MIDDLE PENINSULA - NORTHERN NECK

COMMUNITY SERVICES BOARD

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2018

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY CERTIFIED PUBLIC ACCOUNTANTS

CHARLOTTESVILLE ▫ RICHMOND ▫ FREDERICKSBURG ▫ STAUNTON ▫ BLACKSBURG ▫ LOUISA

RFC

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MIDDLE PENINSULA - NORTHERN NECK COMMUNITY SERVICES BOARD

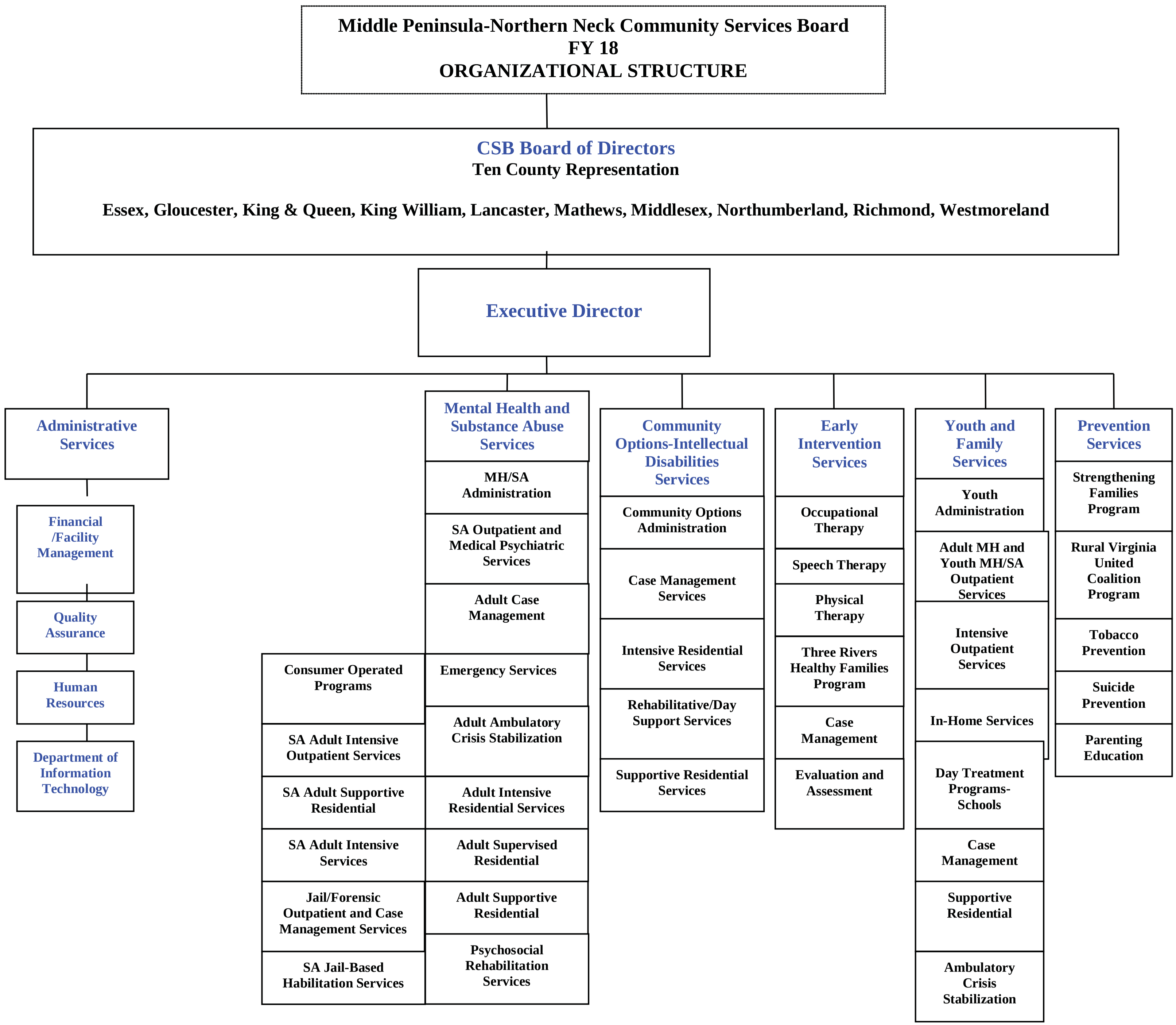
BOARD OF DIRECTORS
At June 30, 2018

Alice Coates, Chair

H. Pratt Haynie, Jr.	Timothy Doss	Dr. Darryl Pirok
Kathryn Knoeller	Stanley Langford	Edith Turner
J. David Parr	Anne Mitchell	Rosalyn Trent

PRINCIPAL MANAGEMENT TEAM

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
Emily Eanes	Director of Youth and Family Services
William F. Wallace	Director of Human Resources
Katherine Phillips	Director of Early Intervention
Cheryl Matteo-Kerney	Director of Prevention Services
Erich Campbell	Director of Information Technology
Scott Britton	Director of Quality Assurance



Middle Peninsula-Northern Neck Community Services Board
FY 18
ORGANIZATIONAL STRUCTURE
CSB Board of Directors
Ten County Representation
Essex, Gloucester, King & Queen, King William, Lancaster, Mathews, Middlesex, Northumberland, Richmond, Westmoreland
Executive Director
Administrative Services
Financial /Facility Management
Quality Assurance
Human Resources
Department of Information Technology
Mental Health and Substance Abuse Services
MH/SA Administration
SA Outpatient and Medical Psychiatric Services
Adult Case Management
Emergency Services
Adult Ambulatory Crisis Stabilization
Adult Intensive Residential Services
Adult Supervised Residential
Adult Supportive Residential
Psychosocial Rehabilitation Services
Consumer Operated Programs
SA Adult Intensive Outpatient Services
SA Adult Supportive Residential
SA Adult Intensive Services
Jail/Forensic Outpatient and Case Management Services
SA Jail-Based Habilitation Services
Community Options-Intellectual Disabilities Services
Community Options Administration
Case Management Services
Intensive Residential Services
Rehabilitative/Day Support Services
Supportive Residential Services
Early Intervention Services
Occupational Therapy
Speech Therapy
Physical Therapy
Three Rivers Healthy Families Program
Case Management
Evaluation and Assessment
Youth and Family Services
Youth Administration
Adult MH and Youth MH/SA Outpatient Services
Intensive Outpatient Services
In-Home Services
Day Treatment Programs-Schools
Case Management
Supportive Residential
Ambulatory Crisis Stabilization
Prevention Services
Strengthening Families Program
Rural Virginia United Coalition Program
Tobacco Prevention
Suicide Prevention
Parenting Education

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, 2018, 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, 2018, and the changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 18 to the financial statements, in 2018, the Board adopted new accounting guidance, GASB Statement Nos. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions and 85 Omnibus 2017.* Our opinion is not modified with respect to this matter.

Restatement of Beginning Balances

As described in Note 18 to the financial statements, in 2018, the Board restated beginning balances to reflect the requirements of GASB Statement No. 75. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules related to pension and OPEB funding on pages 4-12, and 61-67 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and 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* 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 2017 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated November 20, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2018, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Middle Peninsula-Northern Neck Community Services Board's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Middle Peninsula-Northern Neck Community Services Board's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates
Charlottesville, Virginia
October 26, 2018

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, 2018. 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 2018

MPNNCSB's focus in FY 18 included:

1. MPNNCSB was awarded Substance Use Disorder Federal OPT-R Prevention Opioid grant that totaled $162,500 in FY 18.
2. The four year grant, System of Care (total award $617,152), continued into FY 18 for the second year total award of $198,310.
3. MPNNCSB was awarded $379,920 in a Substance Use Disorder Federal OPT-R Treatment grant for Medication Assistance Treatment (MAT).
4. Another Substance Use Disorder Federal OPT-R Recovery grant was awarded in the amount of $15,000 for providing consulting to other CSB's on how to develop consumer run programs.
5. The agency purchased and implemented the new Electronic Health Record software, Credible, in April 2018.
6. Fifteen 2017 vehicles were leased from Enterprise, using the cooperative agreement from another CSB to avoid the cost and time of having the agency perform an RFP. MPNNCSB's fleet is aging and in need of replacement and leasing was an option that other CSBs had also tried.
7. MPNNCSB received $107,500 in State one time Substance Use Disorder funds for consumer supportive employment programming.
8. The Gloucester Mental Health Skill Building office, moved into renovated space at the Puller Center in Saluda which houses Community Options staff. This accounted for saving on a lease and co-locating two different divisions in the same space for the first time.
9. The Same Day Access program, a new way of processing consumers to be seen on the same day they call or come in for services, was in full gear in FY 18 with MTM consultants guiding our work flows and time lines for successful implementation.
10. The PACT program continued with another $750,000 in state funds for the year and the CIT assessment sites were funded with $673,765 in state funds.
11. MPNNCSB closed two Community Options Day Support Programs and Kilmarnock House also was closed due to financial concerns created by the new Waiver Re-Design rates and requirements
12. Properties Inc., which MPNNCSB leases office space and group homes and is affiliated with the CSB, purchased 2 bank buildings to relocate the Warsaw Counseling Center, Charterhouse Day Program and other programs thus consolidating space and resulting in a reduction in lease payments. Properties Inc. is working with USDA to secure the loan for the purchase.
13. Fees were $12,774,420 in FY 18 compared to $15,041,388 in FY 17. This was a 15.07% decrease from prior year mainly from Medicaid. Fees accounted for 58.36% of total revenue.
14. Operating expenses decreased by $525,400 or 2.26% from the prior year.
15. Revenues from the Commonwealth of Virginia increased $450,241 or 7.54% almost entirely in part due to the DBHDS's award of the CIT and PACT grants. Federal funds had an increase of $341,270 or 28.06% due in part to Part C Federal Funds while Local funds increased by $57,318 or 12.66%.

SUMMARY OF OPERATIONS AND CHANGES IN NET POSITION

The change in net position as of June 30, 2018 was ($911,010) as compared to ($48,755) in 2017.

