VALLEY COMMUNITY SERVICES BOARD

STAUNTON, VIRGINIA

FINANCIAL AND COMPLIANCE REPORTS

YEAR ENDED JUNE 30, 2018

PBMares

ASSURANCE, TAX & ADVISORY SERVICES

VALLEY COMMUNITY SERVICES BOARD

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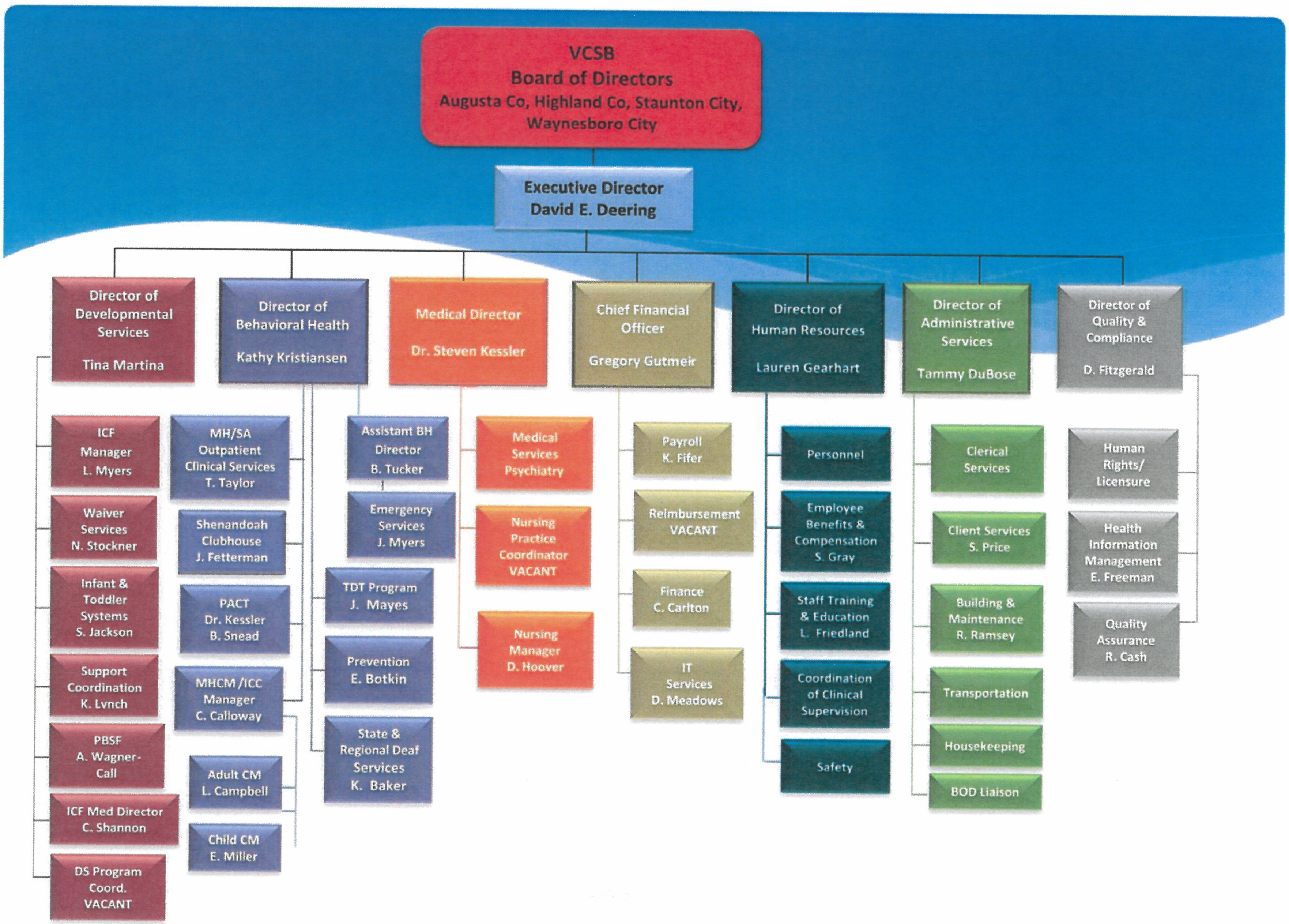
INTRODUCTORY SECTION


VCSB
Board of Directors
Augusta Co, Highland Co, Staunton City, Waynesboro City
Executive Director
David E. Deering
Director of Developmental Services
Tina Martina
ICF Manager L. Myers
Waiver Services N. Stockner
Infant & Toddler Systems S. Jackson
Support Coordination K. Lynch
PBSF A. Wagner-Call
ICF Med Director C. Shannon
DS Program Coord. VACANT
Director of Behavioral Health
Kathy Kristiansen
MH/SA Outpatient Clinical Services T. Taylor
Shenandoah Clubhouse J. Fetterman
PACT Dr. Kessler B. Snead
MHCM /ICC Manager C. Calloway
Adult CM L. Campbell
Child CM E. Miller
Assistant BH Director B. Tucker
Emergency Services J. Myers
TDT Program J. Mayes
Prevention E. Botkin
State & Regional Deaf Services K. Baker
Medical Director
Dr. Steven Kessler
Medical Services Psychiatry
Nursing Practice Coordinator VACANT
Nursing Manager D. Hoover
Chief Financial Officer
Gregory Gutmeir
Payroll K. Fifer
Reimbursement VACANT
Finance C. Carlton
IT Services D. Meadows
Director of Human Resources
Lauren Gearhart
Personnel
Employee Benefits & Compensation S. Gray
Staff Training & Education L. Friedland
Coordination of Clinical Supervision
Safety
Director of Administrative Services
Tammy DuBose
Clerical Services
Client Services S. Price
Building & Maintenance R. Ramsey
Transportation
Housekeeping
BOD Liaison
Director of Quality & Compliance
D. Fitzgerald
Human Rights/ Licensure
Health Information Management E. Freeman
Quality Assurance R. Cash

VALLEY COMMUNITY SERVICES BOARD

ORGANIZATIONAL INFORMATION

The mission of the Valley Community Services Board (Valley CSB) is to provide community based behavioral health, developmental disability, and substance use disorder services to the citizens in the counties of Augusta and Highland and the cities of Staunton and Waynesboro. In order to carry out this mission, Valley CSB intends to be:

- A person-centered organization whose purpose is to provide support, encouragement, and superior care along a continuum of services.
- A healing community whose practices express competency and compassion, and where there is access to services with a welcoming spirit.
- A resource for educating the public about the nature of mental illness, intellectual disabilities, and substance abuse to dispel stereotypes and to encourage support for those facing these challenges.
- An organization that actively seeks partnerships with other agencies and collaboration with diverse community groups.
- An agency whose staff is committed to quality, innovation, and continuing improvement through evaluation and assessment of programs and performance.
- A good steward of the resources, funds, people, and mission entrusted to its oversight.

Board Membership

Michael Hamp, Chair
Phil Floyd, Vice Chair
Dan Sullivan, Treasurer

Misty Cook
Deborah Pyles
Sarah Rexrode
Miranda Ball
Aaron Leveck
Mary Miller

Susan Richardson
John Hartless
Cynthia Burnett
Linda Czyzyk
Lisa Dunn
Amber Lipscomb

Executive Management

David Deering, Executive Director
Phillip Love, Chief Financial Officer
Lauren Gearhart, Human Resources Director
Dana Fitzgerald, Quality Management Director
Tammy Dubose, Director of Administrative Services
Steven Kessler, M.D., Medical Director
Kathy Kristiansen, Director of Behavioral Health
Tina Martina, Director of Developmental Disability Services

VALLEY COMMUNITY SERVICES BOARD

ORGANIZATIONAL INFORMATION (Continued)

COMPUTER SYSTEM

Valley CSB's information system is comprised of a heterogeneous mix of hardware and software technologies. The major components are described below.

- Valley CSB's primary software system is Credible.
  - Credible is a contemporary Electronic Health Record (EHR) software package from Credible Behavioral Health Software.
  - Great Plains Accounting continues to be used for all accounting functions, including the Representative Payee program.
- Approximately 286 desktop and notebook computers are running Microsoft Windows.
- Microsoft Office and other desktop applications, as well as the Credible software, are provided through a cloud environment.
- Additional Windows services are provided through Dell and HP servers.
- Desktop and notebook computers are protected by Sophos Endpoint Anti-Virus software.
- Primary network storage is provided through an EMC storage area network (SAN).
- Primary data backup is provided through an EMC Data Domain compressed storage unit and Veratos Backup Exec. Network backup procedures utilize local and cloud storage servers.
- Barracuda Networks web filter which blocks inappropriate web browsing activity as well as malware filtering at the firewall.
- SonicWall firewall provides protection and virtual private network (VPN) connectivity for remote facilities and users.
- HP, Avaya, and SonicWall routers and switches provide local area network (LAN) connectivity.
- Secured and climate-controlled data center (server room) at the Sanger's Lane facility with uninterruptible power supply (UPS) and external power generator.
- Internet connectivity at the primary Sanger's Lane facility is through a fiber optic circuit provided by Lumos Networks. Connectivity at remote facilities is achieved through DSL, or cable internet circuits from Lumos Networks or Comcast Communications.
- Microsoft Windows Servers provide authentication, directory services, and terminal services.
- Office 365 provides e-mail services.
- Encryption technologies are used to maintain HIPAA compliance as needed.

