

RAPPAHANNOCK-RAPIDAN
REGIONAL COMMISSION

AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

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

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION COMMISSIONERS

As of June 30, 2016

Culpeper County

Mr. John Coates

Mr. Steve Walker

Town of Culpeper

Mr. Chris Hively

Ms. Meaghan Taylor

Fauquier County

Mr. Christopher N. Granger

Mr. Paul S. McCulla, Commission Treasurer

Town of Warrenton

Mr. Yakir M. Lubowsky

Mr. Lowell S. W. (Wells) Nevill

Town of Remington

Mr. Evan H. "Skeet" Ashby, III

Town of The Plains

Mr. Robert Gurtler

Madison County

Mr. Daniel Campbell

Ms. Charlotte Hoffman

Town of Madison

Mr. William L. Lamar

Orange County

Mr. James P. "Jim" Crozier, Commission Chair

Mr. R. Bryan David

Town of Orange

Ms. Martha B. Roby

Mr. Greg Woods

Town of Gordonsville

Mr. Robert Coiner, Commission Vice-Chair

Rappahannock County

Ms. Deborah A. Keyser

Mr. Roger Welch

Town of Washington

Mr. John Fox Sullivan

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION

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Dunham, Aukamp & Rhodes, PLC
Certified Public Accountants

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Chantilly, VA 20151

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of the Rappahannock-Rapidan Regional Commission as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the Rappahannock-Rapidan Regional Commission as of June 30, 2016 and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

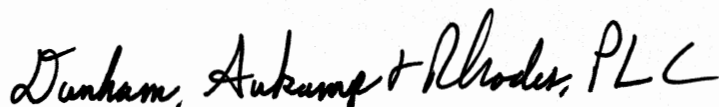
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of revenue and expenses-budget and actual (budgetary basis), the schedule of employer's share of net pension liability and related ratios, and the schedule of employer contributions on pages 3 through 7 and pages 30 through 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2016, on our consideration of the Rappahannock-Rapidan Regional Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Rappahannock-Rapidan Regional Commission's internal control over financial reporting and compliance.



Certified Public Accountants
Chantilly, Virginia

October 26, 2016

Management's Discussion and Analysis

As management of the Rappahannock-Rapidan Regional Commission we offer this narrative overview and analysis of the financial performance of the Commission's financial activities for the year ended June 30, 2016.

Overview of the Financial Statements

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

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

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

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

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

Financial Highlights FY2016

The financial position of the Rappahannock-Rapidan Regional Commission has experienced a number of fluctuations in recent years due to funding variances. In FY2016, the Commission's net position from July 2015 to June 2016 increased by \$76,091. This figure represents a snapshot in time as of June 30, 2016. The close-out of some grants and the introduction of new grants often cross fiscal periods, causing a significant variation in this number. FY2016 included several housing, environmental and transportation related grants which were a significant percentage of the total budget. Operating expenses reflect many pass-through amounts as well as increases in health insurance and other costs.

Financial Analysis

The following table reflects the condensed Statements of Net Position:

	Summary Statements of Net Position	
	June 30,	
	<u>2016</u>	<u>2015</u>
Current Assets	\$156,679	\$ 79,409
Capital Assets (net)	216,084	226,531
Net Pension Asset	<u>155,231</u>	<u>173,008</u>
Total Assets	<u>527,994</u>	<u>478,948</u>
Deferred Outflows of Resources	<u>20,222</u>	<u>30,404</u>
Current Liabilities	90,669	79,246
Long-term Liabilities	<u>220,112</u>	<u>233,233</u>
Total Liabilities	<u>310,781</u>	<u>312,479</u>
Deferred Inflows of Resources	<u>27,273</u>	<u>62,802</u>
Invested in capital assets, net of debt	(17,149)	(19,215)
Unrestricted	<u>227,311</u>	<u>153,286</u>
Total Net Position	<u>\$210,162</u>	<u>\$134,071</u>

The Commission's total net position (which is the Commission's bottom line) increased by \$76,091 during the year. An accumulation of several years of reduced dues and decreasing administration funding from grants required the usage of funds from the Commission's reserve funds to balance the budget in past years. However, the increase in the dues rate from \$0.79 per capita to \$0.83 per capita in FY 2016 and ability of staff to complete portions of several grants utilizing staff resources meant that the use of reserves to balance the budget was not necessary in FY2016. This increase in net position reflects our efforts to secure new grants as well as control spending. It allows us to better manage our cash flow and provide needed cash match for new grants.