		2018		2017
Operating revenues	$	12,774,420	$	15,041,388
Operating expenses		22,767,004		23,292,404
Operating income (loss)	$	(9,992,584)	$	(8,251,016)
Net nonoperating income		9,081,574		8,202,261
Change in net position	$	(911,010)	$	(48,755)

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, 2018. 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 $8.5M.

A condensed summary of the CSB's Statements of Net Position at June 30, 2018 and 2017 is shown below:

		2018		2017
Assets				
Current assets	$	5,777,206	$	6,237,756
Restricted current assets		200,248		180,865
Capital assets (net of depreciation)		6,640,489		5,531,095
Other assets		4,220,650		1,895,311
Total assets	$	16,838,593	$	13,845,027
Deferred outflows of resources	$	461,260	$	1,238,335
Liabilities				
Current liabilities	$	3,863,613	$	3,436,888
Current liabilities payable from restricted current assets		120,700		98,365
Long-term liabilities		3,158,297		152,557
Total liabilities	$	7,142,610	$	3,687,810
Deferred inflows of resources	$	1,676,578	$	856,877
Net position	$	8,480,665	$	10,538,675

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, 2018 and 2017.

		2018		2017
Cash flows from operating activities	$	(10,315,387)	$	(7,964,478)
Cash flows from noncapital financing activities		9,113,852		8,179,890
Cash flows from capital and related financing activities		337,728		(244,620)
Cash flows from investing activities		38,482		20,756
Net increase (decrease) in cash and cash equivalents	$	(825,325)	$	(8,452)

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).

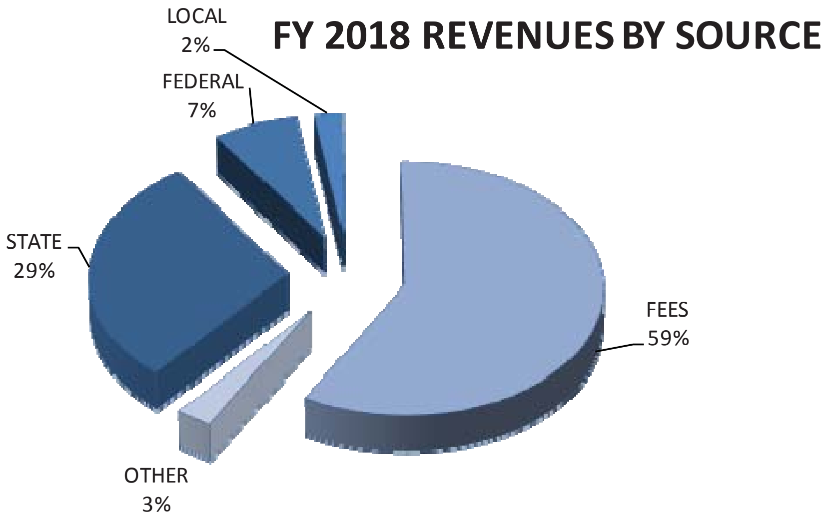
Cash Flows from Noncapital and Related Financing Activities consists of income received primarily as government grants.

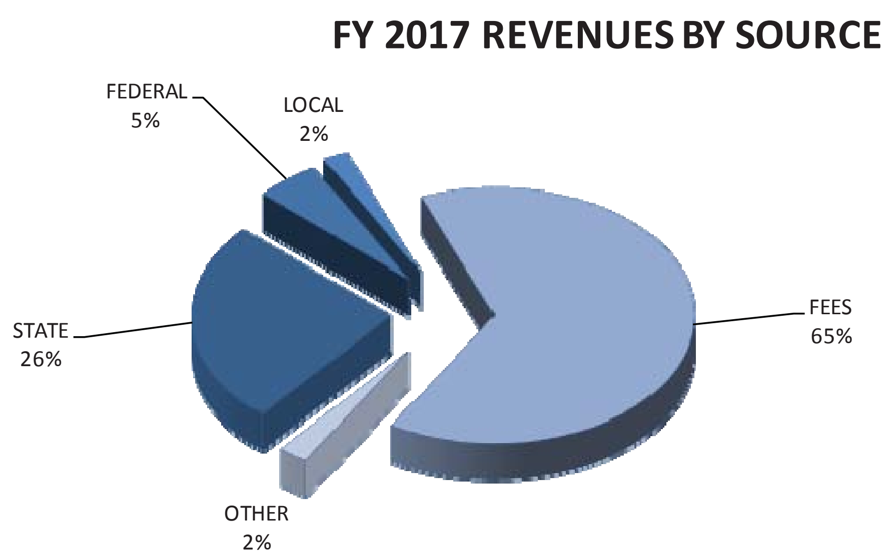
Cash Flows from Capital and Related Financing Activities represents income from acquisition of fixed assets, interest payment on long term debt, principal payments on mortgages and loans payable.

The decrease in cash of $825,325 is due mainly to the decrease of patient service revenue.

REVENUES

The following charts show the major sources and the percentages of operating revenues for the years ended June 30, 2018 and 2017:





REVENUES (continued)

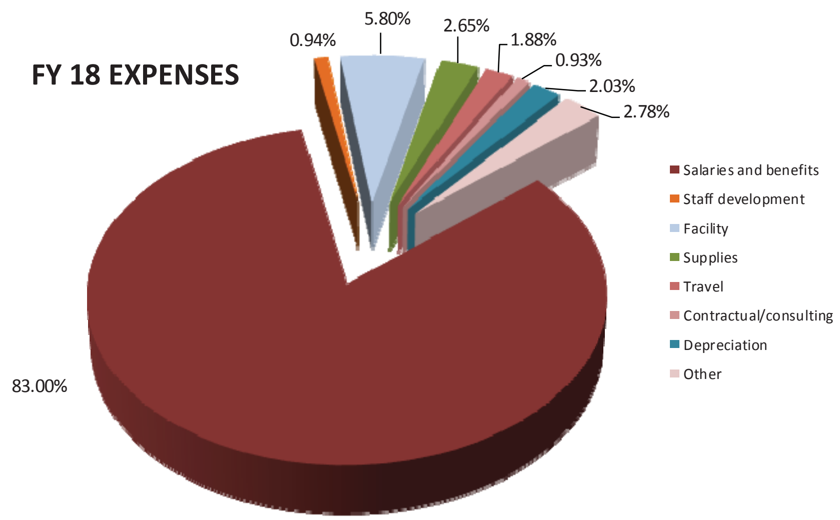
A summary of revenues for the years ended June 30, 2018 and 2017 and the amount and percentage change of 2018 in relation to 2017 are as follows:

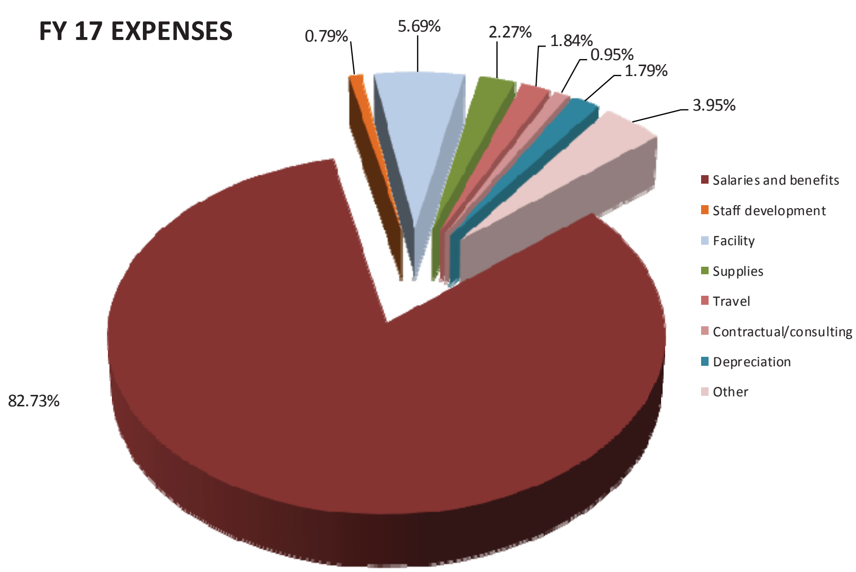
Major Revenue Category Comparison Fiscal Years 2018 and 2017

Revenue		2018	Percent of Total	2017	Percent of Total	Increase (Decrease) from 2017	Percent Increase (Decrease) from 2017
State	$	6,419,292	29.33% $	5,969,051	25.67% $	450,241	7.54%
Federal		1,557,514	7.12%	1,216,244	5.23%	341,270	28.06%
Local		510,004	2.33%	452,686	1.95%	57,318	12.66%
Fees		12,774,420	58.36%	15,041,388	64.67%	(2,266,968)	-15.07%
Other		628,766	2.87%	577,837	2.48%	50,929	8.81%
Total	$	21,889,996	100.01% $	23,257,206	100.00% $	(1,367,210)	42.01%

EXPENSES

The following charts show the expense categories and percentage of operating expenses for the years ended June 30, 2018 and 2017.





