

RAPPAHANNOCK-RAPIDAN
REGIONAL COMMISSION

AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2019

DUNHAM, AUKAMP & RHODES, PLC
Certified Public Accountants
Chantilly, Virginia

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION COMMISSIONERS

As of June 30, 2019

Culpeper County

Mr. John Egertson
Mr. Steven L. Walker

Town of Culpeper

Mr. Chris Hively
Ms. Meaghan Taylor, Commission Vice-Chair

Fauquier County

Mr. Christopher T. Butler
Mr. Paul S. McCulla

Town of Warrenton

Ms. Brandie Schaeffer
Mr. Jerry Wood, Commission Treasurer

Town of Remington

Mr. Evan H. "Skeet" Ashby, III

Town of The Plains

Mr. Christopher R. Malone

Madison County

Mr. Jack Hobbs
Ms. Charlotte Hoffman

Town of Madison

Mr. William L. Lamar

Orange County

Mr. James P. "Jim" Crozier
Mr. R. Bryan David

Town of Orange

Ms. Martha B. Roby
Mr. Greg Woods

Town of Gordonsville

Mr. Robert K. 'Bob' Coiner, Commission Chair

Rappahannock County

Mr. Garrey W. Curry, Jr.
Mr. Roger Welch

Town of Washington

Mr. Frederic Catlin

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION

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Dunham, Aukamp & Rhodes, PLC
Certified Public Accountants

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Chantilly, VA 20151

INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners
Rappahannock-Rapidan Regional Commission
Culpeper, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the aggregate remaining fund information of the Rappahannock-Rapidan Regional Commission as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Commission'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 opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate remaining fund information of the Rappahannock-Rapidan Regional Commission as of June 30, 2019 and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of revenue and expenses-budget and actual (budgetary basis), the schedule of employer's share of net pension liability and related ratios, and the schedule of employer contributions on pages 3 through 7 and pages 32 through 37 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2019, on our consideration of the Rappahannock-Rapidan Regional Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Rappahannock-Rapidan Regional Commission's internal control over financial reporting and compliance.



Certified Public Accountants
Chantilly, Virginia

December 11, 2019

Management's Discussion and Analysis

As management of the Rappahannock-Rapidan Regional Commission we offer this narrative overview and analysis of the financial performance of the Commission's financial activities for the year ended June 30, 2019.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Commission's basic financial statements. Since the Commission is engaged only in business-type activities, its basic financial statements are comprised of only two components: 1) financial statements and 2) notes to the financial statements.

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

The statement of net position presents information on the Commission's assets, deferred outflow of resources, liabilities and deferred inflow of resources, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

The statement of revenues, expenses and changes in net position presents information showing how the Commission'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 future fiscal periods, (i.e. earned but unused vacation leave).

Notes to financial statements. The notes to the financial statements provide additional disclosure required by governmental accounting standards and provide information to assist the reader in understanding the Commission's financial condition. The MD&A is intended to explain the significant changes in financial position and the differences in operation between the current year and prior year.

Financial Highlights FY2019

The financial position of the Rappahannock-Rapidan Regional Commission has stabilized over the past several fiscal years, following a period between 2010 and 2015 that required annual utilization of reserve funds to balance revenues and expenditures. In FY 2017, the Commission made the determination to begin restoring reserve funds with a primary goal of achieving a balance of six months' operating expenses. This stated strategy, along with successful grant applications for environmental, transportation, housing, and hazard mitigation activities beginning in FY 2016 have resulted in increases in net position in FY 2017, FY 2018, and FY 2019.

In FY 2019, the Commission continued its successful programmatic efforts in housing and homelessness leadership, transportation and mobility planning, tourism, environmental coordination, and regional coordination. Of particular note in FY 2019 are the successful work of the Commission on Chesapeake Bay Watershed Implementation Planning in coordination with the Virginia Department of Environmental Quality and Secretary of Natural Resources.

