HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

FINANCIAL REPORT

June 30, 2018

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

TABLE OF CONTENTS

INTRODUCTORY SECTION

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

DIRECTORY OF PRINCIPAL OFFICIALS
June 30, 2018

BOARD OF DIRECTORS

Ms. Sherry L. Mongold, Chair

Ms. Judy Bland, Vice-Chair

Herbert Salisbury, Secretary	Linda Burner, Treasurer
Brian Hanger	Dr. Abdelrahman Rabie
Annette Sprinkle	Geraldine Rush
Dr. John Kidd	Ben Risser
Sheriff Bryan Hutcheson	Deborah Bullis

PRINCIPAL MANAGEMENT TEAM

Ellen Harrison	Executive Director
Lynn R. Grigg	Child and Family Services Director
Holly Albrite	Administrative Services Director
Rebekah Brubaker	Adult Behavioral Services Director
John Malone	Developmental Services Director
James Styron, M.D.	Medical Director

HRCSB Organizational Chart

- Harrisonburg City Council
- Rockingham County Board of Supervisors

Harrisonburg-Rockingham Community Services Board
Board of Directors

- Executive Committee
- Fiscal Committee
- Personnel Committee
- Strategic Planning Committee

Executive Director

- Human Resources
- Fiscal

Child and Family Services

- Outpatient Services
- Case Management
- Family Care Coordination
- Substance Abuse Prevention & Early Intervention
- Infant & Toddler Connection
- Children's Mobile Crisis
- School-based Services

Adult Behavioral Health Services

- Emergency Services
- Crisis Stabilization
- Assessment & Evaluation (Access)
- Inpatient Services (Purchased)
- Outpatient Services
- Substance Abuse Case Management
- Adult Teams: Case Management & Mental Health Skill Building
- Summit House
- Peer Support
- Residential Services & Supports

Medical Services

- Psychiatric Services
- Nursing Services
- Medications

Developmental Services

- Case Management
- Medicaid Waiver and Purchased Services

Administrative Services

- Information Technology
- Data Quality
- Clerical
- Medical Records
- Compliance and Quality Assurance
- Procurement
- Risk Management
- Facilities Management

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

ORGANIZATIONAL INFORMATION

MISSION STATEMENT

The Harrisonburg-Rockingham Community Services Board provides services that promote dignity, choice, recovery, and the highest possible level of participation in work, relationships, and all aspects of community life for individuals and their families whose lives are affected by behavioral health or developmental disorders.

Adopted by the CSB Board of Directors on September 8, 2009

MAJOR PROGRAMS

Harrisonburg-Rockingham Community Services Board provides community-based mental health, intellectual disabilities, and substance abuse programs, including:

24-Hour Emergency Services
Adult Services
Children & Family Services (McNulty Center)
Infant Services

Programs are licensed by the Virginia Department of Behavioral Health and Developmental Services. Services may have eligibility requirements.

FACILITIES

1241 North Main Street, Harrisonburg – Adult Services & Administration
463 East Washington Street, Harrisonburg – Children and Family Services
1888 Pear Street, Harrisonburg – Clubhouse Program
477 East Market Street, Harrisonburg – Residential Program
1241 Harmony Drive, Harrisonburg – Residential Program
1710 Park Road, Harrisonburg – Residential Program
1231 North Main Street, Harrisonburg – Developmental Services
1351 North Main Street, Harrisonburg – Financial Offices
1353 North Main Street, Harrisonburg – Crisis Stabilization Program and Administrative Officers

CONTACT INFORMATION

You may contact the Harrisonburg-Rockingham Community Services Board by:

Telephone:	(540) 434-1941
TDD:	(540) 434-1941
Fax:	(540) 434-1791
Web Page:	www.hrcsb.org
Mail:	1241 North Main Street Harrisonburg, VA 22802

FINANCIAL SECTION

The Financial Section contains the Basic Financial Statements.

BROWN EDWARDS
certified public accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Harrisonburg-Rockingham Community Services Board
Harrisonburg, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Harrisonburg-Rockingham 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 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Your Success is Our Focus
1909 Financial Drive • Harrisonburg, VA 22801 • 540-434-6736 • Fax: 540-434-3097 • www.BEcpas.com

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

Change in Accounting Principle

As described in Notes 10, 11, and 20 to the financial statements, in 2018 the Board adopted new accounting guidance, GASB Statement No. 75*, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited the Board's 2017 financial statements, on which, in our report dated November 27, 2017, we expressed an unmodified opinion. The 2017 financial information is provided for comparative purposes only. In our opinion, the comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived. In addition, the amounts presented for comparative purposes have not been restated for the matters described in Note 20.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other required supplementary information, as listed in the table of contents, 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 Board's financial statements that collectively comprise the Board's basic financial statements. The introductory section and combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

Other Matters (Continued)

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

The introductory section has 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 it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 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 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.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 13, 2018

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) of the Harrisonburg-Rockingham Community Services Board's (the "Board") activities and financial performance provides the reader with an introduction and overview to the Board's financial statements for the fiscal year ended June 30, 2018.

Following this MD&A are the basic financial statements of the Board, together with the notes thereto, which are essential to a full understanding of the data contained in the financial statements. The Rockingham-Harrisonburg Halfway House Corporation is considered to be a component unit for inclusion in the Board's financial statements.

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 of only two components: 1) enterprise fund financial statements and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

The enterprise funds of the Board consist of the Harrisonburg-Rockingham CSB and the Rockingham-Harrisonburg Halfway House, Inc.

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 the Board's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as one indicator of the trending financial position of the Board.

The Statement of Revenues, Expenses and Changes in Fund 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 the cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in a future fiscal period (e.g., earned but unused staff vacation leave).

In 2018, the Board adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The overall effect of this new standard is to reflect the Board's long-term other postemployment benefit ("OPEB") obligations directly in the financial statements. Under previous accounting guidance, these amounts were recorded incrementally over time, but were not recognized in their entirety. Instead, the total liability, which has not been recorded, was only partially recorded and fully disclosed. The new standard not only changes certain measurement methodologies, but also requires certain new disclosures and that the Board record the net OPEB liability directly on the statement of net position. Beginning net position has been restated as discussed in Note 20, and this has had a significant impact on the Board's net position. However, because similar information has been disclosed in prior years, both in the notes to the financial statements and in required supplementary information, the effect of this new standard is not expected to negatively affect how most governmental entities are viewed by sophisticated readers of their financial statements. Because information to restate prior years is not readily available, the prior year comparative information included in this discussion and analysis has not been restated.

The basic enterprise fund financial statements can be found on pages 5 through 8 of this report.

OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)

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 the financial statements can be found on pages 9 through 45 of this report.

Other information: In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Board's progress in funding its obligation to provide other postemployment benefits (OPEB) for its employees, changes in net pension liability, pension contributions, and changes to pension benefit terms and assumptions. Required supplementary information can be found on pages 46 through 51.

2018 FINANCIAL HIGHLIGHTS

The Board's financial statements are reported on the full accrual basis as required by generally accepted accounting principles. On this basis, the Board reported revenues of $13,815,324 and expenditures of $12,819,350, producing a net gain of $995,974 for the year.

The Board's net position totaled $11,578,678 of which $8,494,436 is available to spend at the discretion of the agency's Board of Directors in support of the Board's mission. All operations are supported through current financial resources.

CONDENSED FINANCIAL SUMMARY

Financial Position: A summary of the Harrisonburg-Rockingham CSB's Statement of Net Position, including all programs and operations, for 2018 and 2017 is presented below:

Condensed Statement of Net Position

	2018	2017
ASSETS		
Current assets	$10,322,132	$ 9,281,375
Noncurrent assets	4,265,603	3,348,008
TOTAL ASSETS	14,587,735	12,629,383
DEFERRED OUTFLOWS OF RESOURCES	387,757	762,092
LIABILITIES		
Current liabilities	2,231,301	1,968,241
Long-term liabilities	737,436	279,647
TOTAL LIABILITIES	2,968,737	2,247,888
DEFERRED INFLOWS OF RESOURCES	428,077	81,196
NET POSITION		
Net investment in capital assets	3,084,242	3,180,590
Unrestricted	8,494,436	7,881,801
TOTAL NET POSITION	$11,578,678	$11,062,391

2018 FINANCIAL HIGHLIGHTS (Continued)

In 2018, the net value of the Board's current assets increased $1,040,757 or 11.2%, primarily from unspent funding balances and increased receivables for billable services. A few positions remained unfilled for extended periods of time, while others were covered with new funding sources. In addition, new restricted funding was received to revamp same day access services and increase child therapy; however, these were not fully operational all year. Medicaid Waiver case management (3%) billing was up in addition to adult (9%) and children's (31%) mental health case management services. Arbor House Crisis Stabilization Unit (9%) also billed more services to Medicaid than was projected at the beginning of the year, in addition to adding Anthem as a payer for said services.