EXPENSES (continued)

A summary of operating expenses for the years ended June 30, 2018 and 2017 and the amount and percentage change in 2018 in relation to 2017 are as follows:

Major Operating Expense Category Comparison Fiscal Years 2018 and 2017

Operating Expenses	Expenses 2018	Percent of Total	2017	Percent of Total	Increase (Decrease) from 2017	Percent Increase (Decrease) from 2017
Salaries and benefits	$ 18,896,796	83.00%	$ 19,269,368	82.72%	$ (372,572)	-1.93%
Staff development	213,005	0.94%	184,206	0.79%	28,799	15.63%
Facility	1,320,378	5.80%	1,324,831	5.69%	(4,453)	-0.34%
Supplies	602,195	2.65%	528,492	2.27%	73,703	13.95%
Travel	428,494	1.88%	428,408	1.84%	86	0.02%
Contractual/Consulting	210,715	0.93%	221,795	0.95%	(11,080)	-5.00%
Depreciation	462,185	2.03%	415,848	1.79%	46,337	11.14%
Other	633,236	2.78%	919,456	3.95%	(286,220)	-31.13%
Total	$ 22,767,004	100.01%	$ 23,292,404	100.00%	$ (525,400)	-2.26%

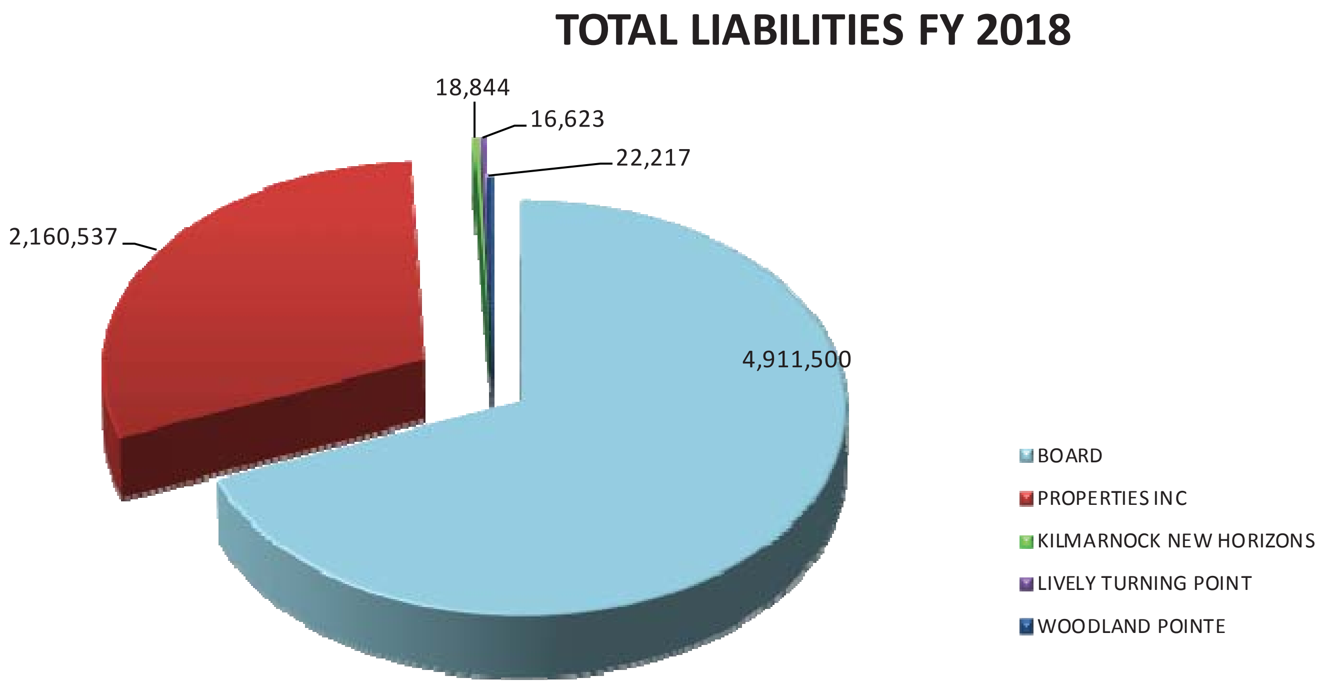
Debt Administration:

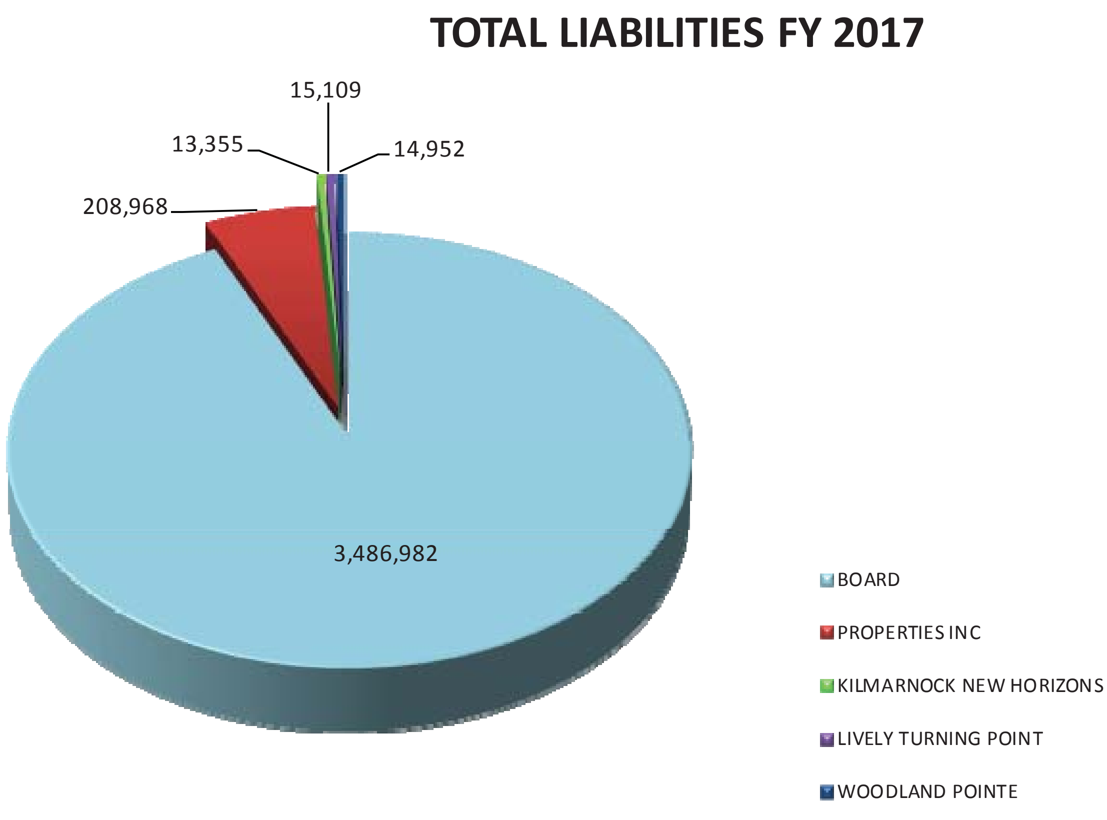
The component units of the organization contribute in varying degrees to the current and long-term debt. For MPNNCSB, current and total liabilities increased by 93.33% for FY 2018. Properties Inc. purchased a new property that required mortgage payable of $2,000,000. Total liabilities for Kilmarnock 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

	FY 2018	Increase (Decrease) from 2017	FY 2017	Percent Increase (Decrease) from 2017
Board	$ 4,911,500	$ 1,424,518	$ 3,486,982	40.85%
Properties Inc.	2,160,537	1,951,569	208,968	933.91%
Kilmarnock New Horizons	18,844	5,489	13,355	41.10%
Lively Turning Point	16,623	1,514	15,109	10.02%
Woodland Pointe	22,217	7,265	14,952	48.59%
Total	$ 7,129,721	$ 3,390,355	$ 3,739,366	90.67%

EXPENSES (continued)



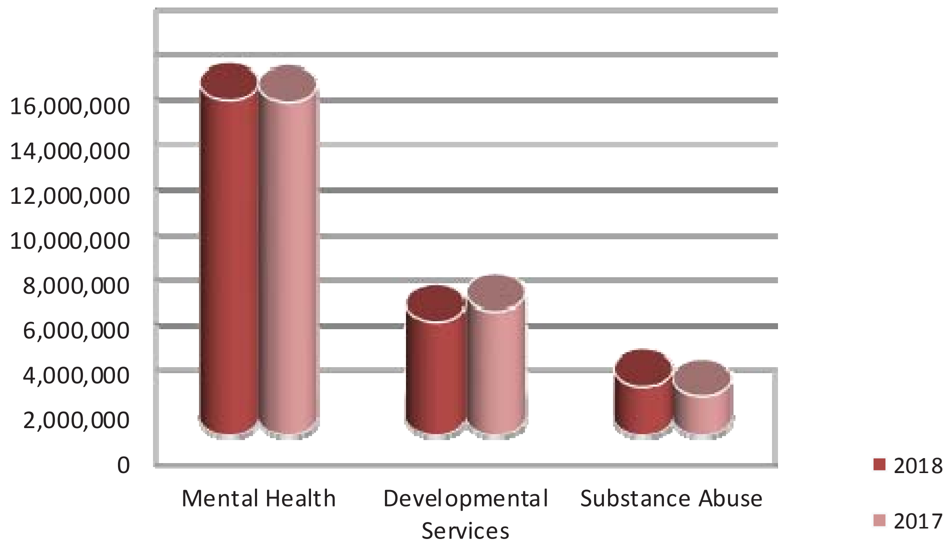


Summary of Revenue and Expenses by Disability (as reported on the Year End Financial Report to the Department of Behavioral Health and Developmental Services):

