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MIDDLE PENINSULA - NORTHERN NECK  
COMMUNITY SERVICES BOARD  
FINANCIAL REPORT  
YEAR ENDED JUNE 30, 2017

ROBINSON, FARMER, COX ASSOCIATES

*A PROFESSIONAL LIMITED LIABILITY COMPANY    CERTIFIED PUBLIC ACCOUNTANTS*

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CHARLOTTESVILLE    □    RICHMOND    □    FREDERICKSBURG    □    STAUNTON    □    BLACKSBURG    □    LOUISA





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MIDDLE PENINSULA - NORTHERN NECK COMMUNITY SERVICES BOARD

BOARD OF DIRECTORS

At June 30, 2017

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Ben Owen, IV, Chair  
Alice Coates, Vice Chair

Carole Alexander  
Stephan B. Smith, Jr.

Timothy Doss  
Stanley Langford  
Anne Mitchell

Dr. Darryl Pirok  
Edith Turner

PRINCIPAL MANAGEMENT TEAM

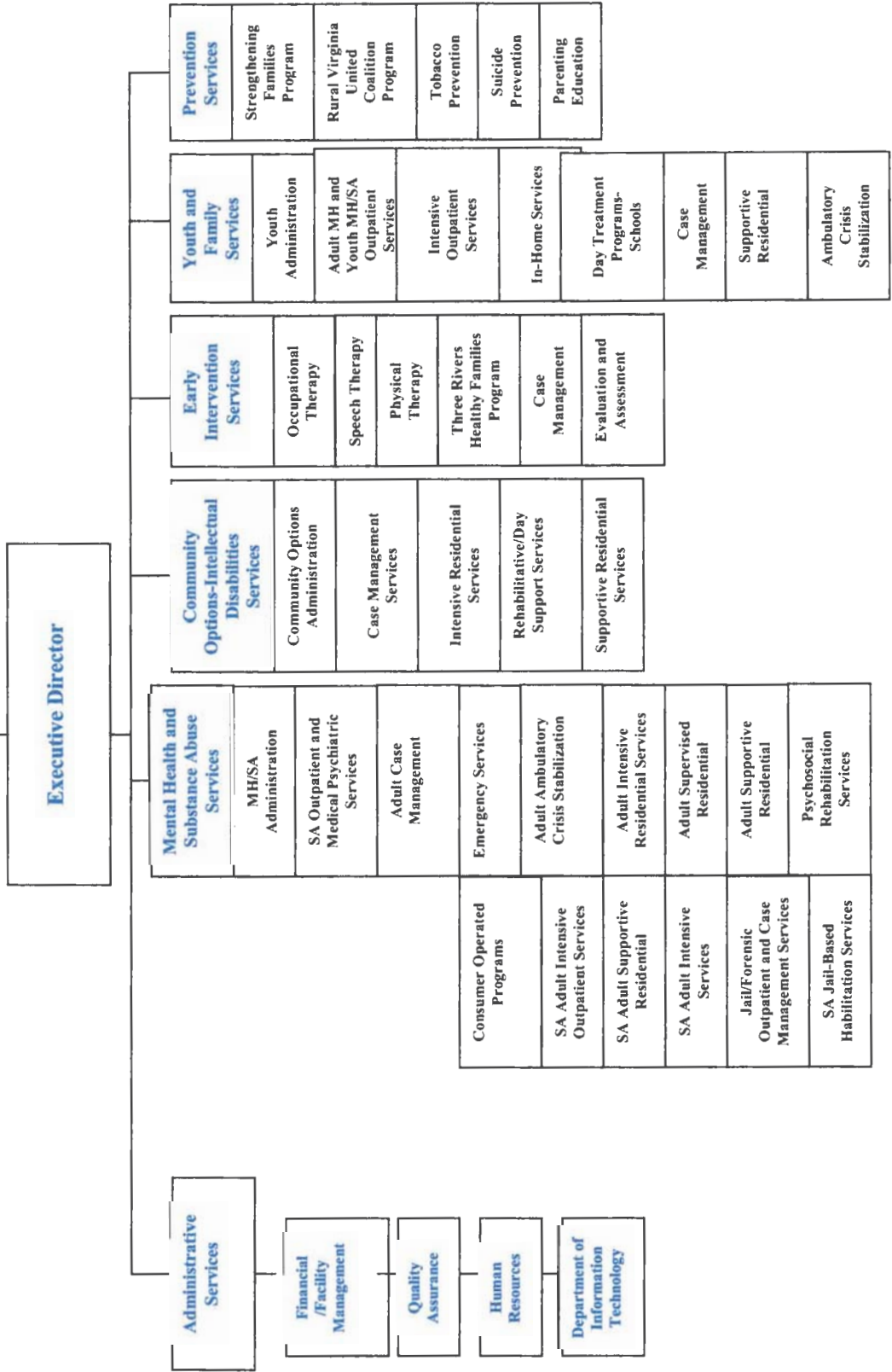
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Charles R. Walsh	Executive Director
Yvonne Wingrove	Chief Financial Officer
Linda Hodges	Director of Clinical Mental Health & Substance Abuse
Lynnie McCrobie	Director of Intellectual Disabilities
William F. Wallace	Director of Human Resources
Mitzi Torres	Director of Information Technology
Katherine Phillips	Director of Early Intervention
Rachel Teagle	Director of Youth and Family Services
Cheryl Matteo-Kerney	Director of Prevention Services
Scott Britton	Director of Quality Assurance



Middle Peninsula-Northern Neck Community Services Board  
FY 17  
**ORGANIZATIONAL STRUCTURE**

**CSB Board of Directors**  
Ten County Representation  
Essex, Gloucester, King & Queen, King William, Lancaster, Mathews, Middlesex, Northumberland, Richmond, Westmoreland







# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

## Independent Auditors' Report

To the Board of Directors  
Middle Peninsula-Northern Neck Community Services Board  
Saluda, Virginia

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Middle Peninsula-Northern Neck Community Services Board, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Middle Peninsula-Northern Neck Community Services Board's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditors' Responsibility*

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

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

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

## *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Middle Peninsula-Northern Neck Community Services Board, as of June 30, 2017, and the changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## *Other Matters*

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and schedules related to pension funding on pages 4-12, and 46-48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

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

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

## Report on Summarized Comparative Information

We have previously audited Middle Peninsula-Northern Neck Community Services Board's 2016 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated November 18, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

### Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2017, on our consideration of Middle Peninsula-Northern Neck 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 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 Middle Peninsula-Northern Neck Community Services Board's internal control over financial reporting and compliance.

*Robinson, Farrow, Cox Associates*

Charlottesville, Virginia  
November 20, 2017

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## MIDDLE PENINSULA - NORTHERN NECK COMMUNITY SERVICES BOARD

### Management's Discussion and Analysis Year Ended June 30, 2017

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The following Management's Discussion and Analysis of the Middle Peninsula - Northern Neck Community Services Board's (MPNNCSB) activities and financial performance provides an introduction and overview to the financial statements for fiscal year ended June 30, 2017. The financial statements not only represent the operations of the Board but are blended with Properties, Inc. and three HUD projects; Kilmarnock New Horizons, Lively Turning Point and Woodland Pointe. Properties, Inc. is a property holding organization for the Board. The HUD projects were organized to own and operate facilities for individuals with disabilities. All three of these components are not-for-profit organizations exempt under Section 501(c)(3) of the Internal Revenue Code.

#### **HIGHLIGHTS ON FISCAL YEAR 2017**

MPNNCSB's focus in FY 17 included:

1. MPNNCSB was awarded a \$100,000 Opioid grant for the next fiscal year
2. A four year grant, the System of Care grant was awarded to MPNNCSB which totaled \$617,152
3. ARTS, Addiction and Recovery Treatment Services, a reimbursable program through Medicaid started April 1, 2017. The services are evidenced based and provided by mental health and substance abuse providers as well as by peers.
4. Revive training that teaches providers on how to administer the medication, Narcan for opioid overdoses took place in 2017. MPNNCSB has three trainers who in turn can train other providers.
5. In an effort to relocate the Warsaw Counseling Center and other programs of MPNNCSB, work began on exploring the purchase of the EVB Bank building and another adjacent EVB smaller building in Tappahannock. MPNNCSB would lease the space from Properties Inc. as it does with other residential homes.
6. Negotiations were completed to purchase new electronic health record software, Credible, to fully implement a paperless medical record. Go live is set for March 1, 2018
7. The Peer Drop In Center underwent a needed renovation at the Gloucester Counseling Center. The Drop In Center is a place where consumers can come to relax and meet with other peers as well as a waiting room for an upcoming appointment.
8. Began same day access-initial pilot
9. Commonwealth Coordinated Care Plus, CCCP, a new managed long term care and supports program was initiated in FY 17. MPNNCSB will sign contracts with 6 different managed care companies starting in August for the Gloucester and Mathews counties and then September for the remaining counties.
10. First Annual Suicide Prevention walk was held in Gloucester County. MPNNCSB is the fiscal agent in Region 5 for efforts at suicide prevention across the region's CSBs.
11. MPNNCSB hired its first Operations Manager. The position will be responsible for all facility management and fleet.
12. Fees were \$15,041,388 in FY 17 compared to \$14,860,957 in FY 16. This was a 1.21% increase from prior year mainly from Medicaid. Fees accounted for 65% of total revenue.
13. Operating expenses increased by 5.36% from the prior year as in FY 16.
14. Revenues from the Commonwealth of Virginia increased \$593,904 or 11.05% almost entirely in part due to the DBHDS's award of the CIT and PACT grants. Federal funds had an increase of \$125,376 or 11.49% due in part to Part C and One Time Federal Funds while Local funds increased by \$8,581 or 1.93%

## SUMMARY OF OPERATIONS AND CHANGES IN NET POSITION

The change in net position as of June 30, 2017 was (\$48,755) as compared to \$324,737 in 2016.

	<u>2017</u>	<u>2016</u>
Operating revenues	\$ 15,041,388	\$ 14,860,957
Operating expenses	23,292,404	22,107,762
Operating income (loss)	\$ (8,251,016)	\$ (7,246,805)
Net nonoperating income	8,202,261	7,571,542
Change in net position	<u>\$ (48,755)</u>	<u>\$ 324,737</u>

## FINANCIAL POSITION SUMMARY

Net position may serve over time as a useful indicator of MPNNCSB's financial position. MPNNCSB's financial position is measured in terms of resources (assets and deferred outflows of resources) owned and obligations (liabilities and deferred inflows of resources) owed as of June 30, 2017. This information is reflected on the Statement of Net Position. The excess of assets and deferred outflows of resources over liabilities and deferred inflows of resources is the net position. MPNNCSB's net position was \$10.5M.

A condensed summary of the CSB's Statements of Net Position at June 30, 2017 and 2016 is shown below:

	<u>2017</u>	<u>2016</u>
Assets		
Current assets	\$ 6,237,756	\$ 5,942,381
Restricted current assets	180,865	133,033
Capital assets (net of depreciation)	5,531,095	5,793,181
Other assets	1,895,311	2,668,578
Total assets	<u>\$ 13,845,027</u>	<u>\$ 14,537,173</u>
Deferred outflows of resources	<u>\$ 1,238,335</u>	<u>\$ 700,883</u>
Liabilities		
Current liabilities	\$ 3,436,888	\$ 2,915,551
Current liabilities payable from restricted current assets	98,365	83,710
Long-term liabilities	152,557	233,717
Total liabilities	<u>\$ 3,687,810</u>	<u>\$ 3,232,978</u>
Deferred inflows of resources	<u>\$ 856,877</u>	<u>\$ 1,454,377</u>
Net position	<u>\$ 10,538,675</u>	<u>\$ 10,550,701</u>

## CASH FLOWS

The flow of cash resources into and out of MPNNCSB during the fiscal year is reflected on the Statement of Cash Flows. This statement also reflects net increases or decreases in cash and cash equivalents for the year and the ending cash and cash equivalents as of June 30, 2017 and 2016.

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities	\$ (7,964,478)	\$ (7,106,389)
Cash flows from noncapital financing activities	8,179,890	7,522,796
Cash flows from capital and related financing activities	(244,620)	(523,879)
Cash flows from investing activities	20,756	20,160
Net increase (decrease) in cash and cash equivalents	<u>\$ (8,452)</u>	<u>\$ (87,312)</u>

**CASH FLOWS (continued)**

Cash Flows from operating activities reconcile the operating loss recorded on the Statement of Revenues, Expenses and Changes in Net Position to cash provided by operating activities. In this process, the Operating loss is decreased by the amount of any non-cash transaction (depreciation) and adjusted for changes in assets and liabilities. (Please see the full Statement of Cash Flows for a full listing of these transactions).

Cash Flows from Noncapital and Related Financing Activities consists of income received primarily as government grants.

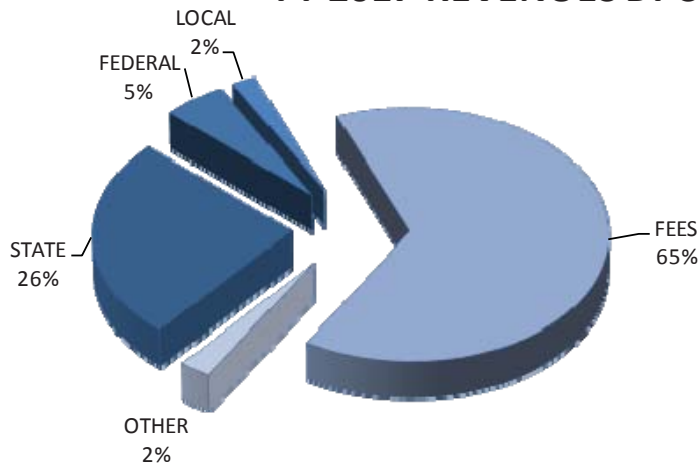
Cash Flows from Capital and Related Financing Activities represents income from acquisition of fixed assets, interest payment on long term debt, principal payments on mortgages and loans payable.

The decrease in cash of \$8,452 is due mainly to the purchase of capital assets.

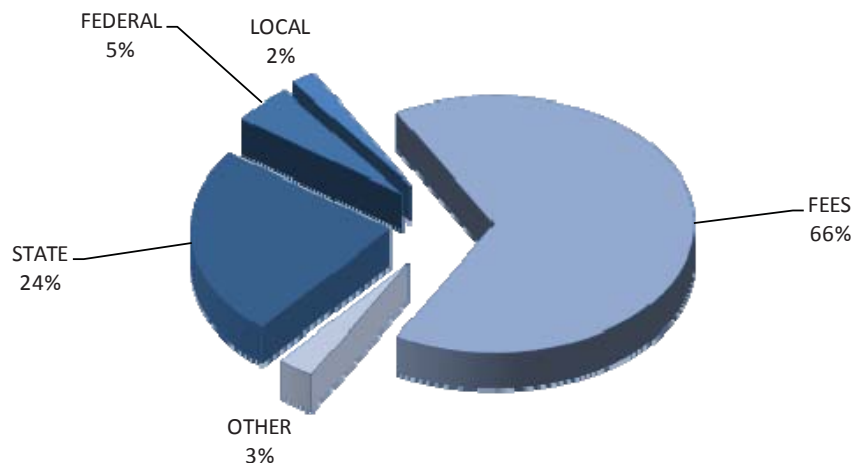
**REVENUES**

The following charts show the major sources and the percentages of operating revenues for the years ended June 30, 2017 and 2016:

**FY 2017 REVENUES BY SOURCE**



**FY 2016 REVENUES BY SOURCE**



**REVENUES (continued)**

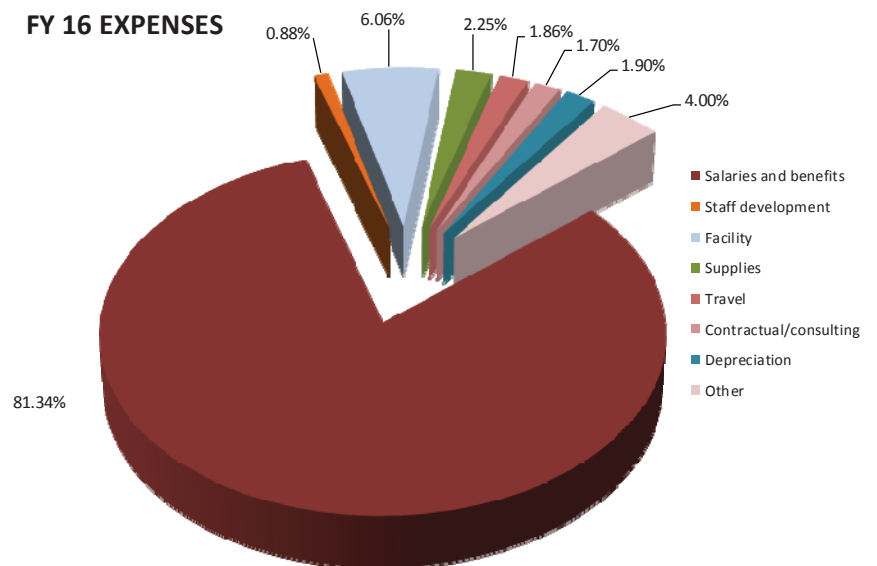
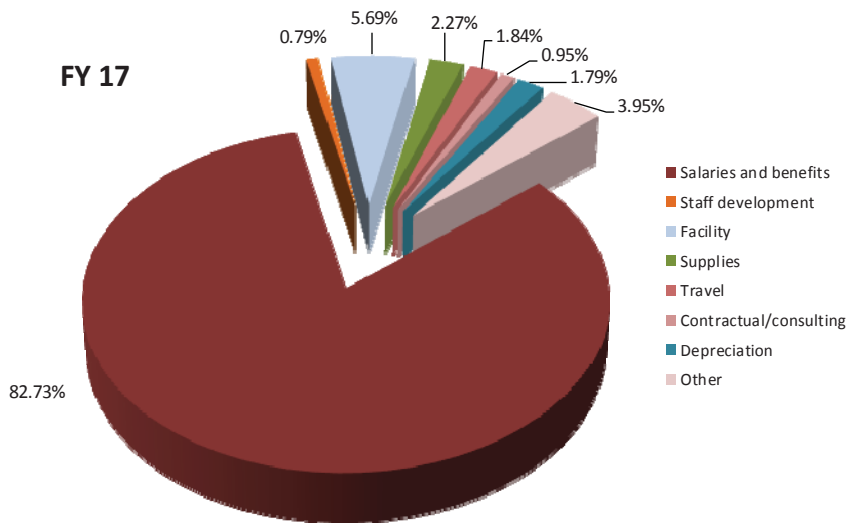
A summary of revenues for the years ended June 30, 2017 and 2016 and the amount and percentage change of 2017 in relation to 2016 are as follows:

**Major Revenue Category Comparison Fiscal Years 2017 and 2016**

<u>Revenue</u>	<u>2017</u>	<u>Percent of Total</u>	<u>2016</u>	<u>Percent of Total</u>	<u>Increase (Decrease) from 2016</u>	<u>Percent Increase (Decrease) from 2016</u>
State	\$ 5,969,051	25.67%	\$ 5,375,147	23.94%	\$ 593,904	11.05%
Federal	1,216,244	5.23%	1,090,868	4.86%	125,376	11.49%
Local	452,686	1.95%	444,105	1.98%	8,581	1.93%
Fees	15,041,388	64.67%	14,860,957	66.20%	180,431	1.21%
Other	577,837	2.48%	678,529	3.02%	(100,692)	-14.84%
<b>Total</b>	<b>\$ 23,257,206</b>	<b>100.00%</b>	<b>\$ 22,449,606</b>	<b>100.00%</b>	<b>\$ 807,600</b>	<b>10.85%</b>

**EXPENSES**

The following charts show the expense categories and percentage of operating expenses for the years ended June 30, 2017 and 2016.





## EXPENSES (continued)

A summary of operating expenses for the years ended June 30, 2017 and 2016 and the amount and percentage change in 2017 in relation to 2016 are as follows:

### Major Operating Expense Category Comparison Fiscal Years 2017 and 2016

<u>Operating Expenses</u>	<u>Expenses 2017</u>	<u>Percent of Total</u>	<u>2016</u>	<u>Percent of Total</u>	<u>Increase (Decrease) from 2016</u>	<u>Percent Increase (Decrease) from 2016</u>
Salaries and benefits	\$ 19,269,368	82.72%	\$ 17,983,088	81.35%	\$ 1,286,280	7.15%
Staff development	184,206	0.79%	194,068	0.88%	(9,862)	-5.08%
Facility	1,324,831	5.69%	1,340,193	6.06%	(15,362)	-1.15%
Supplies	528,492	2.27%	497,971	2.25%	30,521	6.13%
Travel	428,408	1.84%	411,998	1.86%	16,410	3.98%
Contractual/Consulting	221,795	0.95%	375,361	1.70%	(153,566)	-40.91%
Depreciation	415,848	1.79%	419,894	1.90%	(4,046)	-0.96%
Other	919,456	3.95%	885,189	4.00%	34,267	3.87%
Total	<u>\$ 23,292,404</u>	<u>100.00%</u>	<u>\$ 22,107,762</u>	<u>100.00%</u>	<u>\$ 1,184,642</u>	<u>5.36%</u>

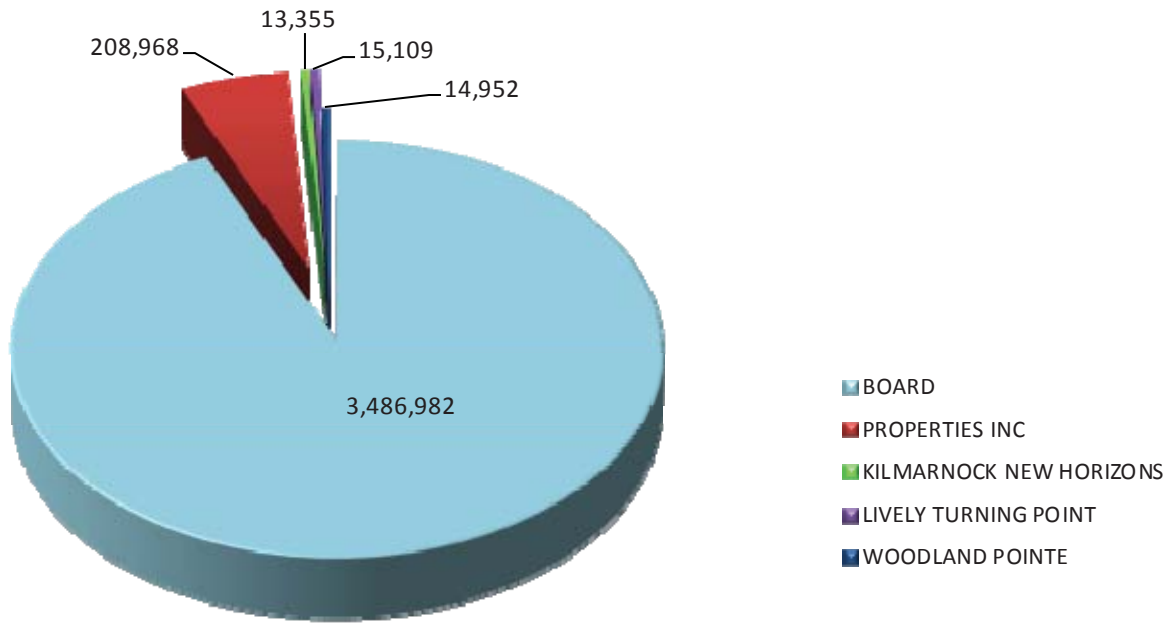
### Debt Administration:

The component units of the organization contribute in varying degrees to the current and long-term debt. For MPNNCSB, current and total liabilities increased by 14.07% for FY 2017. Properties Inc. continued to pay down mortgages with a 20% decrease in total liabilities for FY 2017. Total liabilities for Kilmarnock New Horizons and Lively Turning Point decreased due to a reduction in payables and a loan repayment. Woodland Pointe incurred a change in accrued expenses from the prior year.

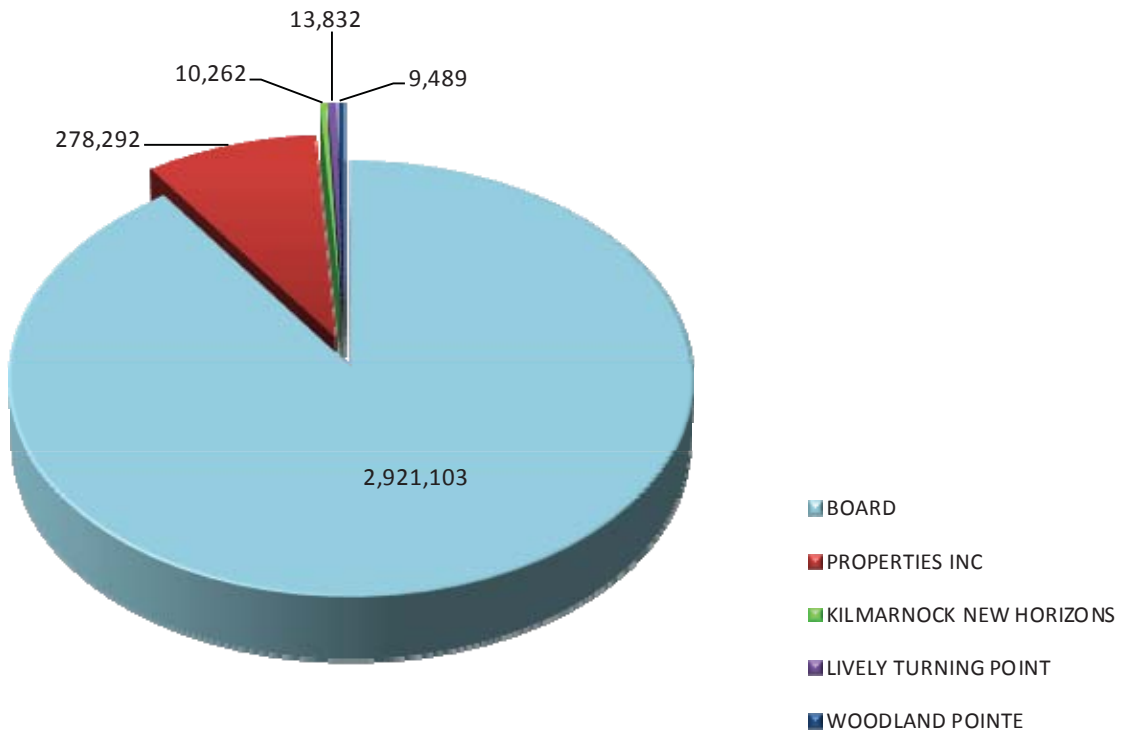
### Debt Administration

	<u>FY 2017</u>	<u>Increase (Decrease) from 2016</u>	<u>FY 2016</u>	<u>Percent Increase (Decrease) from 2016</u>
Board	\$ 3,486,982	\$ 565,879	\$ 2,921,103	19.37%
Properties Inc.	208,968	(69,324)	278,292	-24.91%
Kilmarnock New Horizons	13,355	3,093	10,262	30.14%
Lively Turning Point	15,109	1,277	13,832	9.23%
Woodland Pointe	14,952	5,463	9,489	57.57%
Total	<u>\$ 3,739,366</u>	<u>\$ 506,388</u>	<u>\$ 3,232,978</u>	<u>15.66%</u>

### TOTAL LIABILITIES FY 2017



### TOTAL LIABILITIES FY 2016

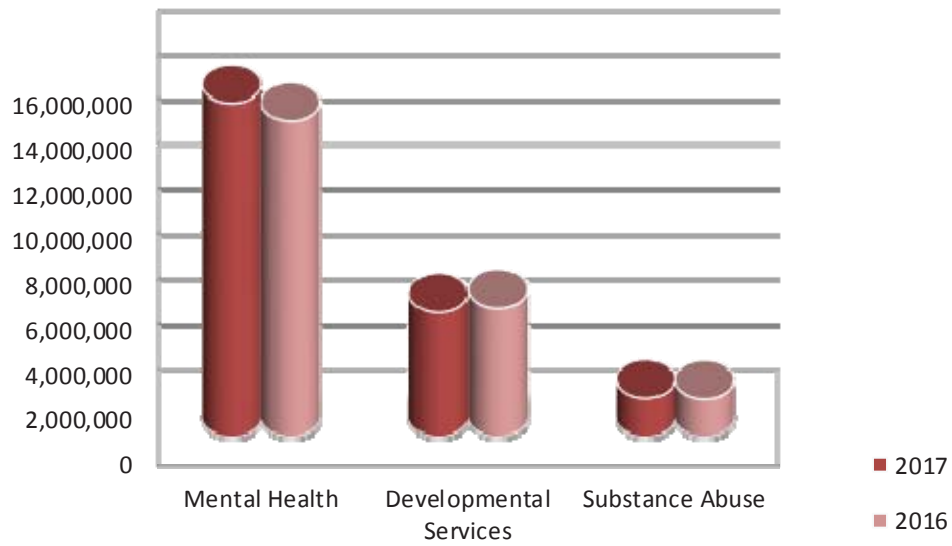


Summary of Revenue and Expenses by Disability (as reported on the Year End Financial Report to the Department of Behavioral Health and Developmental Services):

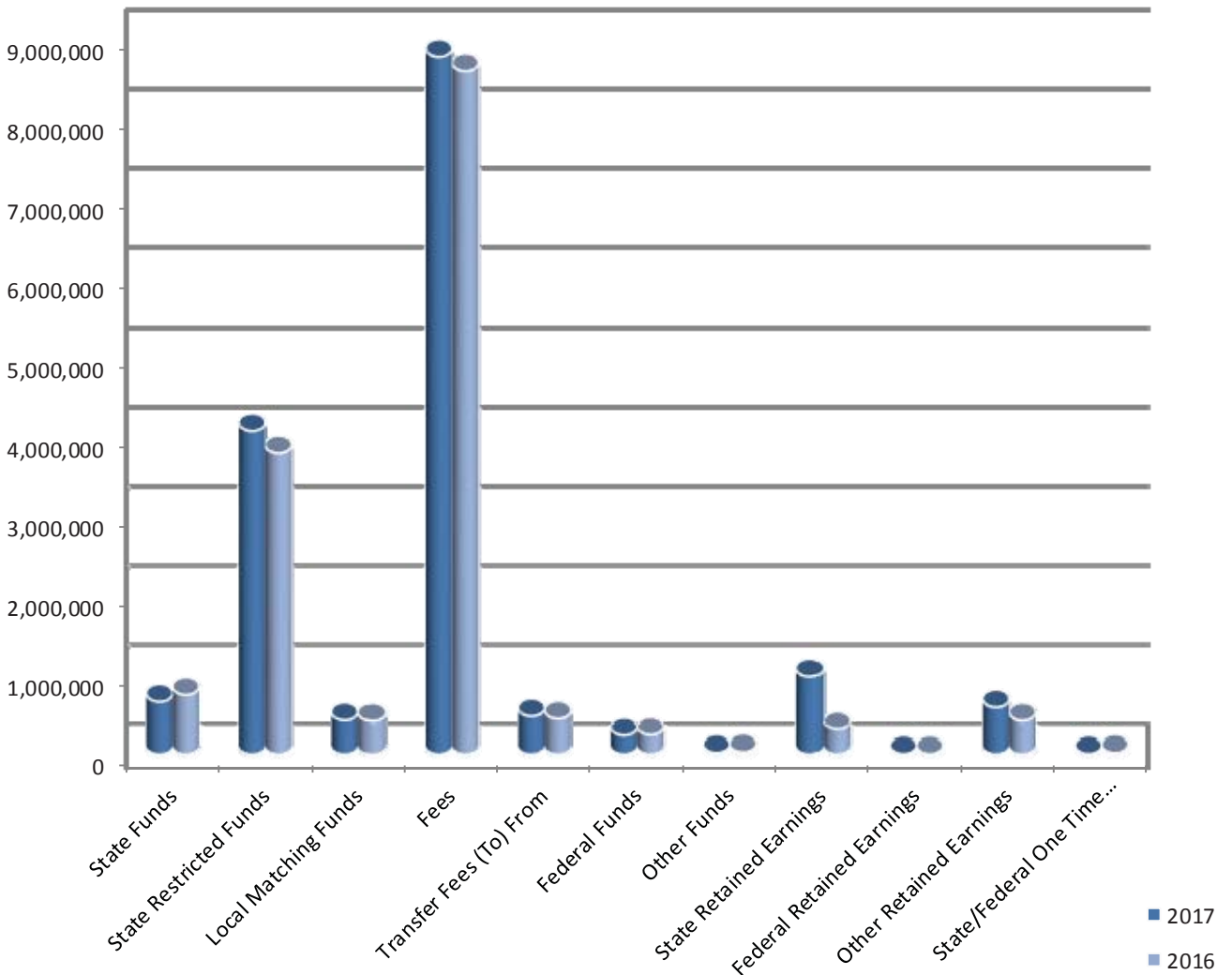
Summary of Revenue and Expenses by Disability

	2017	2016	Percent Increase/ (Decrease)
<b>Mental Health Services</b>			
<b>Revenue</b>			
State Funds	\$ 641,756	\$ 727,041	-11.73%
State Restricted Funds	4,056,399	3,778,012	7.37%
Local Matching Funds	410,134	402,359	1.93%
Total Fees	8,756,803	8,577,351	2.09%
Transfer Fees (To)/From	460,220	429,486	7.16%
Federal Funds	220,528	226,597	-2.68%
Other Funds	13,911	23,433	-40.64%
State Retained Earnings	958,687	296,284	223.57%
Other Retained Earnings	571,485	405,473	40.94%
State One Time Funds	1,054	-	100.00%
Federal One Time Funds	-	13,500	-100.00%
<b>Total Revenues</b>	<b>\$ 16,090,977</b>	<b>\$ 14,879,536</b>	<b>8.14%</b>
<b>Expenses</b>	<b>14,757,871</b>	<b>13,960,250</b>	<b>5.71%</b>
<b>Balances</b>	<b>\$ 1,333,106</b>	<b>\$ 919,286</b>	<b>45.02%</b>
<b>Developmental Services</b>			
<b>Revenue</b>			
State Funds	\$ 29,799	\$ 25,017	19.12%
Local Matching Funds	42,552	41,746	1.93%
Total Fees	5,663,297	5,823,897	-2.76%
Transfer Fees (To)/From	(224,740)	(210,203)	6.92%
<b>Total Revenues</b>	<b>\$ 5,510,908</b>	<b>\$ 5,680,457</b>	<b>-2.98%</b>
<b>Expenses</b>	<b>5,510,908</b>	<b>5,680,457</b>	<b>-2.98%</b>
<b>Balances</b>	<b>\$ -</b>	<b>\$ -</b>	<b>0.00%</b>
<b>Substance Abuse Services</b>			
<b>Revenue</b>			
State Funds	\$ 968,767	\$ 963,983	0.50%
Total Fees	235,480	219,283	7.39%
Transfer Fees (To)/From	(235,480)	(219,283)	7.39%
Federal Funds	684,923	595,423	15.03%
Other Funds	86,822	86,935	-0.13%
State Retained Earnings	-	27,409	-100.00%
Federal Retained Earnings	-	7,500	-100.00%
Other Retained Earnings	10,162	-	100.00%
Federal One Time Funds	1,184	1,494	-20.75%
<b>Total Revenues</b>	<b>\$ 1,751,858</b>	<b>\$ 1,682,744</b>	<b>4.11%</b>
<b>Expenses</b>	<b>1,717,323</b>	<b>1,682,744</b>	<b>2.05%</b>
<b>Balances</b>	<b>\$ 34,535</b>	<b>\$ -</b>	<b>100.00%</b>

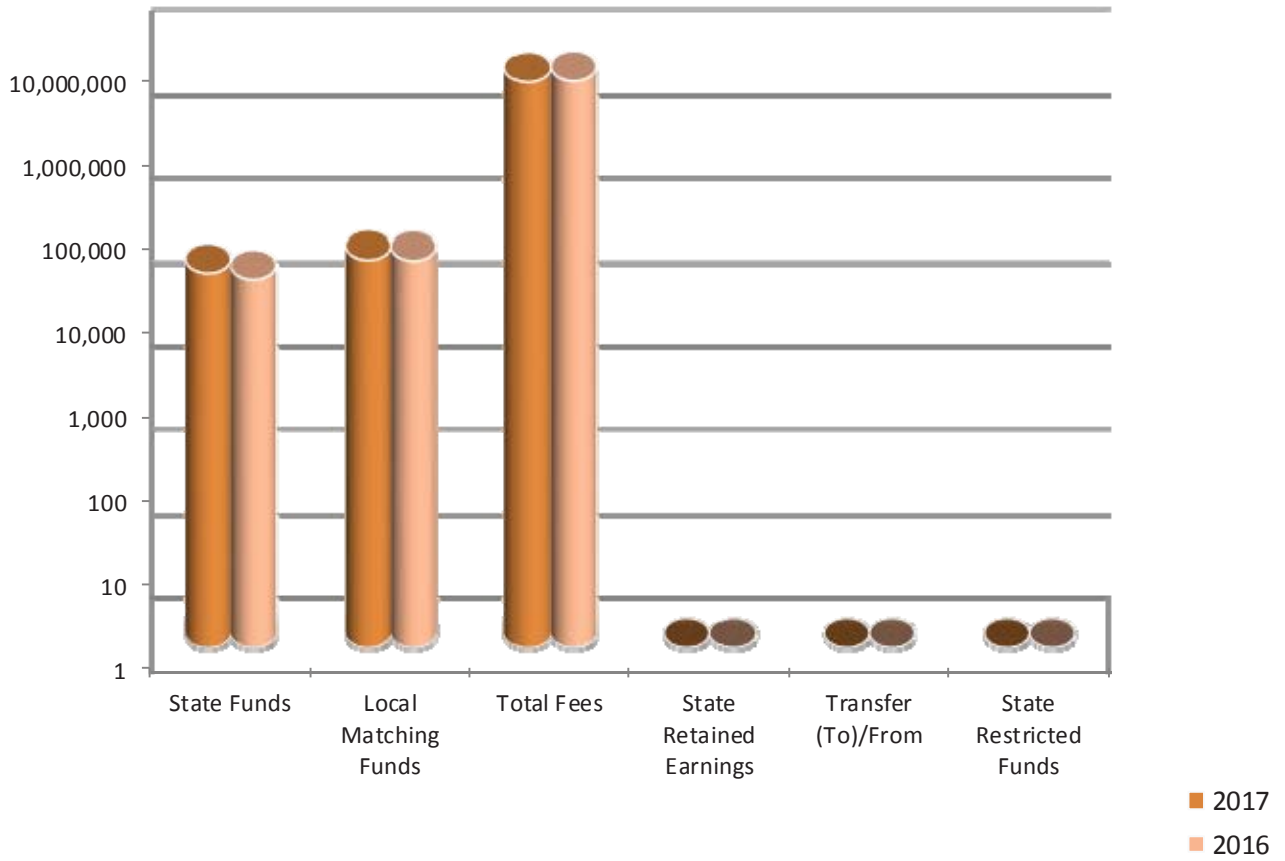
## Expenses by Disability 2017 vs. 2016



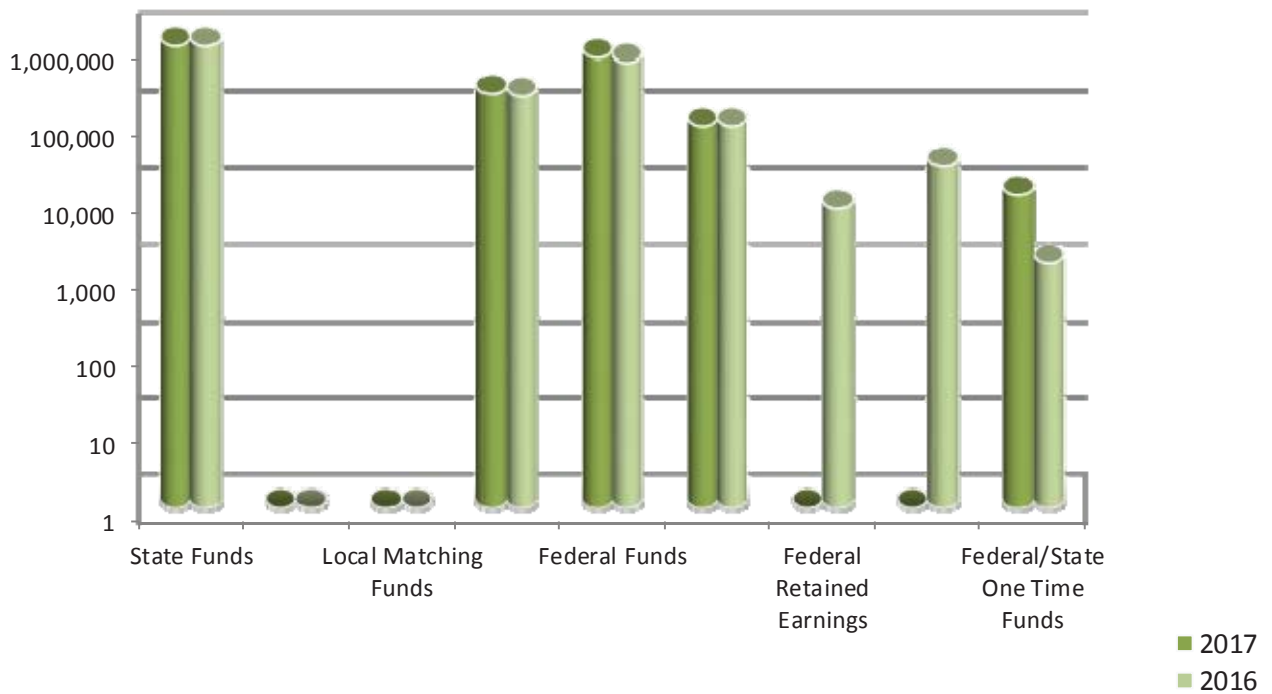
## Mental Health Services Revenue FY 2017 vs. FY 2016



### Developmental Services Revenue 2017 vs. 2016



### Substance Abuse Services Revenue 2017 vs. 2016



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- Basic Financial Statements -

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MIDDLE PENINSULA-NORTHERN NECK COMMUNITY SERVICES BOARD

Statement of Net Position  
At June 30, 2017  
(With Comparative Totals for 2016)

	<u>2017</u>	<u>2016</u>
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
<b>Current Assets:</b>		
Cash and cash equivalents	\$ 4,495,644	\$ 4,547,116
Accounts receivable, less allowance for uncollectibles	1,359,349	1,043,149
Accrued revenue	175,353	133,991
Prepaid items	<u>207,410</u>	<u>218,125</u>
Total current assets	\$ <u>6,237,756</u>	\$ <u>5,942,381</u>
<b>Restricted Current Assets:</b>		
Cash and cash equivalents	\$ 125,916	\$ 82,906
Client funds	<u>54,949</u>	<u>50,127</u>
Total restricted current assets	\$ <u>180,865</u>	\$ <u>133,033</u>
<b>Other Assets:</b>		
Net pension asset	\$ <u>1,895,311</u>	\$ <u>2,668,578</u>
<b>Capital Assets:</b>		
Property and equipment, less accumulated depreciation	\$ <u>5,531,095</u>	\$ <u>5,793,181</u>
Total assets	\$ <u>13,845,027</u>	\$ <u>14,537,173</u>
<b>Deferred Outflows of Resources:</b>		
Post measurement date employer pension contributions	\$ 414,272	\$ 700,883
Net difference between projected and actual earnings on plan investments	<u>824,063</u>	<u>-</u>
Total deferred outflows of resources	\$ <u>1,238,335</u>	\$ <u>700,883</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>		
<b>Current Liabilities:</b>		
Accounts payable and accrued expenses	\$ 501,375	\$ 540,889
Deposits and other	50,351	36,488
Compensated absences	1,327,684	1,240,352
Unearned revenue	1,476,319	1,020,566
Long-term debt, current portion	<u>81,159</u>	<u>77,256</u>
Total current liabilities	\$ <u>3,436,888</u>	\$ <u>2,915,551</u>
<b>Current Liabilities Payable from Restricted Current Assets:</b>		
Client funds	\$ 54,949	\$ 50,127
Accounts payable and accrued expenses	37,752	27,384
Security deposits	<u>5,664</u>	<u>6,199</u>
Total current liabilities payable from restricted current assets	\$ <u>98,365</u>	\$ <u>83,710</u>
<b>Long-Term Liabilities:</b>		
Long-term debt, less current portion	\$ <u>152,557</u>	\$ <u>233,717</u>
Total liabilities	\$ <u>3,687,810</u>	\$ <u>3,232,978</u>
<b>Deferred Inflows of Resources:</b>		
Net difference of actual and expected pension asset earnings	\$ -	\$ 1,454,377
Differences between expected and actual experience	<u>856,877</u>	<u>-</u>
Total deferred inflows of resources	<u>856,877</u>	<u>1,454,377</u>
<b>Net Position:</b>		
Net investment in capital assets	\$ 5,297,379	\$ 5,482,208
Restricted	19,497	19,393
Unrestricted	<u>5,221,799</u>	<u>5,049,100</u>
Total net position	\$ <u>10,538,675</u>	\$ <u>10,550,701</u>

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

MIDDLE PENINSULA-NORTHERN NECK COMMUNITY SERVICES BOARD

Statement of Revenues, Expenses and Changes in Net Position  
 Year Ended June 30, 2017  
 (With Comparative Totals for 2016)

	<u>2017</u>	<u>2016</u>
<b>Operating revenues:</b>		
Net patient service revenue	\$ 15,041,388	\$ 14,860,957
<b>Operating expenses:</b>		
Salaries and benefits	\$ 19,269,368	\$ 17,983,088
Staff development	184,206	194,068
Facility	1,324,831	1,340,193
Supplies	528,492	497,971
Travel	428,408	411,998
Contractual and consulting	221,795	375,361
Depreciation	415,848	419,894
Other	919,456	885,189
Total operating expenses	\$ 23,292,404	\$ 22,107,762
<b>Operating income (loss)</b>	\$ (8,251,016)	\$ (7,246,805)
<b>Nonoperating income (expense):</b>		
Appropriations:		
Commonwealth of Virginia	\$ 5,969,051	\$ 5,375,147
Federal government	1,216,244	1,090,868
Local governments	452,686	444,105
Contributions	24,237	14,912
Other	532,844	643,457
Interest income	20,756	20,160
Interest expense	(13,557)	(17,107)
Net nonoperating income (expense)	\$ 8,202,261	\$ 7,571,542
<b>Change in net position</b>	\$ (48,755)	\$ 324,737
<b>Net position, beginning of year, as restated</b>	<u>10,587,430</u>	<u>10,225,964</u>
<b>Net position, end of year</b>	<u>\$ 10,538,675</u>	<u>\$ 10,550,701</u>

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

MIDDLE PENINSULA-NORTHERN NECK COMMUNITY SERVICES BOARD

Statement of Cash Flows  
Year Ended June 30, 2017  
(With Comparative Totals for 2016)

	<u>2017</u>	<u>2016</u>
<b>Cash flows from operating activities:</b>		
Receipts from customers	\$ 15,150,752	\$ 15,624,801
Payments to suppliers	(3,571,519)	(3,965,768)
Payments to and for employees	<u>(19,543,721)</u>	<u>(18,765,422)</u>
Net cash flows provided by (used for) operating activities	<u>\$ (7,964,488)</u>	<u>\$ (7,106,389)</u>
<b>Cash flows from noncapital financing activities:</b>		
Government appropriations	\$ 7,637,981	\$ 6,910,120
Other	<u>541,909</u>	<u>612,676</u>
Net cash flows provided by (used for) noncapital financing activities	<u>\$ 8,179,890</u>	<u>\$ 7,522,796</u>
<b>Cash flows from capital and related financing activities:</b>		
Purchase of capital assets	\$ (153,762)	\$ (470,830)
Disposal of capital assets	-	37,422
Interest payment on long-term debt	(13,601)	(16,925)
Principal payments on long-term debt	<u>(77,257)</u>	<u>(73,546)</u>
Net cash flows provided by (used for) capital and related financing activities	<u>\$ (244,620)</u>	<u>\$ (523,879)</u>
<b>Cash flows from investing activities:</b>		
Interest income	<u>\$ 20,756</u>	<u>\$ 20,160</u>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>\$ (8,462)</b>	<b>\$ (87,312)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b><u>4,630,022</u></b>	<b><u>4,717,334</u></b>
<b>Cash and cash equivalents, end of year</b>	<b><u><u>\$ 4,621,560</u></u></b>	<b><u><u>\$ 4,630,022</u></u></b>
<b>Summary of Cash and Cash Equivalents</b>		
Cash and cash equivalents	\$ 4,495,644	\$ 4,547,116
Cash and cash equivalents - restricted	<u>125,916</u>	<u>82,906</u>
Total	<u><u>\$ 4,621,560</u></u>	<u><u>\$ 4,630,022</u></u>

MIDDLE PENINSULA-NORTHERN NECK COMMUNITY SERVICES BOARD

Statement of Cash Flows  
 Year Ended June 30, 2017 (Continued)  
 (With Comparative Totals for 2016)

	<u>2017</u>	<u>2016</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ (8,251,016)	\$ (7,246,805)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	415,848	419,894
Changes in assets, liabilities and deferred inflows/outflows of resources:		
Accounts receivable and accrued revenue	(346,391)	90,731
Prepaid items	10,715	(218,125)
Net pension asset	773,267	(542,971)
Deferred outflows of resources	(537,452)	(25,093)
Accounts payable and accrued expenses	(39,902)	(43,915)
Deposits and other	64,856	1,052
Compensated absences	87,332	38,981
Unearned revenue	455,755	673,113
Deferred inflows of resources	(597,500)	(253,251)
Net cash flows provided by (used for) operating activities	<u>\$ (7,964,488)</u>	<u>\$ (7,106,389)</u>

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

MIDDLE PENINSULA - NORTHERN NECK COMMUNITY SERVICES BOARD

Notes to Financial Statements  
At June 30, 2017

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**A. Description and Purpose of Organization:**

The Board operates as an agent for the Counties of Essex, Gloucester, King and Queen, King William, Lancaster, Mathews, Middlesex, Northumberland, Richmond, and Westmoreland in the establishment and operation of community mental health, developmental disabilities and substance abuse programs as provided for in Title 37.2 of the *Code of Virginia* (1950), relating to the Virginia Department of Behavioral Health and Developmental Services. In addition, the Board provides a system of community mental health and developmental disabilities and substance abuse services which relate to and are integrated with existing and planned programs.

**B. Financial Reporting Entity:**

For financial reporting purposes, in conformance with GASB Statement 14, The Reporting Entity, as amended by GASB Statement 39, Determining Whether Certain Organizations are Component Units and GASB Statement 61, The Financial Reporting Entity, the Board includes all organizations for which it is considered financially accountable. The component unit included in these financial statements has a year end of June 30.

Blended Component Units:

Blended component units, although legally separate entities are, in substance, part of the Board's operations, and so data from these units are combined with data of the Board. The Board has the following blended component units.

Properties, Inc. is a property holding organization for the Board and is exempt from taxation under the Federal Internal Revenue Code Section 501(c)(3).

Kilmarnock New Horizons, Lively Turning Point and Woodland Pointe have been included as part of the reporting entity. These entities are not-for-profit organizations exempt under Section 501(c)(3) of the Internal Revenue Code, and were organized to own and operate facilities for persons with disabilities.

**C. Deferred Outflows/Inflows of Resources:**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Board has two items that qualify for reporting in this category. One is comprised of contributions to the pension plan made during the current year and subsequent to the net pension liability measurement date, which will be recognized as a reduction of the net pension liability next fiscal year. The others are the difference between expected and actual experience and net difference between projected and actual earnings on pension plan investments. For more detailed information on this item, reference the pension note.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)**

**C. Deferred Outflows/Inflows of Resources: (continued)**

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Board has one type of item that qualifies for reporting in this category. Certain items related to the measurement of the net pension asset 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 this item, reference the pension note.

**D. Basis of Accounting:**

The Board is funded by federal, state, local funds and fees. Its accounting policies are governed by applicable provisions of these grants and applicable pronouncements and publications of the grantors. The Board utilizes the accrual basis of accounting where revenues are recorded when earned and expenses are recorded when due.

**E. Financial Statement Presentation:**

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

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

**F. Enterprise Fund Accounting:**

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

**G. Use of Estimates:**

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

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)**

**H. Cash and Cash Equivalents:**

The Board maintains cash accounts with financial institutions in accordance with the Virginia Security for Public Deposits Act of the *Code of Virginia*. The Act requires financial institutions to meet specific collateralization requirements. Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less from the date of acquisition.

**I. Investments:**

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

**J. Net Patient Service Revenue:**

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

**K. Financial Assistance:**

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

The vast majority of fees collected result from Medicaid billings.

**L. Rental Income:**

Rental income is recognized on a monthly basis pursuant to lease agreements, which generally have terms of three to five years. Rental revenue is reported in other nonoperating income.

**M. Capital Assets:**

Capital assets acquired are recorded at cost. All capital asset purchases of \$5,000 or more and with an estimated useful life of at least one year are capitalized. Donated capital assets are recorded at acquisition value at the time of the gift. Depreciation is provided over the estimated useful life of each class of depreciable assets ranging from 5 to 30 years and is computed using the straight-line method.

Notes to Financial Statements  
At June 30, 2017 (continued)

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)**

**N. Restricted Assets:**

The Board segregates monies held on behalf of third parties and other organizations. Client funds are held in escrow for various participants in Board programs. These funds consist of client bank accounts and cash not recorded in the Board's name.

**O. Compensated Absences:**

Employees are entitled to certain compensated absences based upon length of employment. Paid time off, which includes vacation and certain other compensated absences, vest with the employee. A provision for the estimated liability for these compensated absences has been recorded in the financial statements.

**P. Budgetary Accounting:**

The Board follows these procedures in establishing its budgets:

1. In response to Letters of Notification received from the Virginia Department of Behavioral Health and Developmental Services (the Department), the Board submits a Performance Contract to the Department. This application contains complete budgets for all Core Services.
2. The Board's Performance reports are filed with the Department during the fiscal year, 45 working days after the end of the second and fourth quarters. The final quarterly report is due by August 31 following the end of the fiscal year, unless extended.
3. If any changes are made during the fiscal year in state or federal block grants or local match funds, the Board submits the quarterly reports which reflect these changes in time to be received by the Department by required deadlines.

**Q. Operating and Nonoperating Revenues and Expenses:**

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

**R. Comparative Totals:**

Comparative totals are presented for informational purposes only.



Notes to Financial Statements  
At June 30, 2017 (continued)

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)**

**S. Net Position:**

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

**T. Net Position Flow Assumption:**

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

**U. Pensions:**

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

**NOTE 2 - DEPOSITS AND INVESTMENTS:**

**Deposits:**

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

**Restricted Cash:**

Restricted cash represents funds held for related organizations and client escrow funds. Client escrow funds are not held in the name of the Board.

MIDDLE PENINSULA - NORTHERN NECK COMMUNITY SERVICES BOARD

Notes to Financial Statements  
At June 30, 2017 (continued)

NOTE 2 - DEPOSITS AND INVESTMENTS: (continued)

Investments:

State 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).

Custodial Credit Risk (Investments):

To protect the Board against potential fraud, the Board requires the investment assets of the Board to be secured through third-party custody and safekeeping procedures. Collateralized securities, such as repurchase agreements, shall be purchased using the delivery versus payment procedure.

At June 30, 2017 the Board had some investments in a single financial institution collateral pool as a part of a cash management arrangement with a bank. The investments in the pool are registered in the name of the pool and consist of FDIC insured certificates of deposit and U.S. government backed securities. The Board's investments in the collateral pool at June 30, 2017 were \$3,711,355 or 10.99% of the pool's total value of \$33,765,708. None of the collateral pool was uninsured or uncollateralized at June 30, 2017.

The Board's investments at June 30, 2017 were held in the Board's name by the Board's custodial banks.

Credit Risk of Debt Securities:

The Board's rated debt investments as of June 30, 2017 were rated by Standard and Poor's and the ratings are presented below using Standard and Poor's rating scale.

Rated Debt Investments	Rated Debt Investments' Values				
	Fair Quality Ratings				
	AAAm	AA	A	A1	Unrated
Virginia Local Government Investment Pool	\$ 281,987	\$ -	\$ -	\$ -	\$ -
U.S. Savings Bonds	-	-	-	-	50,040
Chesapeake Bank Collateral Pool	-	-	-	-	3,711,355
<b>Total</b>	<b>\$ 281,987</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 3,761,395</b>

MIDDLE PENINSULA - NORTHERN NECK COMMUNITY SERVICES BOARD

Notes to Financial Statements  
At June 30, 2017 (continued)

NOTE 2 - DEPOSITS AND INVESTMENTS: (continued)

Concentration of Credit Risk:

At June 30, 2017 the Board's investment policy regarding the concentration of credit risk requires the minimization of investment risk through the monitoring of credit worthiness of banks and investment pools.

The Board had investments at June 30, 2017 with approximately 92% of the total investments in the Chesapeake Bank Collateral Pool.

Interest Rate Risk:

The following details the Board's interest rate risk at June 30, 2017.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than One Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>	<u>10 Years +</u>
Virginia Local Government Investment Pool	\$ 281,987	\$ 281,987	\$ -	\$ -	-
U.S. Savings Bonds	50,040	50,040	-	-	-
Chesapeake Bank Collateral Pool	3,711,355	3,711,355	-	-	-
Total	<u>\$ 4,043,382</u>	<u>\$ 4,043,382</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

External Investment Pools:

The value of the positions in the external investment pools is the same as the value of the pool shares. Investments in the Local Government Investment Pool are not SEC registered, but are monitored by the Treasurer of Virginia and other applicable state agencies. The external investment pools are amortized cost basis portfolios under the provisions of GASB Statement No. 79, there are no withdrawal limitations or restrictions imposed on participants. Investments in other external investment pools are all SEC registered or federal securities.

There were no involuntary participations in external investment pools. The Board does not sponsor any external investment pools.

MIDDLE PENINSULA - NORTHERN NECK COMMUNITY SERVICES BOARD

Notes to Financial Statements  
At June 30, 2017 (continued)

**NOTE 2 - DEPOSITS AND INVESTMENTS: (continued)**

Summary of Cash and Cash Equivalents:

	<u>2017</u>	<u>2016</u>
Cash:		
Petty cash	\$ 3,795	\$ 3,645
Checking	574,383	140,647
Total cash	<u>\$ 578,178</u>	<u>\$ 144,292</u>
Investments	4,043,382	4,485,730
Total cash and cash equivalents	<u><u>\$ 4,621,560</u></u>	<u><u>\$ 4,630,022</u></u>
Allocation:		
Unrestricted	\$ 4,495,644	\$ 4,547,116
Restricted	125,916	82,906
Total allocation	<u><u>\$ 4,621,560</u></u>	<u><u>\$ 4,630,022</u></u>

**NOTE 3 - ACCOUNTS RECEIVABLE AND ACCRUED REVENUE:**

Client Accounts Receivable:

At June 30, 2017 and 2016 the Board had client accounts receivable due, net of estimated uncollectibles of \$648,663 and \$670,272, respectively, from the following primary sources:

	<u>2017</u>	<u>2016</u>
Virginia Department of Medical Assistance Services (Medicaid)	\$ 1,023,928	\$ 864,716
Direct client and third party	224,562	106,639
Other	110,859	71,794
Total	<u><u>\$ 1,359,349</u></u>	<u><u>\$ 1,043,149</u></u>

Other than the amounts due for Medicaid charges, there are no other individually significant sources of client fee receivables.

Accrued Revenue:

	<u>2017</u>	<u>2016</u>
Commonwealth of Virginia - grants	\$ 133,699	\$ 110,895
Federal	-	496
Others	41,654	22,600
Total	<u><u>\$ 175,353</u></u>	<u><u>\$ 133,991</u></u>

MIDDLE PENINSULA - NORTHERN NECK COMMUNITY SERVICES BOARD

Notes to Financial Statements  
At June 30, 2017 (continued)

**NOTE 4 - CAPITAL ASSETS:**

Capital assets consist of the following:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 763,983	\$ -	\$ -	\$ 763,983
Total capital assets not being depreciated	<u>\$ 763,983</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 763,983</u>
Capital assets being depreciated:				
Buildings	\$ 6,346,194	\$ -	\$ -	\$ 6,346,194
Vehicles	2,216,130	24,428	34,072	2,206,486
Furniture, equipment and software	835,653	129,334	-	964,987
Total capital assets being depreciated	<u>\$ 9,397,977</u>	<u>\$ 153,762</u>	<u>\$ 34,072</u>	<u>\$ 9,517,667</u>
Accumulated depreciation				
Buildings	\$ 1,930,114	\$ 199,481	\$ -	\$ 2,129,595
Vehicles	1,815,078	153,074	34,072	1,934,080
Furniture, equipment and software	623,587	63,293	-	686,880
Total accumulated depreciation	<u>\$ 4,368,779</u>	<u>\$ 415,848</u>	<u>\$ 34,072</u>	<u>\$ 4,750,555</u>
Net capital assets being depreciated	<u>\$ 5,029,198</u>	<u>\$ (262,086)</u>	<u>\$ -</u>	<u>\$ 4,767,112</u>
Net capital assets	<u><u>\$ 5,793,181</u></u>	<u><u>\$ (262,086)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 5,531,095</u></u>

Total depreciation expense was \$415,848 for 2017 and \$419,894 for 2016.

**NOTE 5 - OPERATING LEASE COMMITMENTS:**

The Board leases office space and other facilities from various lessors. The lease terms range from monthly to ten years. All leases are subject to availability of funds and are cancelable within 60 days.

Total rent expense for the year ended June 30, 2017, exclusive of intercompany payments of \$336,138, totaled \$597,172. Rent expense (net) for 2016 totaled \$584,637.

**NOTE 6 - COMPENSATED ABSENCES:**

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

Board employees earn leave based on length of service. The Board has outstanding accrued leave pay totaling \$1,327,684 at June 30, 2017 and \$1,240,352 at June 30, 2016. Employees are paid their accumulated annual leave up to certain limits. Accrued leave has been reported as a current liability since there is no determination of the amounts which would be used after one year upon termination of employment.