VALLEY COMMUNITY SERVICES BOARD

ORGANIZATIONAL INFORMATION (Continued)

FACILITIES

• 85 Sanger's Lane, Staunton	Behavioral Health, Developmental Disabilities & Substance Abuse Services
• 446 Commerce Square, Staunton	Clubhouse Program
• 704B Richmond Road, Staunton	Community Participation Program
• 61 First Street, Staunton	ID Day Program – Orchard Lane
• 32 Angus Drive, Waynesboro	DS/Intermediate Care Facility – Greenstone
• Highland County Medical Center, Monterey	Outpatient Behavioral Health Services
• 1206 Red Top Orchard Road, Waynesboro	DS/Intermediate Care Facility – Grandview

CONTACT INFORMATION

You may contact Valley Community Services Board by:

Telephone:	(540) 887-3200
Toll Free:	(800) 601-8686
TDD:	(540) 887-3246
FAX:	(540) 887-3245
Mail:	85 Sanger's Lane Staunton, Virginia 24401

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Valley Community Services Board
Staunton, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Valley Community Services Board (the Board), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards and specifications require 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board'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 Board'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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Board as of June 30, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Change in Accounting Principles

As discussed in Note 14 to the financial statements, the Board restated beginning net position in order to record the liabilities for other postemployment benefits and related components in accordance with the implementation of GASB Statement No. 75.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis and the required supplementary information on pages 4-7 and 47-52, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Board's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedules listed in the table of contents as supplementary information and introductory section 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 the responsibility of management and was derived from and relates 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 Schedule of Expenditures of Federal Awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section and supplementary information, as listed in the table of contents, have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2018 on our consideration of the 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control over financial reporting and compliance.

PBMares, LLP

Harrisonburg, Virginia
December 18, 2018

VALLEY COMMUNITY SERVICES BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2018

The management of Valley Community Services Board (Board) offers readers of our financial statements this narrative overview and analysis of the financial activities of the Board for the fiscal year ended June 30, 2018.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Board's basic financial statements. Since the Board is engaged only in business-type activities, its basic financial statements are comprised to two components: 1) enterprise fund financial statements and 2) notes to the financial statements. This report also contains supplementary information in addition to the basic financial statements.

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

The *statement of net position* presents information on all of the Board's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Board is improving or declining.

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

The basic financial statements can be found on pages 8 through 12 of this report.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to financial statements can be found immediately following the financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the Board's pension plan and other post employment benefits plan. Required supplementary information can be found immediately following the notes to financial statements.

Financial Review

- This fiscal year showed a decrease in net patient service revenue from fiscal year 2017 to fiscal year 2018 year-end of $343,467 or 2.5% due primarily to lower volumes.

- Interest Income decreased by $2,262 or 34.4%.

- Fiscal year 2018 ended with a surplus of $285,922.

Financial Review (Continued)

- Operating Revenues are $343,467 lower than fiscal year 2017 and Operating Expenses are $348,040 higher than fiscal year 2017.

- Accounts Receivable and Billing process required detail review for collectability of outstanding balances. $471,197 was adjusted to correct for accounts due but not collectible.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a board's financial position. In the case of the Board, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $3,961,328 at the close of the most recent fiscal year. Net position increased by 7.8% from fiscal year 2017. A summary of the Board's net position for fiscal years 2018 and 2017 is presented below.

SUMMARY OF NET POSITION
June 30, 2018 and 2017

	2018	2017
Current and other assets	**$ 6,818,802**	$ 4,486,085
Capital assets	**4,148,951**	4,342,707
Total assets	**10,967,753**	8,828,792
Pension plan	**354,004**	1,526,470
Other postemployment benefits	**53,790**	50,000
Total deferred outflows of resources	**407,794**	1,576,470
Long-term liabilities outstanding	**3,274,151**	4,083,220
Other liabilities	**2,650,157**	2,101,805
Total liabilities	**5,924,308**	6,185,025
Pension plan	**1,386,911**	544,831
Other postemployment benefits	**103,000**	-
Total deferred inflows of resources	**1,489,911**	544,831
Net position:		
Net investment in capital assets	**1,719,738**	1,731,279
Restricted for debt service	**78,840**	78,840
Unrestricted	**2,162,750**	1,865,287
Total net position	**$ 3,961,328**	$ 3,675,406

A summary of the Board's revenues, expenses and changes in net position for fiscal years 2018 and 2017 is presented below.

SUMMARY OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended June 30, 2018 and 2017

	2018	2017
Revenues:		
Operating revenues	**$ 13,310,268**	$ 13,653,735
Intergovernmental	**8,514,840**	7,919,831
Other	**521,918**	520,383
	22,347,026	22,093,949
Expenses:		
Operating expenses	**21,406,256**	21,148,310
Depreciation and amortization	**547,366**	457,272
Other	**107,482**	331,921
	22,061,104	21,937,503
Change in net position	**285,922**	156,446
Net position, beginning, as restated	**3,675,406**	3,518,960
Net position, ending	**$ 3,961,328**	$ 3,675,406

The Board's net position increased by $285,922 during fiscal year 2018.

Capital Assets and Debt Administration

Capital Assets: The Board's investment in capital assets as of June 30, 2018 amounted to $4,148,951 (net of accumulated depreciation). Below is a comparison of the items that make up the Gross capital assets as of June 30, 2018 and 2017:

	2018	2017
Land	**$ 439,171**	$ 439,171
Construction in progress	**-**	10,944
Building and improvements	**4,558,547**	4,497,068
Equipment	**196,091**	174,277
Vehicles	**438,118**	303,256
Software	**1,121,845**	1,006,319
Total capital assets	**$ 6,753,772**	$ 6,431,035

Capital Assets and Debt Administration (Continued)

Long-Term Debt: Total long-term obligations at June 30, 2018 were $3,274,151, which include obligations for the main facility at Sanger's Lane. Other long-term obligations of the Board include accrued vacation pay and other post employment benefits. Detailed information on the Board's long-term liabilities is presented in Note 6 of the notes to financial statements.

Review of Operations

Operating Revenues: Operating revenues is the amount of revenue received from providing client services. These revenues decreased 2.5% from the prior year.

Operating/Depreciation Expenses: Operating expenses consist of personnel and contractual expenses, facility costs, and supplies. There was an increase of 1.6% over the prior year due to increase in salaries and benefits, client related costs, bad debt and software expenses.

Nonoperating Income: Nonoperating income includes state and local appropriations, federal grants, and miscellaneous income. There was a 7.1% increase in nonoperating income from the prior year primarily due to a large one-time grant for Same Day Access. Also, an increase in funding for Discharge Assistance Program (DAP)

Requests for Information

This financial report is designed to provide a general overview of the Valley Community Services Board's finances for our citizens, clients, and taxpayers, and to demonstrate accountability for the money received. Any questions concerning this report or requests for additional financial information should be made to David Deering, Executive Director, or to Greg Gutmeir, Chief Financial Officer, 85 Sanger's Lane, Staunton, Virginia, 24401, e-mail ddeering@vcsb.org or ggutmeir@vcsb.org, telephone (540) 887-3200.

BASIC FINANCIAL STATEMENTS

VALLEY COMMUNITY SERVICES BOARD

STATEMENT OF NET POSITION
June 30, 2018
(With Comparative Totals for 2017)

		2018		2017
ASSETS				
Current Assets				
Cash and cash equivalents	**$**	**1,454,992**	$	1,375,165
Restricted cash and cash equivalents		**78,840**		78,840
Accounts receivable, less allowance for uncollectibles		**1,380,980**		1,597,262
Due from other governmental units		**161,662**		139,438
Prepaid items		**143,577**		116,236
Deposit on capital asset		**-**		30,475
Total current assets		**3,220,051**		3,337,416
Noncurrent Assets				
Capital Assets				
Non-depreciable capital assets		**439,171**		450,115
Depreciable capital assets, less accumulated depreciation and amortization		**3,709,780**		3,892,592
Total capital assets, net		**4,148,951**		4,342,707
Net Pension Asset		**3,598,751**		1,148,669
Total noncurrent assets		**7,747,702**		5,491,376
Total assets		**10,967,753**		8,828,792
DEFERRED OUTFLOWS OF RESOURCES				
Pension Plan		**354,004**		1,526,470
Other Postemployment Benefits		**53,790**		50,000
Total deferred outflows of resources		**407,794**		1,576,470

VALLEY COMMUNITY SERVICES BOARD

STATEMENT OF NET POSITION (Continued)
June 30, 2018
(With Comparative Totals for 2017)

