Rockbridge Area Community Services Board

Lexington, Virginia

Financial Statements

Year Ended June 30, 2018

ROCKBRIDGE AREA
COMMUNITY SERVICES BOARD

LEXINGTON, VIRGINIA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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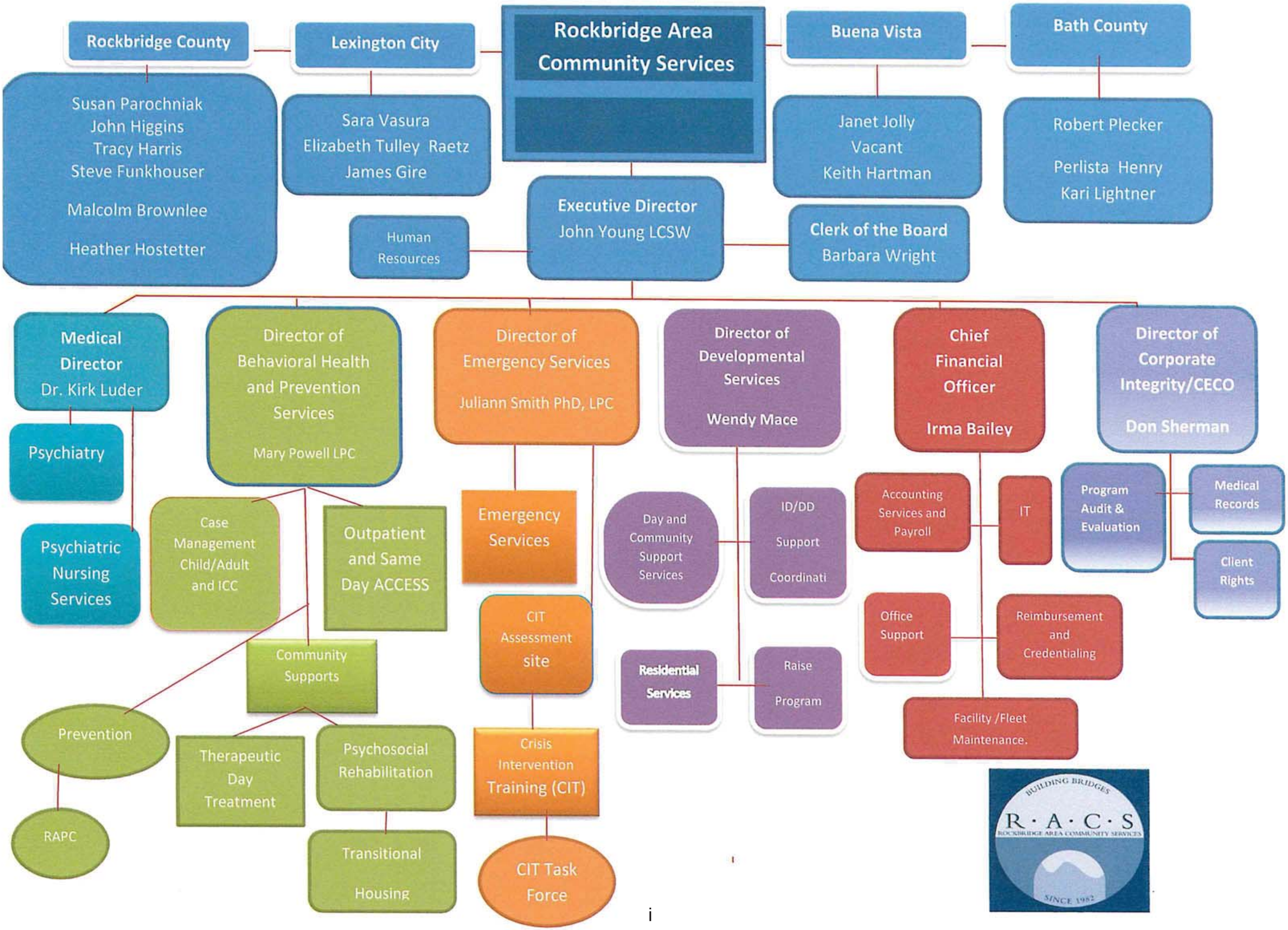
Rockbridge Area Community Services
Rockbridge County
Susan Parochniak
John Higgins
Tracy Harris
Steve Funkhouser
Malcolm Brownlee
Heather Hostetter
Lexington City
Sara Vasura
Elizabeth Tulley Raetz
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Janet Jolly
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Bath County
Robert Plecker
Perlista Henry
Kari Lightner
Executive Director
John Young LCSW
Human Resources
Clerk of the Board
Barbara Wright
Medical Director
Dr. Kirk Luder
Psychiatry
Psychiatric Nursing Services
Director of Behavioral Health and Prevention Services
Mary Powell LPC
Case Management Child/Adult and ICC
Outpatient and Same Day ACCESS
Community Supports
Prevention
RAPC
Therapeutic Day Treatment
Psychosocial Rehabilitation
Transitional Housing
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Crisis Intervention Training (CIT)
CIT Task Force
Director of Developmental Services
Wendy Mace
Day and Community Support Services
ID/DD Support Coordinati
Residential Services
Raise Program
Chief Financial Officer
Irma Bailey
Accounting Services and Payroll
IT
Office Support
Reimbursement and Credentialing
Facility /Fleet Maintenance.
Director of Corporate Integrity/CECO
Don Sherman
Program Audit & Evaluation
Medical Records
Client Rights
BUILDING BRIDGES
R·A·C·S
ROCKBRIDGE AREA COMMUNITY SERVICES
SINCE 1982

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS
ROCKBRIDGE AREA COMMUNITY SERVICES BOARD
LEXINGTON, VIRGINIA

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2018, Rockbridge Area Community Services Board adopted new accounting guidance, GASB Statement No. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* and No. 85 *Omnibus 2017*. Our opinion is not modified with respect to this matter.

Restatement of Beginning Balances

As described in Note 1 to the financial statements, in 2018, Rockbridge Area Community Services 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 management's discussion and analysis, and schedules related to pension funding on pages 4-9 and pages 57-63 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Rockbridge Area Community Services Board's basic financial statements. The supporting schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supporting schedules 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 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 supporting schedules 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 Rockbridge Area Community Services Board's June 30, 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 27, 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 October 18, 2018, on our consideration of the Rockbridge 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 Rockbridge 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 Rockbridge Area Community Services Board's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Staunton, Virginia
October 18, 2018

Management's Discussion and Analysis

Management's discussion and analysis provides an overview of Rockbridge Area Community Services Board's (RACS) financial performance and activities for the fiscal year ended June 30, 2018. This information should be read in conjunction with the financial statements that follow.

Basic Financial Statements

The financial statements are prepared on an accrual basis. The Statement of Net Position provides detail on the nature and amount of the Board's assets and liabilities. The net position figure (the difference between assets and liabilities) is a measure of the Board's financial health. It describes available balances and identifies any restrictions that apply to those balances.

The statement of Revenues, Expenses and Changes in Net Position measures the success of the Board's operations over the past year, as evidenced by either an increase or decrease in the net position at year end. This statement includes detail on all revenue and expenses for the year, demonstrating whether the Board has been successful in obtaining both operating and non-operating revenues to cover the cost of providing services.

The Statement of Cash Flows provides information about the Board's cash receipts and disbursements during the reporting period. The statement reports changes in cash from operating, financing, and investing activities, and the resulting change in cash at the end of the fiscal year.