The following summarizes the revenues and expenses of the Commission:

	Changes in Net Position For the Years Ended June 30,	
	2016	2015
Operating revenues		
Grants	\$ 726,542	\$ 608,711
Dues	138,577	133,346
Other operating revenues	<u>49,682</u>	<u>51,440</u>
Total operating revenues	<u>914,801</u>	<u>793,497</u>
Non-operating revenues		
Interest	<u>260</u>	<u>140</u>
Total Revenues	<u>915,061</u>	<u>793,637</u>
Operating Expenses		
Salaries and wages	376,551	371,581
Fringe benefits	88,343	73,055
Freedom grant	152,897	157,911
Carver agriculture grant	47,262	-
Stormwater program development	-	15,711
Regional ride sharing	37,396	41,980
Food system	-	17,182
PATH planning grant	17,420	-
Total maximum daily load	15,861	14,076
Data cleanup grant	15,327	-
Other grant expenses	26,561	15,191
Other operating expenses	<u>37,487</u>	<u>43,723</u>
Total operating expenses	815,105	750,410
Depreciation and amortization	12,461	11,778
Interest paid on debt	<u>11,404</u>	<u>11,983</u>
Total expenses	<u>838,970</u>	<u>774,171</u>
Change in net position	76,091	19,466
Net position beginning of year, as restated	<u>134,071</u>	<u>114,605</u>
Net position end of year	<u>\$ 210,162</u>	<u>\$ 134,071</u>

Revenues

For the fiscal year ended June 30, 2016, total revenues increased by \$120,974 from the prior year. This was a result of the addition of several grants, including the Building Collaborative Communities grant in support of the ongoing Carver project and Stormwater Data Cleanup grant. Additionally, the continuation of grants from the Department of Rail and Public Transportation in support of RRRC's Commuter Services and Mobility Management programs, Total Maximum Daily Load (TMDL) coordination grant for the Upper Rapidan River project from the Department of Environmental Quality, and Backyard Rainscaping program funds from the National Fish & Wildlife Foundation are important for RRRC's ability to continue providing support for successful, long-term projects. Finally, RRRC's regional housing efforts were aided by successful grants from the Virginia Homeless Solutions Program, but also from funding allocated by member jurisdictions in support of a 0.5 Full-Time Equivalent housing position.

Expenses

For the fiscal year ended June 30, 2016, total expenses increased by \$64,799 from the prior year. Some grant related expenses also increased, in proportion to their individual amount of funding. Personnel costs such as health insurance and retirement increased in FY-2016. However, total expenses were significantly lower than our total revenues.

Capital Assets

At the end of fiscal year 2016, the Commission had invested \$405,302 in capital assets which consisted of the office building, office furniture and equipment. This amount has been depreciated by \$189,218, for a carrying amount of \$26,084.

Long-Term Debt

On August 12, 2000 the Commission received loan proceeds in the amount of \$376,000 from the Department of Agriculture to finance construction of office facilities. The loan is due in monthly installments of \$1,993 through July 12, 2029. Interest on the loan is at 4.75%. The balance of this loan was \$233,233 as of June 30, 2016.

Economic Factors and Future Projects

The Commission receives a substantial amount of its support from local and state governments. The Commission's revenue growth has decreased in recent years due to state and local budget cuts and reduction of administrative funding in many grants. Our revenue is expected to grow over the next fiscal year as a result of funding from new projects for which the Commission has oversight, along with additional funding from local sources. Operating expenses generally remain at a level in proportion to the revenues.

Presently, management of the Commission is not aware of any significant changes in conditions that would have a significant effect on the financial position or results of activity of the Commission in the near future.

