(496,368)	-	(496,368)
Differences between expected and actual experience	(523,148)	-	(523,148)
Contributions - employer	-	370,563	(370,563)
Contributions - employee	-	894,895	(894,895)
Net investment income	-	4,269,791	(4,269,791)
Benefit payments, including refunds of employee contributions	(1,261,255)	(1,261,255)	-
Administrative expenses	-	(24,174)	24,174
Other changes	-	(3,823)	3,823
Net changes	$ 1,340,223	$ 4,245,997	$ (2,905,774)
Balances at June 30, 2017	$ 32,311,554	$ 39,121,791	$ (6,810,237)

NOTE 7 - PENSION PLAN: (CONTINUED)

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

The following presents the net pension asset of the Board using the discount rate of 7.00%, as well as what the Board's net pension 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	Current Discount	1% Increase
	(6.00%)	(7.00%)	(8.00%)
Board			
Net Pension Asset	$ (1,942,105)	$ (6,810,237)	$ (10,761,423)

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 ($721,593). At June 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 804,727
Change of assumptions	-	332,550
Net difference between projected and actual earnings on pension plan investments	-	576,327
Employer contributions subsequent to the measurement date	467,364	-
Total	$ 467,364	$ 1,713,604

NOTE 7 - PENSION PLAN: (CONTINUED)

$467,364 reported as deferred outflows of resources related to pensions resulting from the Board's contributions subsequent to the measurement date will be recognized as an increase 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:

Year ended June 30		
2019	$	(983,250)
2020		(340,628)
2021		(23,866)
2022		(365,862)
2023		-
Thereafter		-

Note 8 - Long-Term Obligations:

Summary of Changes in Long-Term Debt:

		Mortgage Payable
Balance at July 1, 2017	$	400,692
Add: Issuances/additions		-
Deduct: Retirements		(11,739)
Balance at June 30, 2018	$	388,953

Long-term obligations consists of the following obligations:

		Balance		Current Portion
Union Bank and Trust Company, payable in monthly payments of $2,414, including interest at 4.20%, due in January 2038, secured by real estate on Wolfe Street, Fredericksburg, Virginia	$	388,953	$	11,738
Net OPEB liability - Group life Insurance		1,567,000		-
Net OPEB liability - VLDP		24,000		-
Total	$	1,979,953	$	11,738

NOTE 8 - LONG-TERM OBLIGATIONS: (CONTINUED)

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

Year Ending		Principal		Interest
2019	$	11,738	$	19,661
2020		12,354		19,045
2021		13,002		18,397
2022		13,684		17,714
2023		14,402		16,996
2024-2028		84,172		72,821
2029-2033		108,697		48,296
2034-2038		130,904		16,674
Total	$	388,953	$	229,604

The estimated fair value of the debt approximates the balance at June 30, 2018.

NOTE 9 - DEFERRED COMPENSATION PLAN:

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

NOTE 10 - COMMITMENTS AND CONTINGENCIES:

Federal programs in which the Board participates were audited in accordance with the provisions of Uniform Guidance. Pursuant to the provisions of this guidance all major programs were tested for compliance with applicable grant requirements. While no matters of noncompliance were disclosed by audit, the federal government may subject grant programs to additional compliance tests which may result in disallowed expenditures. In the opinion of management, any future disallowances of current grant program expenditures, if any, would be immaterial.

At June 30, 2018, there were outstanding construction contracts in the amount of approximately $134,120 for the renovations of certain facilities.

NOTE 11 - RISK MANAGEMENT:

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

Employee Health Insurance:

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

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

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

Fiscal Year Ended	Estimated Claims Liability Beginning of Fiscal Year	Current Year Claims and Changes in Estimates	Claims Payments	Estimated Claims Liability End of Fiscal Year
June 30, 2018	$ 1,566,229	$ 2,493,229	$ 3,405,332	$ 654,126
June 30, 2017	1,398,617	3,012,013	2,844,401	1,566,229
June 30, 2016	1,082,350	2,968,728	2,652,461	1,398,617

NOTE 12 - CONTRIBUTIONS FROM LOCAL PARTICIPATING GOVERNMENTAL UNITS:

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

	2018	2017
City of Fredericksburg	$ 327,368	$ 246,876
County of Spotsylvania	370,949	340,311
County of Stafford	366,424	339,782
County of Caroline	107,691	100,714
County of King George	102,483	95,565
Total	$ 1,274,915	$ 1,123,248

NOTE 13 - NET PATIENT SERVICE REVENUE SOURCES:

Net patient service revenues for 2018 and 2017 were from the following sources:

	2018	2017
Medicaid	$ 21,975,187	$ 21,333,709
Direct client and third party	1,412,745	1,866,762
Other	1,226,223	2,919,366
Total	$ 24,614,155	$ 26,119,837

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB):

Group Life Insurance (GLI) Program

Plan Description

All full-time, salaried 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
Eligible Employees 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: • City of Norfolk • City of Richmond • Roanoke City School Board • City of Portsmouth • City of Roanoke 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.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

Group Life Insurance (GLI) Program: (Continued)

Plan Description: (Continued)

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS (CONTINUED)
Benefit Amounts The benefits payable under the Group Life Insurance Program have several components. • **Natural Death Benefit** - The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. • **Accidental Death Benefit** – The accidental death benefit is double the natural death benefit. • **Other Benefit Provisions** – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include: o Accidental dismemberment benefit o Safety belt benefit o Repatriation benefit o Felonious assault benefit o Accelerated death benefit option
Reduction in Benefit Amounts 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.
Minimum Benefit Amount and Cost-of-Living Adjustment (COLA) 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.

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 $103,386 and $99,842 for the years ended June 30, 2018 and June 30, 2017, respectively.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

Group Life Insurance (GLI) Program: (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 $99,842 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 .10409% as compared to .09674% at June 30, 2016.

