HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2015

HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

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Independent Auditors' Report

To the Board of Directors
Hampton-Newport News Community Services Board
Hampton, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component units of Hampton-Newport News Community Services Board, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and the discretely presented component units of Hampton-Newport News Community Services Board, as of June 30, 2015, and the respective changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 2 to the financial statements, in 2015, the Community Services Board adopted new accounting guidance, GASB Statement Nos. 68 *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27 and 71, Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.* Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules related to pension funding on pages 3-6 and pages 48-50 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 opinions on the financial statements that collectively comprise Hampton-Newport News Community Services Board's basic financial statements. The combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated October 27, 2015, on our consideration of Hampton-Newport News 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 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 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 Hampton-Newport News Community Services Board's internal control over financial reporting and compliance.

Richmond, Virginia
October 27, 2015

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HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

Management's Discussion and Analysis

The following Management Discussion and Analysis (MD&A) of the Hampton-Newport News Community Services Board (CSB) activities and financial performance provides the reader with an introduction and overview of the financial statements of the CSB and its associated business entities for the fiscal year ended June 30, 2015. While the MD&A primarily focuses on CSB operations, the accompanying financial statements, which follow the MD&A, also include the Hampton-Newport News Community Services Board Property Company, Inc. (Property Company), Share-a-Homes of the Virginia Peninsula, Inc. (SAH), and Peninsula Community Homes, Inc. (PCH) as described below.

This CSB is an extension and agency of the local governments of the City of Hampton and the City of Newport News, Virginia. The CSB has adopted the provisions of Governmental Accounting Standards Board Accounting Standards Codification (ASC) Topic 2100, *Defining the Financial Reporting Entity*. This guidance amended GASB Statement No. 14 to provide additional guidance to determine whether certain organizations for which the CSB should report as a component unit based on the nature and significance of their relationship with the CSB. Generally, it requires reporting as a component unit, any organization that raises and holds economic resources for the direct benefit of the CSB. In the basic financial statements which follow the MD&A, the operations of the Property Company, SAH, and PCH have been blended with the CSB.

Following the MD&A are the basic financial statement of the CSB together with the notes thereto which are essential to a full understanding of the data contained in the financial statements, certain supplementary information including the schedule of expenditures of federal awards and the schedule of insurance are provided.

Summary of Operations and Changes in Net Assets

	2015	2014
Operating revenues and appropriations	$ 65,352,812	$ 64,768,800
Operating expenses	60,902,718	61,626,107
Change in net position before interest income (expense) and other items	$ 4,450,094	$ 3,142,693
Interest income	2,407	193
Rent of property	172,482	157,136
Modification fee	-	(163,125)
Gain on sale of assets	-	126,870
Interest expense	(914,337)	(1,027,710)
Change in fair value of long-term derivative instrument	503,435	471,144
Change in net position	$ 4,214,081	$ 2,707,201

Because prior year information related to pensions was not available, the 2014 numbers have not been restated to reflect GASB 68 calculations.

The increase in net position for the year ended June 30, 2015 of approximately $4.2 million occurred primarily in the CSB business entity which had an increase in operating revenue of approximately $600,000 due to increases in patient billing and other grant revenue. Operating expenses were down by approximately $1.4 million mainly due to the adoption of GASB 68 which decreased VRS expense by approximately $800 thousand. The Company anticipates an increase in health insurance costs in 2016 as well as increased salary expenses due to increased salary costs to keep and fill positions.

Interest expense was also down in general due to pay-off of principal and limited use of the company Line of Credit in 2015. The modification fee due for the bank modification was paid off in early fiscal year 2015 and will not be recurring.

Due to physician vacancies, services for individuals with no payer decreased and uncompensated care decreased from approximately $4.6 million in fiscal year 2014 to approximately $3.3 million in fiscal year 2015.

Statements of Net Assets - Primary Government Unit

A condensed summary of the **Primary Government Unit's** statements of net assets is shown below:

	2015	2014
Assets		
Current	$ 10,875,734	$ 6,312,967
Restricted assets	332,089	324,288
Capital assets - net of depreciation	27,180,561	28,731,981
Net pension asset	7,374,699	-
Total assets	$ 45,763,083	$ 35,369,236
Deferred outflows of resources		
Pension contributions subsequent to measurement date	$ 1,310,312	$ -
Liabilities		
Current liabilities	$ 24,457,370	$ 9,581,365
Long-term liabilities	3,000,019	18,294,750
Total liabilities	$ 27,457,389	$ 27,876,115
Deferred outflows of resources		
Items related to measurement of net pension asset	$ 3,343,758	$ -
Net Position		
Invested in capital assets - net of related debt	$ 10,250,715	$ 9,883,428
Restricted	12,157	12,157
Unrestricted	6,009,376	(2,402,464)
Total net position	$ 16,272,248	$ 7,493,121

Because prior year information related to pensions was not available, the 2014 numbers have not been restated to reflect GASB 68 Calculations.

Changes in the Statement of Net Assets Explanations - CSB and Component Units

- **Assets and Liabilities**

    - During 2015, the main reason for the increase in current and other assets is an increase in cash and cash equivalents due to better accounts receivable management and the continued turnaround of the CSB operations which began in 2014. This has resulted in a positive change in net position of approximately $4.6 million for fiscal year 2015. The CSB established an operating cash reserve in 2014 and has added amounts to this fund in 2015. The CSB has continued to monitor expenses including delayed hiring, shifting health care costs to employees and is working to increase productivity.

    - Capital assets are down mainly due to limited additions offset by normal depreciation expense.

    - Current liabilities are up due to accruals related to health care including increase IBNR, carryover of employee health reimbursement amounts, and other accruals for anticipated settlements of operating items. In addition, due to the refinancing of a significant portion of the Property Company's debt of over $15 million (and to a lesser extent SAH's debt of approximately $1.5 million), the current liability balance is up over $16.5 million and the long-term liability balance is down by the same amount.

    - A pension asset of approximately $7.4 million and a corresponding deferred pension outflow and inflow of approximately $2.0 million credit were added due to the adoption of GASB 68 in 2015. These amounts were actuarially determined. The net change to operating expenses as a result of adopting this Standard was approximately $800 thousand decrease to salaries and benefits for 2015.

Change in Net Position - The increase in net position is due positive results on the operating entities discussed above.

A condensed summary of the **Primary Government Unit's** statements of cash flows is shown below:

	2015	2014
Cash flows from operating activities	$ (20,712,151)	$ (19,256,707)
Cash flows from non-capital activities	26,986,852	23,479,243
Cash flows from capital activities	(2,621,075)	(3,221,705)
Cash flows from investing activities	2,407	193
Net Increase (Decrease) in Cash	$ 3,656,033	$ 1,001,024
Cash - Beginning of Year	1,100,437	99,413
Cash - End of Year	$ 4,756,470	$ 1,100,437

Cash flows (use of cash) for operating activities increased by approximately $1.3 million in 2015 over 2014. This is primarily the result of a decrease in receipts from customers of approximately $1.2 million, a decrease of approximately $800,000 paid to suppliers and increase of $1.1 paid to employees (higher wages and insurance costs).

Cash flows from Non-Capital Activities increased by approximately $3.3 million in 2015 over 2014. This is primarily the result of the repayment of the non-capital line of credit in 2014 of approximately $4.4 million in 2014 (only approximately $400,000 outstanding at beginning of 2015, all was repaid and balance $0 at June 30, 2015). In addition, $245,000 of cash was transferred between entities in 2015 that did not occur in 2014.

Cash flows used for Capital Activities decreased by approximately $676,000 which is due to less capital purchases of approximately $500,000 and lower interest expense payments during 2015.

CSB Rates and Charges

Every year during budget development the program directors along with the program managers evaluate the rates charged for each service and determine where adjustments are warranted. The fee schedule for each applicable service is then included in the budget. The Board of Directors approves the CSB budget submission and rate changes in June of each year.