The net value of the Board's capital assets decreased $96,348 or 3%. The Board replaced one vehicle and purchased two additional to support program needs, as well as replaced a heating and cooling unit, upgraded technology equipment, purchased timekeeping software, and continued planning and designing of construction of new office building. These additions were offset by depreciation.

Deferred outflows of resources consist of contributions made to VRS during the fiscal year, subsequent to the measurement date for pensions, and other pension-related deferred outflows transactions. In addition, deferred outflows related to other postemployment benefits was added to this year's financial statements to reflect the contributions and other OPEB-related transactions required by GASB No. 75.

Current liabilities increased $263,060 or 13.4% over 2017. The Board recorded minimal increases in accrued salaries and fringe benefits and compensated absences. The Board's unearned revenue increased due to state funding balances for the proportion allocated to cover program expenses and unspent restricted/earmarked funds.

Deferred inflows of resources increased $346,881, of which $288,563 is attributed to pension-related differences between expected and actual investment experience. In addition, $69,222 deferred inflows related to other postemployment benefits was recorded with the adoption of GASB No. 75.

The Board's 2018 beginning net position was restated to reflect the adoption of GASB No. 75, which impacted the ending net position. However, the prior years is not restated because the OPEB information is not readily available. A multi-year historical compilation of year-end total net position indicates the Board's overall financial condition has tracked a positive trend line.

2018	$11,578,678, as restated (adoption of GASB No. 75)
2017	$11,062,391
2016	$10,192,763
2015	$8,752,657, as restated (adoption of GASB No. 68)
2014	$9,191,387

Overall, the financial position of the Harrisonburg-Rockingham CSB remains strong, as evidenced by continuing strong liquidity.

Change in Net Position: A summary of the Harrisonburg-Rockingham CSB's Statement of Revenues, Expenses, and Changes in Fund Net Position including all programs and operations, for 2018 and 2017 is presented below:

Condensed Statement of Revenues, Expenses & Changes in Fund Net Position

	2018	2017
OPERATING REVENUES	$ 5,582,099	$ 5,166,050
OPERATING EXPENSES	12,819,350	11,997,596
Operating loss	(7,237,251)	(6,831,546)
NONOPERATING REVENUES (EXPENSES)	8,233,225	7,701,174
Change in net position	$ 995,974	$ 869,628

Operating revenues are defined as the amount of revenue received from providing client services. During 2018, operating revenues increased $416,049 or 8% in comparison with 2017, most of which is attributable to expanding service capacity through additional staff and infant and toddler contract providers. In addition, substance use intensive outpatient program began in July 2017 and STEP VA funding allowed growth of same day access and child therapy services. Some of the increase was offset by a change in the estimate used in the calculation of the allowance for uncollectible accounts.

Operating expenses are comprised of the direct expenses of operating the Board. These include salaries, benefits, occupancy costs, contractual and professional services provided by others, and depreciation and amortization. The Board's most significant operating expenses consist of salary and benefits. During 2018, operating expenses increased $821,754 or 6.8% from 2017. The Board incurred cost increases in salaries and associated fringe benefits from granting a COLA in December and adding several service provider positions and administrative staff; however, pension expense decreased $156,856 and the adoption of GASB No. 75 decreased overall benefit costs by transferring OPEB contributions to deferred outflows of resources. Contractual and professional services are higher due to greater demand for purchased services, including speech therapy, developmental services, and interpreters for infant and toddlers, software licenses for new server/backup devices and medical services within the electronic health record, beginning the process of setting up/moving to an electronic timekeeping/human resources package, and acquiring intensive residential bed days for several new discharge assistance plans.

Non-operating revenues are comprised of governmental funds, interest income, and other miscellaneous income. The majority of the governmental funds come from the Commonwealth of Virginia through the Virginia Department of Behavioral Health and Developmental Services. Governmental funding is also received from the federal government, the City of Harrisonburg, and Rockingham County. Interest income totaled $31,056 in 2018, reflecting higher interest rates paid on the Local Government Investment Pool account. The Board did not incur non-operating expenses (interest) in 2018 because the debt was paid in full in 2017.

Cash Flows: A summary of the Harrisonburg-Rockingham CSB's Statement of Cash Flows, including all programs and operations, for 2018 and 2017 is presented below:

Condensed Statement of Cash Flows

	2018	2017
OPERATING ACTIVITIES	$(7,360,924)	$ (6,798,188)
NON-CAPITAL FINANCING ACTIVITIES	8,416,838	8,282,546
CAPITAL AND RELATED FINANCIAL ACTIVITIES	(173,478)	(128,679)
INVESTING ACTIVITIES	31,056	16,483
Net Increase/(Decrease) in Cash	913,492	1,372,162
Cash – Beginning at July 1	8,237,654	6,865,492
Cash – Ending June 30	$ 9,151,146	$ 8,237,654

Cash flows from operating activities include cash received for services less payments made to suppliers and employees. The operating loss recorded on the Statement of Revenues, Expenses and Changes in Fund Net Position is reconciled to net cash used in operating activities through adjustments for depreciation and amortization, pension expense net of employer contributions, other postemployment expense net of employer contributions, and changes in current assets and liabilities. Please see the Statement of Cash Flows for a full listing of those transactions.

Cash flows from non-capital financing activities include cash received from state, federal, and local governments and other miscellaneous sources. Cash flows from capital and related financing activities are comprised of the acquisition and sale of fixed assets, plus principal and interest payments associated with debt. Cash flows from investing activities are comprised of interest received.

In anticipation of the FY2019 Performance Contract language mandating a minimum of two months operating funds in reserves, it is prudent to set aside more than the minimum requirement to adjust quickly to changing economic pressures. For instance, all 40 CSBs will absorb a budget cut in FY2019 and FY2020 as a result of anticipated reimbursement potential with the inception of Medicaid Expansion (January 2019). Thus a robust cash reserves is required as the retraction of said funds will begin 4-6 months prior to the capture of any elevated billing potential.

DEBT

Harrisonburg-Rockingham CSB currently has no long-term debt. As described in the accompanying notes, the Board has a Guidance Line of Credit with SunTrust Bank, which was not accessed during 2018. The Board anticipates requesting proposals for the funding and construction bids in the fourth quarter of FY 2019.

CAPITAL AND OTHER ASSETS

At the end of 2018, the Harrisonburg-Rockingham CSB had a total of $3,084,242 in net capital assets, of which $560,481 is held by the Rockingham-Harrisonburg Halfway House, Inc. The total is comprised of $6,708,026 in capital assets less $3,623,784 in accumulated depreciation.

Asset classes include: land (8.3%), construction in progress (.5%), land improvements (4.7%), buildings (41.6%), building improvements (27.8%), equipment (6.3%), vehicles (6.2%), and software (4.6%).

CONTACTING THE BOARD'S FINANCIAL MANAGEMENT

This financial report is designed to provide local citizens, our clients and their families, and all taxpayers with a general overview of the Board's finances. Questions regarding this report or requests for additional financial information should be made to Karla E. Carickhoff, Fiscal Manager, 1241 North Main Street, Harrisonburg, VA 22802; telephone (540) 434-1941.

BASIC FINANCIAL STATEMENTS

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

STATEMENT OF NET POSITION
June 30, 2018

	2018	(For Comparative Purposes Only) 2017
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (Note 2)	$ 9,019,106	$ 8,103,531
Accounts receivable, net (Note 3)	1,056,955	920,200
Miscellaneous accounts receivable	20,950	40,150
Due from other governments (Note 4)	44,353	32,900
Prepaid expenses	48,728	50,471
Cash and cash equivalents, restricted for representative payee beneficiaries (Note 2)	132,040	134,123
Total current assets	10,322,132	9,281,375
NONCURRENT ASSETS		
Net pension asset (Note 9)	1,181,361	167,418
Capital assets, net (Note 5)	3,084,242	3,180,590
Total noncurrent assets	4,265,603	3,348,008
Total assets	14,587,735	12,629,383
DEFERRED OUTFLOWS OF RESOURCES		
Deferred outflows related to pensions (Note 9)	315,938	762,092
Deferred outflows related to other postemployment benefits (Note 12)	71,819	-
Total deferred outflows of resources	387,757	762,092
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable and other current liabilities	148,909	132,369
Accrued payroll and related liabilities	499,282	472,883
Amounts held for representative payee beneficiaries, payable from restricted assets	132,040	134,123
Unearned revenues (Note 7)	1,049,276	841,918
Compensated absences	401,794	386,948
Total current liabilities	2,231,301	1,968,241
LONG-TERM LIABILITIES		
Other postemployment benefits liability (Note 12)	737,436	279,647
Total liabilities	2,968,737	2,247,888
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions (Note 9)	358,855	81,196
Deferred inflows related to other postemployment benefits (Note 12)	69,222	-
Total deferred inflows of resources	428,077	81,196
NET POSITION		
Net investment in capital assets	3,084,242	3,180,590
Unrestricted	8,494,436	7,881,801
Total net position	$ 11,578,678	$ 11,062,391