For the year ended June 30, 2018, the participating employer recognized GLI OPEB expense of $38,000. 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:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 34,000
Net difference between projected and actual earnings on GLI OPEB program investments	-	59,000
Change in assumptions	-	81,000
Changes in proportion	109,000	-
Employer contributions subsequent to the measurement date	104,246	-
Total	$ 213,246	$ 174,000

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

Group Life Insurance (GLI) Program: (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)

$104,246 was 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:

Year Ended June 30		
2019	$	(16,000)
2020		(16,000)
2021		(16,000)
2022		(16,000)
2023		(1,000)
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.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

Group Life Insurance (GLI) Program: (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%

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

Group Life Insurance (GLI) Program: (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

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

Group Life Insurance (GLI) Program: (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%

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

Group Life Insurance (GLI) Program: (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%

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

Group Life Insurance (GLI) Program: (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

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

Group Life Insurance (GLI) 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 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%

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.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

Group Life Insurance (GLI) Program: (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates – Non-Largest Ten Locality Employers – General Employees: (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:

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.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

Group Life Insurance (GLI) Program: (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.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

Group Life Insurance (GLI) Program: (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)	$	1,504,840
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 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

Group Life Insurance (GLI) 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:

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 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.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

Group Life Insurance (GLI) Program: (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 (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
Board's proportionate share of the Group Life Insurance Program Net OPEB Liability	$ 2,026,000	$ 1,567,000	$ 1,194,000

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.

Political Subdivision Employee Virginia Local Disability Program (VLDP):

Plan Description

All full-time, salaried general employees; including local law enforcement officers, firefighters, or emergency medical technicians of political subdivisions who do not provide enhanced hazardous duty benefits; who are in the VRS Hybrid Retirement Plan benefit structure and whose employer has not elected to opt out of the VRS-sponsored program are automatically covered by the VRS Political Subdivision Employee Virginia Local Disability Program. This is a multiple-employer, cost-sharing plan administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for eligible public employer groups in the Commonwealth of Virginia. Political subdivisions are required by Title 51.1 of the Code of Virginia, as amended, to provide short-term and long-term disability benefits for their Hybrid employees either through a local plan or through the Virginia Local Disability Program (VLDP).

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

Political Subdivision Employee Virginia Local Disability Program (VLDP): (Continued)

Plan Description

The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

POLITICAL SUBDIVISION EMPLOYEE VIRGINIA LOCAL DISABILITY PROGRAM PLAN PROVISIONS
Eligible Employees The Political Subdivision Employee Virginia Local Disability Program was implemented January 1, 2014 to provide short-term and long-term disability benefits for non-work-related and work-related disabilities for employees with Hybrid retirement benefits. Eligible employees are enrolled automatically upon employment, unless their employer has elected to provide comparable coverage. They include: • Full-time general employees; including local law enforcement officers, firefighters, or emergency medical technicians who do not have enhanced hazardous duty benefits; of public political subdivisions covered under VRS.
Benefit Amounts The Political Subdivision Employee Virginia Local Disability Program (VLDP) provides the following benefits for eligible employees: **Short-Term Disability** – • The program provides a short-term disability benefit beginning after a seven-calendar-day waiting period from the first day of disability. Employees become eligible for non-work-related short-term disability coverage after one year of continuous participation in VLDP with their current employer. • During the first five years of continuous participation in VLDP with their current employer, employees are eligible for 60% of their pre-disability income if they go out on non-work-related or work-related disability. • Once the eligibility period is satisfied, employees are eligible for higher income replacement levels.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

Political Subdivision Employee Virginia Local Disability Program (VLDP): (Continued)

Plan Description: (Continued)

Benefit Amounts: (Continued)
Long-Term Disability – • The VLDP program provides a long-term disability benefit beginning after 125 workdays of short-term disability. Members are eligible if they are unable to work at all or are working fewer than 20 hours per week. • Members approved for long-term disability will receive 60% of their pre-disability income. If approved for work-related long-term disability, the VLDP benefit will be offset by the workers' compensation benefit. Members will not receive a VLDP benefit if their workers' compensation benefit is greater than the VLDP benefit.
Virginia Local Disability Program Notes:
• Members approved for short-term or long-term disability at age 60 or older will be eligible for a benefit, provided they remain medically eligible. • VLDP Long-Term Care Plan is a self-funded program that assists with the cost of covered long-term care services.

Contributions

The contribution requirements for active Hybrid employees is governed by §51.1-1178(C) of the Code of Virginia, as amended, but may be impacted as a result of funding provided to political subdivisions by the Virginia General Assembly. Each political subdivision's contractually required employer contribution rate for the year ended June 30, 2018 was 0.60% of covered employee compensation for employees in the VRS Political Subdivision Employee VDLP. 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 VRS Political Subdivision Employee VDLP were $54,321 and $46,415 for the years ended June 30, 2018 and June 30, 2017, respectively.

VLDP OPEB Liabilities, VLDP OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to VLDP OPEB

At June 30, 2018, the Board reported a liability of $24,000 for its proportionate share of the VLDP Net OPEB Liability. The Net VLDP OPEB Liability was measured as of June 30, 2017 and the total VLDP OPEB liability used to calculate the Net VLDP OPEB Liability was determined by an actuarial valuation as of that date. The Board's proportion of the Net VLDP OPEB Liability was based on the Board's actuarially determined employer contributions to the VLDP OPEB plan 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 Board's proportion of the VLDP was 4.2128% as compared to 4.44418%.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

Political Subdivision Employee Virginia Local Disability Program (VLDP): (Continued)

VLDP OPEB Liabilities, VLDP OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to VLDP OPEB: (Continued)

For the year ended June 30, 2018, the Board recognized VLDP OPEB expense of $43,000. Since there was a change in proportionate share between June 30, 2016 and June 30, 2017 a portion of the VLDP Net OPEB expense was related to deferred amounts from changes in proportion.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	$ -	$ 4,000
Employer contributions subsequent to the measurement date	54,321	-
Total	$ 54,321	$ 4,000

$54,321 reported as deferred outflows of resources related to the VLDP OPEB resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the Net VLDP 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 VLDP OPEB will be recognized in the VLDP OPEB expense in future reporting periods as follows:

Year Ended June 30	
2019	$ (4,000)
2020	-
2021	-
2022	-
2023	-
Thereafter	-

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

Political Subdivision Employee Virginia Local Disability Program (VLDP): (Continued)

Actuarial Assumptions

The total VLDP OPEB liability for the VLDP 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:	
Political Subdivision Employees	3.5%-5.35%
Investment rate of return	7.0%, net of plan 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.