Debt

As of June 30, 2015, the Hampton-Newport News Community Services Board, Hampton-Newport News Property Company, Inc., Share-A-Homes of the Virginia Peninsula and Dresden LLC have total long-term debt (including current portion) as follows:

	2015
Hampton-Newport News CSB	$ 741,599
Hampton-Newport News Property Company, Inc.	14,124,506
Share-A-Homes of the Virginia Peninsula, Inc.	1,314,519
Total long-term debt (including current portion)	$ 16,180,624

All of the debt is collateralized by properties owned by the indebted entities and assignments of lease payments from the CSB where applicable. The related notes are held by, Bank of America, NA, TowneBank, Virginia Housing Development Authority (VHDA) and Federal Housing Authority (FHA). The reduction in debt of approximately $2.3 million during fiscal year 2015 was due to scheduled principal repayments including pay down of the line of credit for 417,000. A note for $500,000 was fully paid in 2015. The Primary Government has access to a line of credit with TowneBank for $5 million of which $5 million was available at June 30, 2015.

At June 30, 2015 and 2014, the CSB, the Hampton Property Company, Inc., and Share-A-Homes of the Virginia Peninsula were in compliance with required debt service coverage (as defined) for -Newport News Community Services Board, Hampton-Newport News loan agreements with Bank of America, NA and Townebank.

In July of 2015, the Company refinanced approximately $16.5 million of its existing debt (including debt issuance costs) with Townebank and paid off the Bank of America debt in full. The refinancing is at terms ranging from 3.01 to 3.38 with a 7 year fixed rate which will generate interest savings for the company. The City of Newport News guaranteed the new debt in the form of a moral obligation related to the refinancing of the CSB campus.

Uncompensated Care - Services for citizens of Hampton and Newport News who are not covered by insurance or some other third party payer are provided on an ability to pay basis. Both income and number of dependents are considered when determining the portion of service for which the client is responsible. The reduction in fees based on the ability of the citizen to pay is considered uncompensated. In fiscal year 2015, the CSB provided approximately $3.3 million in uncompensated care.

Financial Statements

CSB provides behavioral health care services in the areas of mental health, intellectual disability and substance use disorder services. According to Governmental Accounting Standards Board (GASB) Statement No. 34, community services boards are special purpose governmental entities engaged in business-type activities. Therefore, the appropriate financial reporting model utilized by the CSB is the enterprise fund method of accounting using the accrual basis. On the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when incurred, regardless of when the related cash flows take place.

Request for Information

The financial report is designed to provide a general overview of the CSB's finances for all those interested. Questions concerning any of the information provided in this report or request for additional information should be addressed in writing to the Director, Financial Services, Hampton-Newport News Community Services Board, 300 Medical Drive, Hampton, Virginia 23666.

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BASIC FINANCIAL STATEMENTS

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HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

Statement of Net Position
At June 30, 2015

ASSETS		
Current Assets:		
Cash and cash equivalents	$	4,756,470
Accounts receivable, less allowance for uncollectibles		5,683,193
Prepaid items		436,071
Total current assets	$	10,875,734
Restricted Current Assets:		
Cash and cash equivalents	$	309,932
Security deposits		22,157
Total restricted current assets	$	332,089
Capital Assets:		
Land and other non-depreciable assets	$	5,838,835
Other capital assets, less accumulated depreciation		21,341,726
Total capital assets, net	$	27,180,561
Other Assets:		
Net pension asset	$	7,374,699
Total other assets	$	7,374,699
Total assets	$	45,763,083
DEFERRED OUTFLOWS OF RESOURCES		
Pension contributions subsequent to measurement date	$	1,310,312
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued expenses	$	6,547,377
Unearned revenue		1,816,428
Other current liabilities		340,063
Compensated absences		150,374
Capital lease, current portion		160,472
Bonds payable, current portion		13,525,966
Derivative instrument payable		374,611
Notes payable, current portion		1,222,147
Total current liabilities	$	24,137,438
Current Liabilities Payable from From Restricted Assets:		
Client and consumer funds	$	309,932
Security deposits		10,000
Total current liabilities payable from restricted assets	$	319,932
Long-term Liabilities:		
Compensated absences	$	1,353,369
Notes payable, less current portion		1,331,523
Capital lease, less current portion		315,127
Total long-term liabilities	$	3,000,019
Total liabilities	$	27,457,389
DEFERRED INFLOWS OF RESOURCES		
Items related to measurement of net pension asset	$	3,343,758
NET POSITION		
Net investment in capital assets	$	10,250,715
Restricted		12,157
Unrestricted		6,009,376
Total net position	$	16,272,248

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

Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2015

Operating Revenue:		
Net patient service revenue	$	34,585,919
Other		3,544,772
Total operating revenues	$	38,130,691
Operating Expenses:		
Salaries and benefits	$	44,177,454
Staff development		208,193
Facility		3,546,226
Supplies		2,689,056
Travel		691,036
Contractual and consulting		5,056,785
Depreciation		1,842,887
Other		2,691,081
Total operating expenses	$	60,902,718
Operating income (loss)	$	(22,772,027)
Nonoperating income (expenses):		
Rental income	$	172,482
Appropriations:		
Commonwealth of Virginia		20,330,642
Federal government		2,988,248
Local governments		3,204,183
Other local agencies		699,048
Interest income		2,407
Change in fair value of long-term derivative instrument		503,435
Interest expense		(914,337)
Net nonoperating income (expense)	$	26,986,108
Change in net position	$	4,214,081
Net position, beginning of year, as restated		12,058,167
Net position, end of year	$	16,272,248

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

HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

Statement of Cash Flows
Year Ended June 30, 2015

Cash flows from operating activities:		
Receipts from customers	$	38,267,910
Payments to suppliers		(13,106,783)
Payments to and for employees		(45,873,278)
Total cash flows provided by (used for) operating activities	$	(20,712,151)
Cash flows from noncapital and related financing activities:		
Rent of property	$	267,881
Government grants		27,135,971
Interest expense on noncapital line of credit		(417,000)
Total cash flows provided by (used for) noncapital and related financing activities	$	26,986,852
Cash flows from capital and related financing activities:		
Purchase of capital assets	$	(291,467)
Interest on long-term debt		(914,337)
Principal payments on notes and bonds payable		(1,262,373)
Principal payments on capital leases		(152,898)
Total cash flows provided by (used for) capital and related financing activities	$	(2,621,075)
Cash from investing activities:		
Interest income	$	2,407
Net increase (decrease) in cash and cash equivalents	$	3,656,033
Cash and cash equivalents, beginning of year		1,100,437
Cash and cash equivalents, end of year	$	4,756,470
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	$	(22,772,027)
Adjustments to reconcile operating income (loss) to cash provided by (used for) operations:		
Depreciation		1,842,887
Changes in assets and liabilities:		
Accounts receivable		(13,820)
Prepaid items		(392,164)
Net pension asset		(4,665,629)
Deferred outflows of resources		545,664
Accounts payable and accrued expenses		729,570
Other accrued liabilities		538,959
Compensated absences		(20,388)
Unearned revenue		151,039
Deferred inflow of resources		3,343,758
Cash flows provided by (used for) operating activities	$	(20,712,151)

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

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NOTE 1–DESCRIPTION OF AGENCY:

Financial Reporting Entity

The Hampton-Newport News Community Services Board (CSB) operates as an agent for the Cities of Hampton and Newport News, Virginia in the establishment and operation of community mental health, intellectual and developmental disability and substance abuse programs as provided for in Chapter 10 of Title 37.2 of the Code of Virginia (1950), as amended, relating to the Virginia Department of Behavioral Health and Developmental Services. In addition, the CSB provides a system of community mental health, mental retardation and substance abuse services that relate to, and are integrated with, existing and planned programs. The CSB's Board of Directors is comprised of 15 members appointed by the City Councils of Hampton and Newport News. The CSB is a not-for-profit organization exempt under Section 501(c) 3 of the U.S. Internal Revenue Code.