Financial Analysis

The following table summarizes the Statement of Net Position:

Summary of Statement of Net Position

	2018	2017	% Change
Current and other assets	$ 747,672	$ 1,224,165	-38.9%
Capital assets, net of depreciation	5,131,633	5,325,928	-3.6%
Net pension asset	2,132,347	839,640	154.0%
Total Assets	$ 8,011,652	$ 7,389,733	8.4%
Deferred Outflows of Resources	$ 135,330	$ 440,099	-69.3%
Liabilities	$ 5,326,194	$ 4,466,758	19.2%
Deferred Inflows of Resources	$ 779,103	$ 433,614	79.7%
Net Position:			
Net investment in capital assets	$ 1,472,783	$ 1,597,776	-7.8%
Restricted for debt service	18,868	18,868	0.0%
Unrestricted	550,034	1,312,816	-58.1%
Total Net Position	$ 2,041,685	$ 2,929,460	-30.3%

Assets

Current and other assets decreased by 38.9%. This decline was primarily driven by a decline in cash on hand and accounts receivable. The lower cash balance was driven by higher operating expenses which contributed to a net loss for the year. The net loss was funded with existing cash on hand and borrowings on the line of credit.

Accounts receivable decreased $101,366 or 17.5%. The balance at the end of FY17 included a receivable of $83,500 related to an insurance recovery. These proceeds were received in early FY18.

The Statement of Cash Flows provides additional detail on the cash sources and uses.

The net investment in capital assets balance decreased by $124,993 from the prior year. Depreciation expense was $264,608 for FY18 and fixed assets acquired were $71,097. During FY18, the agency disposed of several fully depreciated vehicles that were no longer needed a result of the strategic decision made in FY17 to lease vehicles rather than purchase replacements for several large, older buses and mini-vans. Proceeds from the disposals were minimal.

Unlike many companies with pension plans, the agency has a net pension asset rather than a liability. Net pension assets increased by 154.0% as we continue to fund our pension funds. The increase is primarily due to strong asset returns that were slightly offset by the change in pension assumptions. Due to these favorable results, our contribution rate was lowered to 1.19% for fiscal 2019 and 2020. For the year ending June 30, 2018 the Board recognized net pension income of $550,472. There was a deferred outflow of $112,804 at year end related to pension assets, which represents pension contributions subsequent to the measurement date of June 30, 2017. In addition, there were deferred outflows of $22,526 related to OPEB liabilities. Please see Notes 1 and 5 for additional information.

Liabilities

Deferred Inflows of Resources are a requirement of GASB 68 and GASB 75 reporting requirements. Deferred Inflows in the amount of $739,103 resulted from the difference between the estimated and actual investment returns on pension plan assets. Deferred Inflows in the amount of $40,000 resulted from the measurement of OPEB liabilities. Please see Notes 1 and 5 for additional information.

Total liabilities increased by 19% or $859,436 over the previous year. This increase was driven by our line of credit with a principal balance of $509,559 and the increased actuarial liability for OPEB. During FY18 we borrowed on our line of credit to fund operations. At the year end, the current liabilities exceeded current assets by $230,393.

Total long-term liabilities increased $225,411. This increase was driven by a increase in our actuarially determined OPEB liability. RACS continued to pay down long-term debt related to the $3,658,851 principal balance of the mortgage on the Greenhouse Road Building. The principal due for the USDA loan during the next fiscal year is expected to be $72,290.

Change in Capital Assets

	2018	2017	% Change
Land and Land Improvements	$ 643,438	$ 643,438	0.0%
Building	$ 5,990,793	$ 5,990,793	0.0%
Equipment			
Beginning balance	$ 1,057,583	$ 1,165,969	-9.3%
Additions	71,097	32,887	116.2%
Disposals	(3,577)	(141,273)	-100.0%
Balance at June 30	$ 1,125,103	$ 1,057,583	6.4%
Vehicles			
Beginning balance	$ 867,259	$ 885,859	-2.1%
Additions	-	-	
Disposals	(467,750)	(18,600)	0.0%
Balance at June 30	$ 399,509	$ 867,259	-53.9%
Total capital assets	$ 8,158,843	$ 8,559,073	-4.7%
Accumulated Depreciation	(3,027,210)	(3,233,145)	-6.4%
Net capital assets	$ 5,131,633	$ 5,325,928	-3.6%

Net Position

Net investment in capital assets decreased by $124,993 or 7.8%. Depreciation expense for the year was $264,608.

There were no restricted federal balances at the end of the fiscal year and $18,868 was restricted for debt service.

The overall net position fell by $887,775 primarily driven by higher operating expenses for FY18 and due to the restatement of net position resulting from the implementation of GASB 75.

Operating Revenues

Disability	2018	2017	% Change
Mental Health	$ 1,569,881	$ 1,607,479	-2.3%
Intellectual Disability	2,644,880	2,506,659	5.5%
Substance Abuse	30,130	34,474	-12.6%
Total	$ 4,244,891	$ 4,148,612	2.3%

Operating Revenues

Operating revenue is the result of fees for behavioral healthcare services provided in the areas of Mental Health, Developmental Disability, and Substance Abuse. During FY18, fees for services were responsible for 53.2% of total revenue.

Total operating revenues increased by $96,279 or 2.3%, from the prior year. The table above provides comparative detail on operating revenues derived from each disability.

Mental Health operating revenue for services decreased by $37,598 or 2.3% from the prior year. This was led by a decrease in revenue for mental health skill-building and rehabilitation services. In addition, revenue from adult case management continued to decline, but was partially offset by an increase in child case management revenue. The mental health skill-building program was eliminated for FY19 as a result of the declining revenues and continued net losses, along with the availability of other providers in the area.

Operating revenues for Developmental Disability Services increased by $138,221 or 5.5%. The most significant driver of the increase was transportation revenue. We expanded transportation services during FY18 as a strategic initiative to increase revenue. However, revenue did not increase enough to cover that additional costs incurred, and the additional routes were discontinued for FY19. The group homes continued to operate below full capacity which drove revenue lower than budget but only slightly down from FY17. The Adult Day Service program was also down by compared to FY17.

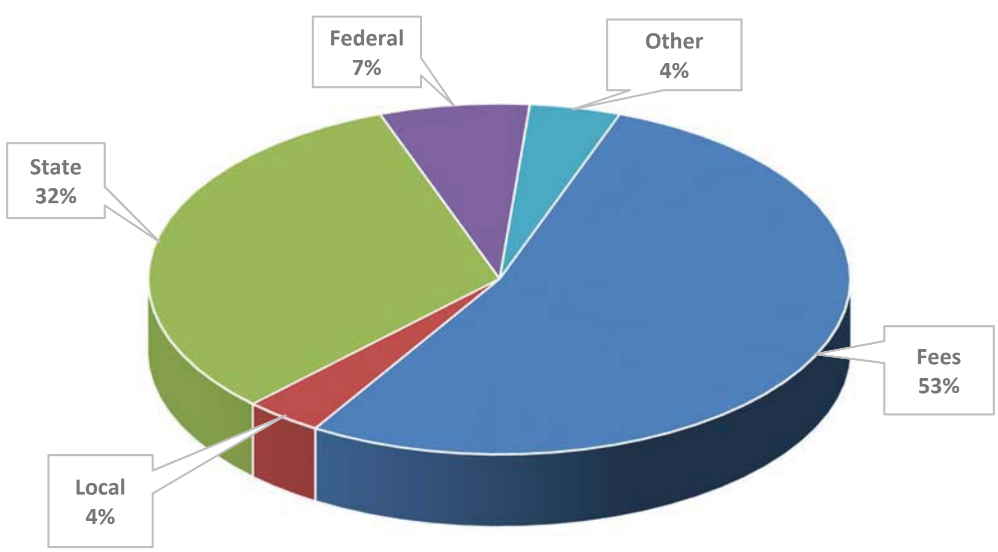
Substance Abuse operating revenue was down $4,344 or 12.6%. Fee revenue for substance abuse remains low as many types of insurance do not provide reimbursement for these services.