Mortality Rates – Largest Ten Locality Employers – General and Non-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 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.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

Political Subdivision Employee Virginia Local Disability Program (VLDP): (Continued)

Actuarial Assumptions: (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 and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each year age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Mortality Rates – Non-Largest Ten Locality Employers – General and Non-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 Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

Political Subdivision Employee Virginia Local Disability Program (VLDP): (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates – Non-Largest Ten Locality Employers – General and Non-Hazardous Duty Employees

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 year age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

Net VLDP OPEB Liability

The net OPEB liability (NOL) for the Political Subdivision Employee VLDP 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 VRS Political Subdivision Employee VLDP is as follows (amounts expressed in thousands):

		Political Subdivision Employee VLDP OPEB Plan
Total Political Subdivision VLDP OPEB Liability	$	914,000
Plan Fiduciary Net Position		351,000
Political Subdivision net VLDP OPEB Liability (Asset)	$	563,000
Plan Fiduciary Net Position as a Percentage of the Total Political Subdivision VLDP OPEB Liability		38.40%

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

Political Subdivision Employee Virginia Local Disability Program (VLDP): (Continued)

Net VLDP OPEB Liability: (Continued)

The total Political Subdivision Employee VLDP OPEB liability is calculated by the System's actuary, and the plan's fiduciary net position is reported in the System's financial statements. The net Political Subdivision Employee VLDP 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.

Long-Term Expected Rate of Return

The long-term expected rate of return on VRS 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 VRS System investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and best estimate of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class (Strategy)	Target Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return
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%.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

Political Subdivision Employee Virginia Local Disability Program (VLDP): (Continued)

Discount Rate

The discount rate used to measure the total VLDP OPEB 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 actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by the Board for the VLDP 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, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the VLDP OPEB 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 VLDP OPEB liability.

Sensitivity of the Board's Proportionate Share of the VLDP Net OPEB Liability to Changes in the Discount Rate

The following presents the Board's proportionate share of the net VLDP OPEB liability using the discount rate of 7.00%, as well as what the Board's proportionate share of the net VLDP 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 proportionate share of the Net VLDP OPEB Liability	$ 27,000	$ 24,000	$ 20,000

Political Subdivision Employee VLDP OPEB Fiduciary Net Position

Detailed information about the VRS Political Subdivision Employee Virginia Local Disability 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 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

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.

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: • 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: • **At Retirement** – 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. • **Disability Retirement**- 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.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

Health Insurance Credit (HIC) Program: (Continued)

Plan Description: (Continued)

POLITICAL SUBDIVISION HEALTH INSURANCE CREDIT PROGRAM PLAN PROVISIONS (CONTINUED)
Health Insurance Credit Program Notes: • 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:

	Number
Inactive members or their beneficiaries currently receiving benefits	25
Inactive members:	
Vested inactive members	4
Total inactive members	4
Active members	376
Total covered employees	405

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 .09% 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 $17,809 and $17,229 for the years ended June 30, 2018 and June 30, 2017, respectively.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

Health Insurance Credit (HIC) Program: (Continued)

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.

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.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

Health Insurance Credit (HIC) Program: (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates – Largest Ten Locality Employers – General Employees: (Continued)

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%

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.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

Health Insurance Credit (HIC) Program: (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates – Non-Largest Ten Locality Employers – General Employees (Continued)

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 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

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:

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 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.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

Health Insurance Credit (HIC) Program: (Continued)

Changes in Net HIC OPEB Liability (Asset)

	Increase (Decrease)		
	Total HIC OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net HIC OPEB Liability (Asset) (a) - (b)
Balances at June 30, 2016	$ 271,539	$ 247,219	$ 24,320
Changes for the year:			
Service cost	$ 12,056	$ -	$ 12,056
Interest	18,858	-	18,858
Assumption changes	(10,813)	-	(10,813)
Contributions - employer	-	17,229	(17,229)
Net investment income	-	29,448	(29,448)
Benefit payments	(4,277)	(4,277)	-
Administrative expenses	-	(495)	495
Other changes	-	1,437	(1,437)
Net changes	$ 15,824	$ 43,342	$ (27,518)
Balances at June 30, 2017	$ 287,363	$ 290,561	$ (3,198)

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

The following presents the Board's Health Insurance Credit Program net HIC OPEB liability (asset) using the discount rate of 7.00%, as well as what the Board's net HIC OPEB 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%)
Board's Net HIC OPEB Liability/(Asset)	$ 30,089	$ (3,198)	$ (31,105)

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

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 Rappahannock Area Community Services Board recognized Health Insurance Credit Program OPEB expense of $8,325. At June 30, 2018, the Rappahannock Area Community Services Board reported deferred outflows of resources and deferred inflows of resources related to the Board's Health Insurance Credit Program from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on HIC OPEB plan investments	$ -	$ 9,326
Change in assumptions	-	9,288
Employer contributions subsequent to the measurement date	17,825	-
Total	$ 17,825	$ 18,614

$17,825 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:

Year Ended June 30	
2019	$ (3,856)
2020	(3,856)
2021	(3,856)
2022	(3,858)
2023	(1,525)
Thereafter	(1,663)

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

Health Insurance Credit (HIC) Program: (Continued)

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.

Medical, Dental, and Life Insurance - (OPEB Plan):

Plan Description

The Post-Retirement Medical Plan (The Plan) is a single-employer defined benefit healthcare plan which offers health insurance for retired employees. Retirees are eligible for postretirement medical coverage if they are a full-time employee who retires directly from the Rappahannock Area Community Services Board and is eligible for retirement from VRS. The Board's post-retirement medical plan does not issue a separate, audited GAAP basis report.

Plan Administration

Management of The Plan is vested in the Plan Trustees, which consists of the Board members of the Rappahannock Area Community Services Board.

Benefits Provided

The Rappahannock Area Community Services Board has established an irrevocable trust pursuant to Section 15.2-1544 of the Code of Virginia, as amended for the purpose of accumulated and investing assets to fund Other Postemployment Benefits (OPEB) and to participate in the Virginia Pooled OPEB Trust Fund and has established a Local Finance Board to become a Participating Employer in the Trust Fund. The Trust Fund provides administrative, custodial and investment services to the Participating Employers in the Trust Fund. The Board participates in the Virginia Pooled OPEB Trust Fund, an irrevocable trust established for the purpose of accumulating assets to fund postemployment benefits other than pensions. The Trust Fund issues a separate report, which can be obtained by requesting a copy from the plan administrator, Virginia Municipal League (VML) at P.O. Box 12164, Richmond, Virginia 23241.

Postemployment benefits are provided to eligible retirees include Medical, Dental, and Life 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 the Board who meet eligibility requirements of the pension plan are eligible to receive postemployment health care benefits. Retirees are reimbursed for the allowable portion of premiums paid. Coverage ceases when retirees reach the age of 65. Surviving spouses are not allowed access to the plan.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

Medical, Dental, and Life Insurance - (OPEB Plan): (Continued)

Plan Membership

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

		Total
Total active employees with coverage	$	388
Total retirees with coverage		6
Total	$	394

The Board establishes rates based on an actuarially determined rate. For the year ended June 30, 2018, the Board's average contribution rate was 0.93% percent of covered-employee payroll. For the year ended June 30, 2018 the Board contributed $154,000 to the Plan. Plan members are not required to contribute to the plan.