The Notes to Financial Statements are an integral part of this statement.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
Year Ended June 30, 2018

	2018	(For Comparative Purposes Only) 2017
OPERATING REVENUES		
Net client service revenue (Note 14)	$ 5,582,099	$ 5,166,050
OPERATING EXPENSES		
Salaries	8,167,414	7,619,662
Benefits	1,781,138	1,827,220
Facility, equipment, and vehicle	456,752	505,878
Contractual and professional services	1,517,180	1,130,199
Depreciation and amortization	269,826	269,501
Other	627,040	645,136
Total operating expenses	12,819,350	11,997,596
Operating loss	(7,237,251)	(6,831,546)
NONOPERATING REVENUES (EXPENSES)		
Commonwealth of Virginia grants	5,516,684	5,062,149
Federal grants	555,532	650,936
Contributions from participating local governments (Note 15)	1,717,386	1,572,610
Interest income	31,056	16,483
Interest expense	-	(615)
Other income	412,567	399,611
Net nonoperating revenues	8,233,225	7,701,174
Change in net position	995,974	869,628
NET POSITION AT JULY 1, AS RESTATED (Note 20)	10,582,704	10,192,763
NET POSITION AT JUNE 30	$ 11,578,678	$ 11,062,391

The Notes to Financial Statements are an integral part of this statement.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

STATEMENT OF CASH FLOWS
Year Ended June 30, 2018

	2018	(For Comparative Purposes Only) 2017
OPERATING ACTIVITIES		
Receipts from clients, private insurers, Medicaid, and others	$ 5,445,780	$ 4,987,812
Payments to suppliers	(2,582,689)	(2,279,947)
Payments to and for employees	(10,221,932)	(9,537,746)
Other receipts	(2,083)	31,693
Net cash used in operating activities	(7,360,924)	(6,798,188)
NON-CAPITAL FINANCING ACTIVITIES		
Contributions from local, state, and federal governments	7,985,071	7,848,515
Other receipts	431,767	434,031
Net cash provided by non-capital financing activities	8,416,838	8,282,546
CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(173,478)	(99,818)
Principal paid on debt	-	(28,125)
Interest paid on debt	-	(736)
Net cash used in capital and related financing activities	(173,478)	(128,679)
INVESTING ACTIVITIES		
Interest received	31,056	16,483
Net increase in cash and cash equivalents	913,492	1,372,162
CASH AND CASH EQUIVALENTS		
Beginning at July 1	8,237,654	6,865,492
Ending at June 30	$ 9,151,146	$ 8,237,654
RECONCILIATION TO STATEMENT OF NET POSITION		
Cash and cash equivalents	$ 9,019,106	$ 8,103,531
Cash and cash equivalents, restricted for representative payee beneficiaries	132,040	134,123
	$ 9,151,146	$ 8,237,654

(Continued)

The Notes to Financial Statements are an integral part of this statement.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

STATEMENT OF CASH FLOWS
Year Ended June 30, 2018

	2018	(For Comparative Purposes Only) 2017
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	$ (7,237,251)	$ (6,831,546)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	269,826	269,501
Pension expense net of employer contributions	(290,130)	(100,661)
Other postemployment expense net of employer contributions	(2,597)	-
Decrease (increase) in:		
Accounts receivable, net	(136,755)	(174,016)
Prepaid expenses	1,743	(10,574)
Increase (decrease) in:		
Accounts payable and other current liabilities	16,540	11,840
Accrued payroll and related liabilities	26,399	(46,697)
Compensated absences	14,846	43,320
Other post-employment benefits	(21,898)	13,174
Unearned revenues	436	(4,222)
Amounts held for representative payee beneficiaries, payable from restricted assets	(2,083)	31,693
Net cash used in operating activities	$ (7,360,924)	$ (6,798,188)

The Notes to Financial Statements are an integral part of this statement.

Note 1. Summary of Significant Accounting Policies

Financial reporting entity

Harrisonburg-Rockingham Community Services Board (the "Board") is a jointly governed entity that operates as an agent for the City of Harrisonburg and the County of Rockingham in the establishment and operation of community behavioral health, developmental services, and substance abuse programs as provided for in Chapter 5 of Title 37.2 of the *Code of Virginia* (1950), relating to the Virginia Department of Behavioral Health and Developmental Services. In addition, the Board provides a system of community behavioral health, developmental services, and substance abuse services which relate to and are integrated with existing and planned programs. Substantially all of the entity's funding is from service fees, the Commonwealth of Virginia, the Federal Government, and the aforementioned localities.

The Board is not considered a component unit of the County of Rockingham, Virginia or the City of Harrisonburg, Virginia since neither of these entities has oversight responsibilities for the Board, nor is either entity legally obligated to fund any deficit of the Board.

Blended component unit

The Rockingham-Harrisonburg Halfway House, Inc. (the "Halfway House") is an affiliated organization whose primary purpose is to hold title to certain real property which is rented primarily to the Harrisonburg-Rockingham Community Services Board.

Although legally a separate entity, the Halfway House is, in substance, part of the Board's operations. Financial information from this unit is combined with the financial statements of the Board as a blended component unit. The Board and this entity are collectively referred to herein as the "Board".

Measurement focus and basis of accounting

The Board is a governmental health care entity and follows the accounting and reporting practices of the Governmental Accounting Standards Board (GASB). The Board's financial statements consist of a single enterprise fund, and are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

The Board distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Board's principal ongoing operations. The principal operating revenues of the Board are fees collected from clients and the related collections from the various third-party insurers including Medicaid. Operating expenses consist of the direct and indirect costs of fulfilling the programs of the Board. All other revenues and expenses are reported as nonoperating revenues and expenses.

Use of estimates

Management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect the reported amounts of assets, liabilities, and deferred inflows/outflows, as well as the reported revenues and expenses. Actual results could differ from those estimates.

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Use of estimates (Continued)

The allowance for uncollectible accounts is a significant estimate that involves a great deal of judgment and the consideration of many factors. By nature, this estimate is not precise and requires re-evaluation as the conditions and factors change. Key factors that affect this calculation are delays in collection from third parties, the need to rebill multiple third-party payors, rate adjustments and settlements with third-party payors, and the financial assistance provided to clients based on their ability to pay.

Cash and cash equivalents

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Valuation of receivables

Receivables are reported net of the estimated allowance for uncollectible accounts. Management estimates this allowance using historical collection data and the aging of accounts receivable.

Net client service revenue

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

Financial assistance

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

Capital assets

Capital assets include property and equipment with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at date of donation. The costs of normal maintenance and repairs that do not materially add to the value of an asset or its life are expensed.

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Capital assets (Continued)

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Land improvements	8-25 years
Buildings	20-40 years
Building improvements	5-25 years
Equipment	5-20 years
Vehicles	5 years
Software	3-5 years

Restricted assets

The Board segregates funds held on behalf of the representative payee beneficiaries.

Income taxes

The Rockingham-Harrisonburg Halfway House, Inc. is exempt from federal and state income tax under Section 501(c)(3) of the *Internal Revenue Code*. Harrisonburg-Rockingham Community Services Board is exempt from such taxes as a governmental entity. Accordingly, the accompanying financial statements do not reflect a provision for income taxes.

Compensated absences

Employees are entitled to certain compensated absences based upon length of employment. Vacation and certain other compensated absences vest with the employee. A provision for these vested compensated absences has been recorded in the financial statements. Because the timing of the use of the benefit is not estimable, all of the liability has been classified as current.

Pensions

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

Other Postemployment Benefits (OPEB)

For purposes of measuring all financial statement elements related to OPEB plans, information about the fiduciary net position of the Board's Plans and the additions to/deductions from the Board's Plan's net fiduciary position have been determined on the same basis as they were reported by Milliman, Inc. and 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.