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

Contacting the Commission's Financial Management

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

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
STATEMENT OF NET POSITION
JUNE 30, 2016

ASSETS	
Cash and cash equivalents	\$ 84,644
Accounts receivable	72,035
Net pension asset	155,231
Capital assets, net	<u>216,084</u>
 Total Assets	 <u>527,994</u>
 DEFERRED OUTFLOWS OF RESOURCES	
Pension contributions after the measurement date	<u>20,222</u>
 LIABILITIES	
Accounts payable	29,102
Accrued liabilities	22,336
Accrued annual leave	15,030
Deferred revenue	11,080
Rural Development loan payable	<u>233,233</u>
 Total Liabilities	 <u>310,781</u>
 DEFERRED INFLOWS OF RESOURCES	
Net difference between projected and actual pension earnings	<u>27,273</u>
 NET POSITION	
Investment in capital assets, net of related debt	(17,149)
Unrestricted	<u>227,311</u>
 Total Net Position	 <u><u>\$ 210,162</u></u>

See accompanying notes.

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

Operating Revenues:

Freedom grant	\$ 224,051
Dues	138,577
Rideshare program	113,810
State regional planning grant	75,971
Carver agriculture grant	60,000
Rural transportation program	58,000
Virginia Homeless Solution program	55,329
Rapidan TMDL	28,916
Data cleanup	20,739
Fauquier Health Foundation	17,420
National Alliance to End Homelessness	16,716
Agriculture and Forestry Industries Development	16,156
Food system	9,000
Veteran transportation and community living initiative	6,171
National Fish and Wildlife Foundation	5,607
Pet waste containment	1,756
Other Income	
Housing	48,127
America's wine country	9,900
Regional tourism	7,000
Miscellaneous	1,555
	<hr/>
Total Operating Revenues	914,801

Operating Expenses:

Agriculture and Forestry Industries Development	9,995
America's wine country	8,800
Annual meeting	2,470
Audit	2,600
Carver agriculture grant	47,262
Data cleanup	15,327
Depreciation	12,461
Equipment	1,124
Fauquier Health Foundation	17,420
Freedom grant	152,897
Insurance health	39,216
Insurance liability	1,326
Insurance workers' compensation	414
Internet	695
Maintenance and repairs	4,486
Membership dues	2,922
Miscellaneous	10

See accompanying notes.

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

Operating Expenses (Continued):

National Fish and Wildlife Foundation	\$ 5,011
Payroll taxes	29,336
Pet waste containment	811
Postage	495
Printing	860
Regional tourism	5,050
Retirement	19,377
Rideshare	37,396
Rural transportation planning	356
Salary	376,551
Subscriptions and publications	345
Supplies	2,331
Telephone	1,647
TMDL implementation	15,861
Travel	6,434
Utilities	4,692
VHDA expense	1,566
Virginia Homeless Solution program expense	22
Total Operating Expenses	<u>827,566</u>
Operating Gain	87,235
Nonoperating Income (Expense)	
Interest income	260
Interest expense	<u>(11,404)</u>
Total Nonoperating Expenses	<u>(11,144)</u>
Change in Net Position	76,091
Net Position at beginning of year	<u>134,071</u>
Net Position at end of year	<u><u>\$ 210,162</u></u>

See accompanying notes.

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

Cash flows from operating activities:	
Cash received from customers and users	\$ 903,269
Payments to suppliers	(441,203)
Payments to employees	<u>(378,377)</u>
Net Cash Provided by Operating Activities	<u>83,689</u>
Cash flows from capital and related financing activities:	
Principal payments on debt	(12,513)
Interest payments on debt	<u>(11,404)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(23,917)</u>
Cash flows from investing activities	
Purchases of new equipment	(2,014)
Interest earned	<u>260</u>
Net Cash Used in Investing Activities	<u>(1,754)</u>
Net Change in Cash and Cash Equivalents	58,018
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>26,626</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 84,644</u></u>
Reconciliation of Operating Gain	
to Net Cash Provided by Operating Activities	
Operating Gain	\$ 87,235
Adjustments to Reconcile Operating Loss	
to Net Cash Provided by Operating Activities:	
Depreciation	12,461
Changes in current assets and liabilities:	
Increase in accounts receivable	(22,612)
Decrease in prepaid expenses	3,360
Decrease in net pension asset	17,777
Decrease in deferred outflows	10,182
Increase in accounts payable	1,561
Increase in accrued liabilities	608
Decrease in accrued annual leave	(2,434)
Increase in deferred revenue	11,080
Decrease in deferred inflows	<u>(35,529)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 83,689</u></u>