Investment Policy

The Board's policy in regard to the allocation of invested assets is established and may be amended by the Board by a majority vote of its members. It is the policy of the Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of June 30, 2018:

Asset Class	Target Percentage
Core Fixed Income	19.60%
High Yield Bonds	1.40%
Large Cap US Equities	26.00%
Small Cap US Equities	10.00%
Developed Foreign Equities	13.00%
Emerging Market Equities	5.00%
Private Equity	5.00%
Hedge Funds/Absolute Return	10.00%
Real Estate (REITS)	7.00%
Commodities	3.00%
Total	100.00%

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

Medical, Dental, and Life Insurance – (OPEB Plan): (Continued)

Concentrations

The Trust does not hold investments in any one organization that represent five percent or more of the OPEB Trust's Fiduciary Net Position.

Rate of Return

For the year ended June 30, 2018, the annual money-weighted rate of return on investments, net of investment expense, was 9.53 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Schedule of Investment Returns

Last 10 Fiscal Years

	Annual Money-Weighted Rate of Return Net of Investment Expense
6/30/2017	12.73%
6/30/2018	9.53%

The chart is intended to show information for 10 years. More data will be added as it becomes available.

Net OPEB Liability

The Board's net OPEB liability was measured as of June 30, 2018. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2017.

Actuarial Assumptions

The total OPEB liability in the January 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary Increases	3.00%
Discount Rate	7.00%
Investment Rate of Return	7.00%

Mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

Medical, Dental, and Life Insurance – (OPEB Plan): (Continued)

Actuarial Assumptions: (Continued)

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study at January 1, 2018.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of 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. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2018 (see the discussion of The Plan's investment policy) are summarized in the following table:

Asset Class	Long-Term Expected Geometric Real Rate of Return
Core Fixed Income	0.99%
High Yield Bonds	2.77%
Large Cap US Equities	4.14%
Small Cap US Equities	4.57%
Developed Foreign Equities	4.66%
Emerging Market Equities	5.64%
Private Equity	6.63%
Hedge Funds/Absolute Return	2.63%
Real Estate (REITS)	3.86%
Commodities	1.78%
Assumed Inflation	2.60%
Portfolio Real Mean Return	4.22%
Portfolio Nominal Mean Return	6.93%
Portfolio Standard Deviation	12.55%
Long-Term Expected Rate of Return	**7.00%**

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

Medical, Dental, and Life Insurance – (OPEB Plan): (Continued)

Discount Rate

Discount rate. The discount rate used to measure the total OPEB liability was 7.0 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

Changes in Net OPEB Liability (Asset)

	Increase (Decrease)		
	Total OPEB Liability (a)	**Plan Fiduciary Net Position (b)**	**Net OPEB Liability (Asset) (a)-(b)**
Balances at June 30, 2017	$ 1,895,601	$ 1,905,232	$ (9,631)
Changes for the year:			
Service cost	133,450	-	133,450
Interest	140,751	-	140,751
Contributions - employer	-	175,677	(175,677)
Net investment income	-	181,705	(181,705)
Administrative expenses	-	(2,579)	2,579
Benefit payments	(37,282)	(37,282)	-
Net changes	236,919	317,521	(80,602)
Balances at June 30, 2018	$ 2,132,520	$ 2,222,753	$ (90,233)

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

The following amounts present the net OPEB liability (asset) of the Board, as well as what the net OPEB 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 discount rate:

Rate		
1% Decrease (6.00%)	**Current Discount Rate (7.00%)**	**1% Increase (8.00%)**
$ 229,100	$ (90,233)	$ (361,427)

NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

Medical, Dental, and Life Insurance - (OPEB Plan): (Continued)

Sensitivity of the Net OPEB Liability (Asset) to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability (asset) of the Board, as well as what the net OPEB liability (asset) would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.00%) or one percentage point higher (7.00%) than the current healthcare cost trend rates:

	Rates	
1% Decrease (5.00%)	Healthcare Cost Trend (6.00%)	1% Increase (7.00%)
$ (372,411)	$ (90,233)	$ 259,953

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 $130,008. At June 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resouces	Deferred Inflows of Resources
Net difference between projected and actual earnings on OPEB plan investments	$ -	$ 34,933
Employer contributions subsequent to the measurement date	-	-
Total	$ -	$ 34,933

Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense in future reporting periods as follows:

Year Ended June 30	
2019	$ (8,733)
2020	(8,733)
2021	(8,733)
2022	(8,734)
2023	-
Thereafter	-

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

NOTE 15 - RESTRICTED NET POSITION:

Restricted net position consists of the net position of the component units with HUD funding less the net investment in capital assets or $210,412 at June 30, 2018 and $172,389 at June 30, 2017. The net position is considered restricted due to the regulatory oversight over the Organization by the U.S. Department of Housing and Urban Development and the restrictions on the use of the property pursuant to the acceptance of capital advance funds by the Organization.

NOTE 16 - 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.

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. 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.

NOTE 17 - ADOPTION OF ACCOUNTING PRINCIPLES:

Rappahannock Area Community Services 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)).

NOTE 18 - NET POSITION RESTATEMENT:

Balances as of June 30, 2018 were restated as follows:

		Rappahannock Area Community Services Board
Net Position as reported at June 30, 2017	$	44,534,966
Implementation of GASB 75		(1,431,684)
Net Position as restated at June 30, 2017	$	43,103,282