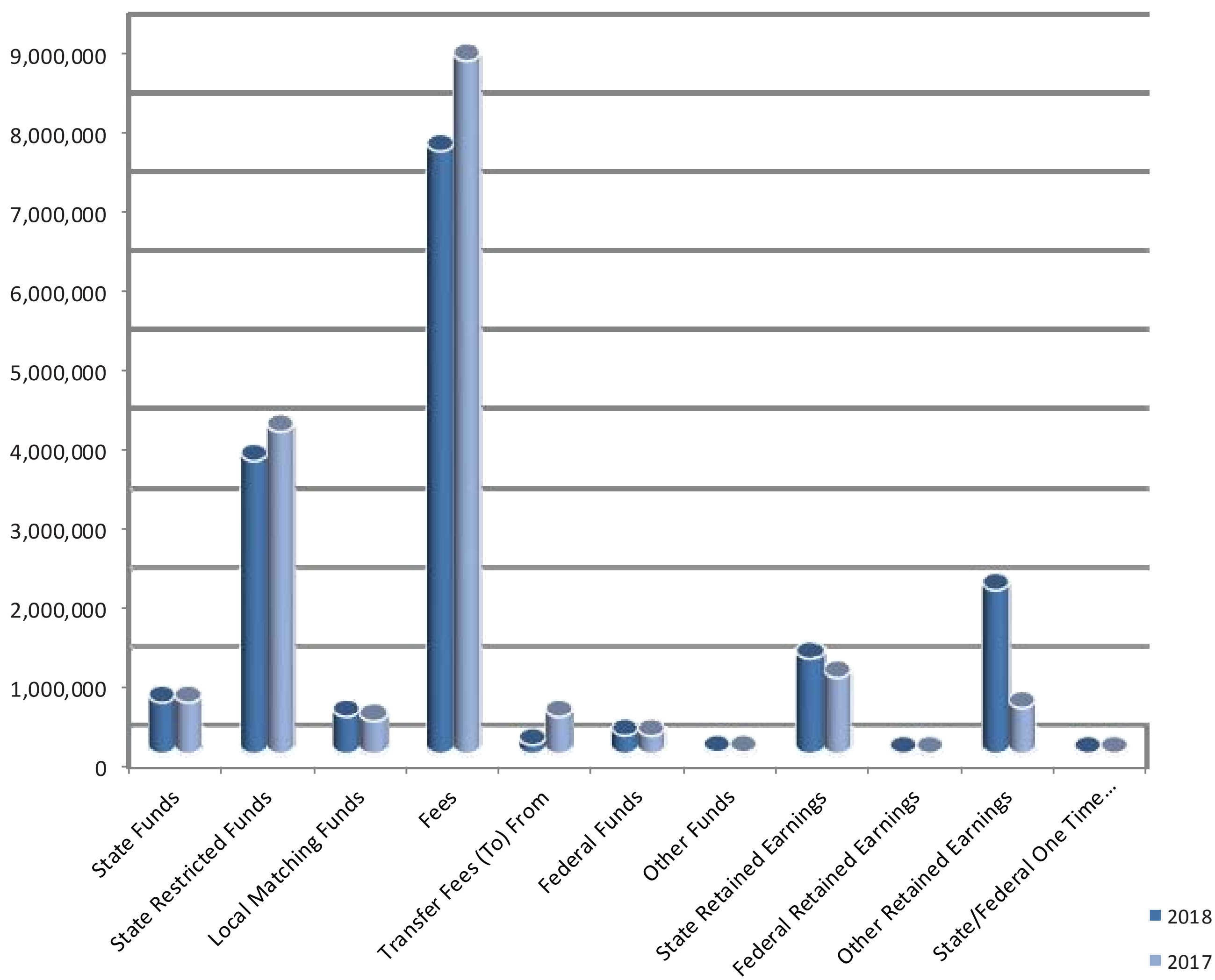
Summary of Revenue and Expenses by Disability

	2018	2017	Percent Increase/ (Decrease)
Mental Health Services			
Revenue			
State Funds	$ 641,756	$ 641,756	0.00%
State Restricted Funds	3,704,517	4,056,399	-8.67%
Local Matching Funds	462,953	410,134	12.88%
Total Fees	7,610,664	8,756,803	-13.09%
Transfer Fees (To)/From	104,519	460,220	-77.29%
Federal Funds	224,843	220,528	1.96%
Other Funds	14,733	13,911	5.91%
State Retained Earnings	1,198,987	958,687	25.07%
Other Retained Earnings	2,067,386	571,485	261.76%
State One Time Funds	-	1,054	-100.00%
Total Revenues	$ 16,030,358	$ 16,090,977	-0.38%
Expenses	14,854,549	14,757,871	0.66%
Balances	$ 1,175,809	$ 1,333,106	-11.80%
Developmental Services			
Revenue			
State Funds	$ 5,008	$ 29,799	-83.19%
Local Matching Funds	47,051	42,552	10.57%
Total Fees	4,542,935	5,663,297	-19.78%
Transfer Fees (To)/From	433,791	(224,740)	-293.02%
Total Revenues	$ 5,028,785	$ 5,510,908	-8.75%
Expenses	5,028,785	5,510,908	-8.75%
Balances	$ -	$ -	0.00%
Substance Abuse Services			
Revenue			
State Funds	$ 999,681	$ 968,767	3.19%
Total Fees	572,545	235,480	143.14%
Transfer Fees (To)/From	(538,310)	(235,480)	128.60%
Federal Funds	1,207,843	684,923	76.35%
Other Funds	94,049	86,822	8.32%
State One Time Funds	107,500	-	100.00%
Federal Retained Earnings	34,235	-	100.00%
Other Retained Earnings	-	10,162	-100.00%
Federal One Time Funds	1,400	1,184	18.24%
Total Revenues	$ 2,478,943	$ 1,751,858	41.50%
Expenses	2,141,526	1,717,323	24.70%
Balances	$ 337,417	$ 34,535	100.00%

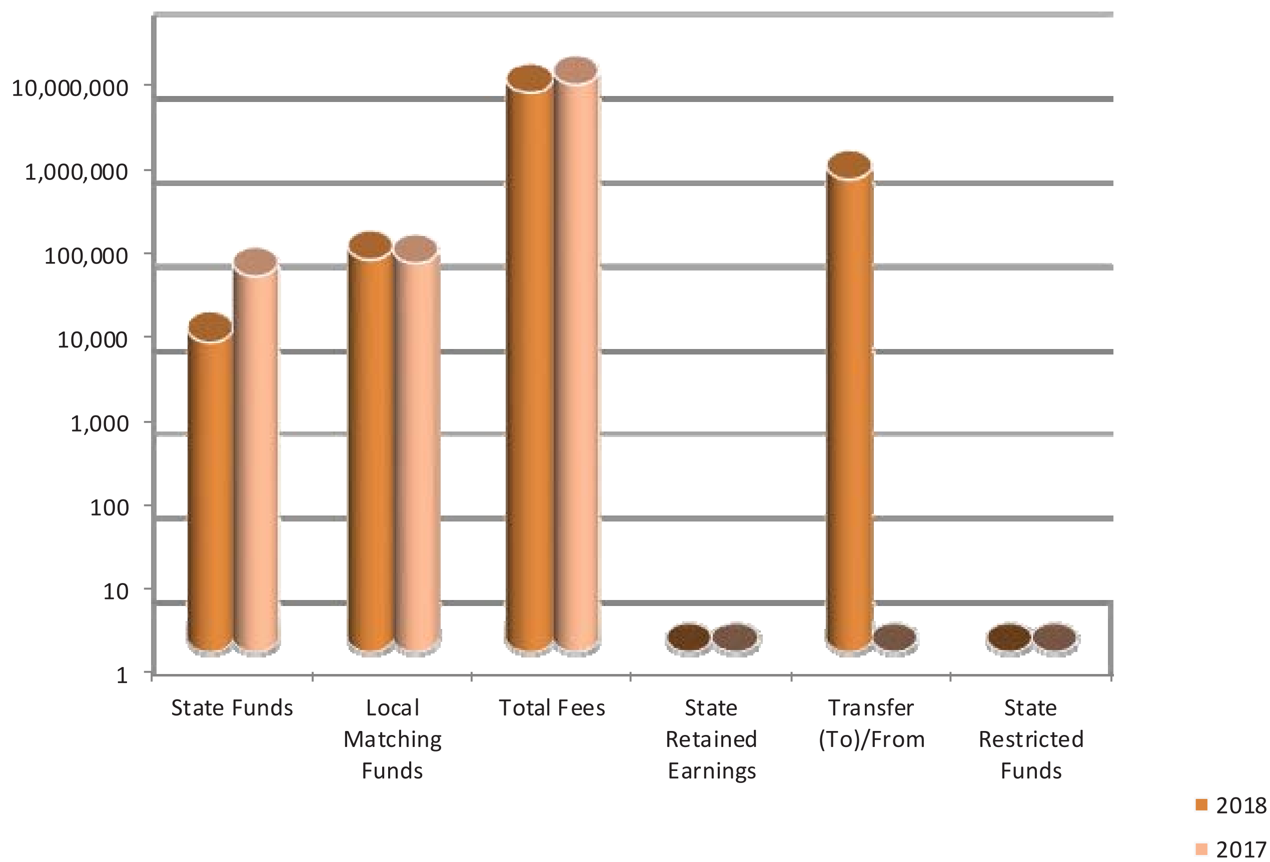
Expenses by Disability 2018 vs. 2017



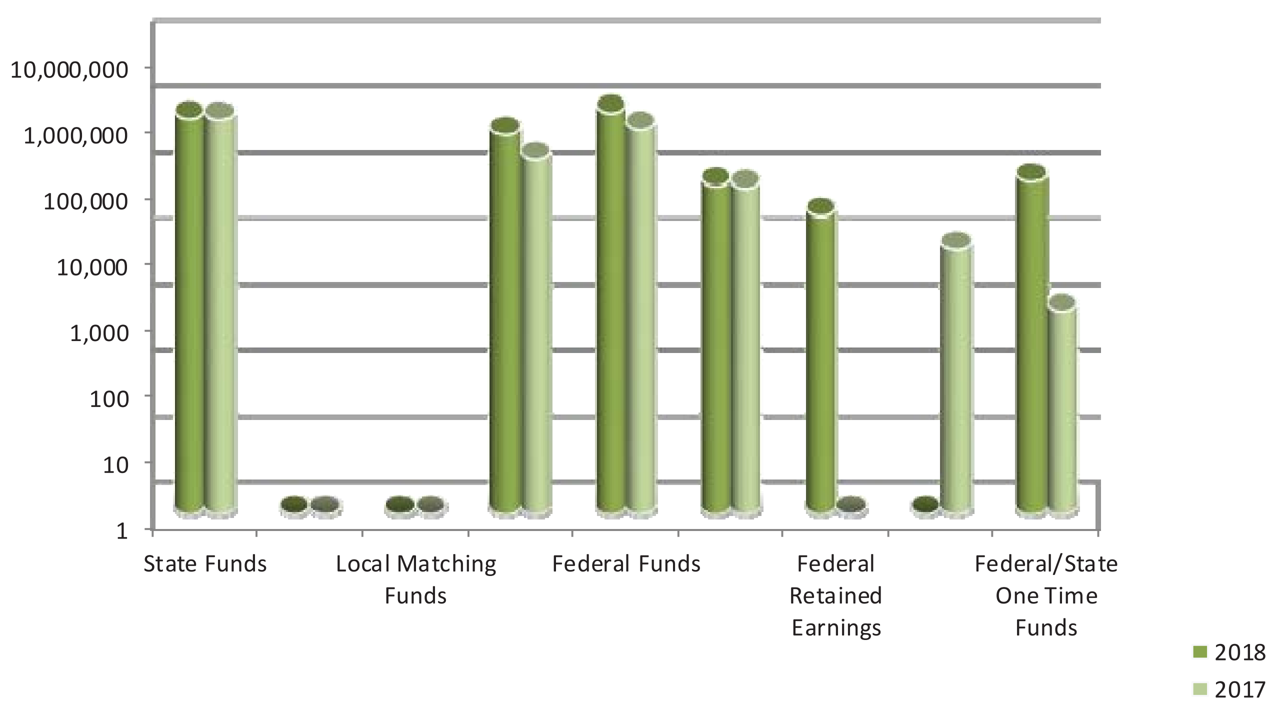
Mental Health Services Revenue FY 2018 vs. FY 2017