See accompanying notes

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies

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

A. The Financial Reporting Entity

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

B. Financial Statement Presentation

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

Enterprise Fund Financial Statements:

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

C. Basis of Accounting

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

D. Budgets and Budgetary Accounting

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

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 1 – Summary of Significant Accounting Policies (continued)

E. Capital Assets

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

Equipment	3-12 years
Buildings	39 years

Activity of the capital assets for the Commission for the year ended June 30, 2016 was as follows:

	Balance July 1, 2015	Additions	Disposals	Balance June 30, 2016
Office furniture and equipment	\$ 35,033	\$ 2,014	\$ -	\$ 37,047
Buildings and improvements	368,255	-	-	368,255
Less:				
Accumulated Depreciation	(176,757)	(12,461)	-	(189,218)
Net capital assets	<u>\$226,531</u>	<u>\$(10,447)</u>	<u>\$ -</u>	<u>\$ 216,084</u>

F. Cash and Cash Equivalents

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

G. Use of Estimates

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

H. Accounts Receivable

Accounts receivable are reported at their gross value when earned as the underlying exchange transaction occurs. Receivables related to non-exchange transactions are recognized when their eligibility requirements have been met. Receivables are reduced by the estimated portion that is expected to be uncollectible. This estimate is made based on collection history and current information regarding the credit worthiness of the debtors. When continued collection activity results in receipts of amounts previously written off, revenue is recognized for the amount collected. Management considers all of the receivables collectible at June 30, 2016, and no allowance for doubtful accounts has been provided.

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 1 – Summary of Significant Accounting Policies (continued)

I. Deferred Outflows/Inflows of Resources

The Commission reports deferred outflows of resources on its statement of net position. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until the applicable period. The only item that qualifies for reporting in this category is the employer pension contributions made after the actuarial measurement date. Employer contributions made after the measurement date of June 30, 2015 were \$20,222.

The Commission reports deferred inflows of resources on its statement of net position. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until a future period. The Commission only has one item that qualifies for reporting in this category. The difference between the projected and actual pension earnings per the actuarial report dated of June 30, 2015, of \$27,273 is reported as a deferred inflow of resources at June 30, 2016.

J. Pension

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

K. Restricted Resources

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

L. Advertising Costs

Advertising costs are expensed as incurred.

NOTE 2 – Deposits and Investments

All cash of the Commission is maintained in accounts collateralized in accordance with the Virginia Security for Public Deposits Act or covered by federal depository insurance. At June 30, 2016 the carrying amount of the Commission's deposits with banks was \$84,644 and the bank balances were \$87,844. All of the bank balances were covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act.

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 3 – Rural Development Loan

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

Current year debt activity was as follows:

Beginning Balance	Increases	Decreases	Ending Balance
<u>\$245,746</u>	<u>\$ -</u>	<u>\$ 12,513</u>	<u>\$233,233</u>

Mandatory debt service requirements consist of the following:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 13,121	\$ 10,795
2018	13,759	10,157
2019	14,426	9,490
2020	15,126	8,790
2021	15,860	8,056
2022-2026	91,630	27,950
2027-2030	<u>69,311</u>	<u>5,407</u>
Total	<u>\$ 233,233</u>	<u>\$ 80,645</u>

NOTE 4 – Defined Benefit Pension Plan

Pensions

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

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 – Defined Benefit Pension Plan (continued)