The following table is a summary of the Statements of Revenues, Expenses and Changes in Net Position:

Statement of Revenues, Expenses and Changes in Net Position

	2018	2017	% Change
Revenues			
Operating revenues	$ 4,244,891	$ 4,148,612	2.3%
Expenses			
Operating expenses	$ 8,346,399	$ 7,928,765	5.3%
Operating loss	$ (4,101,508)	$ (3,780,153)	8.5%
Nonoperating income (expenses)			
Local government	$ 286,566	$ 272,748	5.1%
State of Virginia	2,561,138	2,534,655	1.0%
Federal government	550,424	576,426	-4.5%
Other	333,683	367,305	-9.2%
Interest expense	(167,294)	(159,993)	4.6%
Gain/(loss) on sale of assets	(784)	(6,500)	-100.0%
Total	$ 3,563,733	$ 3,584,641	-0.6%
Change in net position	$ (537,775)	$ (195,512)	175.1%

FY 2018 Revenue Sources



Local governmental revenue is obtained from the four jurisdictions served by RACS through budget requests. The revenue requested from each jurisdiction is based on its population and a per capita rate. The local government revenue increased 5.1% for FY 2018.

Revenues from the Commonwealth of Virginia increased 1.0% or $26,483. This increase was mainly in general funds which are disbursed throughout the agency. Early Childhood Intervention was reduced for the third year in a row.

Funds from the Federal Government decreased 4.5% or $26,002. This decrease primarily related to a decrease in revenue related to our Drug Free Communities grant due to the timing of expenditures and related reimbursements.

Other non-operating revenue sources decreased 9.4% or $34,622 and interest expense increased slightly due to interest on borrowings from the line of credit.

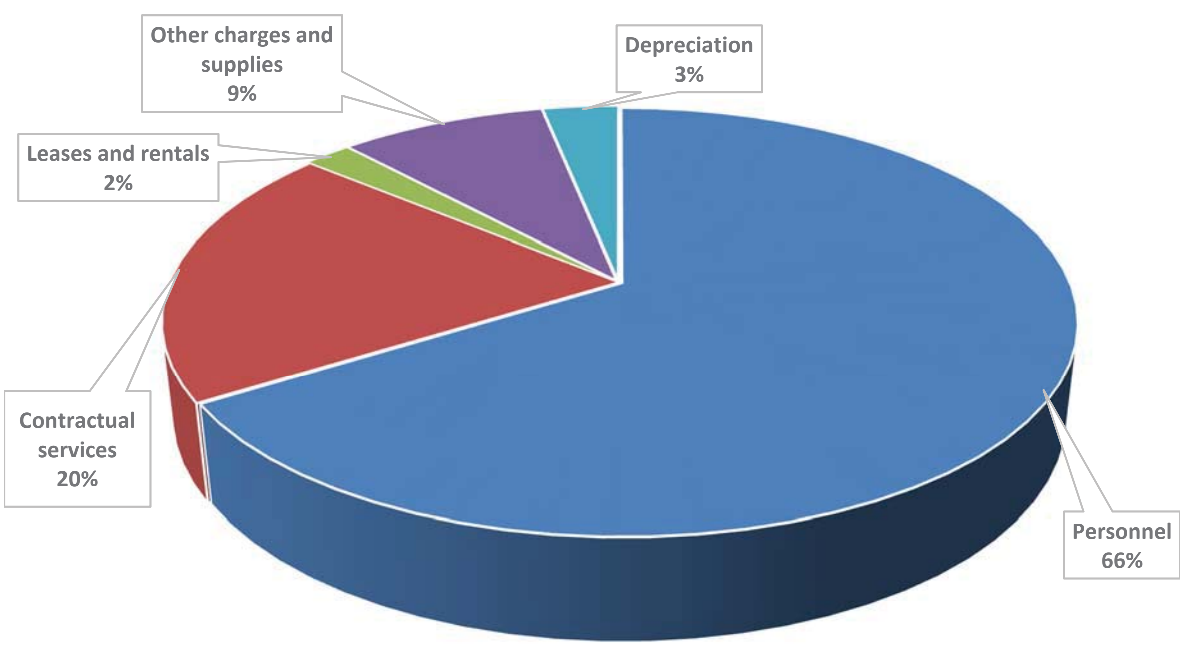
Operating Expenses:

The following table provides a summary of the operating expenses.

Operating Expenses

	2018	2017	% Change
Salaries and wages	$ 4,883,776	$ 4,283,222	14.0%
Fringe benefits	633,959	924,697	-31.4%
Contractual services	1,665,507	1,572,096	5.9%
Leases and rentals	170,356	120,964	40.8%
Other charges and supplies	728,193	752,738	-3.3%
Depreciation	264,608	275,048	-3.8%
Total Expenses	$ 8,346,399	$ 7,928,765	5.3%

FY 2018 Operating Expenses



Salaries and wages increased 14.0% to $4,883,776. Additional positions were filled including additional group home managers and employees to support the expansion of transportation. In addition, eligible employees were given a step salary increase of 2.5%.

Fringe Benefits Expense

	2018	2017	% Change
FICA	$ 354,503	$ 316,805	11.9%
Health/dental	757,404	642,466	17.9%
VRS retirement/group life	(520,147)	(65,750)	691.1%
Unemployment	12,068	874	1280.8%
Short term disability	28,203	28,671	-1.6%
Flex plan/EAP	1,928	1,631	18.2%
Total Expenses	$ 633,959	$ 924,697	-31.4%

Health and dental costs increased 17.9% for FY18, but overall the non-salary expenses decreased 31.4% due a favorable adjustment for the net pension asset.

Non-personnel Operating Expenses

Contractual services grew 5.9% with most of this growth resulting from investment in technology, including a new time and labor payroll system. In addition, leases and rentals increased 40.8% due to additional vehicles added to the leased fleet.

Summary

Rockbridge Area Community Services finished FY18 with a decrease in Net Position of $537,775. This was driven by an increase in operating expenses of 5.3%, which was only partially offset by an increase in revenue. The agency will strategically cut expenses and focus on maximizing revenue to improve financial performance in FY19.

Economic Factors

While the overall economy for Virginia and the nation is doing well, funding for behavioral health services continues to be a challenge. Medicaid reimbursement rates continue to be low. However, the Virginia general assembly approved an expansion of Medicaid that will go into effect January 1, 2019. This expansion is expected to cover approximately 400,000 individuals in Virginia. We anticipate a benefit from the expansion of Medicaid, but also expect a decrease in state general funding that will offset the benefit. As a result, it is difficult to project what the net impact of the expansion will be for FY19 and beyond.

Contacting the CSB's Financial Management

This financial report is designed to provide local citizens, our consumers and their families, and all taxpayers with a general overview of the CSB's finances. Questions regarding this report or requests for additional financial information should be made to Irma Bailey, Acting Executive Director/Chief Financial Officer, 241 Greenhouse Road, Lexington, VA 24450; telephone (540) 462-6675.