Component Units

Following are the descriptions of legally separate component units that are presented as blended component units of the CSB. Detailed information or separately issued financial statements for these component units can be obtained from the CSB's Director of Financial Services.

Hampton-Newport News Community Services Board Property Company, Inc. (Property Company) was organized as a nonprofit organization, (501(c) 3) for the purpose of aiding the CSB in assisting the mentally disabled citizens of the Virginia Peninsula by acquiring real estate for subsequent use by the CSB. The Executive Director and the Senior Director of Financial Services and Property Management of the CSB serve as President and Secretary/Treasurer of the Property Company Board.

Share-A-Homes of the Virginia Peninsula, Inc. (SAH) was organized in 1981 as a nonprofit organization, (501(c) 3). The purpose of SAH is to provide low-cost housing and other facilities for persons with mental disabilities for the benefit of the CSB. The houses center on a family-like environment while providing assistance in the education, recreation, health and welfare of the mentally handicapped. The Executive Director and the Senior Director of Financial Services and Property Management of the CSB serve as President and Secretary/Treasurer of the SAH Board.

Peninsula Community Homes, Inc. (PCH) was structured as a nonprofit organization (501(c) 3) and was formed in 1997. It is certified as a Community Housing Development Organization (CHDO) for the cities of Hampton (2003) and Newport News (2001). Working in partnership with the CSB and its other entities, PCH seeks to leverage federal and state grant funds for the purpose of developing and improving low income housing for the disabled which benefits the CSB and its consumers. The entity has a self-appointing board of directors in accordance with the requirements of CHDO and staff is provided by the CSB.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting

The accompanying financial statements report the financial position and results of operations of the CSB in accordance with generally accepted accounting principles. The CSB is a governmental health care entity and is required to follow the accounting and reporting practices of the Governmental Accounting Standards Board (GASB). These statements are prepared on an enterprise fund basis and present the CSB's operating revenues and expenses in a manner similar to a private business, where the costs, including depreciation, of providing services to the public on a continuing basis are financed or recovered primarily through user charges.

An enterprise fund, a proprietary fund type, is accounted for on an economic resources measurement focus. All assets and liabilities, whether current or noncurrent, associated with its activities are included on its statements of net position. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net position. The financial statements are presented on the accrual basis of accounting, whereby revenues are recorded when earned and expenses are recorded when incurred, regardless of when the related cash flows take place.

All significant intercompany transactions and accounts have been eliminated for the combining statements.

Deferred Outflow/Inflow 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 CSB only has one item that qualifies for reporting in this category. It is comprised of contributions to the pension plan made during the current year and subsequent to the net pension asset measurement date, which will be recognized as a reduction of the net pension liability next fiscal year. For more detailed information on these items, 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 CSB has one type of item that qualifies for reporting in this category. Certain items related to the measurement of the net pension asset are reported as deferred inflows of resources. These include differences between expected and actual experience, change in assumptions, and the net difference between projected and actual earnings on pension plan investments. For more detailed information on these items, reference the pension note.

NOTE 2–SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Prepaid Items

Certain payments to vendors reflect costs applied to future accounting periods and are not recorded as prepaid items. Prepaid items are accounted for using the consumption method and are valued at cost.

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 represent 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.

Net Position Flow Assumption

Sometimes the CSB will fund outlays for a particular purpose from both restricted (e.g. restricted bond or 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 CSB's policy to considered restricted–net position to have been depleted before unrestricted–net position is applied.

Pensions

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

Budgets and Budgetary Accounting

The CSB's annual budget is a management tool that assists users in analyzing financial activity for its fiscal year ending June 30. The CSB's largest funding source is fee-for-service payments, primarily from Medicaid and other insurers. Federal, state and local appropriations are also significant revenue sources that have periods that may or may not coincide with the CSB's fiscal year. These appropriations normally are for a twelve-month period; however, they can be awarded for periods shorter or longer than twelve months. Because of the CSB's dependency on uncertain fee revenues and on federal, state, and local budgetary decisions, revenue estimates are based upon the best available information as to potential sources of funding. The CSB's annual budget differs from that of a local government due to the uncertain nature of fee for-service payments from other payers. The resultant annual budget is subject to constant change within the fiscal year due to:

- The extent to which fee revenues are realized;
- Increases/decreases in actual appropriation from those estimated;
- Unanticipated appropriations not included in the budget; and
- Expected appropriations that fail to materialize.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Budgets and Budgetary Accounting (Continued)

The Board of Directors formally approves the annual budget but greater emphasis is placed on complying with the fee-for-service, insurance reimbursements and appropriations. As a result, the CSB also conducts a mid-year budget review process based on actual revenues and expenditures.

Cash and Cash Equivalents

The CSB considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Restricted cash and cash equivalents include cash held in the trust for disabled persons.

Accounts Receivable

Accounts receivable are stated at net realizable value. Receivables related to the provision of services are reported net of contractual allowances and an allowance for doubtful accounts. The CSB evaluates its accounts receivables using historical data and, in certain cases, specific account analysis. At June 30, 2015 the allowance for doubtful accounts was $2,868,015.

Capital Assets

Capital assets are stated at cost or at fair market value if donated. The CSB follows the practice of capitalizing all expenditures for property and equipment in excess of $5,000 with an expected life greater than one year. Depreciation is calculated by the straight-line method over the following estimated useful lives:

Building and improvements	30 years
Land improvements	15 years
Office furniture and equipment	3 - 5 years
Vehicles	5 years

Taxes

As an agency of the Cities of Hampton and Newport News, which are political subdivisions of the Commonwealth of Virginia, the CSB is exempt from sales, meals and federal and state income taxes.

Interest Rate Swap

The CSB manages risk related to fluctuations in interest rates associated with two variable rate bonds through the use of an interest rate swap. The swap is accounted for in accordance with GASB Accounting Standards Codification (ASC) Topic D40, *Derivative Instruments*. The guidance requires entities to carry all derivative instruments, including certain embedded derivatives, in the statement of net position at fair value. Additional disclosures regarding the valuation of the interest rate swap have been included in Note 11.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Use of Estimates

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

Risk Management

The CSB 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 CSB purchases commercial insurance for all risks of loss noted above.

Adoption of Accounting Principles

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* **and Statement No. 71,** *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68***:**

The CSB implemented the financial reporting provisions of the above Statements for the fiscal year ended June 30, 2015. These Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to pensions. Note disclosure and required supplementary information requirements about pensions are also addressed. The requirements of this Statement will improve financial reporting by improving accounting and financial reporting by state and local governments for pensions.

NOTE 3—DEPOSITS AND INVESTMENTS:

Deposits

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

Investments

Statutes authorize the Board to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, “prime quality” commercial paper and certain corporate notes, banker’s acceptances, repurchase agreements and the State Treasurer’s Local Government Investment Pool (LGIP). The Board does not have an investment policy that addresses the various types of risks related to investments.

NOTE 3–DEPOSITS AND INVESTMENTS: (CONTINUED)

Credit Risk of Debt Securities

The Board's rated debt investments as of June 30, 2015 were rated by Standard and Poor's and the ratings are presented below using Standard and Poor's rating scale.