- Required Supplementary Information -

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

	2017	2016	2015	2014
Total pension liability				
Service cost	$ 1,497,145	$ 1,480,553	$ 1,514,991	$ 1,453,677
Interest	2,123,849	2,016,286	1,870,481	1,701,667
Differences between expected and actual experience	(523,148)	(863,558)	(442,973)	-
Changes of assumptions	(496,368)	-	-	-
Benefit payments, including refunds of employee contributions	(1,261,255)	(932,066)	(787,076)	(700,350)
Net change in total pension liability	$ 1,340,223	$ 1,701,215	$ 2,155,423	$ 2,454,994
Total pension liability - beginning	30,971,331	29,270,116	27,114,693	24,659,699
Total pension liability - ending (a)	$ 32,311,554	$ 30,971,331	$ 29,270,116	$ 27,114,693
Plan fiduciary net position				
Contributions - employer	$ 370,563	$ 713,143	$ 689,023	$ 983,504
Contributions - employee	894,895	808,979	791,251	761,729
Net investment income	4,269,791	617,675	1,473,770	4,236,654
Benefit payments, including refunds of employee contributions	(1,261,255)	(932,066)	(787,076)	(700,350)
Administrative expense	(24,174)	(20,392)	(19,191)	(21,737)
Other	(3,823)	(254)	(313)	224
Net change in plan fiduciary net position	$ 4,245,997	$ 1,187,085	$ 2,147,464	$ 5,260,024
Plan fiduciary net position - beginning	34,875,794	33,688,709	31,541,245	26,281,221
Plan fiduciary net position - ending (b)	$ 39,121,791	$ 34,875,794	$ 33,688,709	$ 31,541,245
Board's net pension asset - ending (a) - (b)	$ (6,810,237)	$ (3,904,463)	$ (4,418,593)	$ (4,426,552)
Plan fiduciary net position as a percentage of the total pension liability	121.08%	112.61%	115.10%	116.33%
Covered payroll	$ 19,145,833	$ 17,277,503	$ 16,124,859	$ 15,309,883
Board's net pension asset as a percentage of covered payroll	-35.57%	-22.60%	-27.40%	-28.91%

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

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

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

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2018	$ 359,668	$ 359,668	$ -	$ 19,787,291	1.82%
2017	470,988	470,988	-	19,145,833	2.46%
2016	772,304	772,304	-	17,277,503	4.47%
2015	720,781	720,781	-	16,124,859	4.47%
2014	987,487	987,487	-	15,309,883	6.45%
2013	913,196	913,196	-	14,158,083	6.45%
2012	597,811	597,811	-	12,773,732	4.68%
2011	579,292	579,292	-	12,378,029	4.68%
2010	505,793	505,793	-	12,071,424	4.19%
2009	485,486	485,486	-	11,586,778	4.19%

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%

Largest 10 – 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
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Increased rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

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%

All Others (Non 10 Largest) – 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	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 60% to 45%

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

Schedule of Changes in Net OPEB Liability (Asset) and Related Ratios
For the Years Ended June 30, 2017 and June 30, 2018

		2017		2018
Total OPEB liability				
Service cost	$	124,720	$	133,450
Interest		124,910		140,751
Changes in assumptions		-		-
Differences between expected and actual experience		-		-
Benefit payments		(27,036)		(37,282)
Net change in total OPEB liability	$	222,594	$	236,919
Total OPEB liability - beginning		1,673,007		1,895,601
Total OPEB liability - ending (a)	$	1,895,601	$	2,132,520
Plan fiduciary net position				
Contributions - employer	$	271,062	$	175,677
Net investment income		189,753		181,705
Administrative expenses		(2,236)		(2,579)
Benefit payments		(27,036)		(37,282)
Net change in plan fiduciary net position	$	431,543	$	317,521
Plan fiduciary net position - beginning		1,473,689		1,905,232
Plan fiduciary net position - ending (b)	$	1,905,232	$	2,222,753
Board's net OPEB liability (asset) - ending (a) - (b)	$	(9,631)	$	(90,233)
Plan fiduciary net position as a percentage of the total OPEB liability		100.51%		104.23%
Covered payroll	$	18,964,868	$	18,964,868
Board's net OPEB liability (asset) as a percentage of covered payroll		-0.05%		-0.48%

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

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

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

Date	Actuarially Determined Contribution (ADC) (1)	Contributions in Relation to ADC (2)	Contribution Deficiency (Excess) (3)	Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2018	$ 154,000	$ 175,677	$ (21,677)	$ 18,964,868	0.93%
2017	149,500	271,062	(121,562)	18,964,868	1.43%
2016	87,100	114,000	(26,900)	16,297,400	0.70%
2015	80,900	80,900	-	16,297,400	0.50%
2014	50,600	75,200	(24,600)	13,873,200	0.54%
2013	50,600	72,600	(22,000)	13,873,200	0.52%
2012	53,000	67,100	(14,100)	13,013,200	0.52%
2011	53,000	56,700	(3,700)	13,013,200	0.44%
2010	53,000	72,320	(19,320)	11,958,000	0.60%
2009	84,000	626,000	(542,000)	11,958,000	5.23%

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

Schedule of Investment Returns - Health Plan
Last Ten Fiscal Years

	2018	2017
Annual money-weighted rate of return, net of investment expense	$ 9.53%	$ 12.73%

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

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

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

Valuation Date: 1/1/2017

Actuarially determined contribution rates are calculated as of January 1, 2017, prior to the fiscal year in which they are reported, and have been projected to June 30, 2018 on a "no gain/no loss" basis.

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Projected Unit Credit
Amortization Method/Period	Level Percentage of Payroll, Closed, 28 Years Remaing as of
Asset Valuation Method	Fair market value of assets
Inflation	2.50%
Medical Trend Rate	The medical trend rate assumption starts at 6.0% in 2017 and gradually declines to 4.20% by the year 2095.
Salary Increases	3.00%
Investment Rate of Return	7.00%
Retirement Age	The average age at retirement is 62
Mortality Rates	The mortality rates for active and healthy retirees was calculated using the RP-2014 using scale BB to 2020. The mortality rates for disabled retirees and calculated using the RP-2014 Disabled Mortality Rates with scale BB to 2020.

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

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

Date (1)	Employer's Proportion of the Net GLI OPEB Liability (Asset) (2)	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) (3)	Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability (6)
2017	0.1041%	$ 1,567,000	$ 19,200,442	8.16%	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.

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

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

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2018	$ 103,386	$ 103,386	$ -	$ 19,881,849	0.52%
2017	99,842	99,842	-	19,200,442	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%

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%

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

Schedule of Board's Share of Net OPEB Liability
Virginia Local Disability Program (VLDP)
For the Year Ended June 30, 2018

Date (1)	Employer's Proportion of the Net VLDP OPEB Liability (Asset) (2)	Employer's Proportionate Share of the Net VLDP OPEB Liability (Asset) (3)	Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net VLDP OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total VLDP OPEB Liability (6)
2017	4.2128%	$ 24,000	$ 7,735,910	0.31%	38.40%

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.

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

Schedule of Employer Contributions
Virginia Local Disability Program (VLDP)
For the Years Ended June 30, 2017 through June 30, 2018

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2018	$ 54,321	$ 54,321	$ -	$ 9,045,116	0.60%
2017	46,415	46,415	-	7,735,910	0.60%

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.

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 and Non-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 and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each year 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 and Non-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 and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each year age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

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

		2017
Total HIC OPEB Liability		
Service cost	$	12,056
Interest		18,858
Changes in assumptions		(10,813)
Benefit payments		(4,277)
Net change in total HIC OPEB liability	$	15,824
Total HIC OPEB Liability - beginning		271,539
Total HIC OPEB Liability - ending (a)	$	287,363
Plan fiduciary net position		
Contributions - employer	$	17,229
Net investment income		29,448
Benefit payments		(4,277)
Administrative expense		(495)
Other		1,437
Net change in plan fiduciary net position	$	43,342
Plan fiduciary net position - beginning		247,219
Plan fiduciary net position - ending (b)	$	290,561
Board's net HIC OPEB liability - ending (a) - (b)	$	(3,198)
Plan fiduciary net position as a percentage of the total HIC OPEB liability		101.11%
Covered payroll	$	19,145,833
Board's net HIC OPEB liability as a percentage of covered payroll		-0.02%

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.

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

Schedule of Employer Contributions
Health Insurance Credit Program (HIC)
For the Years Ended June 30, 2017 through June 30, 2018

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2018	$ 17,825	$ 17,825	$ -	$ 19,881,849	0.09%
2017	17,229	17,229	-	19,200,442	0.09%

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.

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%

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%

- Supplementary Information -

Combining Financial Statements

Combining Statement of Net Position
At June 30, 2018

	Rappahannock Area Community Services Board	Rappahannock Community Services, Inc.	Churchill Drive Group Home	Devon Drive Group Home
ASSETS				
Current Assets:				
Cash and cash equivalents	$ 20,752,201	$ 475,755	$ -	$ -
Accounts receivable, less allowance for uncollectibles	3,254,751	-	-	-
Grants and other receivables	184,726	-	-	-
Prepaid items	194,816	22,885	-	-
Total current assets	$ 24,386,494	$ 498,640	$ -	$ -
Restricted Assets:				
Cash and cash equivalents	$ -	$ 12,436	$ 20,426	$ 13,844
Grants and other receivables	-	-	-	-
Prepaid items	-	-	1,331	1,099
Client funds	90,201	-	-	-
Total restricted assets	$ 90,201	$ 12,436	$ 21,757	$ 14,943
Capital Assets:				
Property and equipment, less accumulated depreciation	$ 18,148,492	$ 1,415,326	$ 601,521	$ 170,097
Other Assets:				
Net pension asset	$ 6,810,237	$ -	$ -	$ -
Net OPEB assets	93,431	-	-	-
Total other assets	$ 6,903,668	-	-	-
Total assets	$ 49,528,855	$ 1,926,402	$ 623,278	$ 185,040
DEFERRED OUTFLOWS OF RESOURCES				
Pension related items	$ 467,364	$ -	$ -	$ -
OPEB related items	285,392	-	-	-
Total deferred outflows of resources	$ 752,756	$ -	$ -	$ -
LIABILITIES				
Current Liabilities:				
Accounts payable and accrued expenses	$ 1,773,110	$ 8,233	$ -	$ -
Compensated absences	986,046	-	-	-
Accrued health insurance liabilities	654,126	-	-	-
Unexpended grant funds and other unearned revenue	3,083,467	-	-	-
Long-term debt, current portion	-	11,738	-	-
Total current liabilities	$ 6,496,749	$ 19,971	$ -	$ -
Liabilities Payable from Restricted Assets:				
Client funds	$ 90,201	$ -	$ -	$ -
Accounts payable and accrued expenses	-	-	952	563
Tenant security deposits	-	10,294	1,216	614
Total liabilities payable from restricted assets	$ 90,201	$ 10,294	$ 2,168	$ 1,177
Long-term Liabilities:				
Long-term debt, less current portion	$ -	$ 377,215	$ -	$ -
Net OPEB liabilities	1,591,000	-	-	-
Total long-term liabilities	$ 1,591,000	$ 377,215	$ -	$ -
Total liabilities	$ 8,177,950	$ 407,480	$ 2,168	$ 1,177
DEFERRED INFLOWS OF RESOURCES				
Pension related items	$ 1,713,604	$ -	$ -	$ -
OPEB related items	231,547	-	-	-
Total deferred inflows of resources	$ 1,945,151	$ -	$ -	$ -
NET POSITION				
Net investment in capital assets	$ 18,148,492	$ 1,026,373	$ 601,521	$ 170,097
Restricted	-	-	19,589	13,766
Unrestricted	22,010,018	492,549	-	-
Total net position	$ 40,158,510	$ 1,518,922	$ 621,110	$ 183,863

Galveston Road Group Home	Igo Road Group Home	Leeland Road Group Home	New Hope Estates Group Home	Piedmont Drive Group Home	Scottsdale Estates Group Home	Stonewall Estates Group Home	Intercompany Eliminations	Total
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 21,227,956
-	-	-	-	-	-	-	-	3,254,751
-	-	-	-	-	-	-	(5,988)	178,738
-	-	-	-	-	-	-	-	217,701
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (5,988)	$ 24,879,146
$ 24,205	$ 27,013	$ 9,949	$ 50,143	$ 35,762	$ 31,096	$ 10,849	$ -	$ 235,723
-	1,758	-	-	-	-	7,478	-	9,236
1,230	1,339	1,173	1,379	1,090	1,229	1,346	-	11,216
-	-	-	-	-	-	-	-	90,201
$ 25,435	$ 30,110	$ 11,122	$ 51,522	$ 36,852	$ 32,325	$ 19,673	$ -	$ 346,376
$ 605,207	$ 418,303	$ 206,752	$ 616,707	$ 359,366	$ 850,870	$ 224,092	$ -	$ 23,616,733
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 6,810,237
-	-	-	-	-	-	-	-	93,431
-	-	-	-	-	-	-	-	6,903,668
$ 630,642	$ 448,413	$ 217,874	$ 668,229	$ 396,218	$ 883,195	$ 243,765	$ (5,988)	$ 55,745,923
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 467,364
-	-	-	-	-	-	-	-	285,392
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 752,756
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (5,988)	$ 1,775,355
-	-	-	-	-	-	-	-	986,046
-	-	-	-	-	-	-	-	654,126
-	-	-	-	-	-	-	-	3,083,467
-	-	-	-	-	-	-	-	11,738
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ (5,988)	$ 6,510,732
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 90,201
3,308	3,558	850	668	859	4,825	8,037	-	23,620
1,493	900	973	1,354	561	1,540	1,056	-	20,001
$ 4,801	$ 4,458	$ 1,823	$ 2,022	$ 1,420	$ 6,365	$ 9,093	$ -	$ 133,822
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 377,215
-	-	-	-	-	-	-	-	1,591,000
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,968,215
$ 4,801	$ 4,458	$ 1,823	$ 2,022	$ 1,420	$ 6,365	$ 9,093	$ (5,988)	$ 8,612,769
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,713,604
-	-	-	-	-	-	-	-	231,547
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,945,151
$ 605,207	$ 418,303	$ 206,752	$ 616,707	$ 359,366	$ 850,870	$ 224,092	$ -	$ 23,227,780
20,634	25,652	9,299	49,500	35,432	25,960	10,580	-	210,412
-	-	-	-	-	-	-	-	22,502,567
$ 625,841	$ 443,955	$ 216,051	$ 666,207	$ 394,798	$ 876,830	$ 234,672	$ -	$ 45,940,759