Developmental Services Revenue 2018 vs. 2017



Substance Abuse Services Revenue 2018 vs. 2017



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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, 2018
(With Comparative Totals for 2017)

	2018	2017
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 3,659,003	$ 4,495,644
Accounts receivable, less allowance for uncollectibles	1,750,620	1,359,349
Accrued revenue	357,327	175,353
Prepaid items	10,256	207,410
Total current assets	$ 5,777,206	$ 6,237,756
Restricted Current Assets:		
Cash and cash equivalents	$ 137,232	$ 125,916
Client funds	63,016	54,949
Total restricted current assets	$ 200,248	$ 180,865
Other Assets:		
Net pension asset	$ 4,220,650	$ 1,895,311
Capital Assets:		
Property and equipment, less accumulated depreciation	$ 6,640,489	$ 5,531,095
Total assets	$ 16,838,593	$ 13,845,027
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows of Resources:		
Pension related items	$ 346,660	$ 414,272
OPEB related items	114,600	824,063
Total deferred outflows of resources	$ 461,260	$ 1,238,335
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued expenses	$ 525,361	$ 501,375
Deposits and other	91,416	50,351
Compensated absences	1,323,177	1,327,684
Unearned revenue	1,838,397	1,476,319
Long-term debt, current portion	85,262	81,159
Total current liabilities	$ 3,863,613	$ 3,436,888
Current Liabilities Payable from Restricted Current Assets:		
Client funds	$ 63,016	$ 54,949
Accounts payable and accrued expenses	51,426	37,752
Security deposits	6,258	5,664
Total current liabilities payable from restricted current assets	$ 120,700	$ 98,365
Long-Term Liabilities:		
Net OPEB liability	$ 1,091,000	$ -
Long-term debt, less current portion	2,067,297	152,557
Total long-term liabilities payable	$ 3,158,297	$ 152,557
Total liabilities	$ 7,142,610	$ 3,687,810
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows of Resources:		
Pension related items	$ 1,555,578	$ -
OPEB related items	121,000	856,877
Total deferred inflows of resources	$ 1,676,578	$ 856,877
NET POSITION		
Net Position:		
Net investment in capital assets	$ 4,487,930	$ 5,297,379
Restricted	19,198	19,497
Unrestricted	3,973,537	5,221,799
Total net position	$ 8,480,665	$ 10,538,675

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, 2018
(With Comparative Totals for 2017)

		2018		2017
Operating revenues:				
Net patient service revenue	$	12,774,420	$	15,041,388
Operating expenses:				
Salaries and benefits	$	18,896,796	$	19,269,368
Staff development		213,005		184,206
Facility		1,320,378		1,324,831
Supplies		602,195		528,492
Travel		428,494		428,408
Contractual and consulting		210,715		221,795
Depreciation		462,185		415,848
Other		633,236		919,456
Total operating expenses	$	22,767,004	$	23,292,404
Operating income (loss)	$	(9,992,584)	$	(8,251,016)
Nonoperating income (expense):				
Appropriations:				
Commonwealth of Virginia	$	6,419,292	$	5,969,051
Federal government		1,557,514		1,216,244
Local governments		510,004		452,686
Contributions		46,551		24,237
Other		543,733		532,844
Interest income		38,482		20,756
Interest expense		(34,002)		(13,557)
Net nonoperating income (expense)	$	9,081,574	$	8,202,261
Change in net position	$	(911,010)	$	(48,755)
Net position, beginning of year, as restated		9,391,675		10,587,430
Net position, end of year	$	8,480,665	$	10,538,675

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, 2018
(With Comparative Totals for 2017)

	2018	2017
Cash flows from operating activities:		
Receipts from customers	$ 12,565,198	$ 15,150,752
Payments to suppliers	(3,194,719)	(3,571,519)
Payments to and for employees	(19,685,866)	(19,543,721)
Net cash flows provided by (used for) operating activities	$ (10,315,387)	$ (7,964,488)
Cash flows from noncapital financing activities:		
Government appropriations	$ 8,486,810	$ 7,637,981
Other	627,042	541,909
Net cash flows provided by (used for) noncapital financing activities	$ 9,113,852	$ 8,179,890
Cash flows from capital and related financing activities:		
Purchase of capital assets	$ (1,571,579)	$ (153,762)
Proceeds from loan payable	2,000,000	-
Interest payment on long-term debt	(9,536)	(13,601)
Principal payments on long-term debt	(81,157)	(77,257)
Net cash flows provided by (used for) capital and related financing activities	$ 337,728	$ (244,620)
Cash flows from investing activities:		
Interest income	$ 38,482	$ 20,756
Net increase (decrease) in cash and cash equivalents	$ (825,325)	$ (8,462)
Cash and cash equivalents, beginning of year	4,621,560	4,630,022
Cash and cash equivalents, end of year	$ 3,796,235	$ 4,621,560
Summary of Cash and Cash Equivalents		
Cash and cash equivalents	$ 3,659,003	$ 4,495,644
Cash and cash equivalents - restricted	137,232	125,916
Total	$ 3,796,235	$ 4,621,560

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

	2018	2017
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	$ (9,992,584)	$ (8,251,016)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	462,185	415,848
Changes in assets, liabilities and deferred inflows/outflows of resources:		
Accounts receivable and accrued revenue	(571,300)	(346,391)
Prepaid items	197,154	10,715
Net pension asset	(2,325,339)	773,267
Deferred outflows of resources	846,075	(537,452)
Accounts payable and accrued expenses	13,194	(39,902)
Deposits and other	2,956	64,856
Compensated absences	(4,507)	87,332
Unearned revenue	362,078	455,755
Net OPEB liability	(125,000)	-
Deferred inflows of resources	819,701	(597,500)
Net cash flows provided by (used for) operating activities	$ (10,315,387)	$ (7,964,488)

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Description and Purpose of 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 units included in these financial statements have 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 one item that qualifies for reporting in this category. It is comprised of certain items related to the measurement of the net pension asset and net OPEB liability and contributions to the pension and OPEB plan made during the current year and subsequent to the net pension asset and net OPEB liability measurement dates. For more detailed information on this item, reference the related notes.

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 and net OPEB liability are reported as deferred inflows of resources. For more detailed information on this item, reference the related notes.

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.

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.

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.

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

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.

V. Other Postemployment Benefits (OPEB)

Group Life Insurance

The Virginia Retirement System (VRS) Group Life Insurance (GLI) Program provides coverage to state employees, teachers, and employees of participating political subdivisions. The GLI Program was established pursuant to §51.1-500 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. The GLI Program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers. For purposes of measuring the net GLI Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the GLI OPEB, and GLI OPEB expense, information about the fiduciary net position of the VRS GLI Program OPEB and the additions to/deductions from the VRS GLI OPEB's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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.

NOTE 2 - DEPOSITS AND INVESTMENTS: (continued)

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.

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, 2018 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, 2018 were $2,122,495 or 6.5% of the pool's total value of $32,685,192. None of the collateral pool was uninsured or uncollateralized at June 30, 2018.

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

Rated Debt Investments' Values

Rated Debt Investments	Fair Quality Ratings				
	AAAm	AA	A	A1	Unrated
Virginia Local Government Investment Pool	$ 286,177	$ -	$ -	$ -	$ -
U.S. Savings Bonds	-	-	-	-	52,056
Chesapeake Bank Collateral Pool	-	-	-	-	2,122,495
Total	$ 286,177	$ -	$ -	$ -	$ 2,174,551

NOTE 2 - DEPOSITS AND INVESTMENTS: (continued)

Concentration of Credit Risk:

At June 30, 2018 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, 2018 with approximately 86% 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, 2018.

Investment Type	Fair Value	Less Than One Year	1-5 Years	6-10 Years	10 Years +
Virginia Local Government Investment Pool	$ 286,177	$ 286,177	$ -	$ -	$ -
U.S. Savings Bonds	52,056	52,056	-	-	-
Chesapeake Bank Collateral Pool	2,122,495	2,122,495	-	-	-
Total	$ 2,460,728	$ 2,460,728	$ -	$ -	$ -

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.