Board's Rated Debt Investments' Values

Rated Debt Investments	Fair Quality Ratings
Local Government Investment Pool	$ 9,968
Total	$ 9,968

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NOTE 4–CAPITAL ASSETS:

A summary of changes in capital assets follows:

	Balances July 1, 2014	Increases	Decreases	Balances June 30, 2015
Non-Depreciable Capital Assets				
Land	$ 5,838,835	$ -	$ -	$ 5,838,835
Total not subject to depreciation	$ 5,838,835	$ -	$ -	$ 5,838,835
Depreciable Capital Assets				
Buildings	$ 27,256,792	$ -	$ -	$ 27,256,792
Furniture/equipment	2,845,222	101,243	-	2,946,465
Vehicles	2,022,939	190,224	144,143	2,069,020
Leasehold improvements	4,002,924	-	-	4,002,924
Intangibles	191,409	-	-	191,409
Total depreciable capital assets	$ 36,319,286	$ 291,467	$ 144,143	$ 36,466,610
Less accumulated depreciation:	$ 13,426,140	$ 1,842,887	$ 144,143	$ 15,124,884
Net Depreciable Capital Assets	$ 22,893,146	$ (1,551,420)	$ -	$ 21,341,726
Capital Assets, Net	$ 28,731,981	$ (1,551,420)	$ -	$ 27,180,561

NOTE 5–LOCAL REVENUES:

Appropriations from local governments consisted of the following:

City of Hampton	$ 1,680,662
City of Newport News	1,523,521
Total	$ 3,204,183

NOTE 6–UNEARNED REVENUE:

Unearned revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. This represents a liability incurred by the CSB for monies accepted from a grantor using the advance method for payments. The liability is reduced and revenue recorded when expenses are made in accordance with the grantor's requirements. If expenses are not made, the funds may revert to the grantor.

Unearned revenue consisted of the following:

State Revenue:		
MH grants	$	214,906
SA grants		9,222
Crisis stablization		27,000
Regional funds		1,154,994
Housing & supportive servies		176,000
Wounded Warrior grants		214,948
Federal Revenue:		
SA grants		19,358
Total	$	1,816,428

NOTE 7–LINE OF CREDIT:

The CSB has a working capital line of credit of $5,000,000 with Towne Bank. Advances on the line-of-credit are collateralized by a general blanket assignment of all accounts, contracts or other receivables and proceeds. Interest on advances is payable at the monthly London Interbank Offered Rate (LIBOR) plus 2.750 percentage points. At June 30, 2015, the CSB outstanding balance against this line of credit was $0 and the interest rate was 2.93%.

Debt Coverage

The terms of the working capital line of credit agreement with Towne Bank call for a debt service coverage ratio of 1.15:1 (as defined) based on annual amounts at June 30, 2015. The CSB met the debt service coverage ratio for the year ended June 30, 2015.

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NOTE 8—LONG-TERM OBLIGATIONS:

A summary of changes in long-term debt is as follows:

	Notes Payable	Bonds Payable	Total
Balance July 1, 2014	$ 3,286,150	$ 14,055,859	$ 17,342,009
Additions	-	-	-
Principal paid on long-term debt	(732,480)	(529,893)	(1,262,373)
Balance June 30, 2015	$ 2,553,670	$ 13,525,966	$ 16,079,636

	Balance Due	Current Portion
Note payable to bank due in monthly installments of $5,465, including interest at 7.5%, maturing November 2019. The note is collateralized by a first priority deed of trust on real property located at 13365 Warwick Boulevard, Newport News, Virginia and assignment of lease payments and guarantee from the CSB.	$ 262,984	$ 47,495
Note payable to bank due in monthly principal installments of $1,200, plus interest at the Eurodollar daily floating rate plus 1.75 points (3.19% at June 30, 2015), maturing January 2016. The note is collateralized by a first deed of trust on real property located at 638 J. Clyde Morris Blvd., Newport News, Virginia and assignment of lease payments and guarantee from the CSB.	224,400	224,400
Note payable to bank due in monthly principal installments of $5,168, plus interest at the one month London Interbank Offered Rate (LIBOR) plus 2.00 points (3.18% at June 30, 2015), maturing May 2016. The note is collateralized by a first deed of trust on real property located at 1664 Briarfield Road, Newport News, Virginia and assignment of lease payments and guarantee from the CSB.	485,767	485,767

NOTE 8–LONG-TERM OBLIGATIONS: (CONTINUED)

	Balance Due	Current Portion
Note payable due in monthly installments of $4,375, plus interest at a variable rate equal to 30-day LIBOR plus 1.5% (3.18% at June 30, 2015), maturing August 1, 2015, with a balloon payment for the remaining balance due that time; collateralized by property known as Brogden, Terrace and Conway and assignment of lease payments and guarantee from the CSB.	$ 404,605	$ 404,605
Note payable due in monthly installments of $1,456, plus interest at prime plus 1.00% with a minimum rate not less than 5.00% (5.00% at June 30, 2015), maturing May 2035; collateralized by property known as Winburn and assignment of lease payments by the CSB.	347,785	17,471
Note payable due in monthly installments of $645 including interest at prime with a minimum rate not less than 5.00% (5.00% at June 30, 2015), maturing March 2036; collateralized by property known as Deep Creek.	99,201	2,771
Note payable due in monthly installments of $2,303 plus interest at prime with a minimum rate not less than 5.0% (5.0% at June 30, 2015), maturing March 2032; collateralized by property known as Harpersville.	462,928	27,638

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NOTE 8–LONG-TERM OBLIGATIONS: (CONTINUED)

	Balance Due	Current Portion
Note payable due to the Towne Bank in monthly installments of $1,000, plus interest at 4.5% maturing August 2037; collateralized by a deed of trust on Property known as Bowman Lane.	$ 266,000	$ 12,000
Total notes payable	$ 2,553,670	$ 1,222,147
Bonds payable due the Industrial Development of Gloucester County, Virginia which bear interest at a variable rate per annum equal to 65% of the 30-day LIBOR plus 1.5% (1.62% at June 30, 2015). Interest is payable monthly, beginning December 1, 2004. Principal payments began April 1, 2006. All amounts due on the bonds are payable in full on March 1, 2016.	$ 7,720,930	$ 7,720,930
Bonds payable due the Industrial Development of City of Poquoson, Virginia which bear interest at a variable rate per annum equal to 65% of the 30-day LIBOR plus 1.5% (1.62% at June 30, 2015). Interest is payable monthly, beginning December 1, 2004. Principal payments began April 1, 2006. All amounts due on the bonds are payable in full on March 1, 2016.	5,805,036	5,805,036
Total bonds payable	$ 13,525,966	$ 13,525,966
Total long-term debt	$ 16,079,636	$ 14,748,113

Future principal maturities of long-term notes payable are as follows:

	Principal
2016	$ 1,222,147
2017	111,206
2018	115,331
2019	119,772
2020	110,213
2021-2025	305,342
2026-2030	311,045
2031-2035	226,938
2036-2038	31,676
	$ 2,553,670

NOTE 8–LONG-TERM OBLIGATIONS: (CONTINUED)

Bonds Payable

The Property Company was extended the right to issue $10 million and $7.5 million of Series 2004 bonds from the Industrial Development Authority of Gloucester County and the City of Poquoson, respectively. The bonds are qualified tax-exempt obligations within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986.

The annual requirements to amortize to maturity all bonds payable with specified maturities that is outstanding as of June 30, 2015 are as follows:

Year Ending June 30	Principal
2016	13,525,966
	$ 13,525,966

The series 2004 bonds bear interest at a variable per annum rate equal to 65% of the 30-day LIBOR plus 1.5% (1.60% at June 30, 2015). Interest is payable monthly, beginning December 1, 2004. Principal payments began April 1, 2006. All amounts due on the bonds are payable in full on March 1, 2016.

Proceeds from the bonds were used to finance the acquisition, construction, and equipping of the new 13.4462 acre campus known as Hampton Medical Center (Property) and to finance the cost of issuing such bonds.

Resources to retire the bonds will be accumulated through rental income. The bonds may be prepaid by the Property Company, in whole or in part, without penalty.