FINANCIAL STATEMENTS

Exhibit 1

ROCKBRIDGE AREA COMMUNITY SERVICES BOARD

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

		2018		2017
ASSETS				
Current Assets:				
Cash and cash equivalents	$	210,358	$	557,387
Accounts receivable, net of allowance for doubtful accounts (Note 3)		477,877		579,243
Loans receivable (Note 13)		1,311		2,577
Prepaid items		39,018		65,736
Restricted Current Assets:				
Cash restricted for USDA loan		18,868		18,868
Cash restricted for others (Note 1)		240		354
Total current assets	$	747,672	$	1,224,165
Noncurrent Assets:				
Capital Assets: (Note 4)				
Land and land improvements	$	643,438	$	643,438
Buildings		5,990,793		5,990,793
Equipment		1,125,103		1,057,583
Vehicles		399,509		867,259
Total capital assets	$	8,158,843	$	8,559,073
Accumulated depreciation		(3,027,210)		(3,233,145)
Net capital assets	$	5,131,633	$	5,325,928
Net pension asset	$	2,132,347	$	839,640
Total assets	$	8,011,652	$	7,389,733
DEFERRED OUTFLOWS OF RESOURCES				
Pension related items	$	112,804	$	440,099
OPEB related items		22,526		-
Total deferred outflows of resources	$	135,330	$	440,099
LIABILITIES				
Current Liabilities:				
Accounts payable	$	165,855	$	100,454
Accrued expenses		118,196		39,287
Amounts held for others		9,712		9,839
Line of Credit		509,559		-
Other current liabilities		174,743		194,460
Total current liabilities	$	978,065	$	344,040

Exhibit 1

ROCKBRIDGE AREA COMMUNITY SERVICES BOARD

Statement of Net Position (Continued)

June 30, 2018
With Comparative Totals for 2017

		2018		2017
Long-term Liabilities:				
Due within one year	$	72,290	$	69,287
Due in more than one year		4,275,839		4,053,431
Total long-term liabilities	$	4,348,129	$	4,122,718
Total liabilities	$	5,326,194	$	4,466,758
DEFERRED INFLOWS OF RESOURCES				
Pension related items	$	739,103	$	433,614
OPEB related items		40,000		-
Total deferred inflows of resources	$	779,103	$	433,614
NET POSITION				
Net investment in capital assets	$	1,472,783	$	1,597,776
Restricted for debt service		18,868		18,868
Unrestricted		550,034		1,312,816
Total net position	$	2,041,685	$	2,929,460

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

Exhibit 2

ROCKBRIDGE 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 revenues:		
Charges for services, net patient service revenue	$ 4,244,891	$ 4,148,612
Total operating revenues	$ 4,244,891	$ 4,148,612
Operating expenses:		
Salaries and wages	$ 4,883,776	$ 4,283,222
Fringe benefits	633,959	924,697
Contractual services	1,665,507	1,572,096
Leases and rentals	170,356	120,964
Other charges and supplies	728,193	752,738
Depreciation	264,608	275,048
Total operating expenses	$ 8,346,399	$ 7,928,765
Net operating loss	$ (4,101,508)	$ (3,780,153)
Nonoperating income (expenses):		
Intergovernmental revenues:		
Local sources:		
County of Rockbridge, Virginia	$ 155,163	$ 147,660
City of Lexington, Virginia	50,937	48,456
City of Buena Vista, Virginia	47,451	45,192
County of Bath, Virginia	33,015	31,440
State of Virginia	2,561,138	2,534,655
Federal government	550,424	576,426
Interest income	3,938	4,491
Contributions	6,655	14,364
In-kind donations	178,278	187,009
Gain/(loss) on sale of assets	(784)	(6,500)
Miscellaneous income	144,812	161,441
Interest expense	(167,294)	(159,993)
Total nonoperating income (expense)	$ 3,563,733	$ 3,584,641
Change in net position	$ (537,775)	$ (195,512)
Net position, beginning of year	$ 2,929,460	$ 3,124,972
Impact of adoption of new accounting principle	(350,000)	-
Net position, end of year	$ 2,041,685	$ 2,929,460

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

Exhibit 3

ROCKBRIDGE 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	$ 4,327,679	$ 4,301,939
Payments to suppliers	(2,293,659)	(2,371,525)
Payments to and for employees	(6,136,562)	(5,430,433)
Net cash used for operating activities	$ (4,102,542)	$ (3,500,019)
Cash flows from noncapital financing activities:		
Intergovernmental revenues	$ 3,398,128	$ 3,383,829
Contributions	6,655	14,364
Miscellaneous income	144,812	161,441
Net cash provided by noncapital financing activities	$ 3,549,595	$ 3,559,634
Cash flows from capital and related financing activities:		
Acquisition of fixed assets	$ (71,097)	$ (32,887)
Borrowings on line of credit	509,559	-
Principal payments on long term debt	(69,302)	(66,424)
Interest expense	(167,294)	(159,993)
Net cash used for capital and related financing activities	$ 201,866	$ (259,304)
Cash flows from investing activities:		
Interest income	$ 3,938	$ 4,491
Net increase (decrease) in cash and cash equivalents	$ (347,143)	$ (195,198)
Cash and cash equivalents, (including restricted cash and cash equivalents) beginning of year	576,609	771,807
Cash and cash equivalents, (including restricted cash and cash equivalents) end of year	$ 229,466	$ 576,609
Reconciliation of operating loss to net cash provided by (used for) operating activities:		
Net Operating loss	$ (4,101,508)	$ (3,780,153)
Depreciation	264,608	275,048
In kind donations	178,278	187,009
Changes in current assets and liabilities:		
(Increase) decrease in accounts receivable	101,366	176,164
(Increase) decrease in prepaid items	26,718	(35,723)
(Increase) decrease in loans receivable	1,266	(1,259)
(Increase) decrease in net pension asset	(1,292,707)	218,274
(Increase) decrease in deferred outflows of resources	323,769	(243,339)
Increase (decrease) in deferred inflows of resources	345,489	(183,450)
Increase (decrease) in net OPEB liability	(56,000)	-
Increase (decrease) in accounts payable	65,401	(77,013)
Increase (decrease) in accrued expenses	78,909	(70,849)
Increase (decrease) in other current liabilities	(19,717)	12,495
Increase (decrease) in compensated absences	(18,287)	56,850
Increase (decrease) in amounts held for others	(127)	(34,073)
Total cash provided by (used for) operating activities	$ (4,102,542)	$ (3,500,019)

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

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Description and Purpose of Agency

The Board operates as an agent for the Counties of Rockbridge and Bath and Cities of Lexington and Buena Vista 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 Disabilities Services. In addition, the Board provides a system of community mental health, developmental, and substance abuse services which relate to and are integrated with existing and planned programs.

The Board is not considered a component unit of either the Counties of Rockbridge or Bath or the Cities of Lexington or Buena Vista since none of the entities have oversight responsibility, or are legally obligated to fund any deficit of the Board.

B. Financial Reporting Entity

For financial reporting purposes, these financial statements include all organizations for which the Board is considered accountable in accordance with Government Accounting Standards Board Statement 14, The Financial Reporting Entity. Financial accountability includes the appointment of voting majority of the organization's governing body and the ability of the Board to impose its will on the organization or if there is a financial benefit/burden relationship. Also, an organization that is financially dependent on the Board should be included in its reporting entity.

Based on the above criteria, there are no other organizations to be included as part of the reporting entity.

C. 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 Disabilities Services. The principles prescribed by GASB represent generally accepted accounting principles applicable to governmental units.

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 for revenues and expenses. In accrual accounting, revenues are recognized when earned and expenses are recognized when incurred.

D. Budgets

Budgets are prepared by management and adopted by the Board for fiscal planning purposes only. Budgets are amended at various times during the year to reflect the availability of grants and other resources received during the year.

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

E. Basis of Accounting

Rockbridge 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.