NOTE 2 - DEPOSITS AND INVESTMENTS: (continued)

Summary of Cash and Cash Equivalents:

		2018		2017
Cash:				
Petty cash	$	3,220	$	3,795
Checking		1,332,287		574,383
Total cash	$	1,335,507	$	578,178
Investments		2,460,728		4,043,382
Total cash and cash equivalents	$	3,796,235	$	4,621,560
Allocation:				
Unrestricted	$	3,659,003	$	4,495,644
Restricted		137,232		125,916
Total allocation	$	3,796,235	$	4,621,560

NOTE 3 - ACCOUNTS RECEIVABLE AND ACCRUED REVENUE:

Client Accounts Receivable:

At June 30, 2018 and 2017 the Board had client accounts receivable due, net of estimated uncollectibles of $1,477,636 and $648,663, respectively, from the following primary sources:

		2018		2017
Virginia Department of Medical Assistance Services (Medicaid)	$	1,579,276	$	1,023,928
Direct client and third party		119,981		224,562
Other		51,363		110,488
Total	$	1,750,620	$	1,358,978

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

Accrued Revenue:

		2018		2017
Commonwealth of Virginia - grants	$	215,510	$	133,699
Federal		9,830		-
Others		131,987		41,654
Total	$	357,327	$	175,353

NOTE 4 - CAPITAL ASSETS:

Capital assets consist of the following:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	$ 763,983	$ 519,095	$ -	$ 1,283,078
Total capital assets not being depreciated	$ 763,983	$ 519,095	$ -	$ 1,283,078
Capital assets being depreciated:				
Buildings	$ 6,346,194	$ 680,848	$ -	$ 7,027,042
Vehicles	2,206,486	76,737	141,952	2,141,271
Furniture, equipment and software	964,987	294,899	-	1,259,886
Total capital assets being depreciated	$ 9,517,667	$ 1,052,484	$ 141,952	$ 10,428,199
Accumulated depreciation				
Buildings	$ 2,129,595	$ 226,873	$ -	$ 2,356,468
Vehicles	1,934,080	123,635	141,952	1,915,763
Furniture, equipment and software	686,880	111,677	-	798,557
Total accumulated depreciation	$ 4,750,555	$ 462,185	$ 141,952	$ 5,070,788
Net capital assets being depreciated	$ 4,767,112	$ 590,299	$ -	$ 5,357,411
Net capital assets	$ 5,531,095	$ 1,109,394	$ -	$ 6,640,489

Total depreciation expense was $462,185 for 2018 and $415,848 for 2017.

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, 2018, exclusive of intercompany payments of $399,926, totaled $522,818. Rent expense (net) for 2017 totaled $597,172.

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 $1,323,177 at June 30, 2018 and $1,327,684 at June 30, 2017. 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.

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**
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.	**About Plan 2** Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.	**About the Hybrid Retirement Plan** The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.

NOTE 7 - PENSION PLAN: (continued)

Plan Description (Continued)

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

NOTE 7 - PENSION PLAN: (continued)

Plan Description (Continued)

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

NOTE 7 - PENSION PLAN: (continued)

Plan Description (Continued)

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

NOTE 7 - PENSION PLAN: (continued)

Plan Description (Continued)

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

NOTE 7 - PENSION PLAN: (continued)

Plan Description (Continued)

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

NOTE 7 - PENSION PLAN: (continued)

Plan Description (Continued)

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

NOTE 7 - PENSION PLAN: (continued)

Plan Description (Continued)

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

NOTE 7 - PENSION PLAN: (continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.	**Cost-of-Living Adjustment (COLA) in Retirement** The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.	**Cost-of-Living Adjustment (COLA) in Retirement** **Defined Benefit Component:** Same as Plan 2. **Defined Contribution Component:** Not applicable.
Eligibility: For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.	**Eligibility:** Same as Plan 1.	**Eligibility:** Same as Plan 1 and Plan 2.
Exceptions to COLA Effective Dates: The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability.	**Exceptions to COLA Effective Dates:** Same as Plan 1.	**Exceptions to COLA Effective Dates:** Same as Plan 1 and Plan 2.

NOTE 7 - PENSION PLAN: (continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Cost-of-Living Adjustment (COLA) in Retirement (Cont.) **Exceptions to COLA Effective Dates: (Cont.)** • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.	**Cost-of-Living Adjustment (COLA) in Retirement (Cont.)**	**Cost-of-Living Adjustment (COLA) in Retirement (Cont.)**
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted. .	**Disability Coverage** Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.	**Disability Coverage** Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.

NOTE 7 - PENSION PLAN: (continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	**PLAN 2**	**HYBRID RETIREMENT PLAN**
Disability Coverage (Cont.)	**Disability Coverage (Cont.)**	**Disability Coverage (Cont.)** Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.	**Purchase of Prior Service** Same as Plan 1.	**Purchase of Prior Service** **Defined Benefit Component:** Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. **Defined Contribution Component:** Not applicable.

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2017-annual-report-pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

NOTE 7 - PENSION PLAN: (continued)

Employees Covered by Benefit Terms

As of the June 30, 2016 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	104
Inactive members:	
Vested inactive members	58
Non-vested inactive members	138
Inactive members active elsewhere in VRS	99
Total inactive members	295
Active members	362
Total covered employees	761

Contributions

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

The Board's contractually required employer contribution rate for the year ended June 30, 2018 was 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 $346,660 and $414,272 for the years ended June 30, 2018 and June 30, 2017, respectively.

Net Pension Asset

The Board's net pension asset was measured as of June 30, 2017. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

NOTE 7 - PENSION PLAN: (continued)

Actuarial Assumptions – General Employees

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

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

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

Mortality rates:

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

All Others (Non 10 Largest) – Non-Hazardous Duty: 15% of deaths are assumed to be service related

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

NOTE 7 - PENSION PLAN: (continued)

Actuarial Assumptions – General Employees (Continued)

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

Largest 10 – Non-Hazardous Duty:

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

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

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

NOTE 7 - PENSION PLAN: (continued)

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
		*Expected arithmetic nominal return	7.30%

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

NOTE 7 - PENSION PLAN: (continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the employer for the 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, 2019 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Asset

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2016	$ 29,339,546	$ 31,234,857	$ (1,895,311)
Changes for the year:			
Service cost	$ 1,191,525	$ -	$ 1,191,525
Interest	2,020,678	-	2,020,678
Changes in assumptions	(533,730)	-	(533,730)
Differences between expected and actual experience	(189,851)	-	(189,851)
Contributions - employer	-	366,037	(366,037)
Contributions - employee	-	637,509	(637,509)
Net investment income	-	3,835,526	(3,835,526)
Benefit payments, including refunds of employee contributions	(945,432)	(945,432)	-
Administrative expenses	-	(21,680)	21,680
Other changes	-	(3,431)	3,431
Net changes	$ 1,543,190	$ 3,868,529	$ (2,325,339)
Balances at June 30, 2017	$ 30,882,736	$ 35,103,386	$ (4,220,650)

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)	$ 264,232	$ (4,220,650)	$ (7,902,843)

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

For the year ended June 30, 2018, the Board recognized pension expense of ($436,536).

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 650,500
Change in assumptions	-	384,225
Net difference between projected and actual earnings on pension plan investments	-	520,853
Employer contributions subsequent to the measurement date	346,660	-
Total	$ 346,660	$ 1,555,578

$346,660 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, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30	
2019	$ (848,746)
2020	(231,027)
2021	(146,220)
2022	(329,585)
2023	-
Thereafter	-

NOTE 8 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN):

Plan Description

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

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

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

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS
Eligible Employees The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement: • City of Richmond • City of Portsmouth • City of Roanoke • City of Norfolk • Roanoke City School Board Basic group life insurance coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.

NOTE 8 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (continued)

Plan Description (Continued)

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS (CONTINUED)
Benefit Amounts The benefits payable under the Group Life Insurance Program have several components. • **Natural Death Benefit** - The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. • **Accidental Death Benefit** – The accidental death benefit is double the natural death benefit. • **Other Benefit Provisions** – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include: o Accidental dismemberment benefit o Safety belt benefit o Repatriation benefit o Felonious assault benefit o Accelerated death benefit option
Reduction in Benefit Amounts The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.
Minimum Benefit Amount and Cost-of-Living Adjustment (COLA) For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at $8,000 by statute. The amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently $8,111.

Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% x 60%) and the employer component was 0.52% (1.31% x 40%). Employers may elect to pay all or part of the employee contribution; however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the Group Life Insurance Program from the entity were $69,600 and $69,571 for the years ended June 30, 2018 and June 30, 2017, respectively.

NOTE 8 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (continued)

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

At June 30, 2018, the entity reported a liability of $1,091,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2017 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the participating employer's proportion was .07253% as compared to .06952% at June 30, 2016.

For the year ended June 30, 2018, the participating employer recognized GLI OPEB expense of $20,000. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 24,000
Net difference between projected and actual earnings on GLI OPEB program investments	-	41,000
Change in assumptions	-	56,000
Changes in proportion	45,000	-
Employer contributions subsequent to the measurement date	69,600	-
Total	$ 114,600	$ 121,000

NOTE 8 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (continued)

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

$69,600 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year Ended June 30		
2019	$	(17,000)
2020		(17,000)
2021		(17,000)
2022		(17,000)
2023		(7,000)
Thereafter		(1,000)

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5%
Salary increases, including inflation:	
General state employees	3.5% – 5.35%
Teachers	3.5%-5.95%
SPORS employees	3.5%-4.75%
VaLORS employees	3.5%-4.75%
JRS employees	4.5%
Locality - General employees	3.5%-5.35%
Locality - Hazardous Duty employees	3.5%-4.75%
Investment rate of return	7.0%, net of investment expenses, including inflation*

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

NOTE 8 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (continued)

Actuarial Assumptions: (Continued)

Mortality Rates – General State Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

NOTE 8 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (continued)

Actuarial Assumptions: (Continued)

Mortality Rates – Teachers

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

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

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

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

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

Mortality Rates – SPORS Employees

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

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

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

NOTE 8 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (continued)

Actuarial Assumptions: (Continued)

Mortality Rates – SPORS Employees: (continued)

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

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

Mortality Rates – VaLORS Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

NOTE 8 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (continued)

Actuarial Assumptions: (Continued)

Mortality Rates – VaLORS Employees: (Continued)

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

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

Mortality Rates – JRS Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

NOTE 8 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (continued)

Actuarial Assumptions: (Continued)

Mortality Rates – JRS Employees: (Continued)

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

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

Mortality Rates – Largest Ten Locality Employers – General Employees

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

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

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

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

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

NOTE 8 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (continued)

Actuarial Assumptions: (Continued)

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

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

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

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

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

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

Mortality Rates – Largest Ten Locality Employers – Hazardous Duty Employees

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

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

NOTE 8 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (continued)