Bank of America, N.A. (bond owner) provided the funds for the bonds. The Property Company granted to the bank a lien on and security interest in the Property and all leases, rents, issues and profits of the Property. The Property Company also agreed to maintain its facility free of any liens and encumbrances of any kind.

Debt Coverage

The terms of certain agreements with the Bank of America, N.A. (BoA) call for debt service coverage ratio (DSC) (as defined) of 1.1:1 based on annual amounts at June 30, 2015. The CSB, Property Company and SAH were in compliance with the DSC at June 30, 2015.

Subsequent Debt Refinancing

In July 2015, the Property Company refinanced all of its bonds payable of approximately $13.5 million and other notes payable of approximately $1.5 million with a local bank at terms ranging from 3.01% to 3.38% with a 7 year fixed rate which will generate interest savings for the Company. The interest rate swap of approximately $375,000 was also terminated at this time. These bonds and notes payable are guaranteed by the City of Newport News in the form of a moral obligation in regards to the CSB campus.

NOTE 8–LONG-TERM OBLIGATIONS: (CONTINUED)

Subsequent Debt Refinancing (Continued)

In July, 2015, SAH also refinanced notes payable for approximately $1.4 million at terms approximating the above with the same local bank with a moral obligation from the City of Newport News.

At the time of the Property Company and SAH refinancing, the CSB's working capital line of credit was reduced from $5.0 million to $3.0 million.

NOTE 9–CAPITAL LEASE:

The CSB entered into a lease classified as a capital lease of $797,782. The economic substance of the lease is that the CSB is financing the acquisition of the asset through the lease, and accordingly it is recorded in the CSB's assets and liabilities. During 2015, amortization under the aforementioned lease was $145,682.

Future minimum payments required under the lease together with their present value follows:

2016	$ 179,980
2017	179,980
2018	149,983
	$ 509,943
Less - amount representing interest	(34,344)
	$ 475,599

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NOTE 10—PENSION PLAN:

Plan Description

All full-time, salaried permanent employees of the CSB 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 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 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**
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.	**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.	**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 10–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></td><td></td><td>• In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.</td></tr>
<tr><td>Eligible Members
Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

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

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

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

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

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

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

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

NOTE 10–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 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.	**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.	**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 10–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 Contributions Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

NOTE 10–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 Contributions Component:</u>
Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.

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

NOTE 10—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 (Cont.)</td><td>Vesting (Cont.)</td><td>Vesting (Cont.)
<u>Defined Contributions Component:</u> (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.</td></tr>
<tr><td>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.</td><td>Calculating the Benefit
See definition under Plan 1.</td><td>Calculating the Benefit
<u>Defined Benefit Component:</u>
See definition under Plan 1</td></tr>
</table>

NOTE 10–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 10–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:** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.

NOTE 10–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 10–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 10–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>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.

VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</td><td>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.

VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</td><td>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.</td></tr>
<tr><td>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.</td><td>Purchase of Prior Service
Same as Plan 1.</td><td>Purchase of Prior Service
<u>Defined Benefit Component:</u>
Same as Plan 1, with the following exceptions:
• 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 one-year period, the rate for most categories of service will change to actuarial cost.

<u>Defined Contribution Component:</u>
Not applicable.</td></tr>
</table>

NOTE 10–PENSION PLAN: (CONTINUED)

Employees Covered by Benefit Terms

As of the June 30, 2013 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	73
Inactive members:	
Vested inactive members	104
Non-vested inactive members	277
Inactive members active elsewhere in VRS	158
Total inactive members	539
Active members	656
Total covered employees	1,268

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 CSB's contractually required contribution rate for the year ended June 30, 2015 was 4.89% 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 employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the CSB were $1,736,584 and $1,855,976 for the years ended June 30, 2015 and June 30, 2014, respectively.

Net Pension Asset

The CSB's net pension asset was measured as of June 30, 2014. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation performed as of June 30, 2013, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

NOTE 10—PENSION PLAN: (CONTINUED)

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the CSB's Retirement Plan was based on an actuarial valuation as of June 30, 2013, 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, 2014.

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 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 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

NOTE 10—PENSION PLAN: (CONTINUED)

Actuarial Assumptions – General Employees (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

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NOTE 10–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
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%.

NOTE 10—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, 2018, the rate contributed by the employer for the CSB 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.

Changes in Net Pension Asset

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2013	$ 43,855,225	$ 46,564,295	$ (2,709,070)
Changes for the year:			
Service cost	$ 3,007,464	$ -	$ 3,007,464
Interest	3,017,837	-	3,017,837
Contributions - employer	-	1,855,976	(1,855,976)
Contributions - employee	-	1,374,201	(1,374,201)
Net investment income	-	7,498,891	(7,498,891)
Benefit payments, including refunds of employee contributions	(1,486,530)	(1,486,530)	-
Administrative expenses	-	(38,533)	38,533
Other changes	-	395	(395)
Net changes	$ 4,538,771	$ 9,204,400	$ (4,665,629)
Balances at June 30, 2014	$ 48,393,996	$ 55,768,695	$ (7,374,699)

NOTE 10—PENSION PLAN: (CONTINUED)

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

The following presents the net pension asset of the CSB using the discount rate of 7.00%, as well as what the CSB'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%)**
Board			
Net Pension Asset	$ 434,644	$ (7,374,699)	$ (13,720,815)

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

For the year ended June 30, 2015, the CSB recognized pension expense of $534,105 plus the phased in employee's share of $426,272 for a total of $960,377. At June 30, 2015, the CSB 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**
Net difference between projected and actual earnings on pension plan investments	$ -	$ 3,343,758
Employer contributions subsequent to the measurement date	1,310,312	-
Total	$ 1,310,312	$ 3,343,758

NOTE 10—PENSION PLAN: (CONTINUED)

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

$1,310,312 reported as deferred outflows of resources related to pensions resulting from the CSB's contributions subsequent to the measurement date will be recognized as a component of the Net Pension Asset in the year ended June 30, 2016. 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 ended June 30		
2016	$	(835,939)
2017		(835,939)
2018		(835,939)
2019		(835,941)
Thereafter		-

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NOTE 11—INTEREST RATE SWAP:

The table below summarizes derivative instrument activity during the reporting period and balance at the end of the period, debit (credit):

	Changes in Fair Value for 2015		Fair Value at June 30, 2015		Notional
	Classification	Amount	Classification	Amount	Amount
Cash flow hedge:					
Pay-fixed interest rate swaps	Deferred inflow	$ 503,435	Long-term derivative instrument	$ (374,611)	$ 13,547,417

The fair value of the interest rate swap was estimated from valuations performed by a third-party service provider. The valuation method used furnishes a single value for each transaction, even if comprised of multiple legs. Unless otherwise specified, valuations for derivative instruments represent, or are derived from, mid-market values. For some derivative instruments, mid-market prices and inputs may not be observable and valuations may be derived from proprietary or other pricing models based on certain assumptions regarding past, present and future market conditions.

Objectives

In order to better manage its interest rate exposure and to reduce the overall costs of its financings, the Property Company entered into a separate pay-fixed, receive-variable interest rate swap.