F. Allowance for Uncollectible Accounts

The Board has estimated its allowance for uncollectible accounts based on historical collection data. The total allowance for uncollectible accounts was $68,735 at June 30, 2018.

G. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the financial statements. Capital assets are defined by the Board as assets with an initial, individual cost of more than $2,500 (amount not rounded) and an estimated useful life in excess of one year. The Board has established a lower threshold for information technology equipment of $1,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. Depreciation has been provided over the estimated useful lives using the straight-line method.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset’s life are not capitalized.

H. Inventory

The Board expenses all materials and supplies when purchased. Inventory on hand is considered immaterial, and no provision is made for it in the financial statements.

I. Risk Management

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board carries commercial insurance for all of these risks of loss. Claims did not exceed coverage in any of the three most recent years.

J. Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, cash and cash equivalents are defined as short-term highly liquid investments that are both readily convertible to known amounts of cash and investments with original maturities of 90 days or less from the date of acquisition.

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

K. Use of Estimates

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

L. Restricted Cash

The Board is required to maintain $18,868 in reserve by USDA Rural Development as specified by the loan agreement. In addition, the Board has restricted cash held for consumers in the amount of $240.

M. Net Client Service Revenue

Client service revenue is recorded at scheduled rates when services are rendered. Allowances and provisions for uncollectible accounts and contractual adjustments are deducted to arrive at net client service revenue.

N. Comparative Totals

Comparative amounts for the prior year are presented for informational purposes only. Certain reclassifications have been made to the prior year amounts to provide a more comparative presentation with the current year financial reporting presentation.

O. Fiscal Agent

The Rockbridge Area Community Services Board acts as its own fiscal agent.

P. 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.

Q. 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)

R. Net Position Flow Assumption

Sometimes the Board will fund outlays for a particular purpose from both restricted (e.g. restricted bond and grant proceeds) 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 Board's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

S. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Board has two items that qualify for reporting in this category. These items are comprised of certain items related to the measurement of the net pension asset and net OPEB liability 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 this item, reference the pension note.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Board has two types of items that qualify under this category. These items are comprised of certain items related to the measurement of the net pension asset and net OPEB liability. For more detailed information on these items, reference the pension note.

T. Pensions

For purposes of measuring the net pension asset, 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 benefit terms. Investments are reported at fair value.

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

U. OPEB – Group Life Insurance

The Virginia Retirement System (VRS) Group Life Insurance (GLI) Program provides coverage to 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.

V. Adoption of Accounting Principles

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

Net position as reported at June 30, 2017	$ 2,929,460
Implementation of GASB 75:	
To record the Group Life Insurance net OPEB liability and related deferred outflow of resources as of June 30, 2017	(350,000)
Net position as restated at June 30, 2017	$ 2,579,460

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 insurance 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 and certain corporate notes, banker's acceptances, repurchase agreements and the state Treasurer's Local Government Investment Pool (LGIP).

Credit Risk of Debt Securities

Credit Risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Generally, the Board's investing activities are managed to ensure the maximum preservation of capital and minimize credit risk. Investing is performed in accordance with the investment policy adopted by the Board of Directors complying with State Statutes. Per policy, investments should be categorized as Category Level 1, investments that are insured or registered or for which the securities are held by the CSB or its safekeeping agent in the CSB's name. Board funds may be invested in:

1. U.S. Treasury Bills, Notes, Bonds, and other direct obligations of the United States Government.
2. Obligations of Agencies of the Federal Government including but not limited to the Federal Farm Credit Bank, Federal Home Loan Bank, Federal National Mortgage Association, Government National Mortgage Association, Federal Home Loan Mortgage Corporation, and Student Loan Marketing Association.
3. Repurchase Agreements executed through Federal Reserve Member Banks or Primary Dealers in U.S. Government securities, and collateralized by Treasury or Agency obligations the market value of which is at least 102% of the purchase price of the repo.
4. Certificates of deposit or other deposits of national banks located within the Commonwealth and state-chartered banks under Commonwealth supervision provided such deposits are insured or collateralized as provided by the Virginia Security for Public Deposits Act.
5. Money Market Mutual Funds which trade on a constant net asset value and which invest solely in securities otherwise eligible for investment under these guidelines, including the Commonwealth of Virginia Treasury Department's Local Government Investment Pool (LGIP).

NOTE 3—ACCOUNTS RECEIVABLE:

A summary of accounts receivable at June 30, 2018 is as follows:

Local Sources:		
Fees receivable	$	468,237
Logisticare transportation		12,842
Less allowance for doubtful accounts		(68,735)
Total receivable from local sources	$	412,344
Commonwealth of Virginia:		
Mental Health Acute Care Funds	$	6,400
Virginia Foundation for Healthy Youth		17,026
Healthy Community Actions Team Grant		10,065
Total Commonwealth of Virginia	$	33,491
Federal Government:		
Drug Free Communities Support Program	$	32,042
Total Federal Government	$	32,042
Total accounts receivable	$	477,877

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NOTE 4—CAPITAL ASSETS:

A summary of capital assets at June 30, 2018 is as follows:

	Balance June 30, 2017	Increases	Decreases	Balance June 30, 2018
Capital assets not being depreciated:				
Land	$ 614,171	$ -	$ -	$ 614,171
Total capital assets not being depreciated	$ 614,171	$ -	$ -	$ 614,171
Other capital assets:				
Buildings	$ 5,990,793	$ -	$ -	$ 5,990,793
Land improvements	29,267	-	-	29,267
Equipment	1,057,583	71,097	(3,577)	1,125,103
Vehicles	867,259	-	(467,750)	399,509
Total other capital assets	$ 7,944,902	$ 71,097	$ (471,327)	$ 7,544,672
Accumulated depreciation:				
Buildings	$ (1,564,825)	$ (156,149)	$ -	$ (1,720,974)
Land improvements	(29,164)	(103)	-	(29,267)
Equipment	(1,051,595)	(62,952)	3,577	(1,110,970)
Vehicles	(587,561)	(45,404)	466,966	(165,999)
Total accumulated depreciation	$ (3,233,145)	$ (264,608)	$ 470,543	$ (3,027,210)
Other capital assets, net	$ 4,711,757	$ (193,511)	$ (784)	$ 4,517,462
Net capital assets	$ 5,325,928	$ (193,511)	$ (784)	$ 5,131,633

Current year depreciation expense amounted to $264,608.

NOTE 5–PENSION PLAN:

Plan Description

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

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. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members") • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.

NOTE 5–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 5–PENSION PLAN: (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	**Hybrid Opt-In Election (Cont.)** Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	***Non-Eligible Members (Cont.)** Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees are paying the full 5% as of July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	**Retirement Contributions** Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees are paying the full 5% as of July 1, 2016.	**Retirement Contributions** A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

NOTE 5–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 5–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>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.</td>
<td>Vesting
Same as Plan 1.</td>
<td>Vesting
<u>Defined Benefit Component:</u>
Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service.
Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

<u>Defined Contribution Component:</u>
Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.

Members are always 100% vested in the contributions that they make.</td>
</tr>
</table>

NOTE 5–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 5–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 5–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 5–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 5–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 5–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 Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	**Purchase of Prior Service** Same as Plan 1.	**Purchase of Prior Service** **Defined Benefit Component:** Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. **Defined Contribution Component:** Not applicable.

NOTE 5–PENSION PLAN: (CONTINUED)

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.

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	42
Inactive members:	
Vested inactive members	45
Non-vested inactive members	81
Inactive members active elsewhere in VRS	46
Total inactive members	172
Active members	89
Total covered employees	303

Contributions

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

The Board's contractually required contribution rate for the year ended June 30, 2018 was 3.09% 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 $112,804 and $107,171 for the years ended June 30, 2018 and June 30, 2017, respectively.