	2018	2017
LIABILITIES		
Current Liabilities		
Accounts payable	**$ 485,197**	$ 642,254
Accrued payroll and benefits	**970,437**	782,845
Amounts held for others	**289,201**	231,850
Due to other governmental units	**166,844**	-
Unearned revenue	**110,390**	262,637
Notes payable, current portion	**190,071**	182,219
Compensated absences	**438,017**	-
Total current liabilities	**2,650,157**	2,101,805
Noncurrent Liabilities		
Notes payable, less current portion	**2,239,142**	2,429,209
Compensated absences	**219,009**	692,011
Other postemployment benefits	**816,000**	962,000
Total noncurrent liabilities	**3,274,151**	4,083,220
Total liabilities	**5,924,308**	6,185,025
DEFERRED INFLOWS OF RESOURCES		
Pension Plan	**1,386,911**	544,831
Other Postemployement Benefits	**103,000**	-
Total deferred inflows of resources	**1,489,911**	544,831
NET POSITION		
Net Investment in Capital Assets	**1,719,738**	1,731,279
Restricted for Debt Service	**78,840**	78,840
Unrestricted	**2,162,750**	1,865,287
Total net position	**$ 3,961,328**	$ 3,675,406

VALLEY COMMUNITY SERVICES BOARD

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year Ended June 30, 2018
(With Comparative Totals for 2017)

	2018	2017
Operating Revenues		
Net patient service revenue	**$ 13,310,268**	$ 13,653,735
Operating Expenses		
Salaries and wages	**11,590,038**	11,311,942
Fringe benefits	**2,675,912**	2,689,918
Contractual services	**843,000**	1,319,095
Leases and rentals	**416,547**	388,621
Depreciation and amortization	**547,366**	457,272
Other charges and supplies	**5,409,562**	5,182,741
Bad debt expense	**471,197**	255,993
Total operating expenses	**21,953,622**	21,605,582
Operating loss	**(8,643,354)**	(7,951,847)
Nonoperating Income (Expenses)		
Intergovernmental revenues:		
Commonwealth of Virginia	**6,979,364**	6,449,586
Federal government	**1,032,282**	990,310
Participating localities	**503,194**	479,935
Interest income	**4,307**	6,569
Miscellaneous income	**492,492**	513,814
Gain (loss) on disposal of property	**25,119**	(216,619)
Interest expense	**(107,482)**	(115,302)
Nonoperating income, net	**8,929,276**	8,108,293
Change in net position	**285,922**	156,446
Net Position, beginning of year, as restated	**3,675,406**	3,518,960
Net Position, end of year	**$ 3,961,328**	$ 3,675,406

See Notes to Financial Statements.

VALLEY COMMUNITY SERVICES BOARD

STATEMENT OF CASH FLOWS
Year Ended June 30, 2018
(With Comparative Totals for 2017)

	2018	2017
Cash Flows From Operating Activities		
Receipts from customers	**$ 12,903,106**	$ 13,096,369
Payments to suppliers	**(6,796,156)**	(6,683,379)
Payments to and for employees	**(14,595,669)**	(14,828,021)
Net cash used in operating activities	**(8,488,719)**	(8,415,031)
Cash Flows From Noncapital and Related Financing Activities		
Government grants	**8,659,460**	7,799,318
Other	**492,492**	513,814
Net cash provided by noncapital and related financing activities	**9,151,952**	8,313,132
Cash Flows From Capital and Related Financing Activities		
Purchase of capital assets	**(328,115)**	(704,218)
Proceeds from sale of assets	**30,099**	193,943
Principal payments on long-term debt	**(182,215)**	(174,768)
Interest expense	**(107,482)**	(115,302)
Net cash used in capital and related financing activities	**(587,713)**	(800,345)
Cash Flows From Investing Activities		
Interest income	**4,307**	6,569
Net cash provided by investing activities	**4,307**	6,569
Net increase (decrease) in cash and cash equivalents	**79,827**	(895,675)
Cash and Cash Equivalents, beginning of year	**1,454,005**	2,349,680
Cash and Cash Equivalents, end of year	**$ 1,533,832**	$ 1,454,005

VALLEY COMMUNITY SERVICES BOARD

STATEMENT OF CASH FLOWS (Continued)
Year Ended June 30, 2018
(With Comparative Totals for 2017)

	2018	2017
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:		
Operating loss	**$ (8,643,354)**	$ (7,951,847)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	**547,366**	457,272
Pension expense (benefit)	**(918,011)**	(1,059,745)
OPEB expense (benefit)	**(43,000)**	-
Changes in assets and liabilities:		
Decrease (increase) in:		
Accounts receivable, less allowance for uncollectibles	**216,282**	(291,543)
Prepaid items	**(27,341)**	(60,531)
Deferred outflows of resources - pension	**482,475**	303,495
Deferred outflows of resources - OPEB	**(3,790)**	(50,000)
Increase (decrease) in:		
Accounts payable	**(157,057)**	274,506
Accrued payroll and benefits	**187,592**	(41,088)
Compensated absences	**(34,985)**	21,177
Amounts held for others	**57,351**	(6,897)
Unearned revenue	**(152,247)**	(9,830)
Net cash used in operating activities	**$ (8,488,719)**	$ (8,415,031)

Note 1. Summary of Significant Accounting Policies

A. Organization and Purpose

The Valley Community Services Board (the Board) operates as an agent for the counties of Augusta and Highland and the cities of Staunton and Waynesboro in the establishment and operation of community mental health, intellectual disabilities, and substance abuse programs as provided for in Chapter 10 of Title 37.2 of the *Code of Virginia* (1950), relating to the Department of Behavioral Health and Developmental Services. In addition, the Board provides a system of community mental health and intellectual disability and substance abuse services, which relate to and are integrated with existing and planned programs.

The financial statements of the Board have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB) and guidance issued by the Department of Behavioral Health and Developmental Services. The Board's more significant accounting policies are described herein.

For financial reporting purposes, in conformance with GAAP, the Board includes all organizations for which it is considered financially accountable. Control by or dependence on the Board is determined on the basis of budget adoption, ownership of assets, or the Board's obligation to fund any deficits that may occur.

The Board is not considered a component unit of the localities it serves since none of these entities has oversight responsibility, or is legally obligated to fund any deficit of the Board.

The Board is a member of the Virginia Association of Community Services Boards, a nonprofit corporation, and the Behavioral Health and Developmental Services.

In accordance with 37.2-504 (subsection A.18) of the *Code of Virginia*, the Board acts as its own fiscal agent, as authorized to do so by the counties of Augusta and Highland and the cities of Staunton and Waynesboro.

B. Basic Financial Statements

Financial statement presentation: For entities like the Board that are engaged solely in business-type activities, the basic financial statements include:

1. *Statement of Net Position* – The Statement of Net Position is designed to display the financial position of the Board. The net position of the Board is broken down into three categories – (1) net investment in capital assets, (2) restricted, and (3) unrestricted.
2. *Statement of Revenues, Expenses and Changes in Net Position* – The Statement of Revenues, Expenses and Changes in Net Position is designed to display the financial activities of the Board for the period.
3. *Statement of Cash Flows* – The Statement of Cash Flows is prepared using the direct method and is designed to display the yearly transactions that impact cash and cash equivalents.
4. *Notes to Financial Statements.*

Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

The Board's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, wherein revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Nonexchange transactions, in which the Board receives value without directly giving equal value in exchange, include grants, entitlements, and donations. Revenues from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

Changes in financial position are distinguished between operating revenues and expenses and nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a Board's principal ongoing operations. Nonoperating items include nonexchange revenues and interest income and expense.

D. Comparative Totals

Comparative amounts for the prior year are presented for information purposes only.

E. Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents are defined as short-term highly liquid investments that are both readily convertible to known amounts of cash and investments with original maturities of 90 days or less from the date of acquisition.

F. Restricted Cash and Cash Equivalents

The Board is required to maintain $78,840 in reserve by Rural Development as specified by the loan agreement.

G. Accounts Receivable and Allowance for Uncollectible Accounts

At June 30, 2018, the Board had accounts receivable for service fees due in the amount of $1,380,980 from Medicaid, third party insurers and direct clients, net of an allowance for doubtful accounts of $161,855 at June 30, 2018. The allowance was determined based on historical collections.

H. Inventory

The Board expenses all materials and supplies when purchased. Any items on hand at year end are not material in amount and, therefore, are not shown in the financial statements.

I. Capital Assets

Capital assets are recorded at cost. Donated capital assets are recorded at their estimated acquisition value at the time of the gift.

Note 1. Summary of Significant Accounting Policies (Continued)

I. Capital Assets (Continued)

Depreciation or amortization is provided over the estimated useful life of each class of depreciable assets and is computed using the straight-line method over the following estimated useful lives:

Buildings and improvements	39 years
Equipment	5 – 10 years
Vehicles	5 years
Leasehold improvements	10 – 15 years
Software	3 years
ICF/MR Buildings and Improvements	20 years

Capital assets, which include property and equipment, are reported in the financial statements. Capital assets are defined by the Board as assets with an initial, individual cost or group purchase of more than $5,000 and an estimated useful life in excess of one year.