(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

Deferred outflows/inflows of resources

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources for pensions and OPEB. This separate financial statement element represents a consumption of net position that applies to future periods and so will *not* be recognized as an outflow of resources (expense) until then. The Board has the following items that qualify for reporting in this category:

- Contributions subsequent to the measurement date for pensions/OPEB; this will be applied to the net pension/OPEB asset/liability in the next fiscal year.
- Change in proportionate share between the measurement dates on the OPEB liability. This difference will be recognized in OPEB expense over the remaining service life of the employees subject to the plan.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to future periods and so will *not* be recognized as an inflow of resources (revenue) until that time. The Board has the following items that qualify for reporting in this category:

- Differences between expected and actual experience for economic/demographic factors in the measurement of the total net pension asset or OPEB liability. This difference will be recognized in pension expense over the closed five-year period and may be reported as a deferred inflow or outflow as appropriate.
- Differences between projected and actual earnings on plan investments. This difference will be recognized in pension or OPEB expense over the remaining service life of the employees subject to the plan and may be reported as a deferred inflow or outflow as appropriate.
- Changes in assumptions on pension plan or OPEB investments. This difference will be recognized in pension or OPEB expense over the remaining service life of the employees subject to the plan.

Comparative information

The basic financial statements include certain prior year summarized comparative information in total but not at the level of detail required for a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Board's financial statements for the prior year from which the summarized information was derived. Certain reclassifications may have been made to the prior year reported amounts to provide a more comparable presentation with the current year reporting presentation.

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 amount from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Note 2. Deposits and Investments (Continued)

Investments

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

Credit risk

At June 30, the Board's investments were all in the LGIP, which has been assigned a credit rating of AAAm by Standard & Poor's (S&P).

At June 30, 2018, the Board had no significant exposure to interest rate, foreign currency, or concentration of credit risks.

The Board's deposits and investments consist of the following:

Deposits and investments:		
Cash on hand	$	1,520
Deposits		7,223,739
Local Government Investment Pool		1,925,887
	$	9,151,146
Statement of net position:		
Cash and cash equivalents	$	9,019,106
Cash and cash equivalents, restricted for representative payee beneficiaries		132,040
	$	9,151,146

Note 3. Accounts Receivable

Accounts receivable consist of the following:

Virginia Department of Medical Assistance Services (Medicaid)	$	769,219
Direct client		937,957
Third-party insurers		155,710
Other		30,562
		1,893,448
Allowance for uncollectible accounts		(836,493)
	$	1,056,955

Note 4. Due From Other Governments

Amounts are due from other governments or governmental agencies for the reimbursement of expenditures and fees for services provided under various programs and grants, and consist of the following:

Horizon Behavioral Health	$	8,750
Region I Diversion Fund		33,450
USDA		2,153
	$	44,353

Note 5. Capital Assets

Capital asset activity for the year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, nondepreciable				
Land	$ 559,404	$ -	$ -	$ 559,404
Construction in progress	7,815	25,726	-	33,541
Capital assets, nondepreciable	567,219	25,726	-	592,945
Capital assets, depreciable				
Land improvements	312,615	-	-	312,615
Buildings	2,786,871	-	-	2,786,871
Building improvements	1,857,666	8,798	-	1,866,464
Equipment	353,153	70,738	(1,469)	422,422
Vehicles	385,210	49,715	(19,528)	415,397
Software	292,812	18,500	-	311,312
Capital assets, depreciable	5,988,327	147,751	(20,997)	6,115,081
Less accumulated depreciation	(3,374,956)	(269,826)	20,997	(3,623,784)
Capital assets, depreciable, net	2,613,371	(122,075)	-	2,491,297
Capital assets, net	$ 3,180,590	$ (96,349)	$ -	$ 3,084,242

Note 6. Line of Credit

The Board maintains a $300,000 unsecured guidance line of credit with SunTrust Bank. Borrowings under the line of credit will accrue interest at a variable rate (30 day LIBOR plus 1.50%; reset monthly). The line of credit may be renewed annually. At June 30, 2018, there were no amounts outstanding.

(Continued)

Note 7. Unearned Revenues

Unearned revenues consist of the following:

Unspent state and federal funds	$	1,042,620
Unearned service fees		5,755
Other unearned		901
	$	1,049,276

Note 8. Lease Commitments

The Board leases several facilities from the Halfway House. All lease agreements expire annually on June 30th. Rental expense for 2018 totaled $91,680, all of which are intercompany amounts and eliminated in the accompanying financial statements.

Other leases:

At year end, the Board had contracts for eleven operating leases with noncancellable lease terms. These equipment leases were for copiers and a postage meter with asset lives of four years or less. The future minimum rental payments are shown below:

Fiscal Year		
2019	$	31,353
2020		26,737
2021		8,245
2022		828
	$	67,163

Note 9. Defined Benefit Pension Plan

Plan Description

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

Note 9. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

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 as follows:

Plan 1 – Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.

- **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.
- **Retirement Contributions –** Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5.00% member contribution but all employees will be paying the full 5.00% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.
- **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.
- **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.

(Continued)

Note 9. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 1 (Continued)

- **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.
- **Average Final Compensation –** A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.
- **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%. The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.
- **Normal Retirement Age –** Age 65 or age 60 for hazardous duty employees.
- **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. Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service, for hazardous duty employees.
- **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. 50 with at least five years of creditable service for hazardous duty employees.
- **Cost-of-Living Adjustment (COLA) in Retirement –** The Cost-of-Living Adjustment (COLA) matches the first 3.00% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4.00%) up to a maximum COLA of 5.00%.
  - **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.
  - **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.

Note 9. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 1 (Continued)

- **Cost-of-Living Adjustment (COLA) in Retirement (Continued)**
  - **Exceptions to COLA Effective Dates (Continued)**
    - The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).
    - The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.
    - The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.
- **Disability Coverage –** Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.70% on all service, regardless of when it was earned, purchased, or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
- **Purchase of Prior Service** – Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.

Plan 2 – Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service, and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

- **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.
- **Retirement Contributions –** Employees contribute 5.00% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5.00% member contribution but all employees will be paying the full 5.00% by July 1, 2016.

Note 9. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 2 (Continued)

- **Creditable Service –** Same as Plan 1.
- **Vesting –** Same as Plan 1.
- **Calculating the Benefit –** See definition under Plan 1.
- **Average Final Compensation –** A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.
- **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. Sheriffs, regional jail superintendents, and hazardous duty employees are same as Plan 1.
- **Normal Retirement Age –** Normal Social Security retirement age. Hazardous duty employees are the same as Plan 1.
- **Earliest Unreduced Retirement Eligibility –** Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. Hazardous duty employees are the same as Plan 1.
- **Earliest Reduced Retirement Eligibility –** Age 60 with at least five years (60 months) of creditable service. Hazardous duty employees are the same as Plan 1.
- **Cost-of-Living Adjustment (COLA) in Retirement –** The Cost-of-Living Adjustment (COLA) matches the first 2.00% increase in the CPI-U and half of any additional increase (up to 2.00%), for a maximum COLA of 3.00%.
  - **Eligibility –** Same as Plan 1.
  - **Exceptions to COLA Effective Dates** – Same as Plan 1.
- **Disability Coverage –** Same as Plan 1 except that the retirement multiplier is 1.65%.
- **Purchase of Prior Service** – Same as Plan 1.

Hybrid Retirement Plan – The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. 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 9. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **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.

- **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 and those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.

- **Retirement Contributions –** 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 –**

  - **Defined Benefit Component –** Under the defined benefit component of the plan, creditable service includes active service. Members earn credible 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 credible service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.

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

- **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.

Note 9. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Vesting (Continued)**
  - **Defined Contributions 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.
- **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 –** Same as Plan 2 for the defined benefit component of the plan.
- **Service Retirement Multiplier –** The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. This is not applicable to sheriffs, regional jail superintendents, or hazardous duty employees.
- **Normal Retirement Age –**
  - **Defined Benefit Component –** Same as Plan 2, however, not applicable for hazardous duty employees.
  - **Defined Contribution Component –** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Earliest Unreduced Retirement Eligibility –**
  - **Defined Benefit Component –** Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. This is not applicable to hazardous duty employees.
  - **Defined Contribution Component –** Members are eligible to receive distributions upon leaving employment, subject to restrictions.

(Continued)

Note 9. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Earliest Reduced Retirement Eligibility –**
  - **Defined Benefit Component –** Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service. This is not applicable to hazardous duty employees.
  - **Defined Contribution Component:** Members are eligible to receive distributions upon leaving employment, subject to restrictions.
- **Cost-of-Living Adjustment (COLA) in Retirement –**
  - **Defined Benefit Component:** Same as Plan 2.
  - **Defined Contribution Component –** Not Applicable.
  - **Eligibility –** Same as Plan 1 and 2.
  - **Exceptions to COLA Effective Dates –** Same as Plan 1 and 2.
- **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.
- **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.

Note 9. Defined Benefit Pension Plan (Continued)

Employees Covered by Benefit Terms

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

	Number
Inactive members or their beneficiaries currently receiving benefits	59
Inactive members:	
Vested inactive members	35
Non-vested inactive members	27
Inactive members active elsewhere in VRS	51
Total inactive members	113
Active members	124
Total covered employees	296

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5.00% 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 political subdivision's contractually required contribution rate for the year ended June 30, 2018 was 5.25% 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 employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the political subdivision were $315,938 and $296,164 for the years ended June 30, 2018 and June 30, 2017, respectively.