NOTE 5–PENSION PLAN: (CONTINUED)

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.

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Board's Retirement Plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

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

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

Mortality rates:

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

Pre-Retirement:

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

Post-Retirement:

RP-2014 Employee Rates at 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 5–PENSION PLAN: (CONTINUED)

Actuarial Assumptions – General Employees (continued)

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 at 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:

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 5–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 5–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's 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 Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/ (Asset) (a) - (b)
Balances at June 30, 2016	$ 11,877,841	$ 12,717,481	$ (839,640)
Changes for the year:			
Service cost	$ 322,783	$ -	$ 322,783
Interest	807,820	-	807,820
Changes in assumptions	(92,990)	-	-
Differences between expected and actual experience	(510,090)	-	(510,090)
Contributions - employer	-	103,818	(103,818)
Contributions - employee	-	192,582	(192,582)
Net investment income	-	1,534,260	(1,534,260)
Benefit payments, including refunds of employee contributions	(675,104)	(675,104)	-
Administrative expenses	-	(9,075)	9,075
Other changes	-	(1,355)	1,355
Net changes	$ (147,581)	$ 1,145,126	$ (1,292,707)
Balances at June 30, 2017	$ 11,730,260	$ 13,862,607	$ (2,132,347)

NOTE 5–PENSION PLAN: (CONTINUED)

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

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

	Rate		
	(6.00%)	**(7.00%)**	**(8.00%)**
Rockbridge Area Community Services Board			
Net Pension Liability (Asset)	$ (295,528)	$ (2,132,347)	$ (3,624,575)

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 ($550,472). At June 30, 2017, 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	$ -	$ 484,024
Change in assumptions	-	55,494
Net difference between projected and actual earnings on pension plan investments	-	199,585
Employer contributions subsequent to the measurement date	112,804	-
Total	$ 112,804	$ 739,103

NOTE 5–PENSION PLAN: (CONTINUED)

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

$112,804 reported as deferred outflows of resources related to pensions resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ended June 30, 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 years as follows:

Year ended June 30,		
2019	$	(505,440)
2020		(101,765)
2021		(366)
2022		(131,532)
Thereafter		-

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NOTE 6–GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN):

Plan Description

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

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

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

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS

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 Richmond
- City of Portsmouth
- City of Roanoke
- City of Norfolk
- Roanoke City School Board

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 6–GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (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 $22,526 and $19,000 for the years ended June 30, 2018 and June 30, 2017, respectively.

NOTE 6–GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

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

At June 30, 2018, the entity reported a liability of $313,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2017 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the participating employer's proportion was .02075% as compared to .02107% at June 30, 2016.

For the year ended June 30, 2018, the participating employer recognized GLI OPEB expense of ($3,000). 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	$ -	$ 7,000
Net difference between projected and actual earnings on GLI OPEB program investments	-	12,000
Change in assumptions	-	16,000
Changes in proportion	-	5,000
Employer contributions subsequent to the measurement date	22,526	-
Total	$ 22,526	$ 40,000

NOTE 6–GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

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

$22,526 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 OEPB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year Ended June 30		
2019	$	(8,000)
2020		(8,000)
2021		(8,000)
2022		(8,000)
2023		(5,000)
Thereafter		(3,000)

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 6–GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

Actuarial Assumptions: (Continued)

Mortality Rates – General State Employees

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

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

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

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

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

NOTE 6–GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

Actuarial Assumptions: (Continued)

Mortality Rates – Teachers

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

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

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

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

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

NOTE 6–GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

Actuarial Assumptions: (Continued)

Mortality Rates – SPORS Employees

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

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

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

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

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

NOTE 6–GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

Actuarial Assumptions: (Continued)

Mortality Rates – VaLORS Employees

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

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

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

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

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

NOTE 6–GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

Actuarial Assumptions: (Continued)

Mortality Rates – JRS Employees

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

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

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

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

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

NOTE 6–GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

Actuarial Assumptions: (Continued)

Mortality Rates – Largest Ten Locality Employers – General Employees

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

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

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

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

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

NOTE 6–GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

Actuarial Assumptions: (Continued)

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

Mortality Rates – Largest Ten Locality Employers – Hazardous Duty Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

NOTE 6–GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

Actuarial Assumptions: (Continued)

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

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

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

NOTE 6–GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

Actuarial Assumptions: (Continued)

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

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

Mortality Rates (pre-retirement, post-retirement healthy, and	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 6–GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

Long-Term Expected Rate of Return

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

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 6–GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

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

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

	Rate		
	1% Decrease (6.00%)	**Current Discount (7.00%)**	**1% Increase (8.00%)**
Rockbridge Area Community Service Board's proportionate share of the Group Life Insurance Program Net OPEB Liability (Asset)	$ 404,000	$ 313,000	$ 238,000

Group Life Insurance Program Fiduciary Net Position

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

NOTE 7—COMPENSATED ABSENCES:

Board employees earn paid time-off each month at a scheduled rate in accordance with their years of service. Accumulated unpaid vacation and other compensating leave amounts are accrued when incurred. Outstanding accrued leave pay totaled $376,279 at June 30, 2018.

NOTE 8—LONG-TERM OBLIGATIONS:

The following is a summary of long-term obligation transactions for the Board for the year ended June 30, 2018:

	Balance June 30, 2017	Increases/ Issuances	Decreases/ Retirements	Balance June 30, 2018	Due Within One Year
Loan payable	$ 3,728,152	$ -	$ (69,302)	$ 3,658,850	$ 72,290
Compensated absences	394,566	-	(18,287)	376,279	-
Net OPEB Liability	369,000	3,000	(59,000)	313,000	-
Total	$ 4,491,718	$ 3,000	$ (146,589)	$ 4,348,129	$ 72,290

NOTE 8—LONG-TERM OBLIGATIONS: (CONTINUED)

Annual Requirements to Amortize Long-Term Debt:

Year Ending	Loan Payable	
June 30,	Principal	Interest
2019	72,290	154,126
2020	75,422	150,994
2021	78,691	147,725
2022	82,101	144,315
2023	85,659	140,757
2024-2028	487,306	644,774
2029-2033	602,457	529,623
2034-2038	744,820	387,260
2039-2043	920,820	211,260
2044-2046	509,284	27,084
Total	$ 3,658,850	$ 2,537,918

Details of long-term obligations:

Loan Payable:

The Board entered into a loan agreement with USDA on December 28, 2007 in the amount of $4,259,000 at an interest rate of 4.25%, which was used to finance construction of a 28,000 square foot office building. Monthly payments of principal and interest total $18,868. The maturity date of the loan is December 28, 2045, and the balance outstanding at June 30, 2018 was $3,658,850.

NOTE 9—LINE OF CREDIT:

Line of Credit:

The Board maintains a guidance line of credit with Union First Bank. Borrowing under the line of credit is evidenced by a master note and will accrue interest daily at the Prime Rate published in the Wall Street Journal, but will not be less than 3.5% per annum. The accrued interest will be billed monthly. The outstanding balance of the line at June 30, 2018 is $509,559 with an interest rate of 5.0% per annum.

NOTE 10—CONTINGENT LIABILITIES:

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. In the opinion of management, any future disallowances of current grant program expenditures, if any, would be immaterial.

NOTE 11—OPERATING LEASE AGREEMENTS:

The Board leases office space and other facilities from various lessors. The lease terms are generally for one year with provisions for additional one year renewals. Future minimum lease payments for the fiscal year ending June 30, 2018 are as follows:

2019	$	9,000
Total	$	9,000

Leases may be adjusted each year based on changes in the prior year's Consumer Price index.