Terms

Certain key terms and fair values relating to the outstanding hedging derivative instrument are presented below:

Associated Financing Issue	Notional Amounts (1)	Effective Date	Fixed Rate Paid	Rate Received	Fair Value	Swap Termination Date	Final Maturity of Bonds
Hedging Derivatives							
Cash Flow Hedges;							
Pay-fixed Interest rate-swaps:							
Series 2004-Gloucester and Poquoson Bonds	$ 13,547,417	9/1/2004	5.37%	65% LIBOR + 1.5%	$ (374,611)	3/1/2016	3/1/2016

(1) Notional amount balance as of June 30, 2014

NOTE 11–INTEREST RATE SWAP: (CONTINUED)

Credit Risk

Credit risk can be measured by actual market value exposure of theoretical exposure. When the fair value of any swap has a positive market value, then the Property Company is exposed to the actual risk that the counterparty will not fulfill its obligations. As of June 30, 2015, the Property Company had no net exposure to actual credit risk on its hedging derivative (without regard to collateral or other security arrangements) for its counterparty. The table below shows the credit quality ratings of the counterparty to the swap. In addition, the swap agreement contains varying collateral agreements with the counterparty. The swap requires full collateralization of the fair value of the swap should the counterparty's credit rating fall below certain rating levels by Standard & Poor's and Moody's Investors Service. Collateral on the swap is to be in the form of cash or U.S. Government securities held by a third-party custodian. The Property Company has not calculated theoretical credit exposure.

Counterparty	S&P	Moody's
Bank of America, N.A	A	A2

Interest Rate Risk

The hedging derivative is a pay-fixed, received-variable cash flow hedge, hedging a portion of the Property Company's variable rate debt. The Property Company believes it has significantly reduced interest rate risk attributable to the principal amount being hedged by entering into the interest rate swap.

Basis Risk

The Property Company is exposed to basis risk when the variable interest received on a swap is based on a different index than the variable interest rate to be paid on the associated variable rate debt obligation. At June 30, 2015 and 2014, the associated debt used the same index for the referenced swap. As a result, there is no significant exposure to basis risk as of June 30, 2015 and 2014.

Termination Risk

The Property Company or counterparty may terminate the swap if the other party fails to perform under the terms of the contract. In such cases, the Property Company may owe or be due a termination payment depending on the fair value of the swap at that time. The termination payment due to a counterparty may not be equal to the fair value. If the swap is terminated, the associated variable-rate financings would no longer carry synthetic interest rates.

Rollover Risk

The Property Company is exposed to rollover risk on the swap if terminated prior to the maturity of the associated financing. When the swap terminates, or in the case of the termination option, if the counterparty exercises its option, the Property Company will not realize the synthetic rate offered by the swap on the underlying issues. The Property Company is exposed to rollover risk on the swap should it be terminated prior to the maturity of the associated financing.

NOTE 11–INTEREST RATE SWAP: (CONTINUED)

Foreign Currency Risk

The derivative is denominated in U.S. dollars and, therefore, the Property Company is not exposed to foreign currency risk

NOTE 12–COMPENSATED ABSENCES:

Each employee earns vacation, compensatory leave, overtime leave and sick leave in accordance with CSB's policy. At termination or retirement, employees will be paid for all vacation and overtime leave up to 160 hours. Compensatory leave has been combined with the employees' vacation balances. At June 30, 2015, the CSB has accruals of $1,503,743, respectively, for compensated absences. The liabilities for annual and sick leave have been recorded in accordance with the provisions of GASB No. 16, *Accounting for Compensated Absences.* Accordingly, the amount of annual and sick leave recognized as expense is the amount earned during the year. At June 30, 2015, this amount was reflected in the statement of net position under current liabilities in the amount of $150,374, and under long term liabilities – compensated absences of $1,353,369. Upon termination, employees are not vested in accrued sick leave; therefore, no accrual is required in the accompanying financial statements.

NOTE 13–TRUST FUND FOR DISABLED PEOPLE:

On May 18, 1995, the CSB established the Hampton-Newport News Community Services Board Trust for Disabled People (Trust). The CSB, as Trustee, is responsible for administering the Trust, which is available to any beneficiary, as defined in the Trust. Under the Trust, beneficiaries may elect to contribute cash or property for the Trustee to hold, retain, invest, reinvest or manage.

The Trustee, in its sole discretion, may make any payment under the Trust either (a) directly to a beneficiary, (b) in any form allowed by law, (c) to any person deemed suitable by the Trustee, or (d) by direct payment of a beneficiary's expenses. As part of its fiduciary responsibility, the CSB has an obligation of due care in administering the Trust, and, in the opinion of the CSB's legal counsel, the CSB has acted in a prudent manner. The asset and liability for the Trust is recorded in the CSB's statements of net position. Annual earnings are recognized as an increase to the respective asset and liability.

NOTE 14–COMMITMENTS AND CONTINGENCIES:

Operating Leases

The CSB leases various facilities and equipment under operating agreements. Lease expenditures under operating leases included in facility expenses for 2015, amount to $1,610,653.

NOTE 14–COMMITMENTS AND CONTINGENCIES: (CONTINUED)

Self-Insurance

The CSB provides self-insured medical, dental and vision benefit plans for its employees. The medical plan pays all claims up to $175,000 per covered person per year. Any claims exceeding $175,000 per covered person per year are paid by specific stop-loss insurance provided by a third-party insurance company. Aggregate claims in excess of 125% of expected claims, as determined by the reinsurance underwriter, are also paid by a third-party insurance company. All premiums paid by the CSB related to the plan are recorded as expenses.

Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These liabilities include an estimate of claims that have been incurred but not reported. At June 30, 2015, the amount of these liabilities was approximately $374,064. These liabilities are the CSB's best estimate as calculated by the CSB's Third Party Administrator.

The change in estimated claims liability reported as accrued liabilities for the last three fiscal years are summarized below.

Fiscal Year	Estimated Claims Liability Beginning of Fiscal Year	Current Year Claims and Changes in Estimates	Claim Payments	Estimated Claims Liability End of Fiscal Year
2015	$ 374,064	$ 5,365,512	$ 5,240,537	$ 499,039
2014	600,386	5,024,905	5,251,227	374,064
2013	473,030	6,273,460	6,146,104	600,386

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NOTE 14—COMMITMENTS AND CONTINGENCIES: (CONTINUED)

Health Reimbursement Arrangement

The CSB implemented a Health Reimbursement Arrangement (HRA) on January 1, 2015. The HRA is an IRS approved employer funded health benefit plan that reimburses employees for out-of-pocket medical expenses.

The CSB elected to contribute $1,500 for employee only and $2,500 for family coverage to help offset the cost of the health insurance deductible. As of June 30, 2015, the estimated liability was $843,146.

Reserve Funds

The CSB has accrued reserves to cover potential paybacks for possible overpayments on cost reimbursed facilities.

Federally Assisted Grant Programs

The CSB participates in a number of federally assisted grant programs. Although the CSB has been audited in accordance with the provisions of OMB Circular A-133, these programs are still subject to financial and compliance audits by the grantors or their representatives. Such audits could lead to requests for reimbursements to the grantor agency for expenditures disallowed under the terms of the grant. Based on prior experience, the CSB believes such disallowances, if any, will not be significant.

NOTE 15—OPERATING LEASES:

The Board leases office space and other facilities from private entities as well as its blended component units, generally on a year to year basis. Rent expense of the Board totaled $4,318,919 for the fiscal year ended June 30, 2015 and was reported with “Facility Expenses.” Of that amount, $2,708,266 was eliminated as intercompany transactions, leaving a net amount of $1,610,653.

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NOTE 16–RESTATEMENT OF BEGINNING NET POSITION:

The following changes were made to beginning net position at June 30, 2014:

Net position as previously reported at June 30, 2014	$ 9,050,529
Implementation of GASB 68	4,565,046
Removal of Dresen, LLC as blended component unit	(1,557,408)
Net position as restated at July 1, 2014	$ 12,058,167

Dresden, LLC has been removed as a blended component of the CSB due to its relatively insignificant ownership interest.

The assets of First and Second Village Associates, Inc. were sold during the fiscal year ended June 30, 2015 and therefore are no longer reported as discretely presented component units of the CSB.