Actuarial Assumptions: (Continued)

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

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

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

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

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

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

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

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

NOTE 8 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (continued)

Actuarial Assumptions: (Continued)

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

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

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

NET GLI OPEB Liability

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the Group Life Insurance Program is as follows (amounts expressed in thousands):

		Group Life Insurance OPEB Program
Total GLI OPEB Liability	$	2,942,426
Plan Fiduciary Net Position		1,437,586
Employers' Net GLI OPEB Liability (Asset)	$	1,504,840
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability		48.86%

The total GLI OPEB liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net GLI OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

NOTE 8 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (continued)

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
		*Expected arithmetic nominal return	7.30%

*The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

NOTE 8 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (continued)

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

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

	Rate		
	1% Decrease (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
Board's proportionate share of the Group Life Insurance Program Net OPEB Liability	$ 1,411,000	$ 1,091,000	$ 832,000

Group Life Insurance Program Fiduciary Net Position

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

NOTE 9 - 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:

Unearned Revenue	2018	2017
Unexpended state grant funds	$ 1,754,668	$ 1,369,064
Unexpended restricted contributions	83,729	107,255
Total	$ 1,838,397	$ 1,476,319

NOTE 10 - 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 11 - LONG-TERM OBLIGATIONS:

Summary of Changes in Long-Term Obligations:

	Mortgages Payable	Loan Payable	Total
Balance at July 1, 2017	$ 208,831	$ 24,885	$ 233,716
Add: Issuances/additions	2,000,000	-	2,000,000
Deduct: Retirements	(72,897)	(8,260)	(81,157)
Balance at June 30, 2018	$ 2,135,934	$ 16,625	$ 2,152,559

Long-term obligations consist of the following:

	Balance	Current Portion
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.	$ 26,271	$ 8,977
Chesapeake National Bank, payable in full at the date of maturity, plus interest at variable rates through September 2019, secured by a Deed of Trust on property located in Tappahannock, Virginia, matures September 2019.	2,000,000	-
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.	109,663	67,731
Total mortgages payable	$ 2,135,934	$ 76,708
USDA loan, original amount of $41,200, payable in monthly payments of $750, interest of 3.50%, matures May 11, 2020.	$ 16,625	$ 8,554
Total long-term obligations	$ 2,152,559	$ 85,262

NOTE 11 - LONG-TERM OBLIGATIONS: (continued)

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

Year Ending June 30,		Principal		Interest
2019	$	85,262	$	5,421
2020		2,059,304		124,814
2021		7,993		129
Total	$	2,152,559	$	130,364

The Board has no federal arbitrage liability.

NOTE 12 - PARTICIPANT LOCALITY CONTRIBUTIONS:

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

		2018		2017
Essex	$	34,927	$	34,927
Gloucester		138,849		117,259
King and Queen		26,378		22,206
King William		50,325		50,326
Lancaster		42,231		37,848
Mathews		33,130		30,874
Middlesex		41,257		35,842
Northumberland		46,196		42,161
Richmond		30,000		25,000
Westmoreland		66,711		56,243
Total	$	510,004	$	452,686

NOTE 13 - NET PATIENT SERVICE REVENUE SOURCES:

Net patient service revenues were from the following sources:

		2018		2017
Medicaid	$	11,267,609	$	13,522,400
Direct client and third party		1,035,299		1,114,203
Other		471,512		404,785
Total	$	12,774,420	$	15,041,388

NOTE 14 - 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 15 - 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 2018.

NOTE 16 - 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 17 - UPCOMING PRONOUNCEMENTS:

Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

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

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

NOTE 18 – ADOPTION OF ACCOUNTING PRINCIPLE:

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

Net Position as originally reported at June 30, 2017	$	5,882,429
Implementation of GASB 75		(1,147,000)
Net Position as restated at June 30, 2017	$	4,735,429

- Required Supplementary Information -

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

	2017	2016	2015	2014
Total pension liability				
Service cost	$ 1,191,525	$ 1,168,349	$ 1,201,394	$ 1,269,861
Interest	2,020,678	1,903,960	1,814,479	1,654,937
Changes in assumptions	(533,730)	-	-	-
Differences between expected and actual experience	(189,851)	(482,108)	(944,974)	-
Benefit payments, including refunds of employee contributions	(945,432)	(900,166)	(685,020)	(606,247)
Net change in total pension liability	$ 1,543,190	$ 1,690,035	$ 1,385,879	$ 2,318,551
Total pension liability - beginning	29,339,546	27,649,511	26,263,632	23,945,081
Total pension liability - ending (a)	$ 30,882,736	$ 29,339,546	$ 27,649,511	$ 26,263,632
Plan fiduciary net position				
Contributions - employer	$ 366,037	$ 677,438	$ 666,450	$ 924,133
Contributions - employee	637,509	610,175	636,928	606,235
Net investment income	3,835,526	547,979	1,328,073	3,822,539
Benefit payments, including refunds of employee contributions	(945,432)	(900,166)	(685,020)	(606,247)
Administrative expense	(21,680)	(18,429)	(17,298)	(19,602)
Other	(3,431)	(229)	(283)	201
Net change in plan fiduciary net position	$ 3,868,529	$ 916,768	$ 1,928,850	$ 4,727,259
Plan fiduciary net position - beginning	31,234,857	30,318,089	28,389,239	23,661,980
Plan fiduciary net position - ending (b)	$ 35,103,386	$ 31,234,857	$ 30,318,089	$ 28,389,239
Board's net pension liability (asset) - ending (a) - (b)	$ (4,220,650)	$ (1,895,311)	$ (2,668,578)	$ (2,125,607)
Plan fiduciary net position as a percentage of the total pension liability	113.67%	106.46%	109.65%	108.09%
Covered payroll	$ 13,320,650	$ 12,449,072	$ 12,003,383	$ 12,097,480
Board's net pension liability (asset) as a percentage of covered payroll	-31.69%	-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.

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

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2018	$ 346,660	$ 346,660	$ -	$ 13,309,107	2.60%
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%

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

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 are not material.

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

Largest 10 – Non-Hazardous Duty:

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

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

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

MIDDLE PENINSULA-NORTHERN NECK COMMUNITY SERVICES BOARD

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

Date	Employer's Proportion of the Net GLI OPEB Liability	Employer's Proportionate Share of the Net GLI OPEB Liability	Employer's Covered Payroll	Employer's Proportionate Share of the Net GLI OPEB Liability as a Percentage of Covered Payroll (3)/(4)	Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability
2017	0.0725%	$ 1,091,000	$ 13,320,650	8.19%	48.86%

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

MIDDLE PENINSULA-NORTHERN NECK COMMUNITY SERVICES BOARD

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

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2018	$ 69,600	$ 69,600	$ -	$ 13,384,667	0.52%
2017	69,571	69,571	-	13,320,650	0.52%

Schedule is intended to show information for 10 years. Information prior to 2017 is not available. However, additional years will be included as they become available.

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

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

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

General State Employees

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

Teachers

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

SPORS Employees

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

VaLORS Employees

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

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

JRS Employees

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

Largest Ten Locality Employers - General Employees

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

Non-Largest Ten Locality Employers - General Employees

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

Largest Ten Locality Employers - Hazardous Duty Employees

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

Non-Largest Ten Locality Employers - Hazardous Duty Employees

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

- Other Supplementary Information -

Combining Financial Statements

MIDDLE PENINSULA-NORTHERN NECK COMMUNITY SERVICES BOARD

Combining Statement of Net Position
At June 30, 2018

	Middle Peninsula Northern Neck Community Services Board	Properties Inc.	Kilmarnock New Horizons
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 2,052,393	$ 1,606,610	$ -
Accounts receivable, less allowance for uncollectibles	1,748,304	12,889	-
Accrued revenue	357,327	-	-
Prepaid items	10,256	-	-
Total current assets	$ 4,168,280	$ 1,619,499	$ -
Restricted Current Assets:			
Cash and cash equivalents	$ -	$ -	$ 38,042
Client funds	63,016	-	-
Total restricted current assets	$ 63,016	$ -	$ 38,042
Other Assets:			
Net pension asset	$ 4,220,650	$ -	$ -
Capital Assets:			
Property and equipment, less accumulated depreciation	$ 1,666,252	$ 2,753,300	$ 274,950
Total assets	$ 10,118,198	$ 4,372,799	$ 312,992
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflows of Resources:			
Pension related items	$ 346,660	$ -	$ -
OPEB related items	114,600	-	-
Total deferred outflows of resources	$ 461,260	$ -	$ -
LIABILITIES			
Current Liabilities:			
Accounts payable and accrued expenses	$ 500,758	$ 24,603	$ -
Deposits and other	104,305	-	-
Compensated absences	1,323,177	-	-
Unearned revenue	1,838,397	-	-
Long-term debt, current portion	8,554	76,708	-
Total current liabilities	$ 3,775,191	$ 101,311	$ -
Current Liabilities Payable from Restricted Current Assets:			
Client funds	$ 63,016	$ -	$ -
Accounts payable and accrued expenses	-	-	17,198
Security deposits	-	-	1,646
Total current liabilities payable from restricted current assets	$ 63,016	$ -	$ 18,844
Long-Term Liabilities:			
Net OPEB liability	$ 1,091,000	$ -	$ -
Long-term debt, less current portion	8,071	2,059,226	-
Total long-term liabilities	$ 1,099,071	$ 2,059,226	$ -
Total liabilities	$ 4,937,278	$ 2,160,537	$ 18,844
DEFERRED INFLOWS OF RESOURCES			
Deferred Inflows of Resources:			
Pension related items	$ 1,555,578	$ -	$ -
OPEB related items	121,000	-	-
Total deferred inflows of resources	$ 1,676,578	$ -	$ -
NET POSITION			
Net Position:			
Net investment in capital assets	$ 1,649,627	$ 617,366	$ 274,950
Restricted	-	-	19,198
Unrestricted	2,315,975	1,594,896	-
Total net position	$ 3,965,602	$ 2,212,262	$ 294,148