NOTE 12—LOCAL SUPPORT:

Cash contributions to the Rockbridge Area Community Services Board by the supporting localities are as follows:

Rockbridge County	$	155,163
City of Lexington		50,937
City of Buena Vista		47,451
Bath County		33,015
Total	$	286,566

NOTE 13—DEFERRED COMPENSATION PLAN:

The Board offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The plan is with the Commonwealth of Virginia Deferred Compensation Plan, and is administered by ICMA-RC.

NOTE 14—LOANS RECEIVABLE:

Loans receivable consist of monies loaned to residential clients of the Rockbridge Area Community Services Board. These loans are to be repaid to the Board. The balance at June 30, 2018 was $1,311.

NOTE 15—NET POSITION RESTRICTED FOR FEDERAL PROGRAMS:

Net position restricted for federal programs consists of federal funding received by the Board as of year-end that has yet to be expended for its intended purpose. As of June 30, 2018, there were no funds subject to such restriction.

REQUIRED SUPPLEMENTARY INFORMATION

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

	2017	2016	2015	2014
Total pension liability				
Service cost	$ 322,783	$ 413,878	$ 413,588	$ 420,624
Interest	807,820	789,883	768,095	714,630
Changes in assumptions	(92,990)	-	-	-
Differences between expected and actual experience	(510,090)	(387,062)	(439,695)	-
Benefit payments, including refunds of employee contributions	(675,104)	(445,802)	(415,648)	(327,310)
Net change in total pension liability	$ (147,581)	$ 370,897	$ 326,340	$ 807,944
Total pension liability - beginning	11,877,841	11,506,944	11,180,604	10,372,660
Total pension liability - ending (a)	$ 11,730,260	$ 11,877,841	$ 11,506,944	$ 11,180,604
Plan fiduciary net position				
Contributions - employer	$ 103,818	$ 190,154	$ 207,564	$ 278,573
Contributions - employee	192,582	194,798	220,728	220,470
Net investment income	1,534,260	221,307	551,636	1,633,511
Benefit payments, including refunds of employee contributions	(675,104)	(445,802)	(415,648)	(327,310)
Administrative expense	(9,075)	(7,741)	(7,421)	(8,572)
Other	(1,355)	(93)	(115)	86
Net change in plan fiduciary net position	$ 1,145,126	$ 152,623	$ 556,744	$ 1,796,758
Plan fiduciary net position - beginning	12,717,481	12,564,858	12,008,114	10,211,356
Plan fiduciary net position - ending (b)	$ 13,862,607	$ 12,717,481	$ 12,564,858	$ 12,008,114
Political subdivision's net pension asset - ending (a) - (b)	$ (2,132,347)	$ (839,640)	$ (1,057,914)	$ (827,510)
Plan fiduciary net position as a percentage of the total pension liability	118.18%	107.07%	109.19%	107.40%
Covered payroll	$ 3,827,562	$ 3,783,840	$ 4,068,350	$ 4,167,928
Political subdivision's net pension liability as a percentage of covered payroll	-55.71%	-22.19%	-26.00%	-19.85%

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.

Schedule of Employer Contributions
Years Ended June 30, 2009 through June 30, 2017

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	$ 112,804	$ 112,804	$ -	$ 4,329,812	2.61%
2017	107,171	107,171	-	3,827,562	2.80%
2016	190,154	190,154	-	3,783,840	5.03%
2015	207,564	207,564	-	4,068,350	5.10%
2014	278,573	278,573	-	4,167,928	6.68%
2013	289,968	289,968	-	4,321,436	6.71%
2012	156,822	156,822	-	4,094,563	3.83%
2011	146,489	146,489	-	3,824,769	3.83%
2010	161,552	161,552	-	3,705,322	4.36%
2009	175,925	175,925	-	4,034,968	4.36%

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

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 are not material.

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

Largest 10 – Non-Hazardous Duty:

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

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

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

Schedule of Rockbridge Area Community Services 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 (2)	Employer's Proportionate Share of the Net GLI OPEB Liability (3)	Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net GLI OPEB Liability as a Percentage of Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability (6)
2017	0.02%	$ 313,000	$ 4,329,812	7.23%	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.

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	$	22,526	$	22,526	$	-	$	4,329,812	0.52%
2017		19,000		19,000		-		3,827,562	0.50%

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.

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

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

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

General State Employees

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

Teachers

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

SPORS Employees

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

VaLORS Employees

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

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

JRS Employees

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

Largest Ten Locality Employers - General Employees

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

Non-Largest Ten Locality Employers - General Employees

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

Largest Ten Locality Employers - Hazardous Duty Employees

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

Non-Largest Ten Locality Employers - Hazardous Duty Employees

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

OTHER SUPPLEMENTARY INFORMATION

SUPPORTING SCHEDULES

Rockbridge Area Community Services Board **Schedule 1**

Standard Schedule of Current Property and Casualty Insurance
Year Ended June 30, 2018

Insurance Coverage	Ins. Co. / Agent/Policy #	Policy Period	Limits of Liability		Ded.	Annual Premium
Workers Compensation	Co: Virginia Association of Counties Group Pool Ag: Pol. #: VA-RO-724-17	7/1/17-6/30/18	Accident Injury by disease Disease aggregate	$1,000,000 $1,000,000 $1,000,000	N/A	$34,880
Building & Contents	Co: Virginia Association of Counties Group Pool Ag: Pol. #: VA-RO-724-17	7/1/17-6/30/18	Buildings/Contents	Replacement Cost	$5000/ occurrence	$15,107
General Liability	Co: Virginia Association of Counties Group Pool Ag: Pol. #: VA-RO-724-17	7/1/17-6/30/18	Bodily/Personal Injury Employee Benefits Fire Legal	$2,000,000 $2,000,000 $500,000	N/A	$9,338
Excess Liability	Co: Virginia Association of Counties Group Pool Ag: Pol. #: VA-RO-724-17	7/1/17-6/30/18	General Liability Auto Liability	$4,000,000 $4,000,000	N/A	$9,810
Environmental	Co: Virginia Association of Counties Group Pool Ag: Pol. #: VA-RO-724-17	7/1/17-6/30/18	Pool Aggregate	$1,000,000	$25,000	Included
Cyber Risk	Co: Virginia Association of Counties Group Pool Ag: Pol. #: VA-RO-724-17	7/1/17-6/30/18	Cyber Risk	$3,000,000	N/A	$5,000
Commercial Auto	Co: Virginia Association of Counties Group Pool Ag: Pol. #: VA-RO-724-17	7/1/17-6/30/18	Combined Single Limit	$3,500,000	$1,000 per occurrence	$22,315
Crime	Co: Virginia Association of Counties Group Pool Ag: Pol. #: VA-RO-724-17	7/1/17-6/30/18	Employee Dishonesty & Securities/Counterfeit	$500,000	$250	$1,050
Public Officials	Co: Virginia Association of Counties Group Pool Ag: Pol. #: VA-RO-724-17	7/1/17-6/30/18	Wrongful Acts Annual Contract	$5,000,000 $5,000,000	$2,500	$6,700
						Total $104,200

Schedule 2

Rockbridge Area Community Services Board
Client Statistics
Year Ended June 30, 2018

	2018	2017	2016	2015	2014	2013	2012	2011
Clients Served by Disability								
Emergency Services/Assessment & Evaluation	960	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Mental Health	1,003	1,428	1,348	1,534	1,468	1,400	1,368	1,324
Developmental Services	131	308	287	294	303	296	289	277
Substance Abuse	188	331	332	338	257	216	172	264
Total Clients Served	2,282	2,067	1,967	2,166	2,028	1,912	1,829	1,865

Description/ Application	Vendor/Name/ Model	Development Stage	Hardware	Operating System
General Ledger, Payroll, Accounts Payable, Budget	Microsoft Dynamics GP and Kronos Workforce Go	Fully Operational	Dell VRTX Virtual Environment WFG is cloud based	Windows Server 2008 R2 Standard
Reimbursement & Client Demographics	Credible	Fully Operational	Cloud based	N/A
Fixed Assets	Microsoft Dynamics GP	Fully Operational	Dell VRTX Virtual Environment	Windows Server 2008 R2 Standard
Purchasing	None	Manual Operation	Personal Computer	Windows 10 Pro

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
ROCKBRIDGE AREA COMMUNITY SERVICES BOARD
LEXINGTON, VIRGINIA

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of Rockbridge 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 Rockbridge Area Community Services Board's basic financial statements and have issued our report thereon dated October 18, 2018.