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REQUIRED SUPPLEMENTARY INFORMATION

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HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

Schedule of Components of and Changes in Net Pension Liability and Related Ratios
Year Ended June 30, 2015

		2014
Total pension liability		
Service cost	$	3,007,464
Interest		3,017,837
Benefit payments, including refunds of employee contributions		(1,486,530)
Net change in total pension liability	$	4,538,771
Total pension liability - beginning		43,855,225
Total pension liability - ending (a)	$	48,393,996
Plan fiduciary net position		
Contributions - employer	$	1,855,976
Contributions - employee		1,374,201
Net investment income		7,498,891
Benefit payments, including refunds of employee contributions		(1,486,530)
Administrative expense		(38,533)
Other		395
Net change in plan fiduciary net position	$	9,204,400
Plan fiduciary net position - beginning		46,564,295
Plan fiduciary net position - ending (b)	$	55,768,695
Political subdivision's net pension asset - ending (a) - (b)	$	(7,374,699)
Plan fiduciary net position as a percentage of the total pension liability		115.24%
Covered-employee payroll	$	26,544,936
Political subdivision's net pension asset as a percentage of covered-employee payroll		-27.78%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

Schedule of Employer Contributions
Year Ended June 30, 2015

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Employee Payroll (4)	Contributions as a % of Covered Employee Payroll (5)
2015	$ 1,310,312	$ 1,310,312	$ -	$ 26,795,747	4.89%

Schedule is intended to show information for 10 years. Since 2015 is the first year for this presentation, no other data is available. However, additional years will be included as they become available.

Changes of benefit terms – There have been no significant changes to the System benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining the System after the valuation date of June 30, 2013 and the impact on the liabilities as of the measurement date of June 30, 2014 are minimal.

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

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SUPPLEMENTARY INFORMATION

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COMBINING FINANCIAL STATEMENTS

HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

Combining Statement of Net Position
At June 30, 2015

ASSETS	Hampton-Newport News Community Services Board	Hampton-Newport News Community Services Board Property Company, Inc.	Share-A-Homes of the Virginia Peninsula, Inc.
Current Assets:			
Cash and cash equivalents	$ 4,050,821	$ 589,355	$ 104,933
Accounts receivable, less allowance for uncollectibles	5,106,243	490,000	-
Prepaid items	436,071	-	-
Total current assets	$ 9,593,135	$ 1,079,355	$ 104,933
Restricted Current Assets:			
Cash and cash equivalents	$ 309,932	$ -	$ -
Security deposits	12,157	10,000	-
Total restricted current assets	$ 322,089	$ 10,000	$ -
Capital Assets			
Land and other non-depreciable capital assets	$ 694,315	$ 4,853,484	$ 291,036
Other capital assets, less accumulated depreciation	3,299,491	15,822,512	2,219,723
Total capital assets	$ 3,993,806	$ 20,675,996	$ 2,510,759
Other Assets:			
Due from affiliates	$ -	$ 416,010	$ 22,512
Net pension asset	7,374,699	-	-
Total other assets	$ 7,374,699	$ 416,010	$ 22,512
Total assets	$ 21,283,729	$ 22,181,361	$ 2,638,204
DEFERRED OUTFLOW OF RESOURCES			
Pension contributions subsequent to measurement date	$ 1,310,312	$ -	$ -
LIABILITIES			
Current Liabilities:			
Accounts payable and accrued expenses	$ 6,335,506	$ 211,585	$ 286
Unearned revenue	1,816,428	-	-
Other current liabilities	340,063	-	-
Compensated absences	150,374	-	-
Capital lease, current portion	160,472	-	-
Bonds payable, current portion	-	13,525,966	-
Derivative instrument payable	-	374,611	-
Notes payable, current portion	12,000	757,663	452,484
Total current liabilities	$ 8,814,843	$ 14,869,825	$ 452,770
Current Liabilities Payable from From Restricted Assets:			
Client and consumer funds	$ 309,932	$ -	$ -
Security deposits	-	10,000	-
Total current liabilities payable from restricted assets	$ 309,932	$ 10,000	$ -
Long-term Liabilities:			
Due to affiliates	$ 438,522	$ -	$ -
Compensated absences	1,353,369	-	-
Notes payable, less current portion	254,000	215,488	862,035
Capital lease, less current portion	315,127	-	-
Total long-term liabilities	$ 2,361,018	$ 215,488	$ 862,035
Total liabilities	$ 11,485,793	$ 15,095,313	$ 1,314,805
DEFERRED INFLOW OF RESOURCES			
Items related to measurerment of net pension liability	$ 3,343,758	$ -	$
NET POSITION			
Net investment in capital assets	$ 3,252,207	$ 5,802,268	$ 1,196,240
Restricted	12,157	-	-
Unrestricted	4,500,126	1,283,780	127,159
Total net position	$ 7,764,490	$ 7,086,048	$ 1,323,399

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

	Peninsula Community Homes, Inc.	Inter-Company Eliminations	Total
	$ 11,361	$ -	$ 4,756,470
	86,950	-	5,683,193
	-	-	436,071
	$ 98,311	$ -	$ 10,875,734
	$ -	$ -	$ 309,932
	-	-	22,157
	$ -	$ -	$ 332,089
	$ -	$ -	$ 5,838,835
	-	-	21,341,726
	$ -	$ -	$ 27,180,561
	$ -	$ (438,522)	$ -
	-	-	7,374,699
	$ -	$ (438,522)	$ 7,374,699
	$ 98,311	$ (438,522)	$ 45,763,083
	$ -	$ -	$ 1,310,312
	$ -	$ -	$ 6,547,377
	-	-	1,816,428
	-	-	340,063
	-	-	150,374
	-	-	160,472
	-	-	13,525,966
	-	-	374,611
	-	-	1,222,147
	$ -	$ -	$ 24,137,438
	$ -	$ -	$ 309,932
	-	-	10,000
	$ -	$ -	$ 319,932
	$ -	$ (438,522)	$ -
	-	-	1,353,369
	-	-	1,331,523
	-	-	315,127
	$ -	$ (438,522)	$ 3,000,019
	$ -	$ (438,522)	$ 27,457,389
	$	$	$ 3,343,758
	$ -	$ -	$ 10,250,715
	-	-	12,157
	98,311	-	6,009,376
	$ 98,311	$ -	$ 16,272,248

HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

Combining Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2015

	Hampton-Newport News Community Services Board	Hampton-Newport News Community Services Board Property Company, Inc.
Operating Revenue:		
Net patient service revenue	$ 34,585,919	$ -
Other	3,544,772	-
Total operating revenues	$ 38,130,691	$ -
Operating Expenses:		
Salaries and benefits	$ 44,177,454	$ -
Staff development	208,193	-
Facility	6,113,549	132,901
Supplies	2,689,056	-
Travel	691,036	-
Contractual and consulting	4,920,693	117,279
Depreciation	743,162	997,801
Other	2,684,548	-
Total operating expenses	$ 62,227,691	$ 1,247,981
Operating income (loss)	$ (24,097,000)	$ (1,247,981)
Nonoperating income (expenses):		
Rental income	$ -	$ 2,599,940
Appropriations:		
Commonwealth of Virginia	20,330,642	-
Federal government	2,988,248	-
Local governments	3,204,183	-
Other local agencies	649,312	-
Interest income	2,407	-
Change in fair value of long-term derivative instrument	-	503,435
Interest expense	(45,421)	(807,625)
Net nonoperating income (expense)	$ 27,129,371	$ 2,295,750
Income (loss) before transfers	$ 3,032,371	$ 1,047,769
Transfers:		
Interfund transfers	245,000	-
Change in net position	$ 3,277,371	$ 1,047,769
Net position, beginning of year, as restated	4,487,119	6,038,279
Net position, end of year	$ 7,764,490	$ 7,086,048