Plan Description

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

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

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>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. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p>About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p>	<p>About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members")</p> <ul style="list-style-type: none"> • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 – Defined Benefit Pension Plan (Continued)

<p>Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p>Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • Political subdivision employees* <p>Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014</p> <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees <p>Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>
<p>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 will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p>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 will be paying the full 5% by July 1, 2016.</p>	<p>Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages</p>

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 – Defined Benefit Pension Plan (Continued)

<p>Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p>Creditable Service Same as Plan 1.</p>	<p>Creditable Service <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>
<p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make</p>	<p>Vesting Same as Plan 1.</p>	<p>Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contributions Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p>

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 – Defined Benefit Pension Plan (Continued)

<p>Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>	<p>Calculating the Benefit See definition under Plan 1.</p>	<p>Calculating the Benefit <u>Defined Benefit Component</u>: See definition under Plan 1</p> <p><u>Defined Contribution Component</u>: The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>
<p>Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p>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%.</p> <p>Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.</p> <p>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.</p>	<p>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.</p> <p>Sheriffs and regional jail superintendents: Same as Plan 1.</p> <p>Political subdivision hazardous duty employees: Same as Plan 1.</p>	<p>Service Retirement Multiplier <u>Defined Benefit Component</u>: VRS: The retirement multiplier for the defined benefit component is 1.00%.</p> <p>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.</p> <p>Sheriffs and regional jail superintendents: Not applicable.</p> <p>Political subdivision hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component</u>: Not applicable.</p>

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 – Defined Benefit Pension Plan (Continued)

<p>Normal Retirement Age VRS: Age 65.</p> <p>Political subdivisions hazardous duty employees: Age 60.</p>	<p>Normal Retirement Age VRS: Normal Social Security retirement age.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Normal Retirement Age <u>Defined Benefit Component:</u> VRS: Same as Plan 2.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility <u>VRS:</u> Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Age 60 Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 – Defined Benefit Pension Plan (Continued)

<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><u>Eligibility:</u> Same as Plan 1</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p>
<p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. 	<p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1</p>	<p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 – Defined Benefit Pension Plan (Continued)

<p>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.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work- related disability benefits.</p>	<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>Disability Coverage Employees of political subdivisions (including Plan 1 and Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides and employer-paid comparable program for its members.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one- year waiting period before becoming eligible for non-work- related disability benefits.</p>
<p>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.</p>	<p>Purchase of Prior Service Same as Plan 1.</p>	<p>Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported service. • The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. • Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. / After that on- year period, the rate for most categories of service will change to actuarial cost. <p><u>Defined Contribution Component:</u> Not applicable.</p>

Additional financial information supporting the preparation of VRS Political Subdivision Plan Schedules (including the unmodified audit opinion on the financial statements and required supplementary information) is presented in the separately issued VRS 2015 Comprehensive Annual Financial Report (CAFR). A copy of the 2015 VRS CAFR is publicly available through the About VRS link on the VRS website at www.varetire.org, or a copy may be obtained by submitting a request to the VRS Chief Financial Officer, PO Box 2500 Richmond, VA 23218-2500.

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 – Defined Benefit Pension Plan (Continued)

Employees Covered by Benefit Terms

As of the June 30, 2014 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive Members or Their Beneficiaries Currently Receiving Benefits	2
Inactive Members	
Vested inactive members	2
Non-vested inactive members	6
Inactive members active elsewhere in VRS	<u>6</u>
Total Inactive Members	14
Active Members	<u>6</u>
Total covered employees	<u>22</u>

Contributions

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

The Commission's contractually required contribution rate for the year ended June 30, 2016 was 6.24% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contribution to the pension plan from the Commission were \$20,222 for the year ended June 30, 2016.

Net Pension Liability

The Commission's net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 – Defined Benefit Pension Plan (Continued)

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Commission's Retirement Plan was based on an actuarial valuation as of June 30, 2014, 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, 2015.