Net Pension Liability

The political subdivision's net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability 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.

(Continued)

Note 9. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions

The total pension liability for General Employees in the Political Subdivision'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%
General Employees – Salary increases, including inflation	3.50 – 5.35%
Public Safety Employees – Salary increases, including inflation	3.50 – 4.75%
Investment rate of return	7.00%, 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 rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates: General employees – 15 to 20% of deaths are assumed to be service related. Public Safety Employees – 70% of deaths are assumed to be service related. Mortality is projected using the applicable RP-2014 Mortality Table Projected to 2020 with various set backs or set forwards for both males and females.

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

General Employees – Largest 10 – Non-Hazardous Duty and All Others (Non 10 Largest): Update mortality table; lowered retirement rates at older ages, changed final retirement from 70 to 75; lowered disability rates, no change to salary scale, increased rate of line of duty disability from 14% to 20%.

Public Safety Employees – Largest 10 – Hazardous Duty and All Others (Non 10 Largest): Update mortality table; adjustment to rates of retirement by increasing rate at 50 and lowering rate at older ages; adjusted rates of withdrawal and disability to better fit experience; changes to line of duty rates, and no changes to salary scale.

Note 9. Defined Benefit Pension Plan (Continued)

Long-Term Expected Rate of Return

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

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

* The above allocation provides for 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 rate of 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 9. Defined Benefit Pension Plan (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Political Subdivision Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Asset (a) – (b)
Balances at June 30, 2016	$ 17,543,506	$ 17,710,924	$ (167,418)
Changes for the year:			
Service cost	555,155	-	555,155
Interest	1,204,256	-	1,204,256
Differences between expected and actual experience	(28,849)	-	(28,849)
Assumption changes	(9,194)	-	(9,194)
Contributions – employer	-	296,164	(296,164)
Contributions – employee	-	290,527	(290,527)
Net investment income	-	2,162,891	(2,162,891)
Benefit payments, including refunds of employee contributions	(679,711)	(679,711)	-
Administrative expenses	-	(12,339)	12,339
Other changes	-	(1,932)	1,932
Net changes	1,041,657	2,055,600	(1,013,943)
Balances at June 30, 2017	$ 18,585,163	$ 19,766,524	$ (1,181,361)

(Continued)

Note 9. Defined Benefit Pension Plan (Continued)

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

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
Political subdivision's net pension liability (asset)	$ 1,296,346	$ (1,181,361)	$ (3,232,362)

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

For the year ended June 30, 2018, the political subdivision recognized pension expense of $24,352. At June 30, 2018, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 63,901
Change in assumptions	-	6,391
Net difference between projected and actual earnings on pension plan investments	-	288,563
Employer contributions subsequent to the measurement date	315,938	-
Total	$ 315,938	$ 358,855

Note 9. Defined Benefit Pension Plan (Continued)

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

The $315,938 reported as deferred outflows of resources related to pensions resulting from the Political Subdivision's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	Increase (Reduction) to Pension Expense
2019	$ (220,541)
2020	53,797
2021	(6,734)
2022	(185,377)

Pension Plan Data

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

Payables to the Pension Plan

At June 30, 2018, approximately $53,235 was payable to the Virginia Retirement System for the legally required contributions related to June 2018 payroll.

Note 10. Other Postemployment Benefits Liability – Local Plan

Plan Description

Employees who retire from employment from the Board and are not yet eligible for Medicare may elect to continue participation in the Board's group health insurance plan. Health benefits include medical coverage only. Optional dental and vision coverage may be purchased separately. Coverage is for the retiree only. Dependents and spouses of retirees may continue medical coverage through COBRA only. Retirees contribute 100% of the premium cost for retiree coverage.

(Continued)

Note 10. Other Postemployment Benefits Liability – Local Plan (Continued)

Participants must meet eligibility requirements based on service earned with the Board and prior service earned through other Virginia agencies to be eligible to receive benefits upon retirement. Participants who do not retire directly from active service are eligible for the health benefit through COBRA only.

Participants must retire from the Board with at least 5 years of continuous service with the Board and have participated in the group health insurance plan for the last 5 years of employment. Active employees must meet the VRS minimum retirement requirements to be eligible for a medical benefit upon retirement.

Funding Policy

The annual contribution requirements of plan members and the Board are determined annually by the Board. The Board has chosen to fund healthcare benefits on a pay-as-you-go basis.

Benefits Provided

Retiree health benefits include medical coverage only. Optional dental and optional vision coverage may be purchased separately. Retirees under the age of 65 are eligible to choose the Anthem BCBS (PPO) medical option, and coverage ends upon the earlier of the retiree's age 65 or the retiree's death. If the retiree dies prior to age 65, their dependents may continue medical coverage through COBRA.

Employees Covered by Benefit Terms

As of the June 30, 2018 actuarial valuation, the following employees were covered by the benefit terms of the plan:

	Number
Inactive employees or beneficiaries:	
Currently receiving benefits	3
Entitled to but not yet receiving benefits	-
Total inactive employees	3
Active plan members	140
	143

Total OPEB Liability

The Board's total OPEB liability of $204,233 was measured as of June 30, 2018 and was determined based on an actuarial valuation performed as of January 1, 2018.

Note 10. Other Postemployment Benefits Liability – Local Plan (Continued)

Actuarial Assumptions and Other Inputs

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

Inflation	2.50%
Salary increases, including inflation	3.5-5.35%
Healthcare cost trend rates	3.5-7.90%
Retirees' share of benefit-related costs	$ 570.20

Mortality rates: Pre-Retirement Mortality Rates: RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with Scale BB to 2020; males setback 1 year, 85% of rates; females setback 1 year. 25% of deaths are assumed to be service related.

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

Post-Disablement Mortality Rates: RP-2014 Disabled Mortality Rates projected with Scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from January 1, 2017 through January 1, 2018

Changes in the Total OPEB Liability

Balance at June 30, 2017	$ 203,096
Changes for the year:	
Service cost	20,140
Interest	7,447
Assumption or other input changes	(5,373)
Benefit payments	(21,077)
Net changes	1,137
Balance at June 30, 2018	$ 204,233

(Continued)

Note 10. Other Postemployment Benefits Liability – Local Plan (Continued)

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the Board, as well as what the Board's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.87%) or one percentage point higher (4.87%) than the current discount rate:

	1.00% Decrease (2.87%)	Current Discount Rate (3.87%)	1.00% Increase (4.87%)
Total OPEB liability	$ 218,950	$ 204,233	$ 190,232

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the Board, as well as what the Board's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates of 3.50-7.80%:

	1.00% Decrease	Current Healthcare Cost Trend Rates	1.00% Increase
Total OPEB liability	$ 179,171	$ 204,233	$ 234,102

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the Board recognized OPEB expense of $5,657. At June 30, 2018, the political subdivision reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	-	$ 4,520
Total	$ -	$ 4,520

Note 10. Other Postemployment Benefits Liability – Local Plan (Continued)

<u>OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB</u> (Continued)

Amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending June 30,	Increase (Reduction) to OPEB Expense
2019	$ (853)
2020	(853)
2021	(853)
2022	(853)
2023	(853)
Thereafter	(255)

Note 11. Other Postemployment Benefits Liability – Virginia Retirement System Plans

In addition to their participation in the pension plans offered through the Virginia Retirement System (VRS), the Board also participates in various cost-sharing and agent multi-employer other postemployment benefit plans, described as follows.

<u>Plan Descriptions</u>

<u>Group Life Insurance Program</u>

All full-time teachers and employees of political subdivisions are automatically covered by the VRS Group Life Insurance (GLI) Program upon employment.

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

Specific information for the GLI is available at https://www.varetire.org/members/benefits/life-insurance/basic-group-life-insurance.asp.

Note 11. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

Plan Descriptions (Continued)

General Employee Health Insurance Credit Program

The General Employee Health Insurance Credit Program (HIC) is available for all full time, salaried employees of local government entities other than Teachers. The General Employee HIC provides all the same benefits as the Teacher HIC, except that this plan is considered a multi-employer agent plan.

As of the June 30, 2016 actuarial valuation, the following employees were covered by the benefit terms of the General Employee Health Insurance Credit Program:

	Number
Inactive members or their beneficiaries currently receiving benefits	23
Inactive members:	
Vested inactive members	2
Non-vested inactive members	-
Active elsewhere in VRS	0
Total inactive members	25
Active members	124
Total covered employees	149

Contributions

Contributions to the VRS OPEB programs were based on actuarially determined rates from actuarial valuations as of June 30, 2015. The actuarially determined rates were expected to finance the cost of benefits earned by employees during the year, with an additional amount to fund any unfunded accrued liability. Specific details related to the contributions for the VRS OPEB programs are as follows:

Group Life Insurance Program

Governed by:	*Code of Virginia* 51.1-506 and 51.1-508 and may be impacted as a result of funding provided to school divisions and governmental agencies by the Virginia General Assembly.
Total rate:	1.31% of covered employee compensation. Rate allocated 60/40; 0.79% employee and 0.52% employer. Employers may elect to pay all or part of the employee contribution.
June 30, 2018 Contribution	$33,814
June 30, 2017 Contribution	$31,266

(Continued)

Note 11. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

Contributions (Continued)

General Employee Health Insurance Credit Program

Governed by:	*Code of Virginia* 51.1-1402(E) and may be impacted as a result of funding provided to governmental agencies by the Virginia General Assembly.
Total rate:	0.20% of covered employee compensation.
June 30, 2018 Contribution	$13,005
June 30, 2017 Contribution	$12,013

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

The net OPEB liabilities were measured as of June 30, 2017 and the total OPEB liabilities used to calculate the net OPEB liabilities were determined by actuarial valuations as of that date. The covered employer's proportion of the net OPEB liabilities were based on the covered employer's actuarially determined employer contributions for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers.

Group Life Insurance Program

June 30, 2018 proportionate share of liability	$490,000
June 30, 2017 proportion	0.0326%
June 30, 2016 proportion	0.0309%
June 30, 2018 expense	$9,000

Since there was a change in proportionate share between measurement dates, a portion of the OPEB expense above was related to deferred amount from changes in proportion.

Note 11. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

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

General Employee Health Insurance Credit Program

Changes in net OPEB liability of the General Employee Health Insurance Credit Program were as follows:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) – (b)
Balances at June 30, 2016	$ 216,176	$ 158,925	$ 57,251
Changes for the year:			
Service cost	6,882	-	6,882
Interest	14,957	-	14,957
Assumption changes	(4,446)	-	(4,446)
Contributions – employer	-	12,013	(12,013)
Net investment income	-	18,819	(18,819)
Benefit payments	(5,025)	(5,025)	-
Administrative expenses	-	(315)	315
Other changes	-	924	(924)
Net changes	12,368	26,416	(14,048)
Balances at June 30, 2017	$ 228,544	$ 185,341	$ 43,203

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

Note 11. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

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

Group Life Insurance Program

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 12,000
Change in assumptions	-	25,000
Net difference between projected and actual earnings on OPEB plan investments	-	18,000
Changes in proportion	25,000	-
Employer contributions subsequent to the measurement date	33,814	-
Total	$ 58,814	$ 55,000

General Employee Health Insurance Credit Program

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	$ -	$ 3,760
Net difference between projected and actual earnings on OPEB plan investments	-	5,942
Employer contributions subsequent to the measurement date	- 13,005	-
Total	$ 13,005	$ 9,702

The deferred outflows of resources related to OPEB resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Note 11. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

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

Group Life Insurance Program

Year Ending June 30,	Increase (Reduction) to OPEB Expense
2019	$ (7,000)
2020	(7,000)
2021	(7,000)
2022	(7,000)
2023	(2,000)
Thereafter	-

General Employee Health Insurance Credit Program

Year Ending June 30,	Increase (Reduction) to OPEB Expense
2019	$ (2,172)
2020	(2,172)
2021	(2,172)
2022	(2,170)
2023	(686)
Thereafter	(330)

Actuarial Assumptions and Other Inputs

The total OPEB liability was determined using the following assumptions based on an actuarial valuation date of June 30, 2016, 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%
• Locality – hazardous duty employees	3.5 – 4.75%
• Teachers	3.5 – 5.95%

Note 11. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

Actuarial Assumptions and Other Inputs (Continued)

Healthcare cost trend rates:	
• Under age 65	7.75 – 5.00%
• Ages 65 and older	5.75 – 5.00%
Investment rate of return, net of expenses, including inflation*	GLI & HIC: 7.0%

* 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 rate for GASB purposes of slightly more than the assumed percent above. However, since the difference was minimal, and a more conservative 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 the percent noted above to simplify preparation of OPEB liabilities.

Mortality rates used for the various VRS OPEB plans are the same as those used for the actuarial valuations of the VRS pension plans. The mortality rates are discussed in detail at Note 9.

Net OPEB Liabilities

The net OPEB liabilities represent each program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, net OPEB liability amounts for the various VRS OPEB programs are as follows (amounts expressed in thousands):

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

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

Note 11. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

Long-Term Expected Rate of Return

Group Life Insurance and Health Insurance Credit Programs

The long-term expected rate of return on VRS 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 OPEB 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 for 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 rate of 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 2.5%.

Note 11. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

Discount Rate

The discount rate used to measure the GLI and HIC OPEB liabilities 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 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 employer for the OPEB liabilties 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 OPEB plans' 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 OPEB liability.

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

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

	1.00% Decrease (6.00%)	Current Discount Rate (7.00%)	1.00% Increase (8.00%)
GLI Net OPEB liability	$ 634,000	$ 490,000	$ 374,000
General Employee HIC Net OPEB liability	$ 65,138	$ 43,203	$ 24,424

OPEB Plan Fiduciary Net Position

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

Note 11. Other Postemployment Benefits Liability – Virginia Retirement System Plans (Continued)

Payables to the OPEB Plan

At June 30, 2018, the following amounts were payable to the Virginia Retirement System for the legally required contributions related to June 2018 payroll.

• Group Life Insurance	$ 7,378
• General Employee Health Insurance Credit	1,126

Note 12. Summary of Other Postemployment Benefit Elements

A summary of other postemployment benefit ("OPEB") related financial statement elements is as follows:

Deferred outflows of resources - OPEB		
Changes in proportion		
VRS-Group Life Insurance	$	25,000
Employer contributions subsequent to the measurement date		
VRS-Group Life Insurance		33,814
VRS-Health Insurance Credit		13,005
Total deferred outflow of resources - OPEB	$	71,819
Net OPEB liability		
Local Plan	$	204,233
VRS-Group Life Insurance		490,000
VRS-Health Insurance Credit		43,203
Total net OPEB liability	$	737,436
Deferred inflows of resources - OPEB		
Differences between expected and actual experience		
VRS-Group Life Insurance	$	12,000
Change in assumptions		
Local Plan		4,520
VRS-Group Life Insurance		25,000
VRS-Health Insurance Credit		3,760
Net difference between projected and actual earnings on OPEB plan investments		
VRS-Group Life Insurance		18,000
VRS-Health Insurance Credit		5,942
Total deferred inflow of resources - OPEB	$	69,222

(Continued)

Note 13. Net Position

The following unrestricted net position has been designated by the Board at June 30, 2018. The Board can change these designations.

Technology Investment	$	234,500
Reimbursement Reserve		100,000
Total designated net position	$	334,500

Note 14. Net Client Service Revenue

Net client revenue arose from the following sources:

Medicaid	$	4,834,442
Direct client fees		271,958
Third-party		311,401
Other		164,298
	$	5,582,099

Note 15. Contributions from Participating Local Governments

Contributions from participating local governments were as follows:

County of Rockingham	$	896,693
City of Harrisonburg		820,693
	$	1,717,386

Note 16. Commitments and Contingencies

Certain state and federal grants and programs are subject to audit to determine compliance with their requirements. In the opinion of management, future disallowances of current grant program expenditures, if any, would be immaterial.

(Continued)

Note 17. Risk Management

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; the health of and injuries to employees; and natural disasters. The Board participates in the Virginia Association of Counties Group Self-Insurance Risk Pool for various liability coverages which have up to $4,000,000 in coverage limits. The Board participates in the Virginia Municipal League Risk Pool for workers compensation coverage.

The Board may be involved in potential lawsuits arising in the ordinary course of business. It is management's belief that any liability resulting from such lawsuits would not be material to the Board's financial position.

There are no surety bonds for directors. The Board assumes risks related to co-insurance, policy deductibles, and claims which exceed insurance coverage. There have been no settlements that have exceeded the insurance coverage in the last three years and there has been no reduction in the amount of insurance coverage from the prior year.

Note 18. Donated Inventory

The pharmaceutical suppliers for the Board donated pharmaceutical supplies to be used in the Mental Health Program. At year end, the Board held approximately $252,646 in prescription medication inventory. This value was determined using the average retail cost method. Since the Board merely acts as agent for the pharmaceutical companies by passing the medication through to its intended beneficiaries, the donation, distribution, and resulting inventories of the pharmaceutical supplies are not reflected in these financial statements.