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

Share-A-Homes of the Virginia Peninsula, Inc.	Peninsula Community Homes, Inc.	Inter-Company Eliminations	Total
$ -	$ -	$ -	$ 34,585,919
-	-	-	3,544,772
$ -	$ -	$ -	$ 38,130,691
$ -	$ -	$ -	$ 44,177,454
-	-	-	208,193
8,042	-	(2,708,266)	3,546,226
-	-	-	2,689,056
-	-	-	691,036
17,537	1,276	-	5,056,785
101,924	-	-	1,842,887
-	6,533	-	2,691,081
$ 127,503	$ 7,809	$ (2,708,266)	$ 60,902,718
$ (127,503)	$ (7,809)	$ 2,708,266	$ (22,772,027)
$ 280,808	$ -	$ (2,708,266)	$ 172,482
-	-	-	20,330,642
-	-	-	2,988,248
-	-	-	3,204,183
-	49,736	-	699,048
-	-	-	2,407
-	-	-	503,435
(61,291)	-	-	(914,337)
$ 219,517	$ 49,736	$ (2,708,266)	$ 26,986,108
$ 92,014	$ 41,927	$ -	$ 4,214,081
(245,000)	-	-	-
$ (152,986)	$ 41,927	$ -	$ 4,214,081
1,476,385	56,384	-	12,058,167
$ 1,323,399	$ 98,311	$ -	$ 16,272,248

HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

Combining Statement of Cash Flows
Year Ended June 30, 2015

	Hampton-Newport News Community Services Board	Hampton-Newport News Community Services Board Property Company, Inc.
Cash flows from operating activities:		
Receipts from customers	$ 38,267,910	$ -
Payments to suppliers	(15,622,217)	(263,476)
Payments to and for employees	(45,873,278)	-
Total cash flows provided by (used for) operating activities	$ (23,227,585)	$ (263,476)
Cash flows from noncapital and related financing activities:		
Rent of property	$ -	$ 2,725,966
Government grants	27,172,385	-
Interfund transfers	245,000	-
Noncapital line of credit	(417,000)	-
Total cash flows provided by (used for) noncapital and related financing activities	$ 27,000,385	$ 2,725,966
Cash flows from capital and related financing activities:		
Purchase of capital assets	$ (291,467)	$ -
Interest on long-term debt	(45,421)	(807,625)
Principal paid on notes and bonds payable	(12,000)	(1,150,127)
Principal paid on capital leases payable	(152,898)	-
Total cash flows provided by (used for) capital and related financing activities	$ (501,786)	$ (1,957,752)
Cash flows from investing activities:		
Interest income	$ 2,407	$ -
Net increase (decrease) in cash and cash equivalents	$ 3,273,421	$ 504,738
Cash and cash equivalents, beginning of year	777,400	84,617
Cash and cash equivalents, end of year	$ 4,050,821	$ 589,355
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	$ (24,097,000)	$ (1,247,981)
Adjustments to reconcile operating income (loss) to cash provided by (used for) operations:		
Depreciation	743,162	997,801
Changes in assets and liabilities:		
Accounts receivable	(13,820)	-
Prepaid items	(392,164)	-
Net pension asset	(4,665,629)	-
Deferred outflows of resources	545,664	-
Accounts payable and accrued expenses	745,454	(13,296)
Other accrued liabilities	432,339	-
Compensated absences	(20,388)	-
Unearned revenue	151,039	-
Deferred inflows of resources	3,343,758	-
Cash flows provided by (used for) operating activities	$ (23,227,585)	$ (263,476)

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

Share-A-Homes of the Virginia Peninsula, Inc.	Peninsula Community Homes, Inc.	Inter-Company Eliminations	Total
$ -	$ -	$ -	$ 38,267,910
(28,167)	(7,809)	2,814,886	(13,106,783)
-	-	-	(45,873,278)
$ (28,167)	$ (7,809)	$ 2,814,886	$ (20,712,151)
$ 356,801	$ -	$ (2,814,886)	$ 267,881
-	(36,414)	-	27,135,971
(245,000)	-	-	-
-	-	-	(417,000)
$ 111,801	$ (36,414)	$ (2,814,886)	$ 26,986,852
$ -	$ -	$ -	$ (291,467)
(61,291)	-	-	(914,337)
(100,246)	-	-	(1,262,373)
-	-	-	(152,898)
$ (161,537)	$ -	$ -	$ (2,621,075)
$ -	$ -	$ -	$ 2,407
$ (77,903)	$ (44,223)	$ -	$ 3,656,033
182,836	55,584	-	1,100,437
$ 104,933	$ 11,361	$ -	$ 4,756,470
$ (127,503)	$ (7,809)	$ 2,708,266	$ (22,772,027)
101,924	-	-	1,842,887
-	-	-	(13,820)
-	-	-	(392,164)
-	-	-	(4,665,629)
-	-	-	545,664
(2,588)	-	-	729,570
-	-	106,620	538,959
-	-	-	(20,388)
-	-	-	151,039
-	-	-	3,343,758
$ (28,167)	$ (7,809)	$ 2,814,886	$ (20,712,151)

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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*

Board of Directors
Hampton-Newport News Community Services Board
Hampton, 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 CSBs,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities and the discretely presented component units of Hampton-Newport News Community Services Board as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Hampton-Newport News Community Services Board's basic financial statements and have issued our report thereon dated October 27, 2015.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Richmond, Virginia
October 27, 2015

Independent Auditors' Report on Compliance For Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133

Board of Directors
Hampton-Newport News Community Services Board
Hampton, Virginia

Report on Compliance for Each Major Federal Program

We have audited Hampton-Newport News Community Services Board's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Hampton-Newport News Community Services Board's major federal programs for the year ended June 30, 2015. Hampton-Newport News Community Services Board's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Hampton-Newport News Community Services Board's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations.* Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hampton-Newport News Community Services Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Hampton-Newport News Community Services Board complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control over Compliance

Management of Hampton-Newport News Community Services Board is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Hampton-Newport News Community Services Board's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Hampton-Newport News Community Services Board's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Richmond, Virginia
October 27, 2015

HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identification Number	Federal Expenditures
Department of Agriculture			
Pass-Through Payments:			
Virginia Department of Agriculture			
Child and Adult Care Food Program	10.558	not available	$ 35,580
Department of Housing and Urban Development			
Direct Payments:			
Supportive Housing Program	14.235		$ 288,558
Continuum of Care Program	14.267		173,176
Total Department of Housing and Urban Development			$ 461,734
Department of Health and Human Services			
Pass-Through Payments:			
Virginia Department of Behavioral Health and Disability Services:			
Projects for Assistance in Transition from Homelessness (PATH)	93.150	4450600-50993 4450600-50994	$ 101,070
Block Grants for Community Mental Health Services	93.958	4450600-50124	696,529
Block Grants for Prevention and Treatment of Substance Abuse	93.959	4450100-50164 4450100-50194	1,693,335
Total Department of Health and Human Services			$ 2,490,934
Total expenditures of federal awards			$ 2,988,248

Notes to Schedule of Expenditures of Federal Awards

Note A - Basis of Accounting:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Hampton-Newport News Community Services Board under programs of the federal government for the year ended June 30, 2015. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Hampton-Newport News Community Services Board, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Hampton-Newport News Community Services Board. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for States, Local and Indian Tribal Governments,* wherein certain types of expenditures are not allowable or are limited to reimbursement.

Note B - Summary of Significant Accounting Polices:

Expenditures are reported on the accrual basis of accounting.

Pass-through entity identifying numbers are presented where available.

Schedule of Findings and Questioned Costs
Year Ended June 30, 2015

Section I - Summary of Auditors' Results

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	None reported
Significant deficiency(ies) identified?	None reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510 (a)?	No

Identification of major programs:

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

Dollar threshold used to distinguish between Type A and Type B programs	$300,000
Auditee qualified as low-risk auditee?	Yes

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Schedule of Prior Year Findings
Year Ended June 30, 2015

There were no prior year findings.

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