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: 14 % of deaths are assumed to be service related

Largest 10 – Non-LEOS:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

Post-Retirement:

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

Post-Disablement:

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

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 – Defined Benefit Pension Plan (Continued)

The actuarial assumptions used in the June 30, 2013 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

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

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Political Subdivision Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the Long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

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:

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 – Defined Benefit Pension Plan (Continued)

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Long-Weighted Average Term
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	100.00%		5.83%
	Inflation		2.50%
	* Expected arithmetic nominal return		8.33%

* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

Change in the Net Pension Liability:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at June 30, 2014	\$873,090	\$1,046,098	\$(173,008)
Changes for the year:			
Service cost	45,136		45,136
Interest	60,928		60,928
Differences between expected and actual experience	(589)		(589)
Contributions – employer		21,713	(21,713)
Contributions – employee		17,468	(17,468)
Net investment income		49,158	(49,158)
Benefit payments, including refunds of employee contributions	(5,370)	(5,370)	
Administrative expense		(630)	630
Other changes	-	(11)	11
Net changes	100,105	82,328	17,777
Balances at June 30, 2015	<u>\$973,195</u>	<u>\$1,128,426</u>	<u>\$(155,231)</u>

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 – Defined Benefit Pension Plan (Continued)

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

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

	1% Decrease (6.0%)	Discount Rate (7.0%)	1% Increase (8.0%)
Commission's Net Pension Liability	\$(11,238)	\$(155,231)	\$(273,890)

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

For the year ended June 30, 2016, the Commission recognized pension expense of \$3,961. At June 30, 2016, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actual and expected experience	\$ -	\$ 356
Changes in assumptions	-	-
Net difference between projected and actual earnings on plan investments	-	26,917
Employer contributions subsequent to the Measurement Date	<u>20,222</u>	<u>-</u>
Total	<u>\$20,222</u>	<u>\$27,273</u>

\$20,222 reported as deferred outflows of resources related to pensions resulting from Commission's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30,	
2017	\$ (10,888)
2018	(10,778)
2019	(10,653)
2020	-
2021	-
Thereafter	-

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Concluded)

NOTE 5 – Commitments and Contingencies

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

NOTE 6 – Evaluation of Subsequent Events

The Commission has evaluated subsequent events through October 26, 2016, the date which the financial statements were available to be issued.

Dunham, Aukamp & Rhodes, PLC
Certified Public Accountants

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

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate remaining fund information of the Rappahannock-Rapidan Regional Commission as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Rappahannock-Rapidan Regional Commission's basic financial statements, and have issued our report thereon dated October 26, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Dunham, Aukamp, & Rhodes, PLLC". The signature is written in a cursive, flowing style.

Certified Public Accountants
Chantilly, Virginia

October 26, 2016

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
SCHEDULE OF REVENUES AND EXPENSES-BUDGET
AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2016

	Original Budget	Final Budget	Actual Budgetary- Basis	Variance Favorable (Unfavorable)
Operating Revenues:				
Freedom Grant	\$ 200,000	\$ 200,000	\$ 204,769	\$ 4,769
Dues	138,575	138,575	138,577	2
Rideshare Program	118,400	118,400	112,993	(5,407)
State Regional Planning Grant	75,971	75,971	75,971	-
Carver Agriculture grant	63,000	60,000	60,000	-
Rural Transportation Planning	58,000	58,000	52,757	(5,243)
Virginia Homeless Solution Program Grant	38,700	63,700	50,217	(13,483)
Rapidan TMDL	28,666	28,666	28,916	250
Data Cleanup	33,000	20,740	20,739	(1)
Fauquier Health Foundation	28,500	28,500	28,500	-
America's wine country	-	9,900	9,900	-
Food System Grant	9,000	9,000	9,000	-
VHDA Grant	27,571	27,571	-	(27,571)
Agriculture and Forestry Industries Development Grant	16,100	21,100	16,156	(4,944)
NAEH Grant	5,700	20,700	16,936	(3,764)
NFWF Grant	42,674	42,674	5,607	(37,067)
Regional Tourism	7,000	7,000	7,000	-
Regional Housing	48,604	48,604	48,127	(477)
Pet Waste Containment	875	875	2,291	1,416
Veteran's Transportation Grant (VTCLI)	47,374	47,374	4,876	(42,498)
USDA Local Food Grant	8,965	8,965	8,382	(583)
Other Income	950	950	1,555	605
Total Operating Revenues	997,625	1,037,265	903,269	(133,996)
Advertising	500	500	-	500
AFID Grant expenses	12,250	10,000	9,995	5
America's wine country	-	9,900	8,800	1,100
Annual meeting	3,000	3,000	2,470	530
Audit	2,950	2,950	2,600	350
Carver Grant expenses	60,000	47,500	47,262	238
Data Cleanup Grant expenses	29,781	15,331	15,327	4
Equipment	2,500	2,500	3,138	(638)
Fauquier Health Foundation expenses	28,500	28,500	17,420	11,080
Food Systems Grant expenses	14,000	14,000	-	14,000
Freedom grant	162,500	162,500	151,047	11,453
Insurance health	45,000	45,000	35,856	9,144
Insurance liability	1,320	1,320	1,326	(6)
Insurance workers' compensation	415	415	414	1