Notes to Financial Statements  
At June 30, 2017 (continued)

**NOTE 7 - PENSION PLAN:**

*Plan Description*

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

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

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>About Plan 1</b> Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p><b>About Plan 2</b> Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p>	<p><b>About the Hybrid Retirement Plan</b> The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members")</p> <ul style="list-style-type: none"> <li>• The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</li> <li>• 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.</li> </ul>

Notes to Financial Statements  
At June 30, 2017 (continued)

NOTE 7 - PENSION PLAN: (continued)

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>About Plan 1 (Cont.)</p>	<p>About Plan 2 (Cont.)</p>	<p>About the Hybrid Retirement Plan (Cont.)</p> <ul style="list-style-type: none"> <li>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.</li> </ul>
<p><b>Eligible Members</b> Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p><b>Hybrid Opt-In Election</b> VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p><b>Eligible Members</b> Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p><b>Hybrid Opt-In Election</b> Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p><b>Eligible Members</b> Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> <li>Political subdivision employees*</li> <li>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.</li> </ul> <p><b>*Non-Eligible Members</b> Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> <li>Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.</li> </ul>

Notes to Financial Statements  
At June 30, 2017 (continued)

NOTE 7 - PENSION PLAN: (continued)

*Plan Description (Continued)*

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



Notes to Financial Statements  
At June 30, 2017 (continued)

**NOTE 7 - PENSION PLAN: (continued)**

*Plan Description (Continued)*

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

Notes to Financial Statements  
At June 30, 2017 (continued)

NOTE 7 - PENSION PLAN: (continued)

*Plan Description (Continued)*

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

Notes to Financial Statements  
At June 30, 2017 (continued)

NOTE 7 - PENSION PLAN: (continued)

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Vesting (Cont.)</p>	<p>Vesting (Cont.)</p>	<p>Vesting (Cont.) <u>Defined Contributions Component: (Cont.)</u> Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> <li>• After two years, a member is 50% vested and may withdraw 50% of employer contributions.</li> <li>• After three years, a member is 75% vested and may withdraw 75% of employer contributions.</li> <li>• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.</li> </ul> <p>Distribution is not required by law until age 70½.</p>
<p><b>Calculating the Benefit</b> The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>	<p><b>Calculating the Benefit</b> See definition under Plan 1.</p>	<p><b>Calculating the Benefit</b> <u>Defined Benefit Component:</u> See definition under Plan 1.</p> <p><u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>

MIDDLE PENINSULA - NORTHERN NECK COMMUNITY SERVICES BOARD

Notes to Financial Statements  
At June 30, 2017 (continued)

NOTE 7 - PENSION PLAN: (continued)

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Average Final Compensation</b> A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p><b>Average Final Compensation</b> A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p><b>Average Final Compensation</b> Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p><b>Service Retirement Multiplier</b> <b>VRS:</b> The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.</p> <p><b>Sheriffs and regional jail superintendents:</b> The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.</p> <p><b>Political subdivision hazardous duty employees:</b> The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.</p>	<p><b>Service Retirement Multiplier</b> <b>VRS:</b> Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p> <p><b>Sheriffs and regional jail superintendents:</b> Same as Plan 1.</p> <p><b>Political subdivision hazardous duty employees:</b> Same as Plan 1.</p>	<p><b>Service Retirement Multiplier</b> <b>Defined Benefit Component:</b> <b>VRS:</b> The retirement multiplier for the defined benefit component is 1.00%.</p> <p>For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p> <p><b>Sheriffs and regional jail superintendents:</b> Not applicable.</p> <p><b>Political subdivision hazardous duty employees:</b> Not applicable.</p> <p><b>Defined Contribution Component:</b> Not applicable.</p>
<p><b>Normal Retirement Age</b> <b>VRS:</b> Age 65.</p> <p><b>Political subdivisions hazardous duty employees:</b> Age 60.</p>	<p><b>Normal Retirement Age</b> <b>VRS:</b> Normal Social Security retirement age.</p> <p><b>Political subdivisions hazardous duty employees:</b> Same as Plan 1.</p>	<p><b>Normal Retirement Age</b> <b>Defined Benefit Component:</b> <b>VRS:</b> Same as Plan 2.</p> <p><b>Political subdivisions hazardous duty employees:</b> Not applicable.</p> <p><b>Defined Contribution Component:</b> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

MIDDLE PENINSULA - NORTHERN NECK COMMUNITY SERVICES BOARD

Notes to Financial Statements  
At June 30, 2017 (continued)

NOTE 7 - PENSION PLAN: (continued)

*Plan Description (Continued)*

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

MIDDLE PENINSULA - NORTHERN NECK COMMUNITY SERVICES BOARD

Notes to Financial Statements  
At June 30, 2017 (continued)

NOTE 7 - PENSION PLAN: (continued)

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b> The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><b><u>Eligibility:</u></b> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><b><u>Exceptions to COLA Effective Dates:</u></b> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> <li>• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.</li> <li>• The member retires on disability.</li> </ul>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b> The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><b><u>Eligibility:</u></b> Same as Plan 1.</p> <p><b><u>Exceptions to COLA Effective Dates:</u></b> Same as Plan 1.</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement</b> <b><u>Defined Benefit Component:</u></b> Same as Plan 2.</p> <p><b><u>Defined Contribution Component:</u></b> Not applicable.</p> <p><b><u>Eligibility:</u></b> Same as Plan 1 and Plan 2.</p> <p><b><u>Exceptions to COLA Effective Dates:</u></b> Same as Plan 1 and Plan 2.</p>

MIDDLE PENINSULA - NORTHERN NECK COMMUNITY SERVICES BOARD

Notes to Financial Statements  
At June 30, 2017 (continued)

NOTE 7 - PENSION PLAN: (continued)

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</b></p> <p><u>Exceptions to COLA Effective Dates: (Cont.)</u></p> <ul style="list-style-type: none"> <li>• The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).</li> <li>• 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.</li> <li>• 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.</li> </ul>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</b></p> <p><u>Exceptions to COLA Effective Dates: (Cont.)</u></p> <p>Same as Plan 1.</p>	<p><b>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</b></p> <p><u>Exceptions to COLA Effective Dates: (Cont.)</u></p> <p>Same as Plan 1 and Plan 2.</p>
<p><b>Disability Coverage</b> Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p>	<p><b>Disability Coverage</b> Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p>	<p><b>Disability Coverage</b> Employees of political subdivisions (including Plan 1 and Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</p>

MIDDLE PENINSULA - NORTHERN NECK COMMUNITY SERVICES BOARD

Notes to Financial Statements  
At June 30, 2017 (continued)

NOTE 7 - PENSION PLAN: (continued)

*Plan Description (Continued)*

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p><b>Disability Coverage (Cont.)</b> VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p><b>Disability Coverage (Cont.)</b> VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p><b>Disability Coverage (Cont.)</b> Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>
<p><b>Purchase of Prior Service</b> Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.</p>	<p><b>Purchase of Prior Service</b> Same as Plan 1.</p>	<p><b>Purchase of Prior Service</b> <u><b>Defined Benefit Component:</b></u> Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> <li>• Hybrid Retirement Plan members are ineligible for ported service.</li> <li>• The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.</li> <li>• 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.</li> </ul> <p><u><b>Defined Contribution Component:</b></u> Not applicable.</p>

*Pension Plan Data*

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2016-annual-report-pdf>, or by writing to the System’s Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.



MIDDLE PENINSULA - NORTHERN NECK COMMUNITY SERVICES BOARD

Notes to Financial Statements  
At June 30, 2017 (continued)

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**NOTE 7 - PENSION PLAN: (continued)**

*Employees Covered by Benefit Terms*

As of the June 30, 2015 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	93
Inactive members:	
Vested inactive members	52
Non-vested inactive members	118
Inactive members active elsewhere in VRS	99
Total inactive members	<u>269</u>
Active members	<u>360</u>
Total covered employees	<u><u>722</u></u>

*Contributions*

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

The Board's contractually required contribution rate for the year ended June 30, 2017 was 3.11% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Board were \$414,272 and \$700,883 for the years ended June 30, 2017 and June 30, 2016, respectively.

*Net Pension Asset*

The Board's net pension asset was measured as of June 30, 2016. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

*Actuarial Assumptions - General Employees*

The total pension liability for General Employees in the Board's Retirement Plan was based on an actuarial valuation as of June 30, 2015, 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, 2016.

Notes to Financial Statements  
At June 30, 2017 (continued)

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NOTE 7 - PENSION PLAN: (continued)

*Actuarial Assumptions - General Employees (Continued)*

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

The actuarial assumptions used in the June 30, 2015 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

Notes to Financial Statements  
At June 30, 2017 (continued)

**NOTE 7 - PENSION PLAN: (continued)***Actuarial Assumptions - General Employees (Continued)*

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

*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:

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
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	<u>100.00%</u>		<u>5.83%</u>
		Inflation	<u>2.50%</u>
		*Expected arithmetic nominal return	<u>8.33%</u>

\* 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%.

MIDDLE PENINSULA - NORTHERN NECK COMMUNITY SERVICES BOARD

Notes to Financial Statements  
At June 30, 2017 (continued)

**NOTE 7 - PENSION PLAN: (continued)**

*Discount Rate*

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for Middle Peninsula-Northern Neck Community Services Board Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 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 (Asset) (a) - (b)
Balances at June 30, 2015	\$ 27,649,511	\$ 30,318,089	\$ (2,668,578)
Changes for the year:			
Service cost	\$ 1,168,349	\$ -	\$ 1,168,349
Interest	1,903,960	-	1,903,960
Differences between expected and actual experience	(482,108)	-	(482,108)
Contributions - employer	-	677,438	(677,438)
Contributions - employee	-	610,175	(610,175)
Net investment income	-	547,979	(547,979)
Benefit payments, including refunds of employee contributions	(900,166)	(900,166)	-
Administrative expenses	-	(18,429)	18,429
Other changes	-	(229)	229
Net changes	<u>\$ 1,690,035</u>	<u>\$ 916,768</u>	<u>\$ 773,267</u>
Balances at June 30, 2016	<u>\$ 29,339,546</u>	<u>\$ 31,234,857</u>	<u>\$ (1,895,311)</u>

MIDDLE PENINSULA - NORTHERN NECK COMMUNITY SERVICES BOARD

Notes to Financial Statements  
At June 30, 2017 (continued)

**NOTE 7 - PENSION PLAN: (continued)**

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

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

	Rate		
	1% Decrease (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
Net Pension Liability (Asset)    \$	2,382,017	\$ (1,895,311)	\$ (5,405,516)

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

For the year ended June 30, 2017, the Board recognized pension expense of \$29,142.

At June 30, 2017, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 856,877
Net difference between projected and actual earnings on pension plan investments	824,063	-
Employer contributions subsequent to the measurement date	414,272	-
<b>Total</b>	<b>\$ 1,238,335</b>	<b>\$ 856,877</b>

\$414,272 reported as deferred outflows of resources related to pensions resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Asset in the fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30	
2018	\$ (316,476)
2019	(316,476)
2020	301,243
2021	298,895
2022	-
Thereafter	-

MIDDLE PENINSULA - NORTHERN NECK COMMUNITY SERVICES BOARD

Notes to Financial Statements  
At June 30, 2017 (continued)

**NOTE 8 - UNEARNED REVENUE:**

Unearned revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Unearned revenue is comprised of the following:

<u>Unearned Revenue</u>	<u>2017</u>	<u>2016</u>
Unexpended state grant funds	\$ 1,369,064	\$ 976,688
Unexpended restricted contributions	107,255	43,878
Total	<u>\$ 1,476,319</u>	<u>\$ 1,020,566</u>

**NOTE 9 - RISK MANAGEMENT:**

The Board participates in the Commonwealth of Virginia Risk Management Pool for general, professional liability, and director and officers' liability coverage which have \$2,000,000 coverage limits. Other insurance coverage for property, workers' compensation, crime, dishonesty and related coverage are purchased from a commercial insurance carrier. Coverage for these items varies from stated property values to \$2,000,000. There are no surety bonds for directors. There have been no settlements in excess of insurance coverages for the past three years. The primary risks of loss are generally confined to co-insurance and deductible amounts.

**NOTE 10 - LONG-TERM OBLIGATIONS:**

Summary of Changes in Long-Term Obligations:

	<u>Mortgages Payable</u>	<u>Loan Payable</u>	<u>Total</u>
Balance at July 1, 2016	\$ 278,111	\$ 32,862	\$ 310,973
Add: Issuances/additions	-	-	-
Deduct: Retirements	(69,280)	(7,977)	(77,257)
Balance at June 30, 2017	<u>\$ 208,831</u>	<u>\$ 24,885</u>	<u>\$ 233,716</u>

MIDDLE PENINSULA - NORTHERN NECK COMMUNITY SERVICES BOARD

Notes to Financial Statements  
At June 30, 2017 (continued)

**NOTE 10 - LONG-TERM OBLIGATIONS: (continued)**

Long-term obligations consist of the following:

	<u>Balance</u>	<u>Current Portion</u>
Chesapeake National Bank, payable in monthly installments of \$1,039, plus interest at variable rates through April, 2021, secured by a Deed of Trust on property located in Gloucester, Virginia.	\$ 34,939	\$ 8,669
Chesapeake Bank, original amount of \$720,000, payable in monthly payments of \$5,994, interest at 5.32%, secured by property located in Gloucester County, Virginia, matures January 26, 2020.	<u>173,892</u>	<u>64,229</u>
Total mortgages payable	<u>\$ 208,831</u>	<u>\$ 72,898</u>
USDA loan, original amount of \$41,200, payable in monthly payments of \$750, interest of 3.50%, matures May 11, 2020.	<u>\$ 24,885</u>	<u>\$ 8,261</u>
Total long-term obligations	<u><u>\$ 233,716</u></u>	<u><u>\$ 81,159</u></u>

Annual requirements to amortize long-term debt at current interest rates are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 81,159	\$ 9,525
2019	85,262	5,421
2020	59,303	1,353
2021	<u>7,992</u>	<u>129</u>
Total	<u><u>\$ 233,716</u></u>	<u><u>\$ 16,428</u></u>

The Board has no federal arbitrage liability.