Internal Control over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. [2018-001 and 2018-002]

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Rockbridge 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*.

Board's Response to Findings

Rockbridge Area Community Services Board's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Rockbridge Area Community Services Board's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

Robinson, Farmer, Cox Associates

Staunton, Virginia
October 18, 2018

ROCKBRIDGE AREA COMMUNITY SERVICES BOARD

Schedule of Findings and Responses
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?	x yes	no
- Significant deficiency(ies) identified?	yes	x no
Non compliance material to financial statements noted?	yes	x no

Section II-Financial Statement Findings

Finding/Noncompliance

Finding 2018-001 Material Weakness:

Criteria: The Board should timely reconcile the bank accounts to the general ledger on a monthly basis with any discrepancies found investigated and resolved immediately. This procedure is critical to maintaining an accurate accounting of the cash.

Condition: The Board did not timely and accurately reconcile the bank accounts to the general ledger for the months of July 2017 through June 2018. When bank reconciliations were performed, the reconciled cash balance was not agreed to the actual general ledger cash balance. During the fiscal year, the Board retained the services of an external accounting consultant to assist with preparing month-end reconciliations and adjustments, and the cash balance as of June 30, 2018 was accurately reconciled to the general ledger.

Cause: The Board experienced turnover in administrative staff positions during fiscal year 2018. As a result of staff turnover, continuity of certain internal controls, such as reconciliation of the bank accounts, was not maintained. When these controls were continued, reconciled cash amounts were not agreed to the correct general ledger balance, creating inaccurate bank reconciliations.

Effect: There is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected by the Board's internal controls over financial reporting. During our assessment of the Board's risk of material misstatement, we determined that bank reconciliations were not performed timely on a consistent basis during the fiscal year. When bank reconciliations were performed, the reconciled cash balance per the reconciliation was not agreed to the correct ending cash balance per the general ledger. As a result of external accountant analysis, adjustments totaling ($33,347) were required to correct the Board's general ledger cash accounts related to improperly posted July 2017 transactions. Had the Board reconciled the cash accounts on a monthly basis, errors and discrepancies in the cash accounts would have been detected and corrected on a timely basis.

Finding/Noncompliance (continued)

Finding 2018-001 Material Weakness (Continued):

Recommendation: In order to safeguard the Board's assets, it is imperative that bank accounts be reconciled monthly to the general ledger. All differences should be investigated immediately and appropriate adjustments recorded. Additionally, all bank reconciliations should be reviewed by an employee independent of the bank reconciliation process.

Management's Response:

The new CFO hired in May 2018 observed continued issues with the bank reconciliaiton process in the first week of employment. An outside CPA was engaged to assist with reconciling the bank account and investigating discrepancies. As 6/30/18, reconciliations had been completed through April 2018. May and June were reconciled by the outside CPA during the first two weeks of July. As a result of additional staffing changes that resulted in the elimination of the finance operations manager position, bank reconciliations are currently being prepared by the CFO. These reconciliations are prepared as part of the monthly closing process typically within two to three weeks of month end. Support for all reconciling items is maintained along with a copy of the bank statement.

Finding 2018-002 Material Weakness:

Criteria: The Board should timely reconcile the accounts receivable subsidiary ledger to the general ledger on a monthly basis. This procedure is critical to maintaining an accurate accounting of the patient receivables, as patient billings and payments are recorded in a software independent of the general ledger and require manual posting to the general ledger.

Condition: The Board failed to perform monthly reconciliations of the accounts receivable subsidiary ledger to the general ledger.

Cause: The Board experienced turnover in administrative staff positions during fiscal year 2018. As a result of staff turnover, continuity of certain internal controls, such as reconciliation of the accounts receivable subsidiary ledger to the general ledger, was not maintained.

Finding/Noncompliance (continued)

Finding 2018-002 Material Weakness (Continued):

Effect: There is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected by the Board's internal controls over financial reporting. During our assessment of the Board's risk of material misstatement, we determined that monthly reconciliations between the accounts receivable subsidiary ledger and the general ledger were not being performed. Reconciling of the subsidiary ledger and the general ledger is a critical control to maintaining an accurate accounting of the receivable balances. Failure to timely perform these reconciliations can result in errors or misstatements not being prevented, or detected and corrected on a timely basis.

Recommendation: In order to both safeguard the Board's assets and provide an accurate presentation of amounts owed to the Board, it is imperative that the patient billings and payments software be reconciled monthly to the general ledger. All differences should be investigated immediately and appropriate adjustments recorded. Additionally, all accounts receivable reconciliations should be reviewed by an employee independent of the reconciliation process.

Magagement's Response:

The agency implemented a new billing system in FY18. When the new CFO started in May 2018 a process had not been developed to reconcile the new system to the general ledger. Beginning in June 2018 a clearing account process was implemented to help quickly identify differences in payments received versus payments posted to the client account. Accounts receivable balances were adjusted to billing software as of 6/30/18 and a reconciliation was performed to ensure client billing revenue agreed between the billing system and the general ledger for FY18. In addition, completion of the bank reconciliations in #1 above ensured that payments received during FY18 were appropriately reported. Prior to posting entries for FY19, the CFO also reviewed the GL matrix in the billing system and made adjustments where needed to ensure transactions posted to the correct accounts in the general ledger.

Beginning with July 2018, the CFO runs an aging report monthly from the billing system and prepares a reconciliation to the general ledger. Any differences are investigated. In addition, the balance in the clearing account is reviewed to ensure significant balances do not remain. Remaining balances should relate to payments received that were not processed through to the billing system as of the end of the month. This typically occurs when payments are received through ACH, but the EOB arrives by mail at a later date. The CFO plans to transition the reconciliation process to a billing staff member and will review completed reconciliations monthly.

Section III-Summary Schedule of Prior Year Findings

2017-001

Summary of Finding: The Board did not have sufficient procedures in place to produce financial statements in accordance with applicable standards.

Corrective Action Taken: During fiscal year 2018, the Board hired a new Chief Financial Officer who has sufficiently implemented and maintained various controls and procedures to produce financial statements in accordance with Generally Accepted Accounting Principles.

2017-002

Summary of Finding: The Board did not timely reconcile the bank accounts to the general ledger on a monthly basis.

Repeat Finding: This is a repeat finding regarding timely reconciliation of bank accounts. Please see Finding 2018-001.

2017-003

Summary of Finding: The Board did not timely reconcile the accounts receivable subsidiary ledger to the general ledger on a monthly basis.

Repeat Finding: This is a repeat finding regarding timely reconciliation of the accounts receivable subsidiary accounts. Please see Finding 2018-002.