J. Compensated Absences

The Board's employees earn annual leave (vacation pay) in varying amounts and can accumulate annual leave based on length of service. Maximum annual leave accumulation hours are the hours allowable at the time of separation or at the end of any calendar year.

Employees terminating their employment are paid their accumulated annual leave up to the maximum limit. Unused sick leave is not paid at the date of separation.

K. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Board has several items that qualify for reporting in this category. These items relate to the pension plan and other postemployment benefits (OPEB) plan. For more detailed information on these items, see Notes 7 and 8.

In addition to liabilities, the Statement of Net 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 several items that qualify for reporting in this category. These items relate to the pension plan and OPEB plan. For more detailed information on these items, see Notes 7 and 8.

Note 1. Summary of Significant Accounting Policies (Continued)

L. 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 and amortization, less any outstanding debt related to the acquisition, construction or improvement of those assets.

M. Net Position Flow Assumption

Sometimes the Board will fund outlays for a particular purpose from both restricted (e.g. restricted bond and grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Board's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

N. Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, 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. 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 patient'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 patients. Because the Board does not pursue collection of amounts determined to qualify for financial assistance, they are not reported as revenue.

O. 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.

P. Pensions

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

Note 1. Summary of Significant Accounting Policies (Continued)

Q. Other Postemployment Benefits

Group Life Insurance Program

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

R. Budget Process

It is the policy of the Board that the Board of Directors annually adopts an operating budget which identifies anticipated revenues and expenditures. The Board's Finance Committee oversees the budget development process, which includes submitting budget requests to local governments and soliciting public comments on the proposed budget. The operating budget subsequently adopted by the Board of Directors serves as the basis for the Performance Contract with the Virginia Department of Behavioral Health and Developmental Services. Throughout the year, the Finance Committee may authorize budget revisions and make quarterly reports to the full Board.

S. Use of Estimates

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

T. Subsequent Events

The Board has evaluated subsequent events through December 18, 2018, the date on which the financial statements were available to be issued.

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 its 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, bankers' acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP).

The Board has investments in the LGIP. The LGIP is a professionally managed money market fund which invests in qualifying obligations and securities as permitted by Virginia statutes. Pursuant to Section 2.2-4605 of the *Code of Virginia*, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings. The Board's investments in the LGIP, totaling $81,294, are stated at amortized cost and classified as cash and cash equivalents. The LGIP has been assigned an "AAAm" rating by Standard & Poor's. The maturity of the LGIP is less than one year.

Custodial credit risk (deposits): The Board's investment policy for credit risk is consistent with the investments allowed by statute as detailed above.

Interest rate risk: Interest rate risk is defined as the risk that changes of interest rates will adversely affect the fair value of an investment. The Board does not have a formal policy related to the interest rate risk. Interest rate risk does not apply to LGIP since it is an external investment pool classified in accordance with GASB Statement No. 79.

The Board categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

The Board has the following recurring fair value measurement as of June 30, 2018:

- Money market account of $503,222 is valued using quoted market prices (Level 1 inputs).

Concentrations of credit risk: Concentration of credit risk is defined as the risk of loss attributed to the magnitude of an investment in a single issuer. If certain investments in any one issuer represents 5% of total investments, there must be a disclosure for the amount and issuer. At June 30, 2018, 100% of the Board's investments, excluding LGIP, were in money market funds.

Note 3. Due To/From Other Governmental Units

Amounts due from local, state, and federal governments totaled $161,662 at June 30, 2018. Amounts due to state governmental units totaled $166,844 at June 30, 2018.

Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2018 is summarized below:

	Beginning Balance	Increases	(Deletions)/ Reclassifications	Ending Balance
Capital assets not being depreciated or amortized:				
Land	$ 439,171	$ -	$ -	$ 439,171
Construction in progress	10,944	-	(10,944)	-
Total capital assets not being depreciated or amortized	450,115	-	(10,944)	439,171
Capital assets being depreciated or amortized:				
Buildings and improvements	4,497,068	50,535	10,944	4,558,547
Equipment	174,277	21,814	-	196,091
Vehicles	303,256	134,862	-	438,118
Software	1,006,319	151,379	(35,853)	1,121,845
Total capital assets being depreciated or amortized	5,980,920	358,590	(24,909)	6,314,601
Less accumulated depreciation and amortization	2,088,328	547,366	(30,873)	2,604,821
Total capital assets being depreciated or amortized, net	3,892,592	(188,776)	5,964	3,709,780
Capital assets, net	$ 4,342,707	$ (188,776)	$ (4,980)	$ 4,148,951

Depreciation and amortization expense amounted to $547,366 for the year ended June 30, 2018.

Note 5. Unearned Revenue

Unearned revenue represents amounts for which asset recognition criteria have been met, but the revenue recognition criteria have not been met. At June 30, 2018, there was $110,390 in unearned revenue as a result of the receipt of unearned grant revenue.

Note 6. Long-Term Obligations

The following is a summary of long-term obligations transactions of the Board for the year ended June 30, 2018:

	Beginning Balance	Increases/ Issuances	Decreases/ Retirements	Ending Balance
Rural development loan	$ 1,260,180	$ -	$ 25,875	$ 1,234,305
Note payable	1,351,248	-	156,340	1,194,908
	2,611,428	-	182,215	2,429,213
Compensated absences	692,011	807,954	842,939	657,026
Total	$ 3,303,439	$ 807,954	$ 1,025,154	$ 3,086,239

Detail of long-term obligations at June 30, 2018 follows:

	Total Amount	Amount Due Within One Year
$1,500,000 rural development loan dated April 26, 2004, maturing April 26, 2044, monthly payments of $6,570, interest at 4.25%, collateralized by a deed of trust of buildings and property at 85 Sanger's Lane, Staunton, Virginia.	$ 1,234,305	$ 26,888
$1,713,138 note payable dated December 4, 2014 to First Bank & Trust Company, maturing ten years from date of final drawdown, monthly payments of $17,571, interest at 4.25%, collateralized by a deed of trust of buildings and property at 85 Sanger's Lane, Staunton, Virginia.	1,194,908	163,183
Total notes payable	2,429,213	190,071
Compensated absences	657,026	438,017
Total long-term obligations	$ 3,086,239	$ 628,088

Note 6. Long-Term Obligations (Continued)

Annual requirements to amortize notes payable and related interest are as follows:

Year(s)	Rural Development Loan		Note Payable		Total	
Ending June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2019	$ 26,888	$ 51,952	$ 163,183	$ 47,675	$ 190,071	$ 99,627
2020	27,913	50,927	170,146	40,711	198,059	91,638
2021	29,263	49,577	177,628	33,229	206,891	82,806
2022	30,531	48,309	185,326	25,531	215,857	73,840
2023	31,854	46,986	193,358	17,500	225,212	64,486
2024-2028	180,958	213,242	305,267	10,448	486,225	223,690
2029-2033	223,884	170,316	-	-	223,884	170,316
2034-2038	276,810	117,390	-	-	276,810	117,390
2039-2043	342,250	51,950	-	-	342,250	51,950
2044	63,954	1,259	-	-	63,954	1,259
Total	$ 1,234,305	$ 801,908	$ 1,194,908	$ 175,094	$ 2,429,213	$ 977,002

Note 7. Pension Plan

Name of Plan: Virginia Retirement System (VRS)

Identification of Plan: Agent Multiple-Employer Pension Plan

Administering Entity: Virginia Retirement System (System)

A. Plan Description

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

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

Note 7. Pension Plan (Continued)

A. Plan Description (Continued)

Plan 1	Plan 2	Hybrid Retirement Plan
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.	**About Plan 2** Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.	**About the Hybrid Retirement Plan** The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

Note 7. Pension Plan (Continued)

A. Plan Description (Continued)

Plan 1	Plan 2	Hybrid Retirement Plan
Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a refund.	**Eligible Members** Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	**Eligible Members** Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • Political subdivision employees.* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 through April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.
Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	**Hybrid Opt-In Election** Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees. Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.

Note 7. Pension Plan (Continued)

A. Plan Description (Continued)

Plan 1	Plan 2	Hybrid Retirement Plan
Retirement Contributions Members contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	**Retirement Contributions** Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.	**Retirement Contributions** A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.
Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	**Creditable Service** Same as Plan 1.	**Creditable Service** **Defined Benefit Component** Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. **Defined Contribution Component** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

Note 7. Pension Plan (Continued)

A. Plan Description (Continued)

Plan 1	Plan 2	Hybrid Retirement Plan
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	**Vesting** Same as Plan 1.	**Vesting** **Defined Benefit Component** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. **Defined Contribution Component** Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.

Note 7. Pension Plan (Continued)

A. Plan Description (Continued)

Plan 1	Plan 2	Hybrid Retirement Plan
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	**Calculating the Benefit** See definition under Plan 1.	**Calculating the Benefit** **Defined Benefit Component** See definition under Plan 1. **Defined Contribution Component** The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.	**Service Retirement Multiplier** Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members, the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.	**Service Retirement Multiplier** **Defined Benefit Component** The retirement multiplier for the defined benefit component is 1.00%. For members that 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. **Defined Contribution Component** Not applicable.