MIDDLE PENINSULA - NORTHERN NECK COMMUNITY SERVICES BOARD

Notes to Financial Statements  
At June 30, 2017 (continued)

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**NOTE 11 - PARTICIPANT LOCALITY CONTRIBUTIONS:**

The participating localities (counties) appropriated the following amounts to the Board:

	<u>2017</u>	<u>2016</u>
Essex	\$ 34,927	\$ 33,530
Gloucester	117,259	116,859
King and Queen	22,206	21,321
King William	50,326	50,326
Lancaster	37,848	37,846
Mathews	30,874	30,874
Middlesex	35,842	32,911
Northumberland	42,161	42,161
Richmond	25,000	23,500
Westmoreland	56,243	54,777
Total	<u>\$ 452,686</u>	<u>\$ 444,105</u>

**NOTE 12 - NET PATIENT SERVICE REVENUE SOURCES:**

Net patient service revenues were from the following sources:

	<u>2017</u>	<u>2016</u>
Medicaid	\$ 13,522,400	\$ 13,566,206
Direct client and third party	1,114,203	819,948
Other	404,785	474,803
Total	<u>\$ 15,041,388</u>	<u>\$ 14,860,957</u>

**NOTE 13 - COMMITMENTS AND CONTINGENCIES:**

The Board participates in federal assistance programs which are subject to audit by the grantor agencies. The Board believes that it is in compliance with applicable grant requirements, and any disallowances of costs by grantor agencies would not be material.

**NOTE 14 - LINE OF CREDIT:**

The Board has a line of credit with Chesapeake Bank in the amount of \$3,000,000. No draws were made on the line of credit during fiscal year 2017.



MIDDLE PENINSULA - NORTHERN NECK COMMUNITY SERVICES BOARD

Notes to Financial Statements  
At June 30, 2017 (continued)

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**NOTE 15 - RESTRICTED NET POSITION:**

Restricted net position consists of cash balances less liabilities payable from such funds for component unit organizations. These funds are restricted for the operation and maintenance of the properties, and these funds cannot be accessed by the Board without approval from the U. S. Department of Housing and Urban Development.

**NOTE 16 - UPCOMING PRONOUNCEMENTS:**

Statement No. 81, Irrevocable Split-Interest Agreements, improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

Statement No. 87, Leases, increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Management is currently evaluating the impact these standards will have on the financial statements when adopted.

**NOTE 17 - NET POSITION RESTATEMENT:**

Balances as of June 30, 2017 were restated as follows:

Net Position as reported at June 30, 2016	\$	10,550,701
Restatement for Woodland Pointe		<u>36,729</u>
Net Position as restated at June 30, 2016	\$	<u><u>10,587,430</u></u>

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- Required Supplementary Information -

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MIDDLE PENINSULA-NORTHERN NECK COMMUNITY SERVICES BOARD

Schedule of Changes in Net Pension Asset and Related Ratios  
For the Years Ended June 30, 2016 through June 30, 2014

	2016	2015	2014
<b>Total pension liability</b>			
Service cost	\$ 1,168,349	\$ 1,201,394	\$ 1,269,861
Interest	1,903,960	1,814,479	1,654,937
Changes of benefit terms	-	-	-
Differences between expected and actual experience	(482,108)	(944,974)	-
Changes in assumptions	-	-	-
Benefit payments, including refunds of employee contributions	(900,166)	(685,020)	(606,247)
<b>Net change in total pension liability</b>	<b>\$ 1,690,035</b>	<b>\$ 1,385,879</b>	<b>\$ 2,318,551</b>
<b>Total pension liability - beginning</b>	<b>27,649,511</b>	<b>26,263,632</b>	<b>23,945,081</b>
<b>Total pension liability - ending (a)</b>	<b>\$ 29,339,546</b>	<b>\$ 27,649,511</b>	<b>\$ 26,263,632</b>
<b>Plan fiduciary net position</b>			
Contributions - employer	\$ 677,438	\$ 666,450	\$ 924,133
Contributions - employee	610,175	636,928	606,235
Net investment income	547,979	1,328,073	3,822,539
Benefit payments, including refunds of employee contributions	(900,166)	(685,020)	(606,247)
Administrative expense	(18,429)	(17,298)	(19,602)
Other	(229)	(283)	201
<b>Net change in plan fiduciary net position</b>	<b>\$ 916,768</b>	<b>\$ 1,928,850</b>	<b>\$ 4,727,259</b>
<b>Plan fiduciary net position - beginning</b>	<b>30,318,089</b>	<b>28,389,239</b>	<b>23,661,980</b>
<b>Plan fiduciary net position - ending (b)</b>	<b>\$ 31,234,857</b>	<b>\$ 30,318,089</b>	<b>\$ 28,389,239</b>
<b>Board's net pension liability (asset) - ending (a) - (b)</b>	<b>\$ (1,895,311)</b>	<b>\$ (2,668,578)</b>	<b>\$ (2,125,607)</b>
<b>Plan fiduciary net position as a percentage of the total pension liability</b>	106.46%	109.65%	108.09%
<b>Covered payroll</b>	<b>\$ 12,449,072</b>	<b>\$ 12,003,383</b>	<b>\$ 12,097,480</b>
<b>Board's net pension liability (asset) as a percentage of covered payroll</b>	-15.22%	-22.23%	-17.57%

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

MIDDLE PENINSULA-NORTHERN NECK COMMUNITY SERVICES BOARD

Schedule of Employer Contributions  
For the Years Ended June 30, 2008 through June 30, 2017

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2017	\$ 414,272	\$ 414,272	\$ -	\$ 13,320,650	3.11%
2016	700,883	700,883	-	12,449,072	5.63%
2015	675,790	675,790	-	12,003,383	5.63%
2014	924,248	924,248	-	12,097,480	7.64%
2013	898,674	898,674	-	11,762,747	7.64%
2012	649,567	649,567	-	11,788,876	5.51%
2011	606,068	606,068	-	10,999,427	5.51%
2010	484,832	484,832	-	10,381,832	4.67%
2009	430,103	430,103	-	9,209,920	4.67%
2008	229,231	229,231	-	8,128,741	2.82%

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

MIDDLE PENINSULA-NORTHERN NECK COMMUNITY SERVICES BOARD

Notes to Required Supplementary Information  
Year Ended June 30, 2017

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**Changes of benefit terms** - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2016 is not material.

**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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- Other Supplementary Information -  
*Combining Financial Statements*

MIDDLE PENINSULA-NORTHERN NECK COMMUNITY SERVICES BOARD

Combining Statement of Net Position  
At June 30, 2017

	Middle Peninsula Northern Neck Community Services Board	Properties Inc.	Kilmarnock New Horizons
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>			
<b>Current Assets:</b>			
Cash and cash equivalents	\$ 3,727,417	\$ 768,227	\$ -
Accounts receivable, less allowance for uncollectibles	1,358,978	51,556	-
Accrued revenue	175,353	-	-
Prepaid items	207,410	-	-
Total current assets	<u>\$ 5,469,158</u>	<u>\$ 819,783</u>	<u>\$ -</u>
<b>Restricted Current Assets:</b>			
Cash and cash equivalents	\$ -	\$ -	\$ 32,852
Client funds	54,949	-	-
Total restricted current assets	<u>\$ 54,949</u>	<u>\$ -</u>	<u>\$ 32,852</u>
<b>Other Assets:</b>			
Net pension asset	\$ 1,895,311	\$ -	\$ -
<b>Capital Assets:</b>			
Property and equipment, less accumulated depreciation	\$ 1,568,535	\$ 1,665,814	\$ 294,343
Total assets	<u>\$ 8,987,953</u>	<u>\$ 2,485,597</u>	<u>\$ 327,195</u>
<b>Deferred Outflows of Resources:</b>			
Post measurement date employer pension contributions	\$ 414,272	\$ -	\$ -
Net difference between projected and actual earning on plan investments	824,063	-	-
Total deferred outflows of resources	<u>\$ 1,238,335</u>	<u>\$ -</u>	<u>\$ -</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>			
<b>Current Liabilities:</b>			
Accounts payable and accrued expenses	\$ 501,238	\$ 137	\$ -
Deposits and other	101,907	-	-
Compensated absences	1,327,684	-	-
Unearned revenue	1,476,319	-	-
Long-term debt, current portion	8,261	72,898	-
Total current liabilities	<u>\$ 3,415,409</u>	<u>\$ 73,035</u>	<u>\$ -</u>
<b>Current Liabilities Payable from Restricted Current Assets:</b>			
Client funds	\$ 54,949	\$ -	\$ -
Accounts payable and accrued expenses	-	-	11,728
Security deposits	-	-	1,627
Total current liabilities payable from restricted current assets	<u>\$ 54,949</u>	<u>\$ -</u>	<u>\$ 13,355</u>
<b>Long-Term Liabilities:</b>			
Long-term debt, less current portion	\$ 16,624	\$ 135,933	\$ -
Total liabilities	<u>\$ 3,486,982</u>	<u>\$ 208,968</u>	<u>\$ 13,355</u>
<b>Deferred Inflows of Resources:</b>			
Differences between expected and actual experience	\$ 856,877	\$ -	\$ -
<b>Net Position:</b>			
Net investment in capital assets	\$ 1,543,650	\$ 1,456,983	\$ 294,343
Restricted	-	-	19,497
Unrestricted	4,338,779	819,646	-
Total net position	<u>\$ 5,882,429</u>	<u>\$ 2,276,629</u>	<u>\$ 313,840</u>

Lively Turning Point	Woodland Pointe	Inter- Company and Other Eliminations	Total
\$ -	\$ -	\$ -	\$ 4,495,644
-	371	(51,556)	1,359,349
-	-	-	175,353
-	-	-	207,410
<u>\$ -</u>	<u>\$ 371</u>	<u>\$ (51,556)</u>	<u>\$ 6,237,756</u>
\$ 7,115	\$ 85,949	\$ -	\$ 125,916
-	-	-	54,949
<u>\$ 7,115</u>	<u>\$ 85,949</u>	<u>\$ -</u>	<u>\$ 180,865</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,895,311</u>
\$ 148,141	\$ 1,854,262	\$ -	\$ 5,531,095
<u>\$ 155,256</u>	<u>\$ 1,940,582</u>	<u>\$ (51,556)</u>	<u>\$ 13,845,027</u>
\$ -	\$ -	\$ -	\$ 414,272
-	-	-	824,063
<u>-</u>	<u>-</u>	<u>-</u>	<u>1,238,335</u>
\$ -	\$ -	\$ -	\$ 501,375
-	-	(51,556)	50,351
-	-	-	1,327,684
-	-	-	1,476,319
-	-	-	81,159
<u>\$ -</u>	<u>\$ -</u>	<u>\$ (51,556)</u>	<u>\$ 3,436,888</u>
\$ -	\$ -	\$ -	\$ 54,949
14,037	11,987	-	37,752
<u>1,072</u>	<u>2,965</u>	<u>-</u>	<u>5,664</u>
<u>\$ 15,109</u>	<u>\$ 14,952</u>	<u>\$ -</u>	<u>\$ 98,365</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 152,557</u>
<u>\$ 15,109</u>	<u>\$ 14,952</u>	<u>\$ (51,556)</u>	<u>\$ 3,687,810</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 856,877</u>
\$ 148,141	\$ 1,854,262	\$ -	\$ 5,297,379
-	-	-	19,497
<u>(7,994)</u>	<u>71,368</u>	<u>-</u>	<u>5,221,799</u>
<u>\$ 140,147</u>	<u>\$ 1,925,630</u>	<u>\$ -</u>	<u>\$ 10,538,675</u>

MIDDLE PENINSULA-NORTHERN NECK COMMUNITY SERVICES BOARD

Combining Statement of Revenues, Expenses and Changes in Net Position  
Year Ended June 30, 2017

	Middle Peninsula Northern Neck Community Services Board	Properties Inc.	Kilmarnock New Horizons
<b>Operating revenues:</b>			
Net patient service revenue	\$ 15,041,388	\$ -	\$ -
<b>Operating expenses:</b>			
Salaries and benefits	\$ 19,269,368	\$ -	\$ -
Staff development	184,206	-	-
Facility	1,429,078	120,540	33,123
Supplies	528,492	-	-
Travel	428,408	-	-
Contractual and consulting	218,695	3,100	-
Depreciation	245,059	94,980	19,393
Other	898,884	20,572	-
Total operating expenses	\$ 23,202,190	\$ 239,192	\$ 52,516
<b>Operating income (loss)</b>	\$ (8,160,802)	\$ (239,192)	\$ (52,516)
<b>Nonoperating income (expense):</b>			
Appropriations:			
Commonwealth of Virginia	\$ 5,969,051	\$ -	\$ -
Federal government	1,216,244	-	-
Local governments	452,686	-	-
Contributions	24,237	-	-
Other	424,130	336,763	33,198
Interest income	20,323	352	29
Interest expense	(1,138)	(12,419)	-
Net nonoperating income (expense)	\$ 8,105,533	\$ 324,696	\$ 33,227
<b>Change in net position</b>	\$ (55,269)	\$ 85,504	\$ (19,289)
<b>Net position, beginning of year, as restated</b>	5,937,698	2,191,125	333,129
<b>Net position, end of year</b>	\$ 5,882,429	\$ 2,276,629	\$ 313,840

<u>Lively Turning Point</u>	<u>Woodland Pointe</u>	<u>Inter- Company Eliminations</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 15,041,388
\$ -	\$ -	\$ -	\$ 19,269,368
-	-	-	184,206
32,165	46,063	(336,138)	1,324,831
-	-	-	528,492
-	-	-	428,408
-	-	-	221,795
8,778	47,638	-	415,848
-	-	-	919,456
\$ <u>40,943</u>	\$ <u>93,701</u>	\$ <u>(336,138)</u>	\$ <u>23,292,404</u>
\$ <u>(40,943)</u>	\$ <u>(93,701)</u>	\$ <u>336,138</u>	\$ <u>(8,251,016)</u>
\$ -	\$ -	\$ -	\$ 5,969,051
-	-	-	1,216,244
-	-	-	452,686
-	-	-	24,237
26,304	48,587	(336,138)	532,844
5	47	-	20,756
-	-	-	(13,557)
\$ <u>26,309</u>	\$ <u>48,634</u>	\$ <u>(336,138)</u>	\$ <u>8,202,261</u>
\$ (14,634)	\$ (45,067)	\$ -	\$ (48,755)
<u>154,781</u>	<u>1,970,697</u>	-	<u>10,587,430</u>
\$ <u><u>140,147</u></u>	\$ <u><u>1,925,630</u></u>	\$ <u><u>-</u></u>	\$ <u><u>10,538,675</u></u>

MIDDLE PENINSULA-NORTHERN NECK COMMUNITY SERVICES BOARD

Combining Statement of Cash Flows  
Year Ended June 30, 2017

	Middle Peninsula Northern Neck Community Services Board	Properties Inc.	Kilmarnock New Horizons
<b>Cash flows from operating activities:</b>			
Receipts from customers	\$ 15,150,752	\$ -	\$ -
Payments to suppliers	(3,661,899)	(144,212)	(30,030)
Payments to and for employees	(19,543,721)	-	-
Net cash flows provided by (used for) operating activities	<u>\$ (8,054,868)</u>	<u>\$ (144,212)</u>	<u>\$ (30,030)</u>
<b>Cash flows from noncapital financing activities:</b>			
Government grants	\$ 7,637,981	\$ -	\$ -
Other	448,367	285,205	33,198
Net cash flows provided by (used for) noncapital financing activities	<u>\$ 8,086,348</u>	<u>\$ 285,205</u>	<u>\$ 33,198</u>
<b>Cash flows from capital and related financing activities:</b>			
Purchase of capital assets	\$ (153,762)	\$ -	\$ -
Interest payments on long-term debt	(1,138)	(12,463)	-
Principal payments on long-term debt	(7,978)	(69,279)	-
Net cash flows provided by (used for) capital and related financing activities	<u>\$ (162,878)</u>	<u>\$ (81,742)</u>	<u>\$ -</u>
<b>Cash flows from investing activities:</b>			
Interest income	\$ 20,323	\$ 352	\$ 29
<b>Net increase (decrease) in cash and cash equivalents</b>	<u>\$ (111,075)</u>	<u>\$ 59,603</u>	<u>\$ 3,197</u>
<b>Cash and cash equivalents, beginning of year</b>	<u>3,838,492</u>	<u>708,624</u>	<u>29,655</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 3,727,417</u></u>	<u><u>\$ 768,227</u></u>	<u><u>\$ 32,852</u></u>
<b>Summary of cash and cash equivalents:</b>			
Cash and cash equivalents	\$ 3,727,417	\$ 768,227	\$ -
Cash and cash equivalents - restricted	-	-	32,852
Total	<u><u>\$ 3,727,417</u></u>	<u><u>\$ 768,227</u></u>	<u><u>\$ 32,852</u></u>
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>			
Operating income (loss)	\$ (8,160,802)	\$ (239,192)	\$ (52,516)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	245,059	94,980	19,393
Changes in assets, liabilities and deferred inflows/outflows of resources:			
Accounts receivable and accrued revenue, net	(346,391)	-	-
Prepaid items	10,715	-	-
Net pension asset	773,267	-	-
Deferred outflows of resources	(537,452)	-	-
Accounts payable and accrued expenses	(50,270)	-	3,091
Deposits and other	65,419	-	2
Compensated absences	87,332	-	-
Unearned revenue	455,755	-	-
Deferred inflows of resources	(597,500)	-	-
Net cash flows provided by (used for) operating activities	<u><u>\$ (8,054,868)</u></u>	<u><u>\$ (144,212)</u></u>	<u><u>\$ (30,030)</u></u>

Lively Turning Point	Woodland Pointe	Inter- Company Eliminations	Total
\$ -	\$ -	\$ -	\$ 15,150,752
(30,888)	(40,628)	336,138	(3,571,519)
-	-	-	(19,543,721)
<u>\$ (30,888)</u>	<u>\$ (40,628)</u>	<u>\$ 336,138</u>	<u>\$ (7,964,488)</u>
\$ -	\$ -	\$ -	\$ 7,637,981
26,304	84,973	(336,138)	541,909
<u>\$ 26,304</u>	<u>\$ 84,973</u>	<u>\$ (336,138)</u>	<u>\$ 8,179,890</u>
\$ -	\$ -	\$ -	\$ (153,762)
-	-	-	(13,601)
-	-	-	(77,257)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (244,620)</u>
\$ 5	\$ 47	\$ -	\$ 20,756
\$ (4,579)	\$ 44,392	\$ -	\$ (8,462)
11,694	41,557	-	4,630,022
<u>\$ 7,115</u>	<u>\$ 85,949</u>	<u>\$ -</u>	<u>\$ 4,621,560</u>
\$ -	\$ -	\$ -	\$ 4,495,644
7,115	85,949	-	125,916
<u>\$ 7,115</u>	<u>\$ 85,949</u>	<u>\$ -</u>	<u>\$ 4,621,560</u>
\$ (40,943)	\$ (93,701)	\$ 336,138	\$ (8,251,016)
8,778	47,638	-	415,848
-	-	-	(346,391)
-	-	-	10,715
-	-	-	773,267
-	-	-	(537,452)
1,842	5,435	-	(39,902)
(565)	-	-	64,856
-	-	-	87,332
-	-	-	455,755
-	-	-	(597,500)
<u>\$ (30,888)</u>	<u>\$ (40,628)</u>	<u>\$ 336,138</u>	<u>\$ (7,964,488)</u>

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- Compliance -

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# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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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*

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To the Board of Directors  
Middle Peninsula-Northern Neck Community Services Board  
Saluda, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of Middle Peninsula-Northern Neck Community Services Board, as of and for the year ended June 30, 2017, and the related business-type activities notes to the financial statements, which collectively comprise Middle Peninsula-Northern Neck Community Services Board's basic financial statements and have issued our report thereon dated November 20, 2017.

### *Internal Control over Financial Reporting*

In planning and performing our audit of the financial statements, we considered Middle Peninsula-Northern Neck Community Services Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Middle Peninsula-Northern Neck Community Services Board's internal control. Accordingly, we do not express an opinion on the effectiveness of Middle Peninsula-Northern Neck 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 Middle Peninsula-Northern Neck 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 Middle Peninsula-Northern Neck Community Services Board's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Middle Peninsula-Northern Neck Community Services Board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Robinson, Fawcett, Cox Associates*

Charlottesville, Virginia

November 20, 2017

# ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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

To the Board of Directors  
Middle Peninsula-Northern Neck Community Services Board  
Saluda, Virginia

### Report on Compliance for Each Major Federal Program

We have audited Middle Peninsula-Northern Neck Community Services Board's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Middle Peninsula-Northern Neck Community Services Board's major federal programs for the year ended June 30, 2017. Middle Peninsula-Northern Neck 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.

Middle Peninsula-Northern Neck Community Services Board's basic financial statements include the operations of the component unit organizations Properties, Inc., Kilmarnock New Horizons, Lively Turning Point and Woodland Pointe Apartments, which received \$2,110,424 in federal awards which is not included in the schedule of expenditures of federal awards during the year ended June 30, 2017. Our audit, described below, did not include the operations of the above component units because the component units issue separate financial statements, and audits in compliance with the Uniform Guidance are performed at the component unit level, where applicable.

### *Management's Responsibility*

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

### *Auditors' Responsibility*

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

## *Opinion on Each Major Federal Program*

In our opinion, Middle Peninsula-Northern Neck 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, 2017.

## **Report on Internal Control over Compliance**

Management of Middle Peninsula-Northern Neck 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 Middle Peninsula-Northern Neck Community Services Board's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Middle Peninsula-Northern Neck 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Robinson, Fawcett, Cox Associates*

Charlottesville, Virginia  
November 20, 2017

MIDDLE PENINSULA-NORTHERN NECK COMMUNITY SERVICES BOARD

Schedule of Expenditures of Federal Awards  
Year Ended June 30, 2017

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identification Number	Federal Expenditures
<b>Department of Agriculture:</b>			
Pass-through payments:			
Virginia Department of Agriculture			
Child and Adult Care Food Program	10.558	Not available	\$ 7,815
<b>Department of Health and Human Services:</b>			
Pass-through payments:			
Virginia Department of Behavioral Health and Developmental Services			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	Not available	\$ 777,357
Block Grants for Community Mental Health Services	93.958	Not available	213,897
Medical Assistance Program	93.778	Not available	3,265
Total Department of Health and Human Services			<u>\$ 994,519</u>
<b>Department of Education:</b>			
Pass-through payments:			
Virginia Department of Behavioral Health and Developmental Services			
Special Education - Grants for Infants and Families	84.181	Not available	\$ 213,910
Total Expenditures of Federal Awards			<u>\$ 1,216,244</u>

Notes to Schedule of Expenditures of Federal Awards

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Middle Peninsula-Northern Neck Community Services Board under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards (Uniform Guidance), *Audits of States, Local Governments and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of the Middle Peninsula-Northern Neck Community Services Board, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Middle Peninsula-Northern Neck Community Services Board.

Note B - Summary of Significant Accounting Policies

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and/or OMB Circular A-87, Cost Principles for States, Local and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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

Note C - Subrecipients

No awards were passed through to subrecipients

Note D - De Minimis Cost Rate

The Board did not elect to use the 10-percent de minimis indirect cost rate under Uniform Guidance.

Note E - Loan Balances

The Board has no loan guarantees which are subject to reporting requirements for the current year.

MIDDLE PENINSULA-NORTHERN NECK COMMUNITY SERVICES BOARD

Schedule of Findings and Questioned Costs  
Year Ended June 30, 2017

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**Section I - Summary of Auditors' Results**

**Financial Statements**

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

**Federal Awards**

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)?	No
Identification of major programs:	
<u>CFDA #</u> <u>Name of Federal Program or Cluster</u>	
93.959    Block Grants for Prevention and Treatment of Substance Abuse	
Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee?	Yes

**Section II - Financial Statement Findings**

There are no financial statement findings to report.

**Section III - Federal Award Findings and Questioned Costs**

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



MIDDLE PENINSULA-NORTHERN NECK COMMUNITY SERVICES BOARD

Summary Schedule of Prior Audit Findings  
Year Ended June 30, 2017

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There were no items reported.

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