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

	Rappahannock Area Community Services Board	Rappahannock Community Services, Inc.	Churchill Drive Group Home	Devon Drive Group Home
Operating revenue:				
Net patient service revenue	$ 24,614,155	$ -	$ -	$ -
Operating expenses:				
Salaries and benefits	$ 27,498,339	$ -	$ -	$ -
Staff development	213,377	-	-	-
Facilities	1,439,677	406,805	28,204	26,511
Supplies	1,607,977	-	-	-
Travel	687,434	-	-	-
Contractual and consulting	4,249,252	-	-	-
Depreciation	1,354,325	105,043	23,093	14,444
Other	2,512,196	10,565	-	-
Total operating expenses	$ 39,562,577	$ 522,413	$ 51,297	$ 40,955
Operating income (loss)	$ (14,948,422)	$ (522,413)	$ (51,297)	$ (40,955)
Nonoperating income (expense):				
Capital contributions:				
Commonwealth of Virginia	$ 12,043,192	$ -	$ -	$ -
Federal government	2,512,591	-	-	-
Local governments	1,274,915	-	-	-
Other	1,899,518	507,204	35,172	31,549
Interest income	318,114	1,797	5	5
Interest expense	-	(17,258)	-	-
Gain (loss) on disposition of capital assets	(201,467)	-	-	-
Net nonoperating income (expense)	$ 17,846,863	$ 491,743	$ 35,177	$ 31,554
Change in net position	$ 2,898,441	$ (30,670)	$ (16,120)	$ (9,401)
Net position, beginning of year, as restated	37,260,069	1,549,592	637,230	193,264
Net position, end of year	$ 40,158,510	$ 1,518,922	$ 621,110	$ 183,863

Galveston Road Group Home	Igo Road Group Home	Leeland Road Group Home	New Hope Estates Group Home	Piedmont Drive Group Home	Scottsdale Estates Group Home	Stonewall Estates Group Home	Intercompany Eliminations	Total
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 24,614,155
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 27,498,339
-	-	-	-	-	-	-	-	213,377
27,468	30,067	25,056	33,844	24,685	31,009	26,288	(442,722)	1,656,892
-	-	-	-	-	-	-	-	1,607,977
-	-	-	-	-	-	-	-	687,434
-	-	-	-	-	-	-	-	4,249,252
16,656	20,343	18,742	23,216	18,548	22,674	19,439	-	1,636,523
-	-	-	-	-	-	-	-	2,522,761
$ 44,124	$ 50,410	$ 43,798	$ 57,060	$ 43,233	$ 53,683	$ 45,727	$ (442,722)	$ 40,072,555
$ (44,124)	$ (50,410)	$ (43,798)	$ (57,060)	$ (43,233)	$ (53,683)	$ (45,727)	$ 442,722	$ (15,458,400)
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 12,043,192
-	-	-	-	-	-	-	-	2,512,591
-	-	-	-	-	-	-	-	1,274,915
37,696	42,360	48,761	43,144	56,610	40,590	64,037	(442,722)	2,363,919
4	12	1	15	11	18	3	-	319,985
-	-	-	-	-	-	-	-	(17,258)
-	-	-	-	-	-	-	-	(201,467)
$ 37,700	$ 42,372	$ 48,762	$ 43,159	$ 56,621	$ 40,608	$ 64,040	$ (442,722)	$ 18,295,877
$ (6,424)	$ (8,038)	$ 4,964	$ (13,901)	$ 13,388	$ (13,075)	$ 18,313	$ -	$ 2,837,477
632,265	451,993	211,087	680,108	381,410	889,905	216,359	-	43,103,282
$ 625,841	$ 443,955	$ 216,051	$ 666,207	$ 394,798	$ 876,830	$ 234,672	$ -	$ 45,940,759

Combining Statement of Cash Flows
Year Ended June 30, 2018

	Rappahannock Area Community Services Board	Rappahannock Community Services, Inc.	Churchill Drive Group Home	Devon Drive Group Home
Cash flows from operating activities:				
Receipts from customers	$ 24,618,261	$ -	$ -	$ -
Payments to suppliers	(10,774,871)	(431,004)	(28,136)	(26,981)
Payments to and for employees	(29,771,987)	-	-	-
Net cash provided by (used for) operating activities	$ (15,928,597)	$ (431,004)	$ (28,136)	$ (26,981)
Cash flows from noncapital financing activities:				
Government grants	$ 14,414,000	$ -	$ -	$ -
Other	1,903,118	507,204	35,173	31,549
Net cash provided by (used for) noncapital financing activities	$ 16,317,118	$ 507,204	$ 35,173	$ 31,549
Cash flows from capital and related financing activities:				
Purchase of capital assets	$ (1,059,245)	$ (7,770)	$ (1,034)	$ -
Principal payments on mortgages and loans payable	-	(11,709)	-	-
Interest expense	-	(17,258)	-	-
Net cash provided by (used for) capital and related financing activities	$ (1,059,245)	$ (36,737)	$ (1,034)	$ -
Cash flows from investing activities:				
Interest income	$ 318,114	$ 1,797	$ 5	$ 5
Net increase (decrease) in cash and cash equivalents	$ (352,610)	$ 41,260	$ 6,008	$ 4,573
Cash and cash equivalents, beginning of year	21,104,811	446,931	14,418	9,271
Cash and cash equivalents, end of year	$ 20,752,201	$ 488,191	$ 20,426	$ 13,844
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	$ (14,948,422)	$ (522,413)	$ (51,297)	$ (40,955)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	1,354,325	105,043	23,093	14,444
Changes in assets and liabilities:				
Accounts receivable	4,106	-	-	-
Prepaid items	(129,225)	(775)	(21)	(23)
Net pension asset	(2,905,774)	-	-	-
Net OPEB assets	(93,431)	-	-	-
Deferred outflows of resources	636,760	-	-	-
Accounts payable and accrued expenses	(1,061,213)	650	89	(447)
Compensated absences	73,102	-	-	-
Net OPEB liabilities	14,540	-	-	-
Deferred inflows of resources	1,126,635	-	-	-
Other	-	(13,509)	-	-
Net cash provided by (used for) operating activities	$ (15,928,597)	$ (431,004)	$ (28,136)	$ (26,981)