Lively Turning Point	Woodland Pointe	Inter-Company and Other Eliminations	Total
$ -	$ -	$ -	$ 3,659,003
-	2,316	(12,889)	1,750,620
-	-	-	357,327
-	-	-	10,256
$ -	$ 2,316	$ (12,889)	$ 5,777,206
$ 7,846	$ 91,344	$ -	$ 137,232
-	-	-	63,016
$ 7,846	$ 91,344	$ -	$ 200,248
$ -	$ -	$ -	$ 4,220,650
$ 139,363	$ 1,806,624	$ -	$ 6,640,489
$ 147,209	$ 1,900,284	$ (12,889)	$ 16,838,593
$ -	$ -	$ -	$ 346,660
-	-	-	114,600
$ -	$ -	$ -	$ 461,260
$ -	$ -	$ -	$ 525,361
-	-	(12,889)	91,416
-	-	-	1,323,177
-	-	-	1,838,397
-	-	-	85,262
$ -	$ -	$ (12,889)	$ 3,863,613
$ -	$ -	$ -	$ 63,016
15,012	19,216	-	51,426
1,611	3,001	-	6,258
$ 16,623	$ 22,217	$ -	$ 120,700
$ -	$ -	$ -	$ 1,091,000
-	-	-	2,067,297
$ -	$ -	$ -	$ 3,158,297
$ 16,623	$ 22,217	$ (12,889)	$ 7,142,610
$ -	$ -	$ -	$ 1,555,578
-	-	-	121,000
$ -	$ -	$ -	$ 1,676,578
$ 139,363	$ 1,806,624	$ -	$ 4,487,930
-	-	-	19,198
(8,777)	71,443	-	3,973,537
$ 130,586	$ 1,878,067	$ -	$ 8,480,665

MIDDLE PENINSULA-NORTHERN NECK COMMUNITY SERVICES BOARD

Combining Statement of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2018

	Middle Peninsula Northern Neck Community Services Board	Properties Inc.	Kilmarnock New Horizons
Operating revenues:			
Net patient service revenue	$ 12,774,420	$ -	$ -
Operating expenses:			
Salaries and benefits	$ 18,896,796	$ -	$ -
Staff development	213,005	-	-
Facility	1,483,168	73,423	39,388
Supplies	602,195	-	-
Travel	428,494	-	-
Contractual and consulting	188,514	22,201	-
Depreciation	273,919	112,457	19,393
Other	633,236	192,307	-
Total operating expenses	$ 22,719,327	$ 400,388	$ 58,781
Operating income (loss)	$ (9,944,907)	$ (400,388)	$ (58,781)
Nonoperating income (expense):			
Appropriations:			
Commonwealth of Virginia	$ 6,419,292	$ -	$ -
Federal government	1,557,514	-	-
Local governments	510,004	-	-
Contributions	46,551	-	-
Other	612,627	361,899	38,725
Interest income	29,832	7,384	364
Interest expense	(740)	(33,262)	-
Net nonoperating income (expense)	$ 9,175,080	$ 336,021	$ 39,089
Change in net position	$ (769,827)	$ (64,367)	$ (19,692)
Net position, beginning of year, as restated	4,735,429	2,276,629	313,840
Net position, end of year	$ 3,965,602	$ 2,212,262	$ 294,148

Lively Turning Point	Woodland Pointe	Inter-Company Eliminations	Total
$ -	$ -	$ -	$ 12,774,420
$ -	$ -	$ -	$ 18,896,796
-	-	-	213,005
36,970	48,688	(361,259)	1,320,378
-	-	-	602,195
-	-	-	428,494
-	-	-	210,715
8,778	47,638	-	462,185
-	-	(192,307)	633,236
$ 45,748	$ 96,326	$ (553,566)	$ 22,767,004
$ (45,748)	$ (96,326)	$ 553,566	$ (9,992,584)
$ -	$ -	$ -	$ 6,419,292
-	-	-	1,557,514
-	-	-	510,004
-	-	-	46,551
36,088	47,960	(553,566)	543,733
99	803	-	38,482
-	-	-	(34,002)
$ 36,187	$ 48,763	$ (553,566)	$ 9,081,574
$ (9,561)	$ (47,563)	$ -	$ (911,010)
140,147	1,925,630	-	9,391,675
$ 130,586	$ 1,878,067	$ -	$ 8,480,665

MIDDLE PENINSULA-NORTHERN NECK COMMUNITY SERVICES BOARD

Combining Statement of Cash Flows
Year Ended June 30, 2018

	Middle Peninsula Northern Neck Community Services Board	Properties Inc.	Kilmarnock New Horizons
Cash flows from operating activities:			
Receipts from customers	$ 12,565,198	$ -	$ -
Payments to suppliers	(3,349,540)	(287,931)	(33,899)
Payments to and for employees	(19,685,866)	-	-
Net cash flows provided by (used for) operating activities	$ (10,470,208)	$ (287,931)	$ (33,899)
Cash flows from noncapital financing activities:			
Government grants	$ 8,486,810	$ -	$ -
Other	659,178	400,566	38,725
Net cash flows provided by (used for) noncapital financing activities	$ 9,145,988	$ 400,566	$ 38,725
Cash flows from capital and related financing activities:			
Purchase of capital assets	$ (371,636)	$ (1,199,943)	$ -
Proceeds from loan payable	-	2,000,000	-
Interest payments on long-term debt	(740)	(8,796)	-
Principal payments on long-term debt	(8,260)	(72,897)	-
Net cash flows provided by (used for) capital and related financing activities	$ (380,636)	$ 718,364	$ -
Cash flows from investing activities:			
Interest income	$ 29,832	$ 7,384	$ 364
Net increase (decrease) in cash and cash equivalents	$ (1,675,024)	$ 838,383	$ 5,190
Cash and cash equivalents, beginning of year	3,727,417	768,227	32,852
Cash and cash equivalents, end of year	$ 2,052,393	$ 1,606,610	$ 38,042
Summary of cash and cash equivalents:			
Cash and cash equivalents	$ 2,052,393	$ 1,606,610	$ -
Cash and cash equivalents - restricted	-	-	38,042
Total	$ 2,052,393	$ 1,606,610	$ 38,042
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:			
Operating income (loss)	$ (9,944,907)	$ (400,388)	$ (58,781)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	273,919	112,457	19,393
Changes in assets, liabilities and deferred inflows/outflows of resources:			
Accounts receivable and accrued revenue, net	(571,300)		-
Prepaid items	197,154	-	-
Net pension asset	(2,325,339)	-	-
Deferred outflows of resources	846,075	-	-
Accounts payable and accrued expenses	(480)	-	5,470
Deposits and other	2,398	-	19
Compensated absences	(4,507)	-	-
Unearned revenue	362,078	-	-
Net OPEB liability	(125,000)	-	-
Deferred inflows of resources	819,701	-	-
Net cash flows provided by (used for) operating activities	$ (10,470,208)	$ (287,931)	$ (33,899)

Lively Turning Point	Woodland Pointe	Inter-Company Eliminations	Total
$ -	$ -	$ -	$ 12,565,198
(35,456)	(41,459)	553,566	(3,194,719)
-	-	-	(19,685,866)
$ (35,456)	$ (41,459)	$ 553,566	$ (10,315,387)
$ -	$ -	$ -	$ 8,486,810
36,088	46,051	(553,566)	627,042
$ 36,088	$ 46,051	$ (553,566)	$ 9,113,852
$ -	$ -	$ -	$ (1,571,579)
-	-		2,000,000
-	-	-	(9,536)
-	-	-	(81,157)
$ -	$ -	$ -	$ 337,728
$ 99	$ 803	$ -	$ 38,482
$ 731	$ 5,395	$ -	$ (825,325)
7,115	85,949	-	4,621,560
$ 7,846	$ 91,344	$ -	$ 3,796,235
$ -	$ -	$ -	$ 3,659,003
7,846	91,344	-	137,232
$ 7,846	$ 91,344	$ -	$ 3,796,235
$ (45,748)	$ (96,326)	$ 553,566	$ (9,992,584)
8,778	47,638	-	462,185
-	-	-	(571,300)
-	-	-	197,154
-	-	-	(2,325,339)
-	-	-	846,075
975	7,229	-	13,194
539	-	-	2,956
-	-	-	(4,507)
-	-	-	362,078
-	-	-	(125,000)
-	-	-	819,701
$ (35,456)	$ (41,459)	$ 553,566	$ (10,315,387)

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- Compliance -

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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*

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, 2018, and the related 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 October 26, 2018.

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, Farmer, Cox Associates

Charlottesville, Virginia
October 26, 2018

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

To the Board of Directors
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, 2018. 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 $2,115,361 in federal awards which is not included in the schedule of expenditures of federal awards during the year ended June 30, 2018. Our audit, described below, did not include the operations of the above component units because 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, 2018.

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, Farmer, Cox Associates

Charlottesville, Virginia
October 26, 2018

MIDDLE PENINSULA-NORTHERN NECK COMMUNITY SERVICES BOARD

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identification Number	Federal Expenditures
Department of Agriculture:			
Pass-through payments:			
Virginia Department of Agriculture			
Child and Adult Care Food Program	10.558	Not available	$ 12,128
Department of Health and Human Services:			
Pass-through payments:			
Virginia Department of Behavioral Health and Developmental Services			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	Not available	$ 651,823
Block Grants for Community Mental Health Services	93.958	Not available	212,715
State Targeted Response to the Opioid Crisis	93.788	Not available	561,154
Total Department of Health and Human Services			$ 1,425,692
Department of Education:			
Pass-through payments:			
Virginia Department of Behavioral Health and Developmental Services			
Special Education - Grants for Infants and Families	84.181	Not available	$ 119,694
Total Expenditures of Federal Awards			$ 1,557,514

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 award activity of Middle Peninsula-Northern Neck Community Services Board under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards (Uniform Guidance). 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.

Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

Section I - Summary of Auditors' Results

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)?	No

Identification of major programs:

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

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

Section II - Financial Statement Findings

There are no financial statement findings to report.

Section III - Federal Award Findings and Questioned Costs

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

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

There were no prior year findings.