See accompanying notes.

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
SCHEDULE OF REVENUES AND EXPENSES-BUDGET
AND ACTUAL (BUDGETARY BASIS) (Continued)
FOR THE YEAR ENDED JUNE 30, 2016

	Original Budget	Final Budget	Actual Budgetary- Basis	Variance Favorable (Unfavorable)
Operating Expenses (Continued):				
Internet	\$ 1,200	\$ 1,200	\$ 695	\$ 505
Maintenance and repairs	8,000	8,000	4,486	3,514
Meals	1,648	1,648	-	1,648
Membership dues	3,000	3,000	2,922	78
Miscellaneous	500	500	10	490
National Fish and Wildlife Foundation Grant expenses	24,910	24,910	5,011	19,899
Payroll taxes	28,850	28,850	28,091	759
Pet Waste Containment	-	525	811	(286)
Postage	400	400	27	373
Postage meter rental	500	500	468	32
Printing	1,200	1,200	860	340
Rapidan TMDL expenses	15,500	15,500	15,861	(361)
Regional tourism	9,600	9,600	5,050	4,550
Retirement - VRS	27,000	27,000	26,947	53
Rideshare	51,000	51,000	37,396	13,604
Rural transportation planning	3,000	3,000	356	2,644
Salary	377,000	377,000	379,942	(2,942)
Supplies	2,500	2,500	2,331	169
Telephone	2,100	2,100	1,647	453
Travel and entertainment	6,200	6,200	6,434	(234)
Utilities	6,200	6,200	4,692	1,508
VHDA Reach Capacity Grant	32,575	32,575	1,566	31,009
Virginia Homeless Solution program	2,500	2,500	22	2,478
Total Operating Expenses	968,849	950,074	821,625	128,449
Operating Gain	28,776	87,191	81,644	(5,547)
Nonoperating Income (Expense)				
Interest income	140	140	260	120
Interest expense	(23,916)	(23,916)	(23,916)	-
Total Nonoperating Income (Expense)	(23,776)	(23,776)	(23,656)	120
Net Gain	\$ 5,000	\$ 63,415	\$ 57,988	\$ (5,427)

See accompanying notes.

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
SCHEDULE OF REVENUES AND EXPENSES
BUDGET AND ACTUAL - BUDGETARY BASIS
BUDGET-TO-GAAP RECONCILIATION
FOR THE YEAR ENDED JUNE 30, 2016

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

Sources/inflows of resources

Actual amounts (budgetary basis) from budgetary comparison schedule	\$ 903,269
Collection of receivables accrued as of June 30, 2015 are revenue budgetary purposes but not for GAAP purposes.	(49,423)
Receivables accrued as of June 30, 2016 are revenue for GAAP purposes but not for budgetary purposes.	72,035
Deferred grant revenue as of June 30, 2016	<u>(11,080)</u>
Total operating revenue as reported on the statement of revenues, expenses and changes in net position.	<u><u>\$ 914,801</u></u>