Note 7. Pension Plan (Continued)

A. Plan Description (Continued)

Plan 1	Plan 2	Hybrid Retirement Plan
Normal Retirement Age Age 65.	**Normal Retirement Age** Normal Social Security retirement age.	**Normal Retirement Age** **Defined Benefit Component** Same as Plan 2. **Defined Contribution Component** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.	**Earliest Unreduced Retirement Eligibility** Normal Social Security retirement age and have at least 5 years (60 months) of creditable service or when their age and service equal 90.	**Earliest Unreduced Retirement Eligibility** **Defined Benefit Component** Normal Social Security retirement age and have at least 5 years (60 months) of creditable service or when their age and service equal 90. **Defined Contribution Component** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.	**Earliest Reduced Retirement Eligibility** Age 60 with at least five years (60 months) of creditable service.	**Earliest Reduced Retirement Eligibility** **Defined Benefit Component** Age 60 with at least five years (60 months) of creditable service. **Defined Contribution Component** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Note 7. Pension Plan (Continued)

A. Plan Description (Continued)

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

Note 7. Pension Plan (Continued)

A. Plan Description (Continued)

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

Note 7. Pension Plan (Continued)

A. Plan Description (Continued)

Plan 1	Plan 2	Hybrid Retirement Plan
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.	**Purchase of Prior Service** Same as Plan 1.	**Purchase of Prior Service** **Defined Benefit Component** Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. **Defined Contribution Component** Not applicable.

B. Employees Covered by Benefit Terms

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

	Number
Inactive members or their beneficiaries currently receiving benefits	119
Inactive members:	
Vested	66
Non-vested	106
Active elsewhere in VRS	142
Total inactive members	314
Active members	223
Total covered employees	656

Note 7. Pension Plan (Continued)

C. Contributions

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

The Board's contractually required contribution rate for the year ended June 30, 2018 was 3.89% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2016.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by an employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Board were $354,004 and $359,948 for the years ended June 30, 2018 and 2017, respectively.

D. Net Pension Asset

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

E. Actuarial Assumptions

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

Inflation	2.50%
Salary increases, including inflation	3.50% - 5.35%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation*

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

Note 7. Pension Plan (Continued)

E. Actuarial Assumptions (Continued)

Mortality Rates: 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 compound from ages 70-90.

– Post-disablement: RP-2014 Disabled Life Mortality Table Projected with scale BB to 2020 with males set forward 2 years, 110% of rates; females 125% of rates.

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

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled:	Update 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 nine years of service
Disability Rates:	Lowered rates
Salary Scale:	No change
Line of Duty Disability:	Increase rate from 14% to 15%

Note 7. Pension Plan (Continued)

F. 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 estimates 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)

G. Discount Rate

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

H. Changes in the Net Pension Asset

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances at June 30, 2016	$ 25,523,327	$ 26,671,996	$ (1,148,669)
Changes for the year:			
Service cost	972,724	-	972,724
Interest	1,748,785	-	1,748,785
Changes of assumptions	(289,886)	-	(289,886)
Difference between expected and actual experience	(764,266)	-	(764,266)
Contributions – employer	-	359,948	(359,948)
Contributions – employee	-	519,536	(519,536)
Net investment income	-	3,259,525	(3,259,525)
Benefit payments, including refunds of employee contributions	(1,081,356)	(1,081,356)	-
Administrative expense	-	(18,667)	18,667
Other changes	-	(2,903)	2,903
Net changes	586,001	3,036,083	(2,450,082)
Balances at June 30, 2017	$ 26,109,328	$ 29,708,079	$ (3,598,751)

Note 7. Pension Plan (Continued)

I. 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) liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Board's net pension (asset) liability	$ 84,625	$ (3,598,751)	$ (6,607,517)

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

For the year ended June 30, 2018, the Board recognized pension benefit of $558,063. The Board also reported deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ (755,894)
Changes in assumptions	-	(188,880)
Net difference between projected and actual earnings on pension plan investments	-	(442,137)
Employer contributions subsequent to the measurement date	354,004	-
Total	$ 354,004	$ (1,386,911)

The $354,004 reported as deferred outflows of resources related to pensions resulting from the Board's contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Amount
2019	$ (836,061)
2020	(264,198)
2021	(6,591)
2022	(280,061)
	$ (1,386,911)

Note 7. Pension Plan (Continued)

K. Pension Plan Data

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

Note 8. Other Postemployment Benefits – Group Life Insurance Program

A. Plan Description

All full-time, salaried permanent employees of the Board are automatically covered by the VRS Group Life Insurance Program (GLI) upon employment. This plan is 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. For members who elect the optional GLI coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from the 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 OPEB.

Note 8. Other Postemployment Benefits – Group Life Insurance Program (Continued)

A. Plan Description (Continued)

The specific information for GLI OPEB, including eligibility, coverage and benefits is set out in the table below:

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

Note 8. Other Postemployment Benefits – Group Life Insurance Program (Continued)

B. Contributions

The contribution requirements for the GLI are governed by Sections 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 was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% X 60%) and the employer component was 0.52% (1.31% X 40%). Employers may elect to pay all or part of the employee contribution, however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2016. 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 from the Board were $53,790 and $51,996 for the years ended June 30, 2018 and 2017, respectively.

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

At June 30, 2018, the Board reported a liability of $816,000 for its proportionate share of the net GLI OPEB liability. The net GLI OPEB liability was measured as of June 30, 2017 and the total GLI OPEB liability used to calculate the net GLI OPEB liability was determined by an actuarial valuation as of that date. The covered employers' proportion of the net GLI OPEB liability was based on the covered employer's actuarially determined employer contributions to the GLI for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the Board's proportion was 0.05421% as compared to 0.05499% at June 30, 2016.

For the year ended June 30, 2018, the Board recognized GLI OPEB expense of $7,000. Since there was a change in the proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

Note 8. Other Postemployment Benefits – Group Life Insurance Program (Continued)

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ (18,000)
Net difference between projected and actual earnings on GLI OPEB program investments	-	(31,000)
Change in assumptions	-	(42,000)
Changes in proportion	-	(12,000)
Employer contributions subsequent to the measurement date	53,790	-
Total	$ 53,790	$ (103,000)

The $53,790 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the net GLI OPEB liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year Ending June 30,	Amount
2019	$ (21,000)
2020	(21,000)
2021	(21,000)
2022	(21,000)
2023	(13,000)
Thereafter	(6,000)
Total	$ (103,000)

Note 8. Other Postemployment Benefits – Group Life Insurance Program (Continued)

D. Actuarial Assumptions

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

Inflation	2.5%
Salary increases, including inflation:	
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 – 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 three 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 two years, 110% of rates; females 125% of rates.

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

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

Note 8. Other Postemployment Benefits – Group Life Insurance Program (Continued)

E. Net GLI Liability

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

	Group Life Insurance OPEB Program
Total GLI OPEB liability	$ 2,942,426,000
Plan fiduciary net position	1,437,586,000
Employers' net GLI OPEB liability	$ 1,504,840,000
Plan fiduciary net position as a percentage of the total GLI OPEB liability	48.86%

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

Note 8. Other Postemployment Benefits – Group Life Insurance Program (Continued)

F. 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%.

G. Discount Rate

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

Note 8. Other Postemployment Benefits – Group Life Insurance Program (Continued)

H. Sensitivity of the Participating Employers' Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the Board's proportionate share of the net GLI OPEB liability using the discount rate of 7.00%, as well as what the participating employers' 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:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Board's proportionate share of the GLI net OPEB liability	$ 1,055,000	$ 816,000	$ 622,000

I. GLI Fiduciary Net Position

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

Note 9. Participating Localities' Contributions

Contributions from localities for the year ended June 30, 2018 were as follows:

County of Augusta	$ 184,185
County of Highland	10,771
City of Staunton	158,030
City of Waynesboro	150,208
	$ 503,194

Note 10. Operating Leases

The Board leases offices, clinics, facilities, vehicles, and equipment for residential services under various lease agreements. Lease expense for the year ended June 30, 2018 amounted to $416,547.

At June 30, 2018, the approximate future minimum annual operating lease commitments (exclusive of projected increases for Consumer Price Index amounts) are as follows:

Year Ending June 30,	Amount
2018	$ 275,761
2019	237,019
2020	127,139
2021	79,855
2022	23,213
	$ 742,987

Note 11. Risk Management

Liability Insurance

The Board is a member of the VACo for workers' compensation. This program is administered by a servicing contractor, which furnishes claims review and processing.

Each member of these risk pools jointly and severally agrees to assume, pay and discharge any liability. The Board pays contributions and assessments based upon classification and rates into a designated cash reserve fund out of which expenses of the Board and claims and awards are to be paid. In the event of a loss deficit and depletion of all available excess insurance, the Board may assess all members in the proportion which the premium of each bears to the total premiums of all members in the year in which such deficit occurs.

The Board continues to carry commercial insurance for all other risks of losses. Settled claims from these risks have not exceeded commercial coverage for each of the past three fiscal years.

Health Insurance

Board employees, retirees and employee dependents are eligible for medical benefits from a health self-insurance fund. Funding is provided by charges to Board employees and retirees. The program is supplemented by a stop loss protection, which limits the Board's annual liability.

Note 11. Risk Management (Continued)

Based on the requirements of GASB Statement No. 10, the Board records an estimated liability for indemnity healthcare claims. The following represents the change in the fund's claims liability for 2018.

Fiscal Year Ended	Beginning Liability	Claims and Changes in Estimates	Claim Payments	Ending Liability
June 30, 2018	$ 361,566	$ 151,432	$ 180,783	$ 332,215

Note 12. Deferred Compensation Plan

The Board offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The deferred compensation plan benefits are not available to employees until termination, retirement, death, or unforeseeable emergency. The plan is administered by CitiStreet.

Note 13. Contingencies

Federal and State-Assisted Programs

The Board has received proceeds from several federal and state grant programs. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any future required refunds will be immaterial. Based upon past experience, no provision has been made in the accompanying financial statements for the refund of grant monies.

Note 14. Change in Accounting Principle

As of June 30, 2018, the Board adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as amended, as well as the requirements of GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, as they relate to OPEB. The following adjustment has been made:

Net position, as originally reported, June 30, 2016	$ 4,480,960
Net adjustment as a result of the implementation of GASB Statement No. 75	(962,000)
Net position, as restated, July 1, 2016	$ 3,518,960

Note 15. Pending GASB Statements

At June 30, 2018, the Governmental Accounting Standards Board (GASB) had issued statements not yet implemented by the Board. The statement which might impact the Board is as follows:

GASB Statement No. 87, *Leases*, will increase the usefulness of the Board's financial statements by requiring reporting of certain lease assets and liabilities and deferred inflows of resources for leases that previously were classified as operating leases. Statement No. 87 will be effective for fiscal years beginning after December 15, 2019.

GASB Statement No. 88, *Certain Disclosures Related to Debt*, will improve the information that is disclosed in notes related to debt. It also clarifies which liabilities governments should include when disclosing information related to debt. Statement No. 88 will be effective for fiscal years beginning after June 15, 2018.

GASB Statement No. 90, *Majority Equity Interests*, is intended to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. Statement No. 90 will be effective for fiscal years beginning after December 15, 2018.

Management has not determined the effect this new GASB Statement may have on prospective financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

VALLEY COMMUNITY SERVICES BOARD

SCHEDULE OF CHANGES IN THE BOARD'S NET PENSION LIABILITY (ASSET) AND RELATED RATIOS – VIRGINIA RETIREMENT SYSTEM

	Fiscal Year June 30,			
	2014	2015	2016	2017
Total Pension Liability				
Service cost	$ 1,043,507	$ 998,145	$ 988,866	$ 972,724
Interest	1,476,016	1,589,609	1,674,708	1,748,785
Changes of assumptions	-	-	-	(289,886)
Differences between expected and actual experience	-	(386,702)	(563,294)	(764,266)
Benefit payments, including refunds of employee contributions	(825,486)	(968,032)	(1,002,695)	(1,081,356)
Net change in pension liability	1,694,037	1,233,020	1,097,585	586,001
Total pension liability - beginning	21,498,685	23,192,722	24,425,742	25,523,327
Total pension liability - ending (a)	$ 23,192,722	$ 24,425,742	$ 25,523,327	$ 26,109,328
Plan Fiduciary Net Position				
Contributions - employer	$ 716,594	$ 520,327	$ 533,013	$ 359,948
Contributions - employee	483,856	474,302	490,446	519,536
Net investment income	3,405,789	1,156,321	466,852	3,259,525
Benefit payments, including refunds of employee contributions	(825,486)	(968,032)	(1,002,695)	(1,081,356)
Administrative expense	(17,823)	(15,567)	(16,165)	(18,667)
Other	179	(247)	(195)	(2,903)
Net change in plan fiduciary net position	3,763,109	1,167,104	471,256	3,036,083
Plan fiduciary net position - beginning	21,270,527	25,033,636	26,200,740	26,671,996
Plan fiduciary net position - ending (b)	$ 25,033,636	$ 26,200,740	$ 26,671,996	$ 29,708,079
The Board's net pension asset - ending (a) - (b)	$ (1,840,914)	$ (1,774,998)	$ (1,148,669)	$ (3,598,751)
Plan fiduciary net position as a percentage of the total pension asset	107.94%	107.27%	104.50%	113.78%
Covered payroll	$ 9,598,646	$ 9,392,184	$ 9,621,173	$ 9,253,162
The Board's net pension asset as a percentage of covered payroll	19.18%	18.90%	11.94%	38.89%

Note to Schedule:

(1) This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Board will present information for those years for which information is available.

VALLEY COMMUNITY SERVICES BOARD

SCHEDULE OF BOARD CONTRIBUTIONS – VIRGINIA RETIREMENT SYSTEM

	Fiscal Year June 30,				
	2014	2015	2016	2017	2018
Contractually required contribution (CRC)	$ 535,462	$ 520,327	$ 533,013	$ 359,948	$ 354,004
Contributions in relation to the CRC	527,375	520,327	533,013	359,948	354,004
Contribution deficiency (excess)	$ 8,087	$ -	$ -	$ -	$ -
Employer's covered payroll	$ 9,598,646	$ 9,392,184	$ 9,621,173	$ 9,253,162	$ 9,100,360
Contributions as a percentage of covered payroll	5.49%	5.54%	5.54%	3.89%	3.89%

Note to Schedule:

(1) This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Board will present information for those years for which information is available.

VALLEY COMMUNITY SERVICES BOARD

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – VIRGINIA RETIREMENT SYSTEM
June 30, 2018

Note 1. Changes of Benefit Terms

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

Note 2. 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 ended June 30, 2016:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled:	Update 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 nine years of service
Disability Rates:	Lowered rates
Salary Scale:	No change
Line of Duty Disability:	Increase rate from 14% to 15%

Note 3. Contractually Required Contributions

The actuarially determined contribution rates are calculated as of June 30, one year prior to the beginning of the fiscal year in which contributions are reported.

Methods and assumptions used to determine contribution rates:

Mortality Rates: 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 compound from ages 70-90.
- Post-disablement: RP-2014 Disabled Life Mortality Table Projected with scale BB to 2020 with males set forward 2 years, 110% of rates; females 125% of rates.

VALLEY COMMUNITY SERVICES BOARD

SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY – GROUP LIFE INSURANCE PROGRAM

	Fiscal Year June 30, 2017
Employer's proportion of the net GLI OPEB liability	0.05421%
Employer's proportionate share of the net GLI OPEB liability	$ 816,000
Employer's covered payroll	$ 9,999,278
Employer's proportionate share of the net GLI OPEB liability as a percentage of its covered payroll	8.16%
Plan fiduciary net position as a percentage of the total GLI OPEB liability	48.86%

Note to Schedule:

(1) This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Board will present information for those years for which information is available.

VALLEY COMMUNITY SERVICES BOARD

SCHEDULE OF EMPLOYER CONTRIBUTIONS – OPEB – GROUP LIFE INSURANCE PROGRAM

	Fiscal Year June 30,									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	**2018**
Contractually required contribution (CRC)	$ 22,054	$ 18,233	$ 26,617	$ 25,656	$ 47,032	$ 46,125	$ 45,658	$ 47,435	$ 51,996	**$ 53,790**
Contributions in relation to the CRC	22,054	18,233	26,617	25,656	47,032	46,125	45,658	47,435	51,996	**53,790**
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	**$ -**
Employer's covered payroll	$ 8,168,183	$ 6,753,103	$ 9,506,165	$ 9,162,752	$ 9,798,299	$ 9,609,388	$ 9,512,081	$ 9,882,211	$ 9,999,278	**$ 10,265,209**
Contributions as a percentage of covered payroll	0.27%	0.27%	0.28%	0.28%	0.48%	0.48%	0.48%	0.48%	0.52%	**0.52%**

See Notes to Required Supplementary Information – Other Postemployment Benefits.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – OTHER POSTEMPLOYMENT BENEFITS
Year Ended June 30, 2018

Note 1. Group Life Insurance Program

A. Changes of Benefit Terms

There have been no actuarially material changes to the Virginia Retirement System benefit provisions since the prior actuarial valuation.

B. Changes of Assumptions

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

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

VALLEY COMMUNITY SERVICES BOARD
STANDARD SCHEDULE OF CURRENT PROPERTY & CASUALTY INSURANCE

Year Ended June 30, 2018

Insurance Coverage	Insurance Co./ Agent/Policy #	Policy Period	Limits of Liability		Deduction	Annual Premium
Automobile Liability Physical Damange	Co: VML Pool Ag: Pol. #: P-VMLP-0603-1	7/1/17 - 6/30/18	BI/PD Unsinsured Motorist Medical Payments ACV-Comprehensive ACV-Collision	$ 1,000,000 $ 25/50/20 $ 10,000	 $ 500 $ 500	$ 24,956
Boiler & Machinery	Co: VML Pool Ag: Pol. #: P-VMLP-0603-1	7/1/17 - 6/30/18	Direct Damage Business Income Extra Expense	$ 100,000	$ 1,000	$ 332
Crime	Co: VML Pool Ag: Pol. #: P-VMLP-0603-1	7/1/17 - 6/30/18	Employee Dishonesty Forgery or Alteration Money & Securities Money Orders	$ 500,000 $ 500,000	$ 2,500 $ 2,500	$ 2,086
Electronic Data Processing	Co: VML Pool Ag: Pol. #: P-VMLP-0603-1	7/1/17 - 6/30/18	Hardware Software Extra Expense	$ 660,000 Included Included	$ 250	Included in Property Premium
Garage Liability	Co: Ag: Pol. #:	7/1/17 - 6/30/18	Garage Liability Garage keepers (Direct or Legal Liability)	$ - $ -		
General Liability	Co.: VARISK2 Ag: Pol. #: G99D28	7/1/17 - 6/30/18	Aggregate Occurrence Medical Employee Benefits	N/A $ 1,000,000 $ - $ -	 $ 1,000	$ 8,415
Medical Malpractice	Co.: VARISK2 Ag: Pol. #: G99D28	7/1/17 - 6/30/18	Occurrence Aggregate	$ 2,100,000 unlimited	 $ 1,000	$ 29,986
Public Officials' Liability	Co.: VARISK2 Ag: Pol. #: G99D28	7/1/17 - 6/30/18	Occurrence Aggregate	$ 1,000,000 $ -	 $ 1,000	Included in General Liability
Property	Co.: VML Pool Ag: Pol. #: P-VMLP-0603-1	7/1/17 - 6/30/18	Real Property Personal Property Business Income	$ 9,608,334 $ - $ -	$ 1,000	$ 14,985
Excess Auto Liability	Co.: VML Pool Ag: Pol. #: P-VMLP-0603-1	7/1/17 - 6/30/18	Occurrence Aggregate	$ 5,000,000 $ -	$ 500	$ 4,189
Workers' Compensation	Co.: VML Pool Ag: Pol. #: P-VMLP-0603-1	7/1/17 - 6/30/18	Each Accident Policy Limit - Disease Each Employee - Disease	$ 1,000,000 $ 1,000,000 $ 1,000,000	N/A	$ 33,747
Miscellaneous Coverage Blanket Accidental Health	Co: BB&T Ins Co/Barger	7/1/17 - 6/30/18	Accident/Health Aggregate Limited	$ 250,000		$ 4,084
						Total **$ 122,780**

VALLEY COMMUNITY SERVICES BOARD
CLIENT STATISTICS

Year Ended June 30, 2018

	Fiscal Year June 30,									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Clients served by program:										
Mental health	2,330	2,331	2,534	2,357	2,387	2,505	3,072	3,262	2,957	2,939
Intellectual disabilities	436	419	447	428	424	546	544	551	465	652
Substance abuse	1,203	1,156	1,092	1,047	921	519	400	528	526	443
Services outside of program area	1,478	1,484	1,506	1,902	1,904	885	957	1,272	2,551	1,800
	5,447	5,390	5,579	5,734	5,636	4,455	4,973	5,613	6,499	5,834
Total unduplicated clients served	4,141	4,148	4,174	4,217	4,217	3,628	4,019	4,310	4,619	4,545
Intellectual disabilities residential client days	9,565	9,546	9,516	9,486	8,472	10,928	9,258	7,056	6,562	5,895

COMPLIANCE SECTION

VALLEY COMMUNITY SERVICES BOARD

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2018

Federal Grantor/State Pass-through Grantor/Program Title or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Provided to Subrecipients	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE				
Pass-through payments:				
Virginia Department of Agriculture and Consumer Services:				
Child and Adult Care Food Program	10.558	Not Available	None	$ 37,671
Total Department of Agriculture				37,671
DEPARTMENT OF JUSTICE				
Pass-through payments:				
Virginia Department of Behavioral Health and Developmental Services:				
Criminal and Juvenile and Mental Health Collaboration Program	16.745	Not Available	None	53,021
Total Department of Justice				53,021
DEPARTMENT OF EDUCATION				
Pass-through payments:				
Virginia Department of Behavioral Health and Developmental Services:				
Special Education Grants for Infants and Families	84.181	Not Available	None	61,537
Total Department of Education				61,537
DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Pass-through payments:				
Virginia Department of Social Services:				
TANF Cluster				
Temporary Assistance for Needy Family	93.558	Not Available	None	161,832
Total TANF Cluster				161,832
Virginia Department of Behavioral Health and Developmental Services:				
Block Grants for Prevention and Treatment of Substance Abuse	93.959	Not Available	None	568,937
Block Grants for Community Mental Health Services	93.958	Not Available	None	112,290
Projects for Assistance in Transportation for Homelessness	93.150	Not Available	None	39,861
Total Department of Health and Human Services				882,920
Total expenditures of federal awards				$ 1,035,149

VALLEY COMMUNITY SERVICES BOARD

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2018

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of the Valley Community Services Board (Board) under programs of the federal government for the year ended June 30, 2018. The information in this SEFA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, (Uniform Guidance). Because the SEFA presents only a selected portion of the operations of the Board, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Board.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the SEFA are presented on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through identifying numbers are presented where available.

Note 3. Indirect Cost Rate

The Board has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

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

Board of Directors
Valley Community Services Board
Staunton, 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 Valley Community Services Board (the Board), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated December 18, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 a material misstatement of the Board's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or 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. We did identify deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2018-001 and 2018-002, that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 matter that are required to be reported under *Government Auditing Standards*.

Board's Response to Findings

The Board's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The Board's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 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 Board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PBMares, LLP

Harrisonburg, Virginia
December 18, 2018

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR THE MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
Valley Community Services Board
Staunton, Virginia

Report on Compliance for the Major Federal Program

We have audited Valley Community Services Board's (Board) compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on the Board's major federal program for the year ended June 30, 2018. The Board's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Board's major federal program 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 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 Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the Board's compliance.

Opinion on the Major Federal Program

In our opinion, the Board complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of the 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 Board's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the 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 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 weakness. However, material weaknesses may exist that have not been identified. We identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2018-003, which we consider to be a material weakness.

The Board's Response to Finding

The Board's response to the internal control over compliance finding in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The Board's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

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.

PBMares, LLP

Harrisonburg, Virginia
December 18, 2018

VALLEY COMMUNITY SERVICES BOARD

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2018

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified?	√ Yes	______ No
Significant deficiencies identified?	______ Yes	√ None Reported
Noncompliance material to financial statements noted?	______ Yes	√ No

Federal Awards

Internal control over major program:

Material weaknesses identified?	√ Yes	______ No
Significant deficiencies identified?	______ Yes	√ None Reported

Type of auditor's report issued on compliance for the major program: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 2 CFR 200.516(a)?	______ Yes	√ No

Identification of Major Program:

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

Dollar threshold used to distinguish between type A and type B programs: $750,000

Auditee qualified as low-risk auditee?	______ Yes	√ No

II. FINANCIAL STATEMENT FINDINGS

A. Material Weaknesses in Internal Control

2018-001: *Material Weakness Due to Lack of Timely Reconciliations and Material Audit Adjustments*

Criteria and Condition: In order to prepare financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), accurate and complete general and subsidiary ledgers, along with supporting records, must be maintained to support the existence, completeness, accuracy, and valuation of all assets and liabilities, revenues, and expenditures/expenses to ensure an accurate presentation of the financial position and activity of the Valley Community Services Board (Board) for the fiscal year just ended. The efficient, effective, and timely preparation of the financial statements depends heavily on personnel from the Board and includes closing the general ledger, performing appropriate financial analyses and reconciliations of yearly activity, and accumulating the required data for reporting. In order to verify that the transactions are fairly presented, procedures must be in place and functioning effectively to ensure the financial information is complete, accurate, and accordance with GAAP. The year-end financial statements should be final and free of significant misstatements.

Context: During the fiscal year 2018 audit and financial reporting processes, multiple instances were identified where the complete and accurate recording of financial transactions within the general ledger did not occur including (but not limited to) the following:

- The Board was unable to reconcile the cash balances with financial institutions per the general ledger from December 31, 2017 through June 30, 2018 until November 2018. Although the bank reconciliation at June 30, 2018 was completed in November, 2018, there was an unreconciled variance between the balance per the bank and the balance per the general ledger.
- Unearned revenue accounts were not reconciled to receipts and expense activity, resulting in a material audit adjustment for funds received and not spent, which must be paid back to the Commonwealth of Virginia.
- Other balances including accounts receivable deposit clearing, capital assets, prepaid expenses, accounts payable, and other accrued liability balances were also not reconciled timely to subsidiary records.

Cause: During fiscal year 2018, the Board's finance staff lacked the required technical skills to analyze and reconcile transactions both timely and accurately. Additionally, there was significant turnover in multiple key accounting and management positions. Internal control processes were not in place to monitor related account activities to ensure the existence, completeness, accuracy, and valuation of all assets and liabilities, revenues and expenses/expenditures in the Board's financial statements.

Effect: The controls in place to close the year-end books, reconcile the balances, analyze the period transactions, and accumulate and assimilate such data into a timely, GAAP compliant financial report did not function. As noted above, the effect of these transactions was to misstate net position of the Board. The necessary entries above were significant to the financial statements and were included as adjustments in order to more accurately represent the financial position of each of the above. Failure to record the items noted above would be a departure from accounting principles generally accepted in the United States of America.

Recommendation: The Board should ensure finance staff have adequate technical skills or training to perform their accounting functions accurately and timely. We recommend increasing levels of oversight to ensure reconciliations are performed timely and formal year-end close procedures are documented and followed to support the existence, completeness, accuracy and valuation of all assets and liabilities, revenues, and expenditures/expenses reported in the Board's financial statements.

Views of Responsible Officials:

- All cash accounts will be reconciled to the bank statements and any necessary adjusting entries made before the close of the next month.
- Unearned revenue accounts will be reconciled, and any unspent funds that are not reserved for a distinct client need will be returned within the timeframe established by the State.
- All accounts listed will be reconciled and adjustments made to the GL in a timely manner.

2018-002: Material Weakness Due to Lack of Segregation of Duties

Criteria and Condition: Duties related to significant accounting processes, including accounts payable, should be segregated to the fullest extent, to avoid the risk of fraudulent activity, errors, and allow for continuity in the event of an unexpected and/or untimely absence of an employee involved in the process. In auditing the internal control over accounts payable, it was determined that certain employees within the Finance Department have access to update the vendor master file, create purchase orders, process accounts payable, write checks, and perform bank reconciliations.

Context: Certain users involved in the Board's accounting processes have access to all elements of the accounts payable modules.

Cause: Additional rights were granted to employees in an effort to compensate for vacancies during staff turnover.

Effect: The potential effect of this lack of segregation of duties over these functions could allow for errors and defalcations within the accounts payable cycle. Furthermore, the lack of segregation of duties creates an environment where there is more potential for human error, which could go undetected.

Recommendation: Employee user access to the accounts payable module should be reviewed, with access restricted to only those modules necessary to perform assigned functions. Due to the inherent nature of the transactions and significant dollar amounts involved, accounts payable is a risky area for errors and defalcations. Better segregation of duties will enhance controls to detect any such errors, fraud, or irregularities and provide for much greater safeguarding of assets.

Views of Responsible Officials: Job descriptions will be reviewed and changed to ensure proper segregation of duties. CFO will monitor activities throughout the year to ensure compliance.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

A. Material Weakness in Internal Control

2018-003: *Material Weakness Related to Preparation of Schedule of Expenditures of Federal Awards*

Criteria and Condition: Code of Federal Regulations 2 CFR 200.510, Financial Statements. “The auditee must prepare a schedule of expenditures of Federal awards for the period covered by the auditee’s financial statements which must include the total Federal awards expended as determined in accordance with CFR 200.502 – Basis for determining Federal awards expended.” The Schedule of Expenditures of Federal Awards as originally presented for audit did not accurately present all Federal expenditures.

Context: The Schedule of Expenditures of Federal Awards originally understated Federal expenditures by $55,521, including $2,500 for the program, Block Grants for Treatment of Substance Abuse CFDA Number 93.959 and $53,021 for the program, Criminal and Juvenile and Mental Health Collaboration CFDA Number 16.745. In total, these adjustments exceeded the questioned cost threshold and were identified as audit adjustments.

Cause: There was a lack of supervisory review of the Schedule that was provided which resulted in improper classification of state and federal expenditures.

Effect: The potential exists for federal expenditures to not be properly reflected within the schedule. As a result of failing to record these items, the Board could fail to report the proper amounts of federal expenditures associated with specific grants.

Recommendation: We recommend the Board implement procedures to reconcile and review the Schedule to ensure all amounts are properly recorded and presented on the Schedule.

Views of Responsible Officials: Pre-trial Diversion funds have been added to our Federal Expenditure Schedule. We will monitor our State Warrants to ensure that any Federal Funds are captured on the GL when received. The $2,500 was a one-time payment and was an accounting error. We will monitor our journal entries more closely.

Providing community-based Mental Health, Intellectual Disabilities and Substance Abuse Services
Serving Counties of Augusta & Highland and the Cities of Staunton & Waynesboro

VALLEY COMMUNITY SERVICES BOARD

CORRECTIVE ACTION PLAN
Year Ended June 30, 2018

I. FINANCIAL STATEMENT FINDINGS

Identifying Number: **2018-001**

Finding: During the fiscal year 2018 audit and financial reporting processes, multiple instances were identified where the complete and accurate recording of financial transactions within the general ledger did not occur including (but not limited to) the following:

- The Board was unable to reconcile the cash balances with financial institutions per the general ledger from December 31, 2017 through June 30, 2018 until November 2018. Although the bank reconciliation at June 30, 2018 was completed in November, 2018, there was an unreconciled variance between the balance per the bank and the balance per the general ledger.
- Unearned revenue accounts were not reconciled to receipts and expense activity, resulting in a material audit adjustment for funds received and not spent, which must be paid back to the Commonwealth of Virginia.
- Other balances including accounts receivable deposit clearing, capital assets, prepaid expenses, accounts payable, and other accrued liability balances were also not reconciled timely to subsidiary records.

Corrective Action Taken or Planned:

- All cash accounts will be reconciled to the bank statements and any necessary adjusting entries made before the close of the next month.
- Unearned revenue accounts will be reconciled, and any unspent funds that are not reserved for a distinct client need will be returned within the timeframe established by the State.
- All accounts listed will be reconciled and adjustments made to the GL in a timely manner.

Contact Information:

Greg Gutmeir, CFO
85 Sanger's Lane
Staunton, Virginia 24401
(540) 213-7544

Identifying Number: **2018-002**

Finding: Duties related to significant accounting processes, including accounts payable, should be segregated to the fullest extent, to avoid the risk of fraudulent activity, errors, and allow for continuity in the event of an unexpected and/or untimely absence of an employee involved in the process. In auditing the internal control over accounts payable, it was determined that certain employees within the Finance Department have access to update the vendor master file, create purchase orders, process accounts payable, write checks, and perform bank reconciliations.

Corrective Action Taken or Planned: Job descriptions will be reviewed and changed to ensure proper segregation of duties. CFO will monitor activities throughout the year to ensure compliance.

Contact Information:

Greg Gutmeir, CFO
85 Sanger's Lane
Staunton, Virginia 24401
(540) 213-7544

II. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Identifying Number: **2018-003**

Finding: The Schedule of Expenditures of Federal Awards originally understated Federal expenditures by $55,521, including $2,500 for the program, Block Grants for Treatment of Substance Abuse CFDA Number 93.959 and $53,021 for the program, Criminal and Juvenile and Mental Health Collaboration CFDA Number 16.745. In total, these adjustments exceeded the questioned cost threshold and were identified as audit adjustments.

Corrective Action Taken or Planned: Pre-trial Diversion funds have been added to our Federal Expenditure Schedule. We will monitor our State Warrants to ensure that any Federal Funds are captured on the GL when received. The $2,500 was a one-time payment and was an accounting error. We will monitor our journal entries more closely.

Contact Information:

Greg Gutmeir, CFO
85 Sanger's Lane
Staunton, Virginia 24401
(540) 213-7544

Providing community-based Mental Health, Intellectual Disabilities and Substance Abuse Services
Serving Counties of Augusta & Highland and the Cities of Staunton & Waynesboro

VALLEY COMMUNITY SERVICES BOARD

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2018

Identifying Number: **2017-01**

Finding: The *Uniform Disposition of Unclaimed Property Act* sets forth procedures for unclaimed or abandoned property. For any government, all intangible property held for the owner that remains unclaimed for more than one year is presumed abandoned. Unclaimed property may consist of outstanding checks, unpaid wages, and any other tangible or intangible property. The *Uniform Disposition of Unclaimed Property Act* requires local governments to file an annual report with the State Treasurer listing all unclaimed property, the deadline for which is November 1st of each year for the preceding year ended June 30th. The Board did not file an unclaimed property report with the State Treasurer in the current year for checks outstanding for greater than one year.

Corrective Action Taken or Planned: There was no unclaimed intangible property in FY2018. All checks over ninety days old are researched. Action is taken to ensure the payee received payment. If payment is not received by payee, correct mailing instructions will be obtained, the check will be voided, and the payment reissued. If a check remains outstanding for more than 365 days, it will be remanded to the state as unclaimed property.