Note 19. Deferred Compensation Plan

The Board maintains for its employees two deferred compensation plans, each created in accordance with *Internal Revenue Code* Section 457. The plans permit 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 respective plans are with the International City Managers Association (ICMA) Retirement Corporation and the Commonwealth of Virginia Deferred Compensation Plan.

Note 20. Adoption of New Standard and Prior Period Restatement

In the current year the Board adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* This standard replaces the requirements of GASB Statement No. 45 as it relates to governments that provide postemployment benefits other than pensions. The new Statement requires governments providing defined benefit postemployment benefits to recognize the long-term obligation for those benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of other postemployment benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information, including disclosing descriptive information about the types of benefits provided, how contributions to the plans are determined, and assumptions and methods used to calculate the liability. Comparative prior year information, to the extent presented, has not been restated because the necessary information is not available.

(Continued)

Note 20. Adoption of New Standard and Prior Period Restatement (Continued)

The following is a summary of the restatements to net position, as applicable, resulting from the adoption of GASB Statement No. 75:

Net position July 1, 2017, as previously reported	$ 11,062,391
Recognition of other postemployment benefit related liabilities and related deferred outflows/inflows in accordance with GASB No. 75	(479,687)
Net position July 1, 2017, as restated	$ 10,582,704

Note 21. Subsequent Events

In July 2018, the Board entered into a contract with Mather Architect for the design and subsequent bidding for the construction of new facilities, having a project budget of $11,517,748. The contract with Mather Architect is 6.1% of the cost of the work, which is estimated at $671,000.

The Board closed on the purchase of property located at 1361 North Main Street in the amount of $319,680 which includes 1.56 acres and a current residential structure in November 2018. The property will be used to facilitate expansion of current facilities.

Note 22. New Accounting Standards

The Governmental Accounting Standards Board (GASB) has issued the following Statements which are not yet effective.

The GASB issued **Statement No. 83**, *Certain Asset Retirement Obligations* in November 2016. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for asset retirement obligations. The requirements of this Statement are effective for periods beginning after June 15, 2018.

The GASB issued **Statement No. 84**, *Fiduciary Activities* in January 2017. This Statement establishes standards of accounting and financial reporting for fiduciary activities. The requirements of this Statement are effective for periods beginning after December 15, 2018.

The GASB issued **Statement No. 87**, *Leases* in June 2017. This Statement establishes standards of accounting and financial reporting for leases by lessees and lessors. The requirements of this Statement are effective for periods beginning after December 15, 2019.

The GASB issued **Statement No. 88**, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* in March 2018. This Statement improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowing and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The requirements of this Statement are effective for periods beginning after June 15, 2018.

Note 22. New Accounting Standards (Continued)

The GASB issued **Statement No. 89**, *Accounting for Interest Cost Incurred before the End of a Construction Period* in June 2018. This Statement enhances the relevance and comparability of information about capital assets and the cost of borrowing for a period and simplifies accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for periods beginning after December 15, 2019. The requirements of this Statement should be applied prospectively.

The GASB issued **Statement No. 90**, *Majority Equity Interests, an amendment of GASB Statements No. 14 and No. 61* in August 2018. This Statement improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and improves the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for periods beginning after December 15, 2018.The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

Management has not determined the effects these new GASB Statements may have on prospective financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
June 30, 2018

	Plan Year			
	2017	**2016**	**2015**	**2014**
Total Pension Liability				
Service cost	$ 555,155	$ 557,286	$ 572,318	$ 557,796
Interest on total pension liability	1,204,256	1,133,937	1,061,809	983,105
Changes in assumptions	(9,194)	-	-	-
Difference between expected and actual experience	(28,849)	(53,250)	(87,811)	-
Benefit payments, including refunds of employee contributions	(679,711)	(587,144)	(444,682)	(388,420)
Net change in total pension liability	1,041,657	1,050,829	1,101,634	1,152,481
Total pension liability – beginning	17,543,506	16,492,677	15,391,043	14,238,562
Total pension liability – ending	18,585,163	17,543,506	16,492,677	15,391,043
Plan Fiduciary Net Position				
Contributions – employer	296,164	339,426	494,311	392,818
Contributions – employee	290,527	277,460	274,749	269,140
Net investment income	2,162,891	308,077	764,229	2,216,981
Benefit payments, including refunds of employee contributions	(679,711)	(587,144)	(444,682)	(388,420)
Administrative expenses	(12,339)	(10,670)	(9,989)	(11,592)
Other	(1,932)	(130)	(161)	117
Net change in plan fiduciary net position	2,055,600	327,019	1,078,457	2,479,044
Plan fiduciary net position – beginning	17,710,924	17,383,905	16,305,448	13,826,404
Plan fiduciary net position – ending	19,766,524	17,710,924	17,383,905	16,305,448
Net pension asset – ending	$ (1,181,361)	$ (167,418)	$ (891,228)	$ (914,405)
Plan fiduciary net position as a percentage of total pension liability	106%	101%	105%	106%
Covered employee payroll	$ 6,006,285	$ 5,549,286	$ 5,323,806	$ 5,362,027
Net pension asset as a percentage of covered employee payroll	-20%	-3%	-17%	-17%

The plan years above are reported in the entity's financial statements in the fiscal year following the plan year – i.e., plan year 2014 information was presented in the entity's fiscal year 2015 financial report.
This schedule is intended to show information for 10 years. Since fiscal year 2015 (plan year 2014) was the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

The Notes to Required Supplementary Information are an integral part of these statements.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
June 30, 2018

Year Ended June 30,	Actuarially Determined Contribution	Contributions in Relation to Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Employee Payroll	Contributions as a Percentage of Covered Payroll
2018	$ 315,938	$ 315,938	$ -	$ 6,502,713	4.86 %
2017	296,164	296,164	-	6,006,285	4.93
2016	339,426	339,426	-	5,549,286	6.12
2015	344,311	494,311	(150,000)	5,323,806	9.28

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

The Notes to Required Supplementary Information are an integral part of these statements.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS
June 30, 2018

	Plan Year 2018	
	Local Plan	**2017 VRS Health Insurance Credit General Employees**
Total OPEB Liability		
Service cost	$ 20,140	$ 6,882
Interest on total OPEB liability	7,447	14,957
Changes in benefit terms	-	-
Difference between expected and actual experience	-	-
Changes in assumptions	(5,373)	(4,446)
Benefit payments	(21,077)	(5,025)
Net change in total OPEB liability	1,137	12,368
Total OPEB liability - beginning	203,096	216,176
Total OPEB liability - ending	204,233	228,544
Plan Fiduciary Net Position		
Contributions - employer	-	12,013
Contributions - employee	-	-
Net investment income	-	18,819
Benefit payments	-	(5,025)
Administrative expenses	-	(315)
Other	-	924
Net change in plan fiduciary net position	-	26,416
Plan fiduciary net position - beginning	-	158,925
Plan fiduciary net position - ending	-	185,341
Net OPEB liability - ending	$ 204,233	$ 43,203
Plan fiduciary net position as a percentage of total OPEB liability	0%	81%
Covered payroll	$ 6,502,713	$ 6,006,285
Net OPEB liability as a percentage of covered payroll	3.14%	1%

The information above for the VRS plan is reported in the entity's financial statements in the fiscal year following the plan year - i.e., plan year 2017 information was presented in the entity's fiscal year 2018 financial report. The entity's local OPEB uses a plan year which is the same as it's fiscal year.

This schedule is intended to show information for 10 years. Since fiscal year 2018 is the first year for this presentation, no earlier data is available. Additional years will be included as they become available.

The Notes to Required Supplementary Information are an integral part of this statement.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

`

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF OPEB CONTRIBUTIONS
June 30, 2018

Entity Fiscal Year Ended June 30	Actuarially Determined Employer Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a Percentage of Covered Payroll
VRS Health Insurance Credit General Employees					
2018	$ 13,005	$ 13,005	$ -	$ 6,502,713	0.20%
Virginia Retirement System - Group Life Insurance - General Employees					
2018	$ 33,814	$ 33,814	$ -	$ 6,502,713	0.52%

Schedule is intended to show information for 10 years. Since 2018 was the first year for this presentation, only one year of data is available. Additional years will be included as they become available.

The covered payroll amounts above are for the entity's fiscal year - i.e. the covered payroll on which required contributions were based for the same year.