Uses/outflows of resources

Actual amounts (budgetary basis) from budgetary comparison schedule	\$ 821,625
Payments of accounts payable recorded as of June 30, 2015, are expenditures for budgetary purposes but not for GAAP purposes.	(18,138)
Purchases of equipment for the year ended June 30, 2016, are expenditures for budgetary purposes but not for GAAP purposes.	(2,014)
Prepaid expenses recorded as of June 30, 2015, are expenses for GAAP purposes but not for budgetary purposes.	3,360
Payables accrued as of June 30, 2016 are expenses for GAAP purposes but not for budgetary purposes.	17,842
GASB 68 adjustment per actuarial report as of June 30, 2016	(7,570)
Depreciation expense is a expense for GAAP purposes but not for budgetary purposes.	<u>12,461</u>
Total operating expenses as reported on the statement of revenues, expenses and net position.	<u><u>\$ 827,566</u></u>

See accompanying notes.

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
SCHEDULE OF EMPLOYER'S SHARE OF NET PENSION LIABILITY
AND RELATED RATIOS
LAST 10 FISCAL YEARS *

	<u>2016</u>	<u>2015</u>
Total Pension Liability		
Service Cost	\$ 45,136	\$ 44,023
Interest on total pension liability	60,928	54,411
Differences between expected and actual experience	(589)	-
Changes in assumptions	-	-
Changes in benefits	-	-
Benefit payments, including refunds of employee contributions	(5,370)	(5,293)
Net change in total pension liability	100,105	93,141
Total pension liability - beginning	873,090	779,949
Total pension liability -ending (a)	<u>\$ 973,195</u>	<u>\$ 873,090</u>
 Plan fiduciary net position		
Contributions - employer	\$ 21,713	\$ 24,294
Contributions - employee	17,468	17,147
Net investment income	49,158	140,644
Benefits payments	(5,370)	(5,293)
Administrative expense	(630)	(720)
Other	(11)	7
Net change in plan fiduciary net position	82,328	176,079
Plan fiduciary net position - beginning	1,046,098	870,019
Plan fiduciary net position - ending (b)	<u>\$ 1,128,426</u>	<u>\$ 1,046,098</u>
 Commission's Net pension asset - ending (a)-(b)	<u>\$ (155,231)</u>	<u>\$ (173,008)</u>
 Plan fiduciary net position as a percentage of the total		
Pension liability	115.95%	119.82%
 Covered - employee payroll	\$ 342,940	\$ 342,940
 Commission's net pension liability as percentage of	-45.26%	-50.45%
covered-employee payroll		

See accompanying notes

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2016
LAST 10 FISCAL YEARS *

Date	Contractually Required Contributions (1)	Contributions in Relation to Contractually Required Contributions (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2016	\$ 20,642	\$ 20,222	\$ 420	\$ 330,795	6.11%
2015	\$ 21,933	\$ 21,713	\$ 220	\$ 351,496	6.18%
2014	\$ 24,383	\$ 24,294	\$ 89	\$ 342,940	7.08%
2013	\$ 24,383	\$ 28,323	\$ (3,940)	\$ 342,940	8.26%
2012	\$ 26,840	\$ 29,446	\$ (2,606)	\$ 322,209	9.14%
2011	\$ 26,111	\$ 28,702	\$ (2,591)	\$ 313,452	9.16%
2010	\$ 15,365	\$ 19,279	\$ (3,914)	\$ 307,307	6.27%
2009	\$ 13,665	\$ 17,534	\$ (3,869)	\$ 273,307	6.42%
2008	\$ 15,944	\$ 18,053	\$ (2,109)	\$ 318,883	5.66%
2007	\$ 7,786	\$ 11,626	\$ (3,840)	\$ 155,725	7.47%

See accompanying notes

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

For the Year Ended June 30, 2016

NOTE 1 – Change of Benefit Terms

There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2015 are not material.

NOTE 2 – Changes of Assumptions

The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four- year period ending June 30, 2012:

Largest 10 – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Largest 10 –LEOS:

- Update mortality table
- Decrease in male rates of disability

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

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability