# RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

# FREDERICKSBURG, VIRGINIA

# FINANCIAL REPORT

# YEAR ENDED JUNE 30, 2019

**RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD**
**Fredericksburg, Virginia**

**FINANCIAL REPORT - YEAR ENDED JUNE 30, 2019**

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**RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD**
**Fredericksburg, Virginia**

**FINANCIAL REPORT - YEAR ENDED JUNE 30, 2019**

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## RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

### Board of Directors

Debbie Draper, Chair

Kheia D. Hilton, Vice-Chair

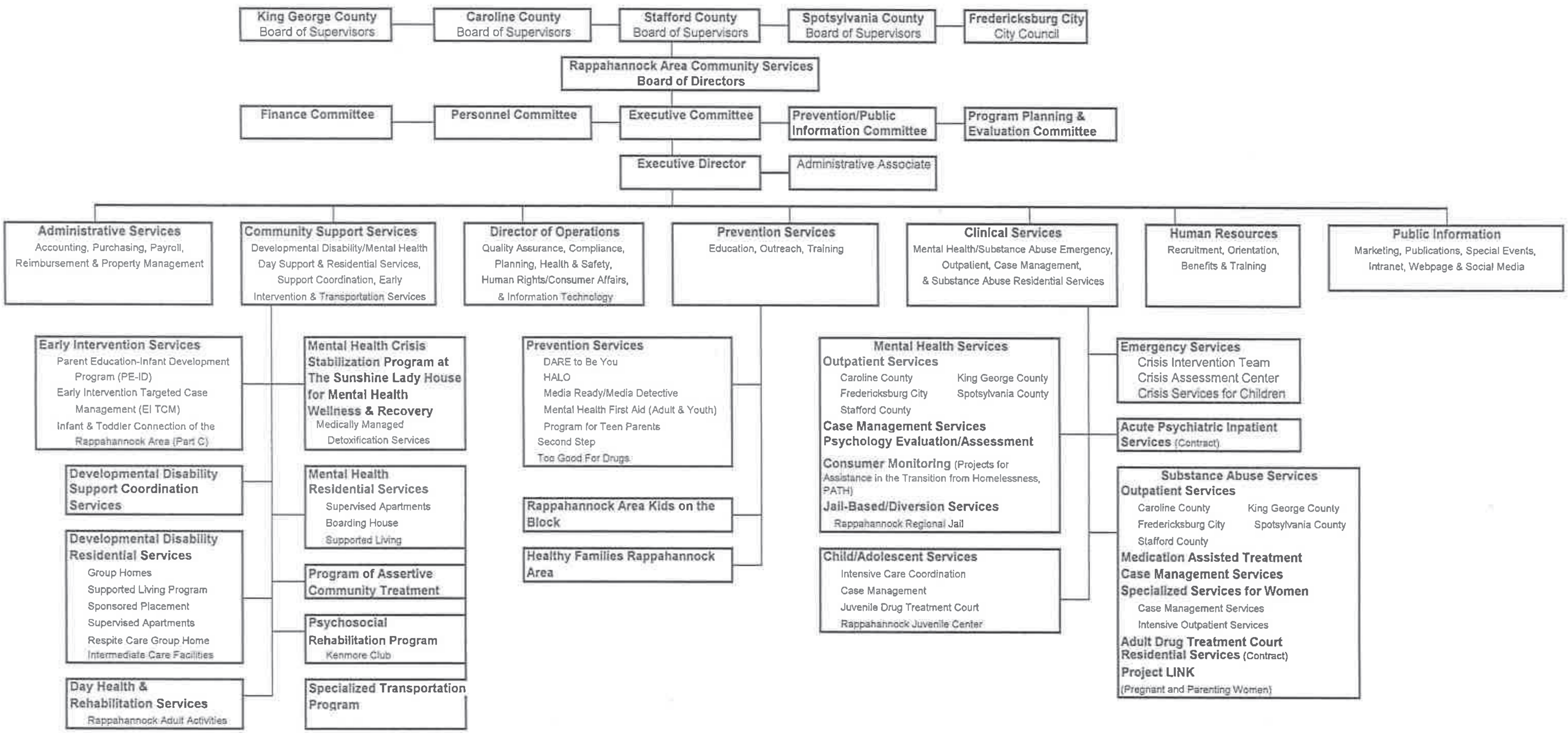
| | | |
|---|---|---|
| Linda Ball | | Kenneth Lapin |
| William A. Collins | | Nancy Beebe |
| Lawrence A. Davies | | Diane Deibel |
| Linda Carter | | Karen J. Kallay |
| Tina Sears | | Beth Elkins |
| James B. Howard | Matthew Zurasky | Gregory J. Sokolowski |

### Principal Management Team

| | |
|---|---|
| Jane Yaun | Executive Director |
| Rhonda Pellicano | Finance and Administration Director |
| Jacque Kobuchi | Clinical Services Director |
| Joe Wickens | Community Support Services Director |
| Terry Moore | Human Resources Manager |
| Brandie Williams | Director of Operations |

# Rappahannock Area Community Services Board

## Table of Organization




Revised June 2017

Robinson, Farmer, Cox Associates, PLLC
Certified Public Accountants
CPAs | Consultants

# INDEPENDENT AUDITORS' REPORT

**To the Board of Directors**
**Rappahannock Area Community Services Board**
**Fredericksburg, Virginia**

**Report on the Financial Statements**

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of Rappahannock Area Community Services Board, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Rappahannock Area Community Services Board's basic financial statements as listed in the table of contents.

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

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

***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and 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 opinions.

### *Opinions*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of Rappahannock Area Community Services Board, as of June 30, 2019, and the respective changes in financial position, where applicable, 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 16 to the financial statements, in 2019, the Board adopted new accounting guidance, GASB Statement No. 88 Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements. 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 4-7, and 60-75 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 Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Rappahannock Area 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 the Rappahannock Area Community Services Board’s 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 19, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 27, 2019, on our consideration of Rappahannock Area Community Services Board’s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Rappahannock Area Community Services Board’s internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rappahannock Area Community Services Board’s internal control over financial reporting and compliance.

Robinson, Farmer, Cox, Associates
Charlottesville, Virginia
November 27, 2019

The following Management's Discussion and Analysis (MD&A) of the Rappahannock Area Community Services Board's (RACSB) financial performance provides the reader with an introduction and overview to the financial statements of the RACSB for the fiscal year ended June 30, 2019.

Following this MD&A are the basic financial statements of the RACSB together with the notes thereto which are essential to a full understanding of the data contained in the financial statements. In addition to the basic financial statements and accompanying notes, there is certain information regarding the schedule of expenditures of federal awards. Please read this information in conjunction with the RACSB's financial statements.

## OVERVIEW OF THE FINANCIAL STATEMENTS

The Rappahannock Area Community Services Board presents five basic financial statements for the purpose of analyzing the financial position of the RACSB as of June 30, 2019. These are: (1) a Statement of Net Position; (2) a Statement of Revenues, Expenses and Changes in Net Position; (3) a Statement of Cash Flows; (4) Statement of Fiduciary Net Position; and (5) Statement of Changes in Fiduciary Net Position.

RACSB's financial position is measured in terms of resources (assets and deferred outflows) owned and obligations (liabilities and deferred inflows) owed as of June 30, 2019. This information is reported on the statement of net position, which reflects RACSB's assets and deferred outflows in relation to its debts to its suppliers, employees and other creditors, and deferred inflows. The excess of assets and deferred outflows over liabilities and deferred inflows is the net position.

Information regarding the results of RACSB's operations during fiscal year 2019 is reported in the Statement of Revenues, Expenses and Changes in Net Position. This statement shows how much overall net position increased or decreased during the year as a result of operations.

The Statement of Cash Flows discloses the flow of cash resources into and out of RACSB during fiscal year 2019 (from operations, contributions and other sources) and how those funds were applied (for example: payment of expenses, repayment of debt, purchase of new property, etc.).

Component unit organizations Rappahannock Community Services, Inc., Churchill Drive Group Home, Devon Drive Group Home, Galveston Road Group Home, Igo Road Group Home, Leeland Road Group Home, New Hope Estates Group Home, Piedmont Drive Group Home, Scottsdale Estates Group Home and Stonewall Estates Group Home are included as a part of the financial reporting entity of RACSB.

## Financial Summary

**Financial Position:** A summary of RACSB's Statement of Net Position for fiscal years 2019 and 2018 is presented below.

**Condensed Statement of Net Position**

| | 2019 | 2018 |
|---|---|---|
| Current assets | $ 22,670,730 | $ 24,879,146 |
| Restricted assets | 461,707 | 346,376 |
| Capital assets | 24,149,345 | 23,616,733 |
| Other assets | 7,110,956 | 6,903,668 |
| Total assets | $ 54,392,738 | $ 55,745,923 |
| Deferred outflows of resources | $ 960,986 | $ 752,756 |
| Total assets and deferred outflows of resources | $ 55,353,724 | $ 56,498,679 |
| Current liabilities | $ 4,347,998 | $ 6,510,732 |
| Liabilities payable from restricted assets | 209,978 | 133,822 |
| Long-term liabilities | 1,617,000 | 1,968,215 |
| Total liabilities | $ 6,174,976 | $ 8,612,769 |
| Deferred inflows of resources | $ 1,187,871 | $ 1,945,151 |
| Net Position: | | |
| Net Investment in capital assets | $ 24,055,832 | $ 23,227,780 |
| Restricted | 248,723 | 210,412 |
| Unrestricted | 23,686,322 | 22,502,567 |
| Total net position | $ 47,990,877 | $ 45,940,759 |
| Total liabilities, deferred inflows of resources and net position | $ 55,353,724 | $ 56,498,679 |

The financial position of the Rappahannock Area Community Services Board remains strong. This is evidenced by strong liquidity. The current ratio (current assets /current liabilities) of the RACSB was 5.21 as of June 30, 2019 and 3.80 at June 30, 2018. The liquidity remains strong as a current ratio of 2:1 is considered favorable.

**Change in net position:** A summary of the RACSB's Statement of Revenues, Expenses and Changes in Net Position for 2019 and 2018 is presented below.

**Condensed Statement of Revenues, Expenses and Changes in Net Position**

| | 2019 | 2018 |
|---|---|---|
| Operating revenue | $ 25,250,362 | $ 24,614,155 |
| Operating expenses | 39,603,610 | 40,072,555 |
| Operating income (loss) | $ (14,353,248) | $ (15,458,400) |
| Net non-operating income | 16,403,366 | 18,295,877 |
| Change in net position | $ 2,050,118 | $ 2,837,477 |

**Financial Summary (continued)**

Operating Revenue is the amount of revenue received from providing patient services. The vast majority of those funds, approximately 91% (2019) and 89% (2018), were received from Medicaid (see Note 13). During 2019, Operating Revenue increased 2.58% as compared to a decrease of 5.76% in 2018.

Operating Expenses are comprised of the direct and indirect costs of operating the RACSB. These include salaries and benefits, occupancy, payments to contracting agencies, depreciation, etc. Please see the full Statement of Revenues, Expenses and Changes in Net Position for a complete breakdown of these expenses for 2019 and 2018. During 2019, Operating Expenses decreased approximately 1.17%, compared to a decrease of 5.52% in 2018.

Nonoperating Income is comprised of income received as appropriations or grants as well as other income. Appropriations and grants from the State of Virginia constitute 62.35% for 2019, and 65.82% for 2018 of the net non-operating income while grants from the federal government constitute 13.57% for 2019 and 13.73% for 2018. Appropriations from local governments constituted 7.73% for 2019 and 7.00% for 2018. The remaining net Nonoperating Income and Capital Contributions consist of Other Income, Interest Income and Expense, and Gains (Losses) on the Disposition of Capital Assets. Net Nonoperating Income revenue decreased 10.34% in 2019.

Net Position increased $2,050,118 in 2019 and increased $2,837,477 in 2018.

**Cash flows:** A summary of the RACSB's Statement of Cash Flows for 2019 and 2018 is presented below.

**Condensed Statement of Cash Flows**

| | 2019 | 2018 |
|---|---|---|
| Cash flows from operating activities | $ (15,268,837) | $ (16,159,699) |
| Cash flows from non capital financing activities | 14,634,645 | 16,772,285 |
| Cash flows from capital and related financing activities | (2,525,898) | (1,204,821) |
| Cash flows from investing activities | 434,344 | 319,985 |
| Net increase (decrease) in cash and cash equivalents | $ (2,725,746) | $ (272,250) |
| Cash and cash equivalents, beginning of year | 21,463,679 | 21,735,929 |
| Cash and cash equivalents, end of year | $ 18,737,933 | $ 21,463,679 |

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 complete listing of these transactions). Of these adjustments the significant entries are $1,616,961 (2019), and $1,636,523 (2018) in depreciation.

Cash flows from noncapital financing transactions are comprised of income received as appropriations or grants (please see Statement of Revenues, Expenses and Changes in Net Position discussion above). Cash flows from capital and related financing activities are comprised of the acquisition of capital assets by the RACSB, and principal and interest payments on mortgages and loans payable (please see Note 4 for a breakdown of Capital Assets). Cash flows from investing activities are comprised of interest income.

There was a net decrease of $2,725,746 in 2019, and a net decrease of $272,250 in 2018 in cash and cash equivalents.

## Capital Assets and Debt Administration

Capital Assets

On June 30, 2019, the Rappahannock Area Community Services Board had $24,149,345 in Net Capital Assets. This is comprised of $37,693,408 in capital assets less $13,544,063 in accumulated depreciation (please see Note 4). Of the total capital assets, equipment and vehicles (including information technology assets and vehicles) constitutes 19%, land constitutes 9%, and buildings and improvements constitute 68%. Construction in progress constitutes the remaining 4% and consists of renovation projects.

## Summary

The Statement of Net Position shows that, on June 30, 2019, the RACSB had approximately 5.2 times more current assets than current liabilities. In addition, RACSB had $47,990,877 in total net position.

The Statement of Revenues, Expenses and Changes in Net Position shows the net position of the RACSB increased $2,050,118 during 2019.

The Statement of Cash Flows shows that cash decreased $2,725,746 in 2019.

The financial position of the Rappahannock Area Community Services Board measured, in terms of the five basic financial statements presented as of June 30, 2019, is very strong and secure.

## - Basic Financial Statements -

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

Statement of Net Position
At June 30, 2019
(With Comparative Totals for 2018)

| | 2019 | 2018 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets:** | | |
| Cash and cash equivalents | $ 18,438,188 | $ 21,227,956 |
| Accounts receivable, less allowance for uncollectibles | 4,074,803 | 3,254,751 |
| Grants and other receivables | 41,246 | 178,738 |
| Prepaid items | 116,493 | 217,701 |
| Total current assets | $ 22,670,730 | $ 24,879,146 |
| **Restricted Assets:** | | |
| Cash and cash equivalents | $ 299,745 | $ 235,723 |
| Grants and other receivables | 37,001 | 9,236 |
| Prepaid items | 12,666 | 11,216 |
| Client funds | 112,295 | 90,201 |
| Total restricted assets | $ 461,707 | $ 346,376 |
| **Capital Assets:** | | |
| Property and equipment, less accumulated depreciation | $ 24,149,345 | $ 23,616,733 |
| **Other Assets:** | | |
| Net pension asset | $ 6,998,293 | $ 6,810,237 |
| Net OPEB assets | 112,663 | 93,431 |
| Total other assets | $ 7,110,956 | $ 6,903,668 |
| Total assets | $ 54,392,738 | $ 55,745,923 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | |
| Pension related items | $ 431,063 | $ 467,364 |
| OPEB related items | 529,923 | 285,392 |
| Total deferred outflows of resources | $ 960,986 | $ 752,756 |
| **LIABILITIES** | | |
| **Current Liabilities:** | | |
| Accounts payable and accrued expenses | $ 1,677,801 | $ 1,775,355 |
| Compensated absences | 876,268 | 986,046 |
| Accrued health insurance liabilities | 150,927 | 654,126 |
| Unexpended grant funds and other unearned revenue | 1,643,002 | 3,083,467 |
| Long-term debt, current portion | - | 11,738 |
| Total current liabilities | $ 4,347,998 | $ 6,510,732 |
| **Liabilities Payable from Restricted Assets:** | | |
| Client funds | $ 112,295 | $ 90,201 |
| Accounts payable and accrued expenses | 79,814 | 23,620 |
| Tenant security deposits | 17,869 | 20,001 |
| Total liabilities payable from restricted assets | $ 209,978 | $ 133,822 |
| **Long-term Liabilities:** | | |
| Long-term debt, less current portion | $ - | $ 377,215 |
| Net OPEB liabilities | 1,617,000 | 1,591,000 |
| Total long-term liabilities | $ 1,617,000 | $ 1,968,215 |
| Total liabilities | $ 6,174,976 | $ 8,612,769 |
| **DEFERRED INFLOWS OF RESOURCES** | | |
| Pension related items | $ 857,574 | $ 1,713,604 |
| OPEB related items | 330,297 | 231,547 |
| Total deferred inflows of resources | $ 1,187,871 | $ 1,945,151 |
| **NET POSITION** | | |
| Net investment in capital assets | $ 24,055,832 | $ 23,227,780 |
| Restricted | 248,723 | 210,412 |
| Unrestricted | 23,686,322 | 22,502,567 |
| Total net position | $ 47,990,877 | $ 45,940,759 |

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

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

## Statement of Revenues, Expenses and Changes in Net Position
### Year Ended June 30, 2019
### (With Comparative Totals for 2018)

| | 2019 | 2018 |
|---|---|---|
| **Operating revenue:** | | |
| Net patient service revenue | $ 25,250,362 | $ 24,614,155 |
| **Operating expenses:** | | |
| Salaries and benefits | $ 27,137,108 | $ 27,498,339 |
| Staff development | 206,887 | 213,377 |
| Facilities | 1,924,802 | 1,656,892 |
| Supplies | 1,464,887 | 1,607,977 |
| Travel | 780,619 | 687,434 |
| Contractual and consulting | 5,028,412 | 4,249,252 |
| Depreciation | 1,616,961 | 1,636,523 |
| Other | 1,443,934 | 2,522,761 |
| Total operating expenses | $ 39,603,610 | $ 40,072,555 |
| **Operating income (loss)** | $ (14,353,248) | $ (15,458,400) |
| **Nonoperating income (expense):** | | |
| Capital contributions: | | |
| Commonwealth of Virginia | $ 10,227,776 | $ 12,043,192 |
| Federal government | 2,681,187 | 2,512,591 |
| Local governments | 1,268,161 | 1,274,915 |
| Other | 1,775,783 | 2,363,919 |
| Interest income | 434,344 | 319,985 |
| Interest expense | (9,631) | (17,258) |
| Gain (loss) on disposition of capital assets | 25,746 | (201,467) |
| Net nonoperating income (expense) | $ 16,403,366 | $ 18,295,877 |
| **Change in net position** | $ 2,050,118 | $ 2,837,477 |
| **Net position, beginning of year** | 45,940,759 | 43,103,282 |
| **Net position, end of year** | $ 47,990,877 | $ 45,940,759 |

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

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

**Statement of Cash Flows**
**Year Ended June 30, 2019**
**(With Comparative Totals for 2018)**

| | | 2019 | | 2018 |
|---|---|---|---|---|
| **Cash flows from operating activities:** | | | | |
| Receipts from customers | $ | 24,430,310 | $ | 24,618,261 |
| Payments to suppliers | | (10,595,377) | | (11,005,973) |
| Payments to and for employees | | (29,103,770) | | (29,771,987) |
| Net cash flow provided by (used for) operating activities | $ | (15,268,837) | $ | (16,159,699) |
| **Cash flows from noncapital financing activities:** | | | | |
| Government grants | $ | 12,886,626 | $ | 14,414,000 |
| Other | | 1,748,019 | | 2,358,285 |
| Net cash flow provided by (used for) noncapital financing activities | $ | 14,634,645 | $ | 16,772,285 |
| **Cash flows from capital and related financing activities:** | | | | |
| Purchase of capital assets | $ | (2,134,115) | $ | (1,175,854) |
| Proceeds from sale of capital assets | | 10,288 | | - |
| Issuance of long-term debt | | - | | - |
| Principal payments on mortgages and loans payable | | (392,440) | | (11,709) |
| Interest expense | | (9,631) | | (17,258) |
| Net cash flow provided by (used for) capital and related financing activities | $ | (2,525,898) | $ | (1,204,821) |
| **Cash flows from investing activities:** | | | | |
| Interest income | $ | 434,344 | $ | 319,985 |
| **Net increase (decrease) in cash and cash equivalents** | $ | (2,725,746) | $ | (272,250) |
| **Cash and cash equivalents, beginning of year (including restricted cash of $235,723)** | | 21,463,679 | | 21,735,929 |
| **Cash and cash equivalents, end of year (including restricted cash of $299,745)** | $ | 18,737,933 | $ | 21,463,679 |
| **Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:** | | | | |
| Operating income (loss) | $ | (14,353,248) | $ | (15,458,400) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | | | | |
| Depreciation | | 1,616,961 | | 1,636,523 |
| Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources: | | | | |
| Accounts receivable | | (820,052) | | 4,106 |
| Prepaid items | | 99,758 | | (130,188) |
| Net pension asset | | (188,056) | | (2,905,774) |
| Net OPEB assets | | (19,232) | | (93,431) |
| Deferred outflows of resources | | (208,230) | | 636,760 |
| Accounts payable and accrued expenses | | (553,538) | | (1,050,063) |
| Compensated absences | | (109,778) | | 73,102 |
| Net OPEB liabilities | | 26,000 | | 14,540 |
| Deferred inflows of resources | | (757,280) | | 1,126,635 |
| Other | | (2,142) | | (13,509) |
| Net cash provided by (used for) operating activities | $ | (15,268,837) | $ | (16,159,699) |

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

## RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

### Statement of Fiduciary Net Position
### Fiduciary Funds
### At June 30, 2019

| | | Trust Funds |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ | 188,100 |
| Investments designated for postemployment benefits other than pensions: | | |
| VACO/VML Pooled OPEB Trust Portfolio I | | 2,492,814 |
| Total assets | $ | 2,680,914 |
| **LIABILITIES** | | |
| Amount due to broker | $ | 188,100 |
| **NET POSITION** | | |
| Net position restricted for postemployment benefits other than pensions | $ | 2,492,814 |

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

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

**Statement of Changes in Fiduciary Net Position**
**Fiduciary Funds**
**For the Year Ended June 30, 2019**

| | | Trust Funds |
|---|---|---|
| **ADDITIONS** | | |
| Contributions: | | |
| Employer | $ | 188,100 |
| Total contributions | $ | 188,100 |
| Investment Income: | | |
| From investment activities: | | |
| Net increase (decrease) in fair value of investments | $ | 101,688 |
| Total investment earnings | $ | 101,688 |
| Total additions | $ | 289,788 |
| **DEDUCTIONS** | | |
| Retirement and disability benefits | $ | 16,843 |
| Administrative expenses | | 2,884 |
| Total deductions | $ | 19,727 |
| Change in net position | $ | 270,061 |
| **NET POSITION RESTRICTED FOR POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS** | | |
| Net position, beginning of the year | | 2,222,753 |
| Net position, ending of the year | $ | 2,492,814 |

The accompanying notes to the 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 Stafford, King George, Caroline, Spotsylvania and the City of Fredericksburg in the establishment and operation of community mental health, intellectual disabilities and substance abuse programs as provided for in Chapter 10 of Title 37.1 of the Code of Virginia (1950), relating to the Virginia Department of Behavioral Health and Developmental Services. In addition, the Board provides a system of community mental health, intellectual disabilities and substance abuse services which relate to and are integrated with existing and planned programs. The Board's activities also include Healthy Families, Kids on the Block and Rappahannock Adult Activities. The Board was established in 1970.

### B. Financial Reporting Entity:

For financial reporting purposes the Board includes all organizations for which it is considered financially accountable.

Blended Component Units:

Blended component units, although legally separate entities are, in substance, part of the Organization's operations, and so data from these units are combined with data of the Organization. The Organization has the following blended component units: Rappahannock Community Services, Inc., Churchill Drive Group Home, Devon Drive Group Home, Galveston Road Group Home, Igo Road Group Home, Leeland Road Group Home, New Hope Estates Group Home, Piedmont Drive Group Home, Scottsdale Estates Group Home, and Stonewall Estates Group Home. All of these organizations has 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 handicapped individuals. Rappahannock Community Services has a June 30 fiscal year. All of the other organizations have fiscal years which end on December 31. As of June 30, 2019, Rappahannock Community Services, Inc. has an outstanding loan balance payable to Rappahannock Area Community Services Board in the amount of $93,513.

### 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/expenditure) 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 assets and liabilities and contributions to the pension and OPEB plans made during the current year and subsequent to the net pension asset and net OPEB asset and liability measurement date. For more detailed information on these items, reference the related notes.

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 assets and liabilities are reported as deferred inflows of resources. For more detailed information on these items, reference the related notes.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

### D. Basis of Accounting:

The Board is funded by Federal, State and local funds. Its accounting policies are governed by applicable provisions of these grants and applicable pronouncements and publications of the grantors. The Board utilizes the accrual basis of accounting where revenues are recorded when earned and expenses recorded when incurred, regardless of when the related cash flow takes place.

### E. Financial Statement Presentation:

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

### F. Enterprise Fund Accounting:

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

### 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. Accordingly, actual results could differ from those estimates.

### 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 at the date of acquisition. The Board considers all certificates of deposit to be cash and cash equivalents. The certificates of deposit have maturity dates of more than three months at the date of acquisition; however, the certificates may be redeemed without interest penalty at any time, and thus are considered to be cash and cash equivalents.

### 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.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

### J. Net Client Service Revenue:

Net client 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.

### L. Rental Income:

Rental income is recognized on a monthly basis pursuant to lease agreements, which generally have terms of one year or less. Rental revenue is reported in other nonoperating income.

### M. Capital Assets:

Capital assets acquired that cost $5,000 or more are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method. Donated capital assets are recorded at their acquisition value at the time of the gift. The range of estimated useful lives for depreciation of capital assets is as follows:

| | |
|---|---|
| Buildings and improvements | 10 to 40 years |
| Furniture and equipment | 3 to 10 years |
| Equipment and vehicles | 4 years |

### N. Restricted Assets:

The Board segregates monies held on behalf of third parties and restricted donations which have not yet been totally expended for their intended purposes.

### O. Compensated Absences:

Employees are entitled to certain compensated absences based upon length of employment. Sick leave does not vest with the employee and is recorded as an expense when paid. Vacation pay does vest with the employee and is accrued when earned. Provision for the estimated liability for these compensated absences has been recorded in the financial statements. Because the timing of the use of the benefit cannot be reasonably estimated, all of the liability has been classified as current.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

### 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 at the start of the fiscal year, and mid-year through the fiscal year. The final report is generally due by August 31, unless extended, following the end of the fiscal year.

3. If any changes are made during the fiscal year in state or federal block grants, or local match funds, the Board submits Performance Contract revisions which reflect these changes in time to be received by the Department by required deadlines.

### Q. Fiscal Agent:

The City of Fredericksburg is the fiscal agent for the Rappahannock Area Community Services Board.

### R. Comparative Totals:

Amounts for the prior year are presented for comparative and informational purposes only.

### S. Operating and Nonoperating Revenues and Expenses:

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

### T. 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.

### U. 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.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

### V. Pensions:

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the 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.

### W. Other Postemployment Benefits (OPEB):

For purposes of measuring the net VRS related OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to the OPEB, and OPEB expense, information about the fiduciary net position of the VRS GLI, HIC and VLDP, OPEB Plans and the additions to/deductions from the VRS OPEB Plans' 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.

Investments:

Statutes authorize the Board to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP). The Board's investment policy substantially mirrors the state statutes.

Custodial Credit Risk (Investments):

The Board's investment policy requires the minimizing of custodial credit risk for its investments.

## NOTE 2 - DEPOSITS AND INVESTMENTS: (CONTINUED)

Credit Risk of Debt Securities:

As described above, the Board’s investment policy mirrors the state statutes relating to investments.

The Board’s rated debt investments as of June 30, 2019 were rated by Standard & Poor's and the ratings are presented below using the Standard & Poor's rating scale.

**Rated Debt Investments' Values**

| Rated Debt Investments | | **Fair Quality Ratings** |
|---|---|---|
| | | **AAAm** |
| Virginia Local Government Investment Pool | $ | 31,274 |

Concentration of Credit Risk:

The Board’s investment policy regarding the concentration of credit risk requires the investment of funds to be diversified by limiting investments to avoid over concentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities).

The Board had investments at June 30, 2019, with more than 5% of the total in the securities underlying the repurchase agreement with Union First Market Bank. This investment represented 99% of total investments.

Interest Rate Risk:

The Board’s investment policy for interest rate risk requires that securities mature to meet cash requirements for on-going operations and investing primarily in short-term securities, money market mutual funds, or similar investment pools. The following details the Board’s investments at June 30, 2019.

| **Investment Type** | | **Fair Value** | | **Less Than One Year** |
|---|---|---|---|---|
| Virginia Local Government Investment Pool | $ | 31,274 | $ | 31,274 |
| Repurchase agreements | | 3,040,381 | | 3,040,381 |
| Total | $ | 3,071,655 | $ | 3,071,655 |

The repurchase agreements are collateralized by U.S. Government Securities.

## NOTE 2 - DEPOSITS AND INVESTMENTS: (CONTINUED)

External Investment Pools:

The value of the positions in the external investment pool (Local Government Investment Pool) is the same as the value of the pool shares. As LGIP is not SEC registered, regulatory oversight of the pool rests with the Virginia State Treasury. LGIP is an amortized cost basis portfolio. There are no withdrawal limitations or restrictions imposed on participants.

Cash and Cash Equivalents:

A summary of unrestricted cash and cash equivalents follows:

| | 2019 | 2018 |
|---|---|---|
| Unrestricted: | | |
| Cash on hand and petty cash | $ 535 | $ 535 |
| Cash in banks | 15,365,998 | 15,835,809 |
| Investments | 3,071,655 | 5,391,612 |
| Total | $ 18,438,188 | $ 21,227,956 |

The Board serves as the agent for the receipt and disbursement of certain client funds. These amounts are reported as restricted assets on the Statement of Net Position.

## NOTE 3 - ACCOUNTS RECEIVABLE:

At June 30, 2019 and 2018 the Board had accounts receivable due from the following primary sources:

| | 2019 | 2018 |
|---|---|---|
| Client fees: | | |
| Virginia Department of Medical Assistance Services (Medicaid) | $ 3,468,660 | $ 2,382,264 |
| Direct client and third party | 1,677,660 | 1,153,573 |
| Other | 999,324 | 1,627,031 |
| Total | $ 6,145,644 | $ 5,162,868 |
| Less: Allowances for uncollectibles | 2,070,841 | 1,908,117 |
| Net client fees receivable | $ 4,074,803 | $ 3,254,751 |
| Grants and other: | | |
| Other | $ 78,247 | $ 187,974 |
| Total grants and other receivables | $ 78,247 | $ 187,974 |
| Total receivables | $ 4,153,050 | $ 3,442,725 |

## NOTE 4 - CAPITAL ASSETS:

Capital assets (including component units) consist of the following:

| | Beginning Balances | Increases | Decreases | Ending Balances |
|---|---|---|---|---|
| Capital assets not being depreciated: | | | | |
| Land | $ 3,262,868 | $ - | $ - | $ 3,262,868 |
| Construction in progress | 707,432 | 1,526,415 | 611,170 | 1,622,677 |
| Total capital assets not being depreciated | $ 3,970,300 | $ 1,526,415 | $ 611,170 | $ 4,885,545 |
| Capital assets being depreciated: | | | | |
| Building and improvements | $ 25,332,653 | $ 244,121 | $ - | $ 25,576,774 |
| Equipment and vehicles | 7,204,987 | 974,749 | 948,647 | 7,231,089 |
| Total capital assets being depreciated | $ 32,537,640 | $ 1,218,870 | $ 948,647 | $ 32,807,863 |
| Accumulated depreciation: | | | | |
| Building and improvements | $ 7,430,677 | $ 831,467 | $ - | $ 8,262,144 |
| Equipment and vehicles | 5,460,530 | 785,494 | 964,105 | 5,281,919 |
| Total accumulated depreciation | $ 12,891,207 | $ 1,616,961 | $ 964,105 | $ 13,544,063 |
| Net capital assets being depreciated | $ 19,646,433 | $ (398,091) | $ (15,458) | $ 19,263,800 |
| Net capital assets | $ 23,616,733 | $ 1,128,324 | $ 595,712 | $ 24,149,345 |

Total depreciation expense was $1,616,961 for 2019 and $1,636,523 for 2018.

## NOTE 5 - LEASE COMMITMENTS:

The Board leases office space and other facilities from various lessors. The lease terms range from monthly to one year.

Total rent expense for the years ended June 30, 2019 and 2018 totaled $345,215 and $338,710, respectively.

## NOTE 6 - 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 $876,268 and $986,046 at June 30, 2019 and 2018, respectively. All of the leave balance is reported as current because the long-term portion is not determinable.

## 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.

### *Benefit Structures*

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, as detailed below.

a. Employees hired before July 1, 2010, vested as of January 1, 2013, and have not taken a refund, are covered under Plan 1, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced retirement benefit beginning at age 65 with at least 5 years of creditable service or age 50 with at least 30 years of creditable service. Non-hazardous duty employees may retire with a reduced benefit as early as age 55 with at least 5 years of creditable service or age 50 with at least 10 years of creditable service.

b. Employees hired 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 are covered under Plan 2, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of creditable service or when the sum of their age and service equals 90. Non-hazardous duty employees may retire with a reduced benefit as early as age 60 with at least 5 years of creditable service.

c. Non-hazardous duty employees hired on or after January 1, 2014 are covered by the Hybrid Plan combining the features of a defined benefit plan and a defined contribution plan. Plan 1 and Plan 2 members also had the option of opting into this plan during the election window held January 1 – April 30, 2014 with an effective date of July 1, 2014. Employees covered by this plan are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of creditable service, or when the sum of their age and service equal 90. Employees may retire with a reduced benefit as early as age 60 with at least 5 years of creditable service. For the defined contribution component, members are eligible to receive distributions upon leaving employment, subject to restrictions.

### *Average Final Compensation and Service Retirement Multiplier*

The VRS defined benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the employee's average final compensation multiplied by the employee's total creditable service. Under Plan 1, average final compensation is the average of the employee's 36 consecutive months of highest compensation and the multiplier is 1.7% for non-hazardous duty employees. Under Plan 2, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the retirement multiplier is 1.65% for non-hazardous duty employees. Under the Hybrid Plan, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the multiplier 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.

## NOTE 7 - PENSION PLAN: (CONTINUED)

### *Cost-of-Living Adjustment (COLA) in Retirement and Death and Disability Benefits*

Retirees with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service are eligible for an annual COLA beginning July 1 after one full calendar year from the retirement date. Retirees with a reduced benefit and who have less than 20 years of creditable service are eligible for an annual COLA beginning on July 1 after one calendar year following the unreduced retirement eligibility date. Under Plan 1, the COLA cannot exceed 5.00%. Under Plan 2 and the Hybrid Plan, the COLA cannot exceed 3.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia, as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

### *Employees Covered by Benefit Terms*

As of the June 30, 2017 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

| | Number |
|---|---|
| Inactive members or their beneficiaries currently receiving benefits | 113 |
| Inactive members: | |
| Vested inactive members | 100 |
| Non-vested inactive members | 233 |
| Inactive members active elsewhere in VRS | 149 |
| Total inactive members | 482 |
| Active members | 398 |
| Total covered employees | 993 |

### *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.

The Board's contractually required employer contribution rate for the year ended June 30, 2019 was 1.88% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

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 $242,886 and $359,668 for the years ended June 30, 2019 and June 30, 2018, respectively.

## NOTE 7 - PENSION PLAN: (CONTINUED)

### *Net Pension Asset*

The net pension asset (NPA) is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. For Board, the net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation performed as of June 30, 2017 rolled forward to the measurement date of June 30, 2018.

### *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, 2017, 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, 2018.

| | |
|---|---|
| Inflation | 2.5% |
| Salary increases, including inflation | 3.5% – 5.35% |
| Investment rate of return | 7.0%, net of pension plan 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 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.

## NOTE 7 - PENSION PLAN: (CONTINUED)

### *Actuarial Assumptions – General Employees (Continued)*

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

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

Post-Retirement:
RP-2014 Employee Rates 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, 2017 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. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; the Board was also provided with an opportunity to use an alternative employer contribution rate. For the year ended June 30, 2018, the alternate rate was the employer contribution rate used in FY 2012 or 90% of the actuarially determined employer contribution rate from the June 30, 2015 actuarial valuations, whichever was greater. From July 1, 2018 on, participating employers are assumed to continue 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, 2017 | $ 32,311,554 | $ 39,121,791 | $ (6,810,237) |
| Changes for the year: | | | |
| Service cost | $ 1,446,958 | $ - | $ 1,446,958 |
| Interest | 2,213,618 | - | 2,213,618 |
| Differences between expected and actual experience | 278,214 | - | 278,214 |
| Contributions - employer | - | 358,568 | (358,568) |
| Contributions - employee | - | 902,891 | (902,891) |
| Net investment income | - | 2,892,557 | (2,892,557) |
| Benefit payments, including refunds of employee contributions | (1,376,882) | (1,376,882) | - |
| Administrative expenses | - | (24,571) | 24,571 |
| Other changes | - | (2,599) | 2,599 |
| Net changes | $ 2,561,908 | $ 2,749,964 | $ (188,056) |
| Balances at June 30, 2018 | $ 34,873,462 | $ 41,871,755 | $ (6,998,293) |

## NOTE 7 - PENSION PLAN: (CONTINUED)

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

The following presents the net pension asset of the Board using the discount rate of 7.00%, as well as what the Board's net pension 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%)** |
| Board | | | |
| Net Pension Asset | $ (1,741,684) | $ (6,998,293) | $ (11,262,692) |

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

For the year ended June 30, 2019, the Board recognized pension expense of ($873,697). At June 30, 2019, 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 | $ 188,177 | $ 319,759 |
| Change of assumptions | - | 168,732 |
| Net difference between projected and actual earnings on pension plan investments | - | 369,083 |
| Employer contributions subsequent to the measurement date | 242,886 | - |
| Total | $ 431,063 | $ 857,574 |

## NOTE 7 - PENSION PLAN: (CONTINUED)

$242,886 was reported as deferred outflows of resources related to pensions resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2020. 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 | | |
|---|---|---|
| 2020 | $ | (282,396) |
| 2021 | | 34,366 |
| 2022 | | (389,564) |
| 2023 | | (31,803) |
| 2024 | | - |
| Thereafter | | - |

### *Pension Plan Data*

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

## Note 8 - Long-Term Obligations:

Summary of Changes in Long-Term Debt:

| | | Mortgage Payable |
|---|---|---|
| Balance at July 1, 2018 | $ | 388,953 |
| Add: Issuances/additions | | - |
| Deduct: Retirements | | (388,953) |
| Balance at June 30, 2019 | $ | - |

Long-term obligations consists of the following obligations:

| | | Balance |
|---|---|---|
| Net OPEB liability - Group life Insurance | $ | 1,588,000 |
| Net OPEB liability - VLDP | | 29,000 |
| Total | $ | 1,617,000 |

## NOTE 9 - DEFERRED COMPENSATION PLAN:

The Board provides a deferred compensation plan whereby eligible employees elect to defer a portion of their compensation until some later date. The amount deferred is placed in a contract on behalf of the participant where it is not subject to federal income tax until withdrawn. The Board does not contribute to this plan. The plan assets are not subject to claims of the Board's creditors.

## NOTE 10 - COMMITMENTS AND CONTINGENCIES:

Federal programs in which the Board participates were audited in accordance with the provisions of Uniform Guidance. Pursuant to the provisions of this guidance all major programs were tested for compliance with applicable grant requirements. While no matters of noncompliance were disclosed by audit, the federal government may subject grant programs to additional compliance tests which may result in disallowed expenditures. In the opinion of management, any future disallowances of current grant program expenditures, if any, would be immaterial.

At June 30, 2019, there were outstanding construction contracts in the amount of approximately $607,204 for the renovations of certain facilities.

## NOTE 11 - RISK MANAGEMENT:

The Board participates in the Commonwealth of Virginia Risk Management Pool for general, professional liability, and directors and officers liability coverage which have up to $1,700,000 per occurrence of 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 $1,000,000. There are no surety bonds for directors. The Board assumes risks related to co-insurance, policy deductibles and claims which exceed insurance coverage. There have been no settlements that have exceeded the insurance coverage in the last three years and there has been no reduction in the amount of insurance coverage from the prior year.

### Employee Health Insurance:

The Board has a self-insurance plan for its employee health program. The program is administered by a private insurance carrier. Premium payments are based on the number of employees insured and benefits.

Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors. Incurred but not reported claims have been accrued based upon history and estimates from the insurance carrier. The change in the estimated claims liability for the last three fiscal years is summarized below.

## NOTE 11 - RISK MANAGEMENT:

Employee Health Insurance: (Continued)

The claims liability is reported in current liabilities as accrued health insurance liabilities.

| Fiscal Year Ended | Estimated Claims Liability Beginning of Fiscal Year | Current Year Claims and Changes in Estimates | Claims Payments | Estimated Claims Liability End of Fiscal Year |
|---|---|---|---|---|
| June 30, 2019 | $ 654,126 | $ 2,453,641 | $ 2,956,840 | $ 150,927 |
| June 30, 2018 | 1,566,229 | 2,493,229 | 3,405,332 | 654,126 |
| June 30, 2017 | 1,398,617 | 3,012,013 | 2,844,401 | 1,566,229 |

## NOTE 12 - CONTRIBUTIONS FROM LOCAL PARTICIPATING GOVERNMENTAL UNITS:

The participating local governmental units contributed funds for the Board's operations as follows:

| | 2019 | 2018 |
|---|---|---|
| City of Fredericksburg | $ 272,529 | $ 327,368 |
| County of Spotsylvania | 393,026 | 370,949 |
| County of Stafford | 385,462 | 366,424 |
| County of Caroline | 110,120 | 107,691 |
| County of King George | 107,024 | 102,483 |
| Total | $ 1,268,161 | $ 1,274,915 |

## NOTE 13 - NET PATIENT SERVICE REVENUE SOURCES:

Net patient service revenues for 2019 and 2018 were from the following sources:

| | 2019 | 2018 |
|---|---|---|
| Medicaid | $ 22,991,879 | $ 21,975,187 |
| Direct client and third party | 1,328,458 | 1,412,745 |
| Other | 930,025 | 1,226,223 |
| Total | $ 25,250,362 | $ 24,614,155 |

## NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB):

### Group Life Insurance (GLI) Program (OPEB Plan):

*Plan Description*

The Group Life Insurance (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. All full-time, salaried permanent employees of the state agencies, teachers, and employees of participating political subdivisions are automatically covered by the VRS GLI 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 GLI benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional GLI Program. For members who elect the optional GLI 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 GLI Program OPEB.

The specific information for GLI OPEB, including eligibility, coverage and benefits is described below:

*Eligible Employees*

The GLI Program was established July 1, 1960, for state employees, teachers, and employees of political subdivisions that elect the program. Basic GLI coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their accumulated retirement member contributions and accrued interest.

*Benefit Amounts*

The GLI Program is a defined benefit plan with several components. The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. The accidental death benefit is double the natural death benefit. In addition to basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances that include the following: accidental dismemberment benefit, safety belt benefit, repatriation benefit, felonious assault benefit, and accelerated death benefit option. The benefit amounts 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. For covered members with at least 30 years of creditable service, the minimum benefit payable was set at $8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and was increased to $8,279 effective July 1, 2018.

## NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

### Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

*Contributions*

The contribution requirements for the GLI 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 GLI 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, 2019 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. 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 GLI Program from the entity were $107,971 and $103,386 for the years ended June 30, 2019 and June 30, 2018, respectively.

***GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the GLI Program OPEB***

At June 30, 2019, the entity reported a liability of $1,588,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2018 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 GLI Program for the year ended June 30, 2018 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2018, the participating employer's proportion was .10456% as compared to .10409% at June 30, 2017.

For the year ended June 30, 2019, the participating employer recognized GLI OPEB expense of $32,000. 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, 2019, 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 | $ 78,000 | $ 28,000 |
| Net difference between projected and actual earnings on GLI OPEB program investments | - | 52,000 |
| Change in assumptions | - | 66,000 |
| Changes in proportion | 96,000 | - |
| Employer contributions subsequent to the measurement date | 107,971 | - |
| Total | $ 281,971 | $ 146,000 |

## NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

### 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 GLI Program OPEB (Continued)***

$107,971 was 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, 2020. 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 | | |
|---|---|---|
| 2020 | $ | (2,000) |
| 2021 | | (2,000) |
| 2022 | | (2,000) |
| 2023 | | 12,000 |
| 2024 | | 15,000 |
| Thereafter | | 7,000 |

*Actuarial Assumptions*

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2017, 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, 2018. The assumptions include several employer groups as noted below. Mortality rates included herein are for relevant employer groups. Information for other groups can be referenced in the VRS CAFR.

| | |
|---|---|
| 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 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

### Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

*Actuarial Assumptions: (Continued)*

**Mortality Rates – Largest Ten Locality Employers – General Employees**

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

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

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

The actuarial assumptions used in the June 30, 2017 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% |

**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.

## NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

### Group Life Insurance (GLI) Program (OPEB Plan): (Continued)

*Actuarial Assumptions: (Continued)*

**Mortality Rates – Non-Largest Ten Locality Employers – General Employees: (Continued)**

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.

| | |
|---|---|
| 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% |

***NET GLI OPEB Liability***

The net OPEB liability (NOL) for the GLI Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the measurement date of June 30, 2018, NOL amounts for the GLI Program are as follows (amounts expressed in thousands):

| | | Group Life Insurance OPEB Program |
|---|---|---|
| Total GLI OPEB Liability | $ | 3,113,508 |
| Plan Fiduciary Net Position | | 1,594,773 |
| Employers' Net GLI OPEB Liability (Asset) | $ | 1,518,735 |
| Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability | | 51.22% |

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 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

### 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 ended June 30, 2018, 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 which was 100% of the actuarially determined contribution rate. From July 1, 2018 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 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)**

**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 following 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 | Current Discount | 1% Increase |
| | (6.00%) | (7.00%) | (8.00%) |
| Board's proportionate share of the Group Life Insurance Program Net OPEB Liability | $ 2,076,000 | $ 1,588,000 | $ 1,193,000 |

***GLI Program Fiduciary Net Position***

Detailed information about the GLI Program's Fiduciary Net Position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

**Virginia Local Disability Program (VLDP) (OPEB Plan):**

***Plan Description***

Political subdivisions are required by Title 51.1 of the Code of Virginia, as amended, to provide short-term and long-term disability benefits for their Hybrid employees either through a local plan or through the Virginia Local Disability Program (VLDP). This is a multiple-employer, cost-sharing plan administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for eligible public employer groups in the Commonwealth of Virginia.

The specific information for the VLDP OPEB, including eligibility, coverage, and benefits is described below:

***Eligible Employees***

The Political Subdivision VLDP was implemented January 1, 2014 to provide benefits for non-work-related and work-related disabilities for employees with Hybrid retirement benefits. All full-time, salaried general employees; including local law enforcement officers, firefighters, or emergency medical technicians of political subdivisions who do not provide enhanced hazardous duty benefits; who are in the VRS Hybrid Retirement Plan benefit structure and whose employer has not elected to opt out of the VRS-sponsored program are automatically covered by the VRS Political Subdivision VLDP.

## NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

### Virginia Local Disability Program (VLDP) (OPEB Plan): (Continued)

***Benefit Amounts***

The VLDP provides a short-term disability benefit beginning after a seven-calendar-day waiting period from the first day of disability. Employees become eligible for non-work-related short-term disability coverage after one year of continuous participation in VLDP with their current employer. During the first five years of continuous participation in VLDP with their current employer, employees are eligible for 60% of their pre-disability income if they go out on non-work-related or work-related disability. Once the eligibility period is satisfied, employees are eligible for higher income replacement levels.

The VLDP provides a long-term disability benefit beginning after 125 workdays of short-term disability. Members are eligible if they are unable to work at all or are working fewer than 20 hours per week. Members approved for long-term disability will receive 60% of their pre-disability income. If approved for work-related long-term disability, the VLDP benefit will be offset by the workers' compensation benefit. Members will not receive a VLDP benefit if their workers' compensation benefit is greater than the VLDP benefit.

***VLDP Notes***

Members approved for short-term or long-term disability at age 60 or older will be eligible for a benefit, provided they remain medically eligible. VLDP Long-Term Care Plan is a self-funded program that assists with the cost of covered long-term care services.

***Contributions***

The contribution requirements for active Hybrid employees is governed by §51.1-1178(C) of the Code of Virginia, as amended, but may be impacted as a result of funding provided to political subdivisions by the Virginia General Assembly. Each political subdivision's contractually required employer contribution rate for the year ended June 30, 2019 was 0.72% of covered employee compensation for employees in the VRS Political Subdivision VDLP. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate 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 from the Board to the VRS Political Subdivision VDLP were $73,579 and $54,321 for the years ended June 30, 2019 and June 30, 2018, respectively.

***VLDP OPEB Liabilities, VLDP OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to VLDP OPEB***

At June 30, 2019, the Board reported a liability of $29,000 for its proportionate share of the VLDP Net OPEB Liability. The Net VLDP OPEB Liability was measured as of June 30, 2018 and the total VLDP OPEB liability used to calculate the Net VLDP OPEB Liability was determined by an actuarial valuation as of that date. The Board's proportion of the Net VLDP OPEB Liability was based on the Board's actuarially determined employer contributions to the VLDP OPEB plan for the year ended June 30, 2018 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2018, the Board's proportion of the VLDP was 3.72523% as compared to 4.21280% at June 30, 2017.

For the year ended June 30, 2019, the Board recognized VLDP OPEB expense of $64,000. Since there was a change in proportionate share between measurement dates a portion of the VLDP Net OPEB expense was related to deferred amounts from changes in proportion.

## NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

### Virginia Local Disability Program (VLDP) (OPEB Plan): (Continued)

***VLDP OPEB Liabilities, VLDP OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to VLDP OPEB: (Continued)***

At June 30, 2019, the Board reported deferred outflows of resources and deferred inflows of resources related to the VLDP OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ - | $ 3,000 |
| Change in assumptions | - | 3,000 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | - | 2,000 |
| Employer contributions subsequent to the measurement date | 73,579 | - |
| Total | $ 73,579 | $ 8,000 |

$73,579 was reported as deferred outflows of resources related to the VLDP OPEB resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the Net VLDP OPEB Liability in the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the VLDP OPEB will be recognized in the VLDP OPEB expense in future reporting periods as follows:

| Year Ended June 30 | |
|---|---|
| 2020 | $ (2,000) |
| 2021 | (2,000) |
| 2022 | (1,000) |
| 2023 | (1,000) |
| 2024 | (1,000) |
| Thereafter | (1,000) |

## NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

### Virginia Local Disability Program (VLDP) (OPEB Plan): (Continued)

*Actuarial Assumptions*

The total VLDP OPEB liability for the VLDP was based on an actuarial valuation as of June 30, 2017, 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, 2018.

| | |
|---|---|
| Inflation | 2.5% |
| Salary increases, including inflation | 3.5%-5.35% |
| Investment rate of return | 7.0%, net of plan 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.

**Mortality Rates – Largest Ten Locality Employers – General and Non-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 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 Life Mortality Table projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

## NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

### Virginia Local Disability Program (VLDP) (OPEB Plan): (Continued)

*Actuarial Assumptions: (Continued)*

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

The actuarial assumptions used in the June 30, 2017 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 year age and service year |
| Disability Rates | Lowered disability rates |
| Salary Scale | No change |
| Line of Duty Disability | Increased rate from 14% to 20% |

**Mortality Rates – Non-Largest Ten Locality Employers – General and Non-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 Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

## NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

### Virginia Local Disability Program (VLDP) (OPEB Plan): (Continued)

*Actuarial Assumptions: (Continued)*

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

The actuarial assumptions used in the June 30, 2017 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 year age and service year |
| Disability Rates | Lowered disability rates |
| Salary Scale | No change |
| Line of Duty Disability | Increased rate from 14% to 15% |

***Net VLDP OPEB Liability***

The net OPEB liability (NOL) for the Political Subdivision VLDP 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, 2018, NOL amounts for the VRS Political Subdivision VLDP is as follows (amounts expressed in thousands):

| | | Political Subdivision VLDP OPEB Plan |
|---|---|---|
| Total Political Subdivision VLDP OPEB Liability | $ | 1,588 |
| Plan Fiduciary Net Position | | 816 |
| Political Subdivision net VLDP OPEB Liability (Asset) | $ | 772 |
| Plan Fiduciary Net Position as a Percentage of the Total Political Subdivision VLDP OPEB Liability | | 51.39% |

## NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

### Virginia Local Disability Program (VLDP) (OPEB Plan): (Continued)

#### *Net VLDP OPEB Liability: (Continued)*

The total Political Subdivision VLDP OPEB liability is calculated by the System's actuary, and the plan's fiduciary net position is reported in the System's financial statements. The net Political Subdivision VLDP 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.

#### *Long-Term Expected Rate of Return*

The long-term expected rate of return on VRS 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 VRS 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 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

### Virginia Local Disability Program (VLDP) (OPEB Plan): (Continued)

***Discount Rate***

The discount rate used to measure the total VLDP OPEB was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ended June 30, 2018, the rate contributed by the Board for the VLDP was subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100% of the actuarially determined contribution rate. From July 1, 2018 on, all agencies are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the VLDP OPEB 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 VLDP OPEB liability.

***Sensitivity of the Board's Proportionate Share of the VLDP Net OPEB Liability to Changes in the Discount Rate***

The following presents the Board's proportionate share of the net VLDP OPEB liability using the discount rate of 7.00%, as well as what the Board's proportionate share of the net VLDP 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 | Current Discount | 1% Increase |
| | (6.00%) | (7.00%) | (8.00%) |
| Board's proportionate share of the Net VLDP OPEB Liability | $ 34,000 | $ 29,000 | $ 25,000 |

***Political Subdivision VLDP OPEB Fiduciary Net Position***

Detailed information about the VRS Political Subdivision VLDP's Fiduciary Net Position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/ Publications/2018-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

## NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

### Health Insurance Credit (HIC) Program (OPEB Plan):

*Plan Description*

The Political Subdivision Health Insurance Credit (HIC) Program was established pursuant to §51.1-1400 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. All full-time, salaried permanent employees of participating political subdivisions are automatically covered by the VRS Political Subdivision HIC Program upon employment. This is an agent multiple-employer plan administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for public employer groups in the Commonwealth of Virginia. Members earn one month of service credit toward the benefit for each month they are employed and for which their employer pays contributions to VRS. The HIC is a tax-free reimbursement in an amount set by the General Assembly for each year of service credit against qualified health insurance premiums retirees pay for single coverage, excluding any portion covering the spouse or dependents. The credit cannot exceed the amount of the premiums and ends upon the retiree's death.

The specific information about the Political Subdivision HIC Program OPEB, including eligibility, coverage and benefits is described below:

*Eligible Employees*

The Political Subdivision Retiree HIC Program was established July 1, 1993 for retired political subdivision employees of employers who elect the benefit and retire with at least 15 years of service credit. Eligible employees include full-time permanent salaried employees of the participating political subdivision who are covered under the VRS pension plan. These employees are enrolled automatically upon employment.

*Benefit Amounts*

The Political Subdivision Retiree HIC Program is a defined benefit plan that provides a credit toward the cost of health insurance coverage for retired political subdivision employees of participating employers. For employees who retire, the monthly benefit is $1.50 per year of service per month with a maximum benefit of $45.00 per month. For employees who retire on disability or go on long-term disability under the Virginia Local Disability Program (VLDP), the monthly benefit is $45.00 per month.

*HIC Program Notes*

The monthly HIC benefit cannot exceed the individual premium amount. There is no HIC for premiums paid and qualified under LODA; however, the employee may receive the credit for premiums paid for other qualified health plans. Employees who retire after being on long-term disability under VLDP must have at least 15 years of service credit to qualify for the HIC as a retiree.

## NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

### Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

#### *Employees Covered by Benefit Terms*

As of the June 30, 2017 actuarial valuation, the following employees were covered by the benefit terms of the HIC OPEB plan:

| | Number |
|---|---|
| Inactive members or their beneficiaries currently receiving benefits | 28 |
| Inactive members: | |
| Vested inactive members | 5 |
| Total inactive members | 33 |
| Active members | 398 |
| Total covered employees | 431 |

#### *Contributions*

The contribution requirements for active employees is governed by §51.1-1402(E) 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. The Board's contractually required employer contribution rate for the year ended June 30, 2019 was .07% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate 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 from the Board to the HIC Program were $14,470 and $17,825 for the years ended June 30, 2019 and June 30, 2018, respectively.

#### *Net HIC OPEB Asset*

The Board's net HIC OPEB asset was measured as of June 30, 2018. The total HIC OPEB liability was determined by an actuarial valuation performed as of June 30, 2017, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

## NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

### Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

*Actuarial Assumptions*

The total HIC OPEB liability was based on an actuarial valuation as of June 30, 2017, 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, 2018.

| | |
|---|---|
| Inflation | 2.5% |
| Salary increases, including inflation: | |
| Locality - General employees | 3.5%-5.35% |
| 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 the OPEB liabilities.

**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 Life Mortality Table projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

## NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

### Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

**Mortality Rates – Largest Ten Locality Employers – General Employees: (Continued)**

The actuarial assumptions used in the June 30, 2017 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% |

**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 Life Mortality Table 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, 2017 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% |

**NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)**

**Health Insurance Credit (HIC) 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 HIC OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that 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 ended June 30, 2018, the rate contributed by the entity for the HIC OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly, which was 100% of the actuarially determined contribution rate. From July 1, 2018 on, employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the HIC 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 HIC OPEB liability.

## NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

### Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

*Changes in Net HIC OPEB Liability (Asset)*

| | Increase (Decrease) | | |
|---|---|---|---|
| | Total HIC OPEB Liability (a) | Plan Fiduciary Net Position (b) | Net HIC OPEB Liability (Asset) (a) - (b) |
| Balances at June 30, 2017 | $ 287,363 | $ 290,561 | $ (3,198) |
| Changes for the year: | | | |
| Service cost | $ 11,684 | $ - | $ 11,684 |
| Interest | 19,519 | - | 19,519 |
| Differences between expected and actual experience | (1,603) | - | (1,603) |
| Contributions - employer | - | 17,809 | (17,809) |
| Net investment income | - | 20,704 | (20,704) |
| Benefit payments | (17,046) | (17,046) | - |
| Administrative expenses | - | (491) | 491 |
| Other changes | - | (1,437) | 1,437 |
| Net changes | $ 12,554 | $ 19,539 | $ (6,985) |
| Balances at June 30, 2018 | $ 299,917 | $ 310,100 | $ (10,183) |

*Sensitivity of the Board's Health Insurance Credit Net OPEB Liability (Asset) to Changes in the Discount Rate*

The following presents the Board's HIC Program net HIC OPEB liability (asset) using the discount rate of 7.00%, as well as what the Board's net HIC OPEB 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%) |
| Board's Net HIC OPEB Liability/(Asset) | $ 26,047 | $ (10,183) | $ (40,596) |

## NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

### Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

***HIC Program OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to HIC Program OPEB***

For the year ended June 30, 2019, the Board recognized HIC Program OPEB expense of $8,671. At June 30, 2019, the Board reported deferred outflows of resources and deferred inflows of resources related to the Board's HIC Program from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ - | $ 1,378 |
| Net difference between projected and actual earnings on HIC OPEB plan investments | - | 7,320 |
| Change in assumptions | - | 7,763 |
| Employer contributions subsequent to the measurement date | 14,470 | - |
| Total | $ 14,470 | $ 16,461 |

$14,470 was reported as deferred outflows of resources related to the HIC OPEB resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the Net HIC OPEB Liability in the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the HIC OPEB will be recognized in the HIC OPEB expense in future reporting periods as follows:

| Year Ended June 30 | |
|---|---|
| 2020 | $ (4,162) |
| 2021 | (4,162) |
| 2022 | (4,164) |
| 2023 | (1,832) |
| 2024 | (1,750) |
| Thereafter | (391) |

## NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

### Health Insurance Credit (HIC) Program (OPEB Plan): (Continued)

*HIC Program Plan Data*

Information about the VRS Political Subdivision HIC Program is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

### Medical, Dental, and Life Insurance - (OPEB Plan):

*Plan Description*

The Post-Retirement Medical Plan (The Plan) is a single-employer defined benefit healthcare plan which offers health insurance for retired employees. Retirees are eligible for postretirement medical coverage if they are a full-time employee who retires directly from the Rappahannock Area Community Services Board and is eligible for retirement from VRS. The Board's post-retirement medical plan does not issue a separate, audited GAAP basis report.

**Plan Administration**

Management of The Plan is vested in the Plan Trustees, which consists of the Board members of the Rappahannock Area Community Services Board.

*Benefits Provided*

The Rappahannock Area Community Services Board has established an irrevocable trust pursuant to Section 15.2-1544 of the Code of Virginia, as amended for the purpose of accumulating and investing assets to fund Other Postemployment Benefits (OPEB) and to participate in the Virginia Pooled OPEB Trust Fund and has established a Local Finance Board to become a Participating Employer in the Trust Fund. The Trust Fund provides administrative, custodial and investment services to the Participating Employers in the Trust Fund. The Board participates in the Virginia Pooled OPEB Trust Fund, an irrevocable trust established for the purpose of accumulating assets to fund postemployment benefits other than pensions. The Trust Fund issues a separate report, which can be obtained by requesting a copy from the plan administrator, Virginia Municipal League (VML) at P.O. Box 12164, Richmond, Virginia 23241.

Postemployment benefits are provided to eligible retirees include Medical, Dental, and Life insurance. The benefits that are provided for active employees are the same for eligible retirees, spouses and dependents of eligible retirees. All permanent employees of the Board who meet eligibility requirements of the pension plan are eligible to receive postemployment health care benefits. Retirees are reimbursed for the allowable portion of premiums paid. Coverage ceases when retirees reach the age of 65. Surviving spouses are not allowed access to the plan.

## NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

### Medical, Dental, and Life Insurance – (OPEB Plan): (Continued)

#### *Plan Membership*

At June 30, 2019 (measurement date), the following employees were covered by the benefit terms:

| | Total |
|---|---|
| Total active employees with coverage | 419 |
| Total retirees with coverage | 8 |
| Total | 427 |

The Board establishes rates based on an actuarially determined rate. For the year ended June 30, 2019, the Board's average contribution rate was 0.97% percent of covered- payroll. For the year ended June 30, 2019 the Board contributed $204,649 to the Plan. Plan members are not required to contribute to the plan.

#### *Investment Policy*

The Board’s policy in regard to the allocation of invested assets is established and may be amended by the Board by a majority vote of its members. It is the policy of the Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans. The following was the Board's adopted asset allocation policy as of June 30, 2019:

| Asset Class | Target Percentage |
|---|---|
| Core Fixed Income | 19.60% |
| High Yield Bonds | 1.40% |
| Large Cap US Equities | 26.00% |
| Small Cap US Equities | 10.00% |
| Developed Foreign Equities | 13.00% |
| Emerging Market Equities | 5.00% |
| Private Equity | 5.00% |
| Hedge Funds/Absolute Return | 10.00% |
| Real Estate (REITS) | 7.00% |
| Commodities | 3.00% |
| Total | 100.00% |

## NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

### Medical, Dental, and Life Insurance – (OPEB Plan): (Continued)

*Concentrations*

The Trust does not hold investments in any one organization that represent five percent or more of the OPEB Trust's Fiduciary Net Position.

*Rate of Return*

For the year ended June 30, 2019, the annual money-weighted rate of return on investments, net of investment expense, was 4.56 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

*Schedule of Investment Returns*

**Last 10 Fiscal Years**

| | Annual Money-Weighted Rate of Return Net of Investment Expense |
|---|---|
| 6/30/2017 | 12.73% |
| 6/30/2018 | 9.53% |
| 6/30/2019 | 4.56% |

*The chart is intended to show information for 10 years. More data will be added as it becomes available.*

*Net OPEB Liability*

The Board's net OPEB liability was measured as of June 30, 2019. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of January 1, 2019.

*Actuarial Assumptions*

The total OPEB liability in the January 1, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

| | |
|---|---|
| Inflation | 2.50% |
| Salary Increases | 3.00% |
| Discount Rate | 6.50% |
| Investment Rate of Return | 6.50% |

Mortality rates were based on the RP-2014 Healthy Annuitant Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

## NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

### Medical, Dental, and Life Insurance - (OPEB Plan): (Continued)

*Actuarial Assumptions: (Continued)*

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an actuarial experience study at January 1, 2019.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of 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. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2019 (see the discussion of The Plan's investment policy) are summarized in the following table:

| Asset Class | Long-Term Expected Geometric Real Rate of Return |
|---|---|
| Core Fixed Income | 2.02% |
| High Yield Bonds | 3.54% |
| Large Cap US Equities | 3.76% |
| Small Cap US Equities | 4.11% |
| Developed Foreign Equities | 4.59% |
| Emerging Market Equities | 5.33% |
| Private Equity | 5.57% |
| Hedge Funds/Absolute Return | 1.66% |
| Real Estate (REITS) | 3.13% |
| Commodities | 1.42% |
| Assumed Inflation | 2.60% |
| Portfolio Real Mean Return | 3.95% |
| Portfolio Nominal Mean Return | 6.65% |
| Portfolio Standard Deviation | 10.85% |
| **Long-Term Expected Rate of Return** | **6.50%** |

*Discount Rate*

The discount rate used to measure the total OPEB liability was 6.5 percent. The projection of cash flows used to determine the discount rate assumed that contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

## NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

### Medical, Dental, and Life Insurance - (OPEB Plan): (Continued)

***Changes in Net OPEB Liability (Asset)***

| | Increase (Decrease) | | |
|---|---|---|---|
| | Total OPEB Liability (a) | Plan Fiduciary Net Position (b) | Net OPEB Liability (Asset) (a)-(b) |
| Balances at June 30, 2018 | $ 2,132,520 | $ 2,222,753 | $ (90,233) |
| Changes for the year: | | | |
| Service cost | $ 147,754 | $ - | $ 147,754 |
| Interest | 167,114 | - | 167,114 |
| Effect of economic/demographic gains or losses | 123,473 | - | 123,473 |
| Changes in assumptions | (147,135) | - | (147,135) |
| Contributions - employer | - | 204,649 | (204,649) |
| Net investment income | - | 101,688 | (101,688) |
| Administrative expenses | - | (2,884) | 2,884 |
| Benefit payments | (33,392) | (33,392) | - |
| Net changes | $ 257,814 | $ 270,061 | $ (12,247) |
| Balances at June 30, 2019 | $ 2,390,334 | $ 2,492,814 | $ (102,480) |

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

The following amounts present the net OPEB liability (asset) of the Board, as well as what the net OPEB liability (asset) would be if it were calculated using a discount rate that is one percentage point lower (5.50%) or one percentage point higher (7.50%) than the current discount rate:

| Rate | | |
|---|---|---|
| 1% Decrease (5.50%) | Current Discount Rate (6.50%) | 1% Increase (7.50%) |
| $ 250,366 | $ (102,480) | $ (402,343) |

***Sensitivity of the Net OPEB Liability (Asset) to Changes in the Healthcare Cost Trend Rates***

The following presents the net OPEB liability (asset) of the Board, as well as what the net OPEB liability (asset) would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.40%) or one percentage point higher (7.40%) than the current healthcare cost trend rates:

| Rates | | |
|---|---|---|
| 1% Decrease (5.40%) | Healthcare Cost Trend (6.40%) | 1% Increase (7.40%) |
| $ (384,263) | $ (102,480) | $ 243,171 |

## NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

### Medical, Dental, and Life Insurance - (OPEB Plan): (Continued)

***OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources***

For the year ended June 30, 2019, the Board recognized OPEB expense in the amount of $157,402. At June 30, 2019, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resouces | Deferred Inflows of Resources |
|---|---|---|
| Net difference between projected and actual earnings on OPEB plan investments | $ 47,758 | $ 26,200 |
| Change in assumptions | - | 133,636 |
| Differences between expected and actual experience | 112,145 | - |
| Total | $ 159,903 | $ 159,836 |

Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense in future reporting periods as follows:

| Year Ended June 30 | |
|---|---|
| 2020 | $ 1,036 |
| 2021 | 1,036 |
| 2022 | 1,035 |
| 2023 | 9,767 |
| 2024 | (2,171) |
| Thereafter | (10,636) |

Additional disclosures on changes in net OPEB liability, related ratios, and employer contributions can be found in the required supplementary information following the notes to the financial statements.

## NOTE 14 - OTHER POSTEMPLOYMENT BENEFITS (OPEB): (CONTINUED)

### Aggregate OPEB Pension Information:

| | Rappahannock Area Community Services Board | | | | |
|---|---|---|---|---|---|
| | Deferred Outflows | Deferred Inflows | Net OPEB Asset | Net OPEB Liability | OPEB Expense |
| VRS OPEB Plans: | | | | | |
| Group Life Insurance Program (Note 14) | $ 281,971 | $ 146,000 | $ - | $ 1,588,000 | $ 32,000 |
| Health Insurance Credit Program (Note 14) | 14,470 | 16,461 | 10,183 | - | 8,671 |
| Virginia Local Disability Program (Note 14) | 73,579 | 8,000 | - | 29,000 | 64,000 |
| Stand-Alone Plan (Note 14) | 159,903 | 159,836 | 102,480 | - | 157,400 |
| Totals | $ 529,923 | $ 330,297 | $ 112,663 | $ 1,617,000 | $ 262,071 |

## NOTE 15 - RESTRICTED NET POSITION:

Restricted net position consists of the net position of the component units with HUD funding less the net investment in capital assets or $248,723 at June 30, 2019 and $210,412 at June 30, 2018. The net position is considered restricted due to the regulatory oversight over the Organization by the U.S. Department of Housing and Urban Development and the restrictions on the use of the property pursuant to the acceptance of capital advance funds by the Organization.

## NOTE 16 - ADOPTION OF ACCOUNTING PRINCIPLES:

The Board implemented the financial reporting provisions of Governmental Accounting Standards Board Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements* during the fiscal year ended June 30, 2019. This Statement clarifies which liabilities governments should include when disclosing information related to debt. It also requires that additional essential information related to debt be disclosed in the notes to the financial statements. No restatement was required as a result of this implementation.

## NOTE 17 - UPCOMING PRONOUNCEMENTS:

Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Statement No. 87, *Leases*, requires 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. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

## NOTE 17 - UPCOMING PRONOUNCEMENTS: (CONTINUED)

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, provides guidance for reporting capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No, 14 and No. 61*, provides guidance for reporting a government's majority equity interest in a legally separate organization and for reporting financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

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

# - Required Supplementary Information -

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

**Schedule of Changes in Net Pension Liability (Asset) and Related Ratios**
**For the Measurement Dates of June 30, 2014 through June 30, 2018**

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| **Total pension liability** | | | | | |
| Service cost | $ 1,446,958 | $ 1,497,145 | $ 1,480,553 | $ 1,514,991 | $ 1,453,677 |
| Interest | 2,213,618 | 2,123,849 | 2,016,286 | 1,870,481 | 1,701,667 |
| Differences between expected and actual experience | 278,214 | (523,148) | (863,558) | (442,973) | - |
| Changes of assumptions | - | (496,368) | - | - | - |
| Benefit payments, including refunds of employee contributions | (1,376,882) | (1,261,255) | (932,066) | (787,076) | (700,350) |
| **Net change in total pension liability** | $ 2,561,908 | $ 1,340,223 | $ 1,701,215 | $ 2,155,423 | $ 2,454,994 |
| **Total pension liability - beginning** | 32,311,554 | 30,971,331 | 29,270,116 | 27,114,693 | 24,659,699 |
| **Total pension liability - ending (a)** | $ 34,873,462 | $ 32,311,554 | $ 30,971,331 | $ 29,270,116 | $ 27,114,693 |
| | | | | | |
| **Plan fiduciary net position** | | | | | |
| Contributions - employer | $ 358,568 | $ 370,563 | $ 713,143 | $ 689,023 | $ 983,504 |
| Contributions - employee | 902,891 | 894,895 | 808,979 | 791,251 | 761,729 |
| Net investment income | 2,892,557 | 4,269,791 | 617,675 | 1,473,770 | 4,236,654 |
| Benefit payments, including refunds of employee contributions | (1,376,882) | (1,261,255) | (932,066) | (787,076) | (700,350) |
| Administrative expense | (24,571) | (24,174) | (20,392) | (19,191) | (21,737) |
| Other | (2,599) | (3,823) | (254) | (313) | 224 |
| **Net change in plan fiduciary net position** | $ 2,749,964 | $ 4,245,997 | $ 1,187,085 | $ 2,147,464 | $ 5,260,024 |
| **Plan fiduciary net position - beginning** | 39,121,791 | 34,875,794 | 33,688,709 | 31,541,245 | 26,281,221 |
| **Plan fiduciary net position - ending (b)** | $ 41,871,755 | $ 39,121,791 | $ 34,875,794 | $ 33,688,709 | $ 31,541,245 |
| | | | | | |
| **Board's net pension asset - ending (a) - (b)** | $ (6,998,293) | $ (6,810,237) | $ (3,904,463) | $ (4,418,593) | $ (4,426,552) |
| | | | | | |
| **Plan fiduciary net position as a percentage of the total pension liability** | 120.07% | 121.08% | 112.61% | 115.10% | 116.33% |
| | | | | | |
| **Covered payroll** | $ 19,787,291 | $ 19,145,833 | $ 17,277,503 | $ 16,124,859 | $ 15,309,883 |
| | | | | | |
| **Board's net pension asset as a percentage of covered payroll** | -35.37% | -35.57% | -22.60% | -27.40% | -28.91% |

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 - Pension Plan
## For the Years Ended June 30, 2010 through June 30, 2019

| 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) |
|---|---|---|---|---|---|
| 2019 | $ 242,886 | $ 242,886 | $ - | $ 20,672,063 | 1.17% |
| 2018 | 359,668 | 359,668 | - | 19,787,291 | 1.82% |
| 2017 | 470,988 | 470,988 | - | 19,145,833 | 2.46% |
| 2016 | 772,304 | 772,304 | - | 17,277,503 | 4.47% |
| 2015 | 720,781 | 720,781 | - | 16,124,859 | 4.47% |
| 2014 | 987,487 | 987,487 | - | 15,309,883 | 6.45% |
| 2013 | 913,196 | 913,196 | - | 14,158,083 | 6.45% |
| 2012 | 597,811 | 597,811 | - | 12,773,732 | 4.68% |
| 2011 | 579,292 | 579,292 | - | 12,378,029 | 4.68% |
| 2010 | 505,793 | 505,793 | - | 12,071,424 | 4.19% |

**Notes to Required Supplementary Information - Pension Plan**
**For the Year Ended June 30, 2019**

**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:

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% |

**RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD**

Schedule of Changes in the Board's Net OPEB Liability (Asset) and Related Ratios - Health Plan
For the Years Ended June 30, 2017 and June 30, 2019

| | 2017 | 2018 | 2019 |
|---|---|---|---|
| **Total OPEB liability** | | | |
| Service cost | $ 124,720 | $ 133,450 | $ 147,754 |
| Interest | 124,910 | 140,751 | 167,114 |
| Changes in assumptions | - | - | (147,135) |
| Effect of economic/demographic gains or losses | - | - | 123,473 |
| Benefit payments | (27,036) | (37,282) | (33,392) |
| **Net change in total OPEB liability** | $ 222,594 | $ 236,919 | $ 257,814 |
| **Total OPEB liability - beginning** | 1,673,007 | 1,895,601 | 2,132,520 |
| **Total OPEB liability - ending (a)** | $ 1,895,601 | $ 2,132,520 | $ 2,390,334 |
| | | | |
| **Plan fiduciary net position** | | | |
| Contributions - employer | $ 271,062 | $ 175,677 | $ 204,649 |
| Net investment income | 189,753 | 181,705 | 101,688 |
| Administrative expenses | (2,236) | (2,579) | (2,884) |
| Benefit payments | (27,036) | (37,282) | (33,392) |
| **Net change in plan fiduciary net position** | $ 431,543 | $ 317,521 | $ 270,061 |
| **Plan fiduciary net position - beginning** | 1,473,689 | 1,905,232 | 2,222,753 |
| **Plan fiduciary net position - ending (b)** | $ 1,905,232 | $ 2,222,753 | $ 2,492,814 |
| | | | |
| **Board's net OPEB liability (asset) - ending (a) - (b)** | $ (9,631) | $ (90,233) | $ (102,480) |
| | | | |
| **Plan fiduciary net position as a percentage of the total OPEB liability** | 100.51% | 104.23% | 104.29% |
| | | | |
| **Covered payroll** | $ 18,964,868 | $ 18,964,868 | $ 21,000,512 |
| | | | |
| **Board's net OPEB liability (asset) as a percentage of covered payroll** | -0.05% | -0.48% | -0.49% |

Schedule is intended to show information for 10 years. Additional years will be included as they become available.

Schedule of Employer Contributions - Health Plan
For the Years Ended June 30, 2010 through June 30, 2019

| Date | Actuarially Determined Contribution (ADC) (1) | Contributions in Relation to ADC (2) | Contribution Deficiency (Excess) (3) | Covered Payroll (4) | Contributions as a % of Covered Payroll (5) |
|---|---|---|---|---|---|
| 2019 | $ 145,073 | $ 204,649 | $ (59,576) | $ 21,000,512 | 0.97% |
| 2018 | 154,000 | 175,677 | (21,677) | 18,964,868 | 0.93% |
| 2017 | 149,500 | 271,062 | (121,562) | 18,964,868 | 1.43% |
| 2016 | 87,100 | 114,000 | (26,900) | 16,297,400 | 0.70% |
| 2015 | 80,900 | 80,900 | - | 16,297,400 | 0.50% |
| 2014 | 50,600 | 75,200 | (24,600) | 13,873,200 | 0.54% |
| 2013 | 50,600 | 72,600 | (22,000) | 13,873,200 | 0.52% |
| 2012 | 53,000 | 67,100 | (14,100) | 13,013,200 | 0.52% |
| 2011 | 53,000 | 56,700 | (3,700) | 13,013,200 | 0.44% |
| 2010 | 53,000 | 72,320 | (19,320) | 11,958,000 | 0.60% |

**RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD**

Schedule of Investment Returns - Health Plan
Last Ten Fiscal Years

| | 2019 | 2018 | 2017 |
|---|---|---|---|
| Annual money-weighted rate of return, net of investment expense | 4.56% | 9.53% | 12.73% |

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

Valuation Date: 1/1/2019

Actuarially determined contribution rates are calculated as of January 1, 2019, prior to the fiscal year in which they are reported, and have been projected to June 30, 2019 on a "no gain/no loss" basis.

*Methods and assumptions used to determine contribution rates:*

| | |
|---|---|
| Actuarial Cost Method | Entry Age Normal, Level Percentage of Pay |
| Amortization Method/Period | Level Percentage of Payroll, Closed, 20 Years Remaing as of January 1, 2019, Amortization growth rate of 3.00% |
| Asset Valuation Method | Market Value |
| Inflation | 2.50% |
| Medical Trend Rate | The medical trend rate assumption starts at 6.40% in 2019 and gradually declines to 4.10% by the year 2094. |
| Salary Increases | 3.00% |
| Investment Rate of Return | 6.50% |
| Retirement Age | The average age at retirement is 62 |
| Mortality Rates | The mortality rates for active and healthy retirees was calculated using the RP-2014 using scale BB to 2020. The mortality rates for disabled retirees and calculated using the RP-2014 Disabled Mortality Rates with scale BB to 2020. |

**RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD**

Schedule of Board's Share of Net OPEB Liability
Group Life Insurance Program
For the Measurement Dates of June 30, 2018 and 2017

| Date (1) | Employer's Proportion of the Net GLI OPEB Liability (Asset) (2) | Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) (3) | Employer's Covered Payroll (4) | Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4) (5) | Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability (6) |
|---|---|---|---|---|---|
| 2018 | 0.1046% | $ 1,588,000 | $ 19,881,849 | 7.99% | 51.22% |
| 2017 | 0.1041% | 1,567,000 | 19,200,442 | 8.16% | 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.

**RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD**

Schedule of Employer Contributions
Group Life Insurance Program
For the Years Ended June 30, 2017 through June 30, 2019

| 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) |
|---|---|---|---|---|---|
| 2019 | $ 107,971 | $ 107,971 | $ - | $ 20,763,628 | 0.52% |
| 2018 | 103,386 | 103,386 | - | 19,881,849 | 0.52% |
| 2017 | 99,842 | 99,842 | - | 19,200,442 | 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.

**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:

**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% |

**RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD**

Schedule of Board's Share of Net OPEB Liability
Virginia Local Disability Program (VLDP)
For the Measurement Dates of June 30, 2018 and 2017

| Date (1) | Employer's Proportion of the Net VLDP OPEB Liability (Asset) (2) | Employer's Proportionate Share of the Net VLDP OPEB Liability (Asset) (3) | Employer's Covered Payroll (4) | Employer's Proportionate Share of the Net VLDP OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4) (5) | Plan Fiduciary Net Position as a Percentage of Total VLDP OPEB Liability (6) |
|---|---|---|---|---|---|
| 2018 | 3.7252% | $ 29,000 | $ 9,045,116 | 0.32% | 51.39% |
| 2017 | 4.2128% | 24,000 | 7,735,910 | 0.31% | 38.40% |

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.

## RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

Schedule of Employer Contributions
Virginia Local Disability Program (VLDP)
For the Years Ended June 30, 2017 through June 30, 2019

| 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) |
|---|---|---|---|---|---|
| 2019 | $ 73,579 | $ 73,579 | $ - | $ 10,219,361 | 0.72% |
| 2018 | 54,321 | 54,321 | - | 9,045,116 | 0.60% |
| 2017 | 46,415 | 46,415 | - | 7,735,910 | 0.60% |

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.

**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:

**Largest Ten Locality Employers - General and Non-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 and extended final retirement age from 70 to 75 |
| Withdrawal Rates | Adjusted termination rates to better fit experience at each year 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 and Non-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 and extended final retirement age from 70 to 75 |
| Withdrawal Rates | Adjusted termination rates to better fit experience at each year age and service year |
| Disability Rates | Lowered disability rates |
| Salary Scale | No change |
| Line of Duty Disability | Increased rate from 14% to 15% |

## RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

Schedule of Changes in the Board's Net OPEB Liability and Related Ratios
Health Insurance Credit (HIC) Program
For the Measurement Dates of June 30, 2018 and 2017

| | 2018 | 2017 |
|---|---|---|
| **Total HIC OPEB Liability** | | |
| Service cost | $ 11,684 | $ 12,056 |
| Interest | 19,519 | 18,858 |
| Differences between expected and actual experience | (1,603) | - |
| Changes in assumptions | - | (10,813) |
| Benefit payments | (17,046) | (4,277) |
| **Net change in total HIC OPEB liability** | $ 12,554 | $ 15,824 |
| **Total HIC OPEB Liability - beginning** | 287,363 | 271,539 |
| **Total HIC OPEB Liability - ending (a)** | $ 299,917 | $ 287,363 |
| | | |
| **Plan fiduciary net position** | | |
| Contributions - employer | $ 17,809 | $ 17,229 |
| Net investment income | 20,704 | 29,448 |
| Benefit payments | (17,046) | (4,277) |
| Administrative expense | (491) | (495) |
| Other | (1,437) | 1,437 |
| **Net change in plan fiduciary net position** | $ 19,539 | $ 43,342 |
| **Plan fiduciary net position - beginning** | 290,561 | 247,219 |
| **Plan fiduciary net position - ending (b)** | $ 310,100 | $ 290,561 |
| | | |
| **Board's net HIC OPEB liability - ending (a) - (b)** | $ (10,183) | $ (3,198) |
| | | |
| **Plan fiduciary net position as a percentage of the total HIC OPEB liability** | 103.40% | 101.11% |
| | | |
| **Covered payroll** | $ 19,881,849 | $ 19,200,442 |
| | | |
| **Board's net HIC OPEB liability as a percentage of covered payroll** | -0.05% | -0.02% |

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.

## RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

Schedule of Employer Contributions
Health Insurance Credit (HIC) Program
For the Years Ended June 30, 2017 through June 30, 2019

| 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) |
|---|---|---|---|---|---|
| 2019 | $ 14,470 | $ 14,470 | $ - | $ 20,672,063 | 0.07% |
| 2018 | 17,825 | 17,825 | - | 19,881,849 | 0.09% |
| 2017 | 17,229 | 17,229 | - | 19,200,442 | 0.09% |

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
Health Insurance Credit (HIC) Program
For the Year Ended June 30, 2019

**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:

**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% |

## - Supplementary Information -

*Combining Financial Statements*

RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD

Combining Statement of Net Position
At June 30, 2019

| | Rappahannock Area Community Services Board | Rappahannock Community Services, Inc. | Churchill Drive Group Home | Devon Drive Group Home |
|---|---|---|---|---|
| **ASSETS** | | | | |
| **Current Assets:** | | | | |
| Cash and cash equivalents | $ 18,175,638 | $ 262,550 | $ - | $ - |
| Accounts receivable, less allowance for uncollectibles | 4,074,803 | - | - | - |
| Grants and other receivables | 134,759 | - | - | - |
| Prepaid items | 92,842 | 23,651 | - | - |
| Total current assets | $ 22,478,042 | $ 286,201 | $ - | $ - |
| **Restricted Assets:** | | | | |
| Cash and cash equivalents | $ - | $ 10,950 | $ 31,505 | $ 19,467 |
| Grants and other receivables | - | - | - | - |
| Prepaid items | - | - | 1,551 | 1,236 |
| Client funds | 112,295 | - | - | - |
| Total restricted assets | $ 112,295 | $ 10,950 | $ 33,056 | $ 20,703 |
| **Capital Assets:** | | | | |
| Property and equipment, less accumulated depreciation | $ 18,814,833 | $ 1,343,204 | $ 585,056 | $ 191,103 |
| **Other Assets:** | | | | |
| Net pension asset | $ 6,998,293 | $ - | $ - | $ - |
| Net OPEB assets | 112,663 | - | - | - |
| Total other assets | $ 7,110,956 | $ - | $ - | $ - |
| Total assets | $ 48,516,126 | $ 1,640,355 | $ 618,112 | $ 211,806 |
| **DEFERRED OUTFLOWS OF RESOURCES** | | | | |
| Pension related items | $ 431,063 | $ - | $ - | $ - |
| OPEB related items | 529,923 | - | - | - |
| Total deferred outflows of resources | $ 960,986 | $ - | $ - | $ - |
| **LIABILITIES** | | | | |
| **Current Liabilities:** | | | | |
| Accounts payable and accrued expenses | $ 1,670,020 | $ 7,781 | $ - | $ - |
| Compensated absences | 876,268 | - | - | - |
| Accrued health insurance liabilities | 150,927 | - | - | - |
| Unexpended grant funds and other unearned revenue | 1,643,002 | - | - | - |
| Total current liabilities | $ 4,340,217 | $ 7,781 | $ - | $ - |
| **Liabilities Payable from Restricted Assets:** | | | | |
| Client funds | $ 112,295 | $ - | $ - | $ - |
| Accounts payable and accrued expenses | - | - | 8,031 | 3,142 |
| Tenant security deposits | - | 7,944 | 1,216 | 968 |
| Total liabilities payable from restricted assets | $ 112,295 | $ 7,944 | $ 9,247 | $ 4,110 |
| **Long-term Liabilities:** | | | | |
| Long-term debt, less current portion | $ - | $ 93,513 | $ - | $ - |
| Net OPEB liabilities | 1,617,000 | - | - | - |
| Total long-term liabilities | $ 1,617,000 | $ 93,513 | $ - | $ - |
| Total liabilities | $ 6,069,512 | $ 109,238 | $ 9,247 | $ 4,110 |
| **DEFERRED INFLOWS OF RESOURCES** | | | | |
| Pension related items | $ 857,574 | $ - | $ - | $ - |
| OPEB related items | 330,297 | - | - | - |
| Total deferred inflows of resources | $ 1,187,871 | $ - | $ - | $ - |
| **NET POSITION** | | | | |
| Net investment in capital assets | $ 18,814,833 | $ 1,249,691 | $ 585,056 | $ 191,103 |
| Restricted | - | - | 23,809 | 16,593 |
| Unrestricted | 23,404,896 | 281,426 | - | - |
| Total net position | $ 42,219,729 | $ 1,531,117 | $ 608,865 | $ 207,696 |

| Galveston Road Group Home | Igo Road Group Home | Leeland Road Group Home | New Hope Estates Group Home | Piedmont Drive Group Home | Scottsdale Estates Group Home | Stonewall Estates Group Home | Intercompany Eliminations | Total |
|---|---|---|---|---|---|---|---|---|
| - | - | - | - | - | - | - | - | 18,438,188 |
| - | - | - | - | - | - | - | - | 4,074,803 |
| - | - | - | - | - | - | - | (93,513) | 41,246 |
| - | - | - | - | - | - | - | - | 116,493 |
| - | - | - | - | - | - | - | (93,513) | 22,670,730 |
| 23,360 | 44,886 | 12,277 | 57,227 | 47,431 | 39,239 | 13,403 | - | 299,745 |
| 11,619 | 1,741 | 7,970 | - | 7,045 | - | 8,626 | - | 37,001 |
| 1,416 | 1,551 | 1,284 | 1,650 | 1,227 | 1,453 | 1,298 | - | 12,666 |
| - | - | - | - | - | - | - | - | 112,295 |
| 36,395 | 48,178 | 21,531 | 58,877 | 55,703 | 40,692 | 23,327 | - | 461,707 |
| 590,015 | 397,175 | 191,979 | 593,306 | 362,319 | 863,326 | 217,029 | - | 24,149,345 |
| - | - | - | - | - | - | - | - | 6,998,293 |
| - | - | - | - | - | - | - | - | 112,663 |
| - | - | - | - | - | - | - | - | 7,110,956 |
| 626,410 | 445,353 | 213,510 | 652,183 | 418,022 | 904,018 | 240,356 | (93,513) | 54,392,738 |
| - | - | - | - | - | - | - | - | 431,063 |
| - | - | - | - | - | - | - | - | 529,923 |
| - | - | - | - | - | - | - | - | 960,986 |
| - | - | - | - | - | - | - | - | 1,677,801 |
| - | - | - | - | - | - | - | - | 876,268 |
| - | - | - | - | - | - | - | - | 150,927 |
| - | - | - | - | - | - | - | - | 1,643,002 |
| - | - | - | - | - | - | - | - | 4,347,998 |
| - | - | - | - | - | - | - | - | 112,295 |
| 11,389 | 15,648 | 6,434 | 3,562 | 14,425 | 8,352 | 8,831 | - | 79,814 |
| 1,493 | 900 | 1,104 | 1,246 | 561 | 1,550 | 887 | - | 17,869 |
| 12,882 | 16,548 | 7,538 | 4,808 | 14,986 | 9,902 | 9,718 | - | 209,978 |
| - | - | - | - | - | - | - | (93,513) | - |
| - | - | - | - | - | - | - | - | 1,617,000 |
| - | - | - | - | - | - | - | (93,513) | 1,617,000 |
| 12,882 | 16,548 | 7,538 | 4,808 | 14,986 | 9,902 | 9,718 | (93,513) | 6,174,976 |
| - | - | - | - | - | - | - | - | 857,574 |
| - | - | - | - | - | - | - | - | 330,297 |
| - | - | - | - | - | - | - | - | 1,187,871 |
| 590,015 | 397,175 | 191,979 | 593,306 | 362,319 | 863,326 | 217,029 | - | 24,055,832 |
| 23,513 | 31,630 | 13,993 | 54,069 | 40,717 | 30,790 | 13,609 | - | 248,723 |
| - | - | - | - | - | - | - | - | 23,686,322 |
| 613,528 | 428,805 | 205,972 | 647,375 | 403,036 | 894,116 | 230,638 | - | 47,990,877 |

**Combining Statement of Revenues, Expenses and Changes in Net Position**
**Year Ended June 30, 2019**

| | Rappahannock Area Community Services Board | Rappahannock Community Services, Inc. | Churchill Drive Group Home | Devon Drive Group Home |
|---|---|---|---|---|
| **Operating revenue:** | | | | |
| Net patient service revenue | $ 25,250,362 | $ - | $ - | $ - |
| **Operating expenses:** | | | | |
| Salaries and benefits | $ 27,137,108 | $ - | $ - | $ - |
| Staff development | 206,887 | - | - | - |
| Facilities | 1,594,902 | 398,501 | 31,422 | 27,814 |
| Supplies | 1,464,887 | - | - | - |
| Travel | 780,619 | - | - | - |
| Contractual and consulting | 5,028,412 | - | - | - |
| Depreciation | 1,337,726 | 103,212 | 16,465 | 16,163 |
| Other | 1,458,323 | 8,391 | - | - |
| Total operating expenses | $ 39,008,864 | $ 510,104 | $ 47,887 | $ 43,977 |
| **Operating income (loss)** | $ (13,758,502) | $ (510,104) | $ (47,887) | $ (43,977) |
| **Nonoperating income (expense):** | | | | |
| Capital contributions: | | | | |
| Commonwealth of Virginia | $ 10,227,776 | $ - | $ - | $ - |
| Federal government | 2,681,187 | - | - | - |
| Local governments | 1,268,161 | - | - | - |
| Other | 1,183,581 | 530,949 | 35,635 | 67,802 |
| Interest income | 433,270 | 981 | 7 | 8 |
| Interest expense | - | (9,631) | - | - |
| Gain (loss) on disposition of capital assets | 25,746 | - | - | - |
| Net nonoperating income (expense) | $ 15,819,721 | $ 522,299 | $ 35,642 | $ 67,810 |
| **Change in net position** | $ 2,061,219 | $ 12,195 | $ (12,245) | $ 23,833 |
| **Net position, beginning of year** | 40,158,510 | 1,518,922 | 621,110 | 183,863 |
| **Net position, end of year** | $ 42,219,729 | $ 1,531,117 | $ 608,865 | $ 207,696 |

| Galveston Road Group Home | Igo Road Group Home | Leeland Road Group Home | New Hope Estates Group Home | Piedmont Drive Group Home | Scottsdale Estates Group Home | Stonewall Estates Group Home | Intercompany Eliminations | Total |
|---|---|---|---|---|---|---|---|---|
| $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 25,250,362 |
| | | | | | | | | |
| $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 27,137,108 |
| - | - | - | - | - | - | - | - | 206,887 |
| 32,767 | 32,439 | 26,254 | 39,178 | 27,802 | 35,566 | 29,986 | (351,829) | 1,924,802 |
| - | - | - | - | - | - | - | - | 1,464,887 |
| - | - | - | - | - | - | - | - | 780,619 |
| - | - | - | - | - | - | - | - | 5,028,412 |
| 15,192 | 21,128 | 19,768 | 23,401 | 20,340 | 21,749 | 21,817 | - | 1,616,961 |
| - | - | - | - | - | - | - | (22,780) | 1,443,934 |
| $ 47,959 | $ 53,567 | $ 46,022 | $ 62,579 | $ 48,142 | $ 57,315 | $ 51,803 | $ (374,609) | $ 39,603,610 |
| $ (47,959) | $ (53,567) | $ (46,022) | $ (62,579) | $ (48,142) | $ (57,315) | $ (51,803) | $ 374,609 | $ (14,353,248) |
| | | | | | | | | |
| $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 10,227,776 |
| - | - | - | - | - | - | - | - | 2,681,187 |
| - | - | - | - | - | - | - | - | 1,268,161 |
| 35,640 | 38,406 | 35,939 | 43,732 | 56,366 | 74,576 | 47,766 | (374,609) | 1,775,783 |
| 6 | 11 | 4 | 15 | 14 | 25 | 3 | - | 434,344 |
| - | - | - | - | - | - | - | - | (9,631) |
| - | - | - | - | - | - | - | - | 25,746 |
| $ 35,646 | $ 38,417 | $ 35,943 | $ 43,747 | $ 56,380 | $ 74,601 | $ 47,769 | $ (374,609) | $ 16,403,366 |
| $ (12,313) | $ (15,150) | $ (10,079) | $ (18,832) | $ 8,238 | $ 17,286 | $ (4,034) | $ - | $ 2,050,118 |
| 625,841 | 443,955 | 216,051 | 666,207 | 394,798 | 876,830 | 234,672 | - | 45,940,759 |
| $ 613,528 | $ 428,805 | $ 205,972 | $ 647,375 | $ 403,036 | $ 894,116 | $ 230,638 | $ - | $ 47,990,877 |

**Combining Statement of Cash Flows**
**Year Ended June 30, 2019**

| | Rappahannock Area Community Services Board | Rappahannock Community Services, Inc. | Churchill Drive Group Home | Devon Drive Group Home |
|---|---|---|---|---|
| **Cash flows from operating activities:** | | | | |
| Receipts from customers | $ 24,430,310 | $ - | $ - | $ - |
| Payments to suppliers | (10,328,259) | (413,460) | (24,564) | (25,018) |
| Payments to and for employees | (29,103,770) | - | - | - |
| Net cash provided by (used for) operating activities | $ (15,001,719) | $ (413,460) | $ (24,564) | $ (25,018) |
| **Cash flows from noncapital financing activities:** | | | | |
| Government grants | $ 12,786,626 | $ - | $ - | $ - |
| Other | 1,183,581 | 530,949 | 35,636 | 67,802 |
| Net cash provided by (used for) noncapital financing activities | $ 13,970,207 | $ 530,949 | $ 35,636 | $ 67,802 |
| **Cash flows from capital and related financing activities:** | | | | |
| Purchase of capital assets | $ (1,988,609) | $ (31,090) | $ - | $ (37,169) |
| Proceeds from sale of capital assets | 10,288 | - | - | - |
| Issuance of long-term debt | - | 100,000 | - | - |
| Principal payments on mortgages and loans payable | - | (392,440) | - | - |
| Interest expense | - | (9,631) | - | - |
| Net cash provided by (used for) capital and related financing activities | $ (1,978,321) | $ (333,161) | $ - | $ (37,169) |
| **Cash flows from investing activities:** | | | | |
| Interest income | $ 433,270 | $ 981 | $ 7 | $ 8 |
| **Net increase (decrease) in cash and cash equivalents** | $ (2,576,563) | $ (214,691) | $ 11,079 | $ 5,623 |
| **Cash and cash equivalents, beginning of year** | 20,752,201 | 488,191 | 20,426 | 13,844 |
| **Cash and cash equivalents, end of year** | $ 18,175,638 | $ 273,500 | $ 31,505 | $ 19,467 |
| **Reconciliation of operating income (loss) to net cash provided by (used for ) operating activities:** | | | | |
| Operating income (loss) | $ (13,758,502) | $ (510,104) | $ (47,887) | $ (43,977) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | | | | |
| Depreciation | 1,337,726 | 103,212 | 16,465 | 16,163 |
| Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources: | | | | |
| Accounts receivable | (820,052) | - | - | - |
| Prepaid items | 101,974 | (766) | (220) | (137) |
| Net pension asset | (188,056) | - | - | - |
| Net OPEB assets | (19,232) | - | - | - |
| Deferred outflows of resources | (208,230) | - | - | - |
| Accounts payable and accrued expenses | (606,289) | (3,452) | 7,078 | 2,579 |
| Compensated absences | (109,778) | - | - | - |
| Net OPEB liabilities | 26,000 | - | - | - |
| Deferred inflows of resources | (757,280) | - | - | - |
| Other | - | (2,350) | - | 354 |
| Net cash provided by (used for) operating activities | $ (15,001,719) | $ (413,460) | $ (24,564) | $ (25,018) |

| Galveston Road Group Home | Igo Road Group Home | Leeland Road Group Home | New Hope Estates Group Home | Piedmont Drive Group Home | Scottsdale Estates Group Home | Stonewall Estates Group Home | Intercompany Eliminations | Total |
|---|---|---|---|---|---|---|---|---|
| $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 24,430,310 |
| (24,872) | (20,561) | (20,650) | (36,663) | (14,373) | (32,253) | (29,313) | 374,609 | (10,595,377) |
| - | - | - | - | - | - | - | - | (29,103,770) |
| $ (24,872) | $ (20,561) | $ (20,650) | $ (36,663) | $ (14,373) | $ (32,253) | $ (29,313) | $ 374,609 | $ (15,268,837) |
| $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 100,000 | $ 12,886,626 |
| 24,021 | 38,423 | 27,969 | 43,732 | 49,321 | 74,576 | 46,618 | (374,609) | 1,748,019 |
| $ 24,021 | $ 38,423 | $ 27,969 | $ 43,732 | $ 49,321 | $ 74,576 | $ 46,618 | $ (274,609) | $ 14,634,645 |
| $ - | $ - | $ (4,995) | $ - | $ (23,293) | $ (34,205) | $ (14,754) | $ - | $ (2,134,115) |
| - | - | - | - | - | - | - | - | 10,288 |
| - | - | - | - | - | - | - | (100,000) | - |
| - | - | - | - | - | - | - | - | (392,440) |
| - | - | - | - | - | - | - | - | (9,631) |
| $ - | $ - | $ (4,995) | $ - | $ (23,293) | $ (34,205) | $ (14,754) | $ (100,000) | $ (2,525,898) |
| $ 6 | $ 11 | $ 4 | $ 15 | $ 14 | $ 25 | $ 3 | $ - | $ 434,344 |
| $ (845) | $ 17,873 | $ 2,328 | $ 7,084 | $ 11,669 | $ 8,143 | $ 2,554 | $ - | $ (2,725,746) |
| 24,205 | 27,013 | 9,949 | 50,143 | 35,762 | 31,096 | 10,849 | - | 21,463,679 |
| $ 23,360 | $ 44,886 | $ 12,277 | $ 57,227 | $ 47,431 | $ 39,239 | $ 13,403 | $ - | $ 18,737,933 |
| $ (47,959) | $ (53,567) | $ (46,022) | $ (62,579) | $ (48,142) | $ (57,315) | $ (51,803) | $ 374,609 | $ (14,353,248) |
| 15,192 | 21,128 | 19,768 | 23,401 | 20,340 | 21,749 | 21,817 | - | 1,616,961 |
| - | - | - | - | - | - | - | - | (820,052) |
| (186) | (212) | (111) | (271) | (137) | (224) | 48 | - | 99,758 |
| - | - | - | - | - | - | - | - | (188,056) |
| - | - | - | - | - | - | - | - | (19,232) |
| - | - | - | - | - | - | - | - | (208,230) |
| 8,081 | 12,090 | 5,584 | 2,894 | 13,566 | 3,537 | 794 | - | (553,538) |
| - | - | - | - | - | - | - | - | (109,778) |
| - | - | - | - | - | - | - | - | 26,000 |
| - | - | - | - | - | - | - | - | (757,280) |
| - | - | 131 | (108) | - | - | (169) | - | (2,142) |
| $ (24,872) | $ (20,561) | $ (20,650) | $ (36,663) | $ (14,373) | $ (32,253) | $ (29,313) | $ 374,609 | $ (15,268,837) |

- Compliance -

## INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

**To the Board of Directors**
**Rappahannock Area Community Services Board**
**Fredericksburg, 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 and the aggregate remaining fund information of Rappahannock Area Community Services Board, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Rappahannock Area Community Services Board's basic financial statements and have issued our report thereon dated November 27, 2019.

### Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Rappahannock Area Community Services Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Rappahannock Area Community Services Board's internal control. Accordingly, we do not express an opinion on the effectiveness of Rappahannock Area 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 Rappahannock Area Community Services Board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Rappahannock Area 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 the Rappahannock Area Community Services Board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Robinson, Farmer, Cox, Associates

Charlottesville, Virginia
November 27, 2019

**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**
**Rappahannock Area Community Services Board**
**Fredericksburg, Virginia**

**Report on Compliance for Each Major Federal Program**

We have audited the Rappahannock Area 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 the Rappahannock Area Community Services Board's major federal programs for the year ended June 30, 2019. Rappahannock Area 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.

Rappahannock Area Community Services Board's basic financial statements include the operations of the component unit organizations Churchill Drive Group Home, Devon Drive Group Home, Galveston Road Group Home, Igo Road Group Home, Leeland Road Group Home, New Hope Estates Group Home, Piedmont Drive Group Home, Scottsdale Estates Group Home and Stonewall Estates Group Home, which received $4,578,872 in federal awards which is not included in the schedule of expenditures of federal awards during the year ended June 30, 2019. Our audit, described below, did not include the operations of the above component units because each of the component units issues 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 the Rappahannock Area 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 the Rappahannock Area 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 the Rappahannock Area Community Services Board's compliance.

*Opinion on Each Major Federal Program*

In our opinion, the Rappahannock Area 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, 2019.

**Report on Internal Control over Compliance**

Management of the Rappahannock Area 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 the Rappahannock Area 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 the Rappahannock Area 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 a 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
November 27, 2019

**RAPPAHANNOCK AREA COMMUNITY SERVICES BOARD**

**Schedule of Expenditures of Federal Awards**
**Year Ended June 30, 2019**

| Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title | Federal CFDA Number | Pass-Through Entity Identifying Number | | Expenditures |
|---|---|---|---|---|
| Department of Agriculture | | | | |
| Pass-Through Payments: | | | | |
| Virginia Department of Agriculture: | | | | |
| Child and Adult Care Food Program | 10.558 | Not available | $ | 37,801 |
| Department of Transportation | | | | |
| Pass-Through Payments: | | | | |
| Virginia Department of Highway and Rail Transportation: | | | | |
| Transit Services Programs Cluster: | | | | |
| Enhanced Mobility of Seniors and Individuals with Disabilities | 20.513 | Not available | $ | 153,696 |
| Department of Health and Human Services | | | | |
| Pass-Through Payments: | | | | |
| Virginia Department of Mental Health, Mental Retardation and Substance Abuse Services: | | | | |
| Projects for Assistance in Transition from Homelessness (PATH) | 93.150 | Not available | $ | 98,144 |
| Substance Abuse and Mental Health Services | 93.243 | 5U79SP020791-04 | | 24,831 |
| Opioid STR | 93.788 | 5H79TI080220-02 | | 405,413 |
| Block Grants for Community Mental Health Services | 93.958 | 2B09OSM010053-18 | | 68,745 |
| Block Grants for Prevention and Treatment of Substance Abuse | 93.959 | 2B08TI010053-18 | | 1,084,585 |
| Virginia Department of Health: | | | | |
| ACA Maternal, Infant, and Early Childhood Home Visiting Program | 93.505 | Not available | | 212,519 |
| Virginia Department of Social Services: | | | | |
| TANF Cluster: | | | | |
| Temporary Assistance for Needy Families (TANF) | 93.558 | FAM-18-106A-19 | | 250,102 |
| Total Department of Health and Human Services | | | $ | 2,144,339 |
| Department of Education | | | | |
| Pass-Through Payments: | | | | |
| Virginia Department of Education: | | | | |
| Special Education - Grants for Infants and Families | 84.181 | H181A190017 | $ | 345,351 |
| Total expenditures of federal awards | | | $ | 2,681,187 |

Notes to the 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 the Rappahannock Area Community Services Board under programs of the federal government for the year ended June 30, 2019. 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 for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Rappahannock Area Community Services Board, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Rappahannock Area 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, 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 - Indirect Cost Recovery

The entity has elected not to use the 10% de minimis indirect cost rate allowed under Uniform Guidance.

## Schedule of Findings and Questioned Costs
## Year Ended June 30, 2019

### 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? | No |

### 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, 2019

There were no items reported.