The Notes to Required supplementary Information are an integral part of this statement.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY
June 30, 2018

Entity Fiscal Year Ended June 30	Employer's Proportion of the Net OPEB Liability (Asset)	Employer's Proportionate Share of the Net OPEB Liability (Asset)	Employer's Covered Payroll	Employer's Proportionate Share of the Net OPEB Liability (Asset) as a Percentage of its Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability
Virginia Retirement System - Group Life Insurance - General Employees					
2018	0.03%	$ 490,000	$ 6,502,713	7.54%	48.86%

Schedule is intended to show information for 10 years. Since 2018 was the first year for this presentation, no earlier data is available. However, additional years will be included as they become available.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
June 30, 2018

Note 1. Changes of Benefit Terms

Pension

There have been no actuarially material changes to the Virginia Retirement System (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 was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 are not material.

Other Postemployment Benefits (OPEB)

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

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 ending June 30, 2016:

Largest 10 – Non-Hazardous Duty:

- Update mortality table
- Lowered rates of service retirement
- Update withdrawal rates to better fit experience
- Lowered rates of disability retirement
- No changes to salary rates

Largest 10 –Hazardous Duty:

- Update mortality table
- Lowered rates of retirement at older ages
- Update withdrawal rates to better fit experience
- Increased disability rates
- No changes to salary rates

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

- Update mortality table
- Lowered rates of retirement at older ages and changed final retirement from 70 to 75
- Update withdrawal rates to better fit experience
- Lowered disability rates
- No changes to salary rates

All Others (Non 10 Largest) – Hazardous Duty:

- Update mortality table
- Increased retirement rate at age 50 and lowered rates at older ages
- Update withdrawal rates to better fit experience
- Update disability rates to better fit experience
- No changes to salary rates

OTHER
SUPPLEMENTARY INFORMATION

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

COMBINING STATEMENT OF NET POSITION
June 30, 2018

	Harrisonburg-Rockingham Community Services Board	Rockingham-Harrisonburg Halfway House, Inc.	Total
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	$ 7,744,082	$ 1,275,024	$ 9,019,106
Accounts receivable, net	1,056,955	-	1,056,955
Miscellaneous accounts receivable	20,950	-	20,950
Due from other governments	44,353	-	44,353
Prepaid expenses	48,728	-	48,728
Cash and cash equivalents, restricted for representative payee beneficiaries	132,040	-	132,040
Total current assets	9,047,108	1,275,024	10,322,132
NONCURRENT ASSETS			
Net pension asset	1,181,361	-	1,181,361
Capital assets, net	2,523,761	560,481	3,084,242
Total noncurrent assets	3,705,122	560,481	4,265,603
Total assets	12,752,230	1,835,505	14,587,735
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions	315,938	-	315,938
Deferred outflows related to other postemployment benefits	71,819	-	71,819
Total deferred outflows of resources	387,757	-	387,757
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable and other current liabilities	148,909	-	148,909
Accrued payroll and related liabilities	499,282	-	499,282
Amounts held for representative payee beneficiaries, payable from restricted assets	132,040	-	132,040
Unearned revenues	1,049,276	-	1,049,276
Compensated absences	401,794	-	401,794
Total current liabilities	2,231,301	-	2,231,301
LONG-TERM LIABILITIES			
Other postemployment benefits liability	737,436	-	737,436
Total liabilities	2,968,737	-	2,968,737
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions	358,855	-	358,855
Deferred inflows related to other postemployment benefits	69,222	-	69,222
Total deferred inflows of resources	428,077	-	428,077
NET POSITION			
Net investment in capital assets	2,523,761	560,481	3,084,242
Unrestricted	7,219,412	1,275,024	8,494,436
Total net position	$ 9,743,173	$ 1,835,505	$ 11,578,678

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
Year Ended June 30, 2018

	Harrisonburg-Rockingham Community Services Board	Rockingham-Harrisonburg Halfway House, Inc.	Inter-Company Eliminations	Total
OPERATING REVENUES				
Net client service revenue	$ 5,582,099	$ -	$ -	$ 5,582,099
OPERATING EXPENSES				
Salaries	8,167,414	-	-	8,167,414
Benefits	1,781,138	-	-	1,781,138
Facility, equipment, and vehicle	548,432	-	(91,680)	456,752
Contractual and professional services	1,517,130	50	-	1,517,180
Depreciation and amortization	218,251	51,575	-	269,826
Other	626,954	86	-	627,040
Total operating expenses	12,859,319	51,711	(91,680)	12,819,350
Operating loss	(7,277,220)	(51,711)	91,680	(7,237,251)
NONOPERATING REVENUES (EXPENSES)				
Commonwealth of Virginia grants	5,516,684	-	-	5,516,684
Federal grants	555,532	-	-	555,532
Contributions from participating local governments	1,717,386	-	-	1,717,386
Interest income	30,554	502	-	31,056
Other income	412,567	91,680	(91,680)	412,567
Net nonoperating revenues	8,232,723	92,182	(91,680)	8,233,225
Change in net position	955,503	40,471	-	995,974
NET POSITION, at July 1 as restated	8,787,670	1,795,034	-	10,582,704
NET POSITION, at June 30	$ 9,743,173	$ 1,835,505	$ -	$ 11,578,678

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

COMBINING STATEMENT OF CASH FLOWS
Year Ended June 30, 2018

	Harrisonburg-Rockingham Community Services Board	Rockingham-Harrisonburg Halfway House, Inc.	Inter-Company Eliminations	Total
OPERATING ACTIVITIES				
Receipts from clients, private insurers, Medicaid, and others	$ 5,445,780	$ -	$ -	$ 5,445,780
Payments to suppliers	(2,674,233)	(136)	91,680	(2,582,689)
Payments to and for employees	(10,221,932)	-	-	(10,221,932)
Other receipts	(2,083)	-	-	(2,083)
Net cash used in operating activities	(7,452,468)	(136)	91,680	(7,360,924)
NON-CAPITAL FINANCING ACTIVITIES				
Contributions from local, state, and federal governments	7,985,071	-	-	7,985,071
Other receipts	431,767	91,680	(91,680)	431,767
Net cash provided by non-capital financing activities	8,416,838	91,680	(91,680)	8,416,838
CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	(173,478)	-	-	(173,478)
Net cash used in capital and related financing activities	(173,478)	-	-	(173,478)
INVESTING ACTIVITIES				
Interest received	30,554	502	-	31,056
Net increase in cash and cash equivalents	821,446	92,046	-	913,492
CASH AND CASH EQUIVALENTS				
Beginning at July 1	7,054,676	1,182,978	-	8,237,654
Ending at June 30	$ 7,876,122	$ 1,275,024	$ -	$ 9,151,146
RECONCILIATION TO STATEMENT OF NET POSITION				
Cash and cash equivalents	$ 7,744,082	$ 1,275,024	$ -	$ 9,019,106
Cash and cash equivalents, restricted for representative payee program	132,040	-	-	132,040
	$ 7,876,122	$ 1,275,024	$ -	$ 9,151,146

(Continued)

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

COMBINING STATEMENT OF CASH FLOWS
Year Ended June 30, 2018

	Harrisonburg-Rockingham Community Services Board	Rockingham-Harrisonburg Halfway House, Inc.	Inter-Company Eliminations	Total
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES				
Operating loss	$ (7,277,220)	$ (51,711)	$ 91,680	$ (7,237,251)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Depreciation and amortization	218,251	51,575	-	269,826
Pension expense net of employer contributions	(290,130)	-	-	(290,130)
Other postemployment expense net of employer contributions	(2,597)	-	-	(2,597)
Decrease (increase) in:				
Accounts receivable, net	(136,755)	-	-	(136,755)
Prepaid expenses	1,743	-	-	1,743
Increase (decrease) in:				
Accounts payable and other current liabilities	16,540	-	-	16,540
Accrued payroll and related liabilities	26,399	-	-	26,399
Compensated absences	14,846	-	-	14,846
Other post-employment benefits	(21,898)	-	-	(21,898)
Unearned revenues	436	-	-	436
Amounts held for representative payee beneficiaries, payable from restricted assets	(2,083)	-	-	(2,083)
Net cash used in operating activities	$ (7,452,468)	$ (136)	$ 91,680	$ (7,360,924)

COMPLIANCE SECTION

BROWN EDWARDS
certified public accountants

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*

To the Board of Directors
Harrisonburg-Rockingham Community Services Board
Harrisonburg, Virginia

We have audited, 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, the financial statements of Harrisonburg-Rockingham 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 November 13, 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 that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Your Success is Our Focus
1909 Financial Drive • Harrisonburg, VA 22801 • 540-434-6736 • Fax: 540-434-3097 • www.BEcpas.com

Compliance and Other Matters

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

Purpose of this Report

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

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
November 13, 2018

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

SUMMARY OF COMPLIANCE MATTERS
June 30, 2018

As more fully described in the 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,* we performed tests of the Board's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia
Cash and Investment Laws
Local Retirement Systems
Procurement Laws
Uniform Disposition of Unclaimed Property Act
Budget and Appropriation Laws