Galveston Road Group Home	Igo Road Group Home	Leeland Road Group Home	New Hope Estates Group Home	Piedmont Drive Group Home	Scottsdale Estates Group Home	Stonewall Estates Group Home	Intercompany Eliminations	Total
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 24,618,261
(28,949)	(27,655)	(24,907)	(34,201)	(24,549)	(28,391)	(19,051)	442,722	(11,005,973)
-	-	-	-	-	-	-	-	(29,771,987)
$ (28,949)	$ (27,655)	$ (24,907)	$ (34,201)	$ (24,549)	$ (28,391)	$ (19,051)	$ 442,722	$ (16,159,699)
$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 14,414,000
37,697	40,602	48,761	43,144	56,610	40,590	56,559	(442,722)	2,358,285
$ 37,697	$ 40,602	$ 48,761	$ 43,144	$ 56,610	$ 40,590	$ 56,559	$ (442,722)	$ 16,772,285
$ (4,326)	$ (17,146)	$ (18,403)	$ (5,554)	$ (25,824)	$ (2,755)	$ (33,797)	$ -	$ (1,175,854)
-	-	-	-	-	-	-	-	(11,709)
-	-	-	-	-	-	-	-	(17,258)
$ (4,326)	$ (17,146)	$ (18,403)	$ (5,554)	$ (25,824)	$ (2,755)	$ (33,797)	$ -	$ (1,204,821)
$ 4	$ 12	$ 1	$ 15	$ 11	$ 18	$ 3	$ -	$ 319,985
$ 4,426	$ (4,187)	$ 5,452	$ 3,404	$ 6,248	$ 9,462	$ 3,714	$ -	$ (272,250)
19,779	31,200	4,497	46,739	29,514	21,634	7,135	-	21,735,929
$ 24,205	$ 27,013	$ 9,949	$ 50,143	$ 35,762	$ 31,096	$ 10,849	$ -	$ 21,463,679
$ (44,124)	$ (50,410)	$ (43,798)	$ (57,060)	$ (43,233)	$ (53,683)	$ (45,727)	$ 442,722	$ (15,458,400)
16,656	20,343	18,742	23,216	18,548	22,674	19,439	-	1,636,523
-	-	-	-	-	-	-	-	4,106
(21)	(19)	(22)	(19)	(24)	(21)	(18)	-	(130,188)
-	-	-	-	-	-	-	-	(2,905,774)
-	-	-	-	-	-	-	-	(93,431)
-	-	-	-	-	-	-	-	636,760
(1,460)	2,431	171	(338)	160	2,639	7,255	-	(1,050,063)
-	-	-	-	-	-	-	-	73,102
-	-	-	-	-	-	-	-	14,540
-	-	-	-	-	-	-	-	1,126,635
-	-	-	-	-	-	-	-	(13,509)
$ (28,949)	$ (27,655)	$ (24,907)	$ (34,201)	$ (24,549)	$ (28,391)	$ (19,051)	$ 442,722	$ (16,159,699)

- Compliance -

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities and the aggregate remaining fund information of Rappahannock Area Community Services Board, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Rappahannock Area Community Services Board's basic financial statements and have issued our report thereon dated November 19, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Robinson, Farmer, Cox Associates

Charlottesville, Virginia
November 19, 2018

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

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

Report on Compliance for Each Major Federal Program

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

Rappahannock Area Community Services Board's basic financial statements include the operations of the component unit organizations Churchill Drive Group Home, Devon Drive Group Home, Galveston Road Group Home, Igo Road Group Home, Leeland Road Group Home, New Hope Estates Group Home, Piedmont Drive Group Home, Scottsdale Estates Group Home and Stonewall Estates Group Home, which received $4,575,306 in federal awards which is not included in the schedule of expenditures of federal awards during the year ended June 30, 2018. Our audit, described below, did not include the operations of the above component units because each of the component units issues separate financial statements, and audits in compliance with the Uniform Guidance are performed at the component unit level, where applicable.

Management's Responsibility

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

Auditors' Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

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

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or 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, Farmer, Cox Associates
Charlottesville, Virginia
November 19, 2018

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

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 Agriculture				
Pass-Through Payments:				
Virginia Department of Agriculture:				
Child and Adult Care Food Program	10.558	Not available	$	37,817
Department of Transportation				
Pass-Through Payments:				
Virginia Department of Highway and Rail Transportation:				
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	Not available	$	96,058
Department of Health and Human Services				
Pass-Through Payments:				
Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services:				
Projects for Assistance in Transition from Homelessness (PATH)	93.150	Not available	$	96,077
Substance Abuse and Mental Health Services	93.243	Not available		83,472
Opioid STR	93.788	Not available		487,120
Block Grants for Community Mental Health Services	93.958	Not available		66,724
Block Grants for Prevention and Treatment of Substance Abuse	93.959	Not available		1,042,695
Virginia Department of Health:				
ACA Maternal, Infant, and Early Childhood Home Visiting Program	93.505	Not available		215,457
Total Department of Health and Human Services			$	1,991,545
Department of Education				
Pass-Through Payments:				
Virginia Department of Education:				
Special Education - Grants for Infants and Families	84.181	Not available	$	387,171
Total expenditures of federal awards			$	2,512,591

Notes to the Schedule of Expenditures of Federal Awards

Note A - Basis of Presentation

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

Note B - Summary of Significant Accounting Policies

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

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

Note C - Subrecipients

No awards were passed through to subrecipients.

Note D - Indirect Cost Recovery

The entity has elected not to use the 10% de minimis indirect cost rate allowed under Uniform Guidance.

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

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 CFS Section 200.516(a)	No

Identification of major programs:

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

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

Section II - Financial Statement Findings

There are no financial statement findings to report.

Section III - Federal Award Findings and Questioned Costs

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

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

There were no items reported.