Financial Analysis

The following table reflects the condensed Statements of Net Position:

Summary Statements of Net Position		
	June 30,	
	<u>2019</u>	<u>2018</u>
Current Assets	\$373,794	\$337,950
Capital Assets (net)	208,456	195,153
Net Pension Asset	<u>331,439</u>	<u>449,945</u>
Total Assets	<u>913,689</u>	<u>983,048</u>
Deferred Outflows of Resources	<u>96,814</u>	<u>24,629</u>
Current Liabilities	97,498	86,721
Long-term Liabilities	<u>176,806</u>	<u>191,932</u>
Total Liabilities	<u>274,304</u>	<u>278,653</u>
Deferred Inflows of Resources	<u>13,925</u>	<u>172,357</u>
Invested in capital assets, net of debt	16,524	(11,204)
Unassigned	<u>705,750</u>	<u>567,871</u>
Total Net Position	<u>\$722,274</u>	<u>\$556,667</u>

The Commission's total net position (which is the Commission's bottom line) increased by \$165,607 during the year. It should be noted that \$112,111 of this increase was due to the current year GASB 68 adjustment and that readily accessible assets increased by \$35,844 during the year. This increase in net position reflects our efforts to secure new grants and to manage expenses for the agency. The improved net position also enables the Commission to better manage our cash flow and provide needed cash match for new grants, to maintain staffing levels to support future needs of our member jurisdictions, and to maintain reserve funds for long-term liabilities, including the Commission-owned office building.

The following summarizes the revenues and expenses of the Commission:

	Changes in Net Position For the Years Ended June 30,	
	2019	2018
Operating revenues		
Grants	\$744,908	\$ 761,532
Dues	145,375	143,555
Other operating revenues	<u>82,228</u>	<u>51,326</u>
Total operating revenues	<u>972,511</u>	<u>956,413</u>
Non-operating revenues		
GASB 68 adjustment	112,111	167,553
Interest	3,487	1,848
Net gain/(loss) on investments	3,927	(335)
Loss on disposal of equipment	<u>-</u>	<u>(451)</u>
Total non-operating revenues	<u>119,525</u>	<u>168,615</u>
 Total Revenues	 <u>1,092,036</u>	 <u>1,125,028</u>
Operating Expenses		
Salaries and wages	395,999	391,349
Freedom grant	220,496	200,254
Fringe benefits	72,188	98,232
Farmers market promotion program	65,660	48,238
Regional ride sharing	51,170	47,154
Veteran transportation and community living	19,831	-
Virginia Housing Development Authority	11,000	24,313
Vanpool	8,552	-
Other grant expenses	5,438	3,851
Regional tourism	4,717	10,531
PATH planning grant	2,470	5,113
Other operating expenses	<u>46,684</u>	<u>43,265</u>
Total operating expenses	<u>904,205</u>	<u>872,300</u>
Depreciation and amortization	12,733	12,164
Interest paid on debt	<u>9,491</u>	<u>10,159</u>
Total expenses	<u>926,429</u>	<u>894,623</u>
 Change in net position	 165,607	 230,405
Net position beginning of year	<u>556,667</u>	<u>326,262</u>
Net position end of year	<u>\$722,274</u>	<u>\$ 556,667</u>

Revenues

For the fiscal year ended June 30, 2019, total revenues decreased by \$32,992 from the prior year. However, \$55,442 of the decrease was due to the decrease in current year GASB 68 adjustment. Operating revenues increased \$16,098 from FY2018 to FY2019. The increased operating revenue is largely due to continued work on the Section 5310 (New Freedom) grants for mobility management and Foothills Express operation through the Department of Rail and Public Transportation, Farmers Market Promotion Program, and closeout of several grants during the year. Additionally, the continuation of grants from the Department of Rail and Public Transportation in support of RRRC's Commuter Services program, and the Rural Transportation Planning grant from the Virginia Department of Transportation are important for RRRC's ability to continue providing support for successful, long-term projects. Finally, RRRC's regional housing efforts were aided by successful grants from the Virginia Homeless Solutions Program, but also from funding allocated by member jurisdictions in support of a 0.5 Full-Time Equivalent housing position.

Expenses

For the fiscal year ended June 30, 2019, total expenses increased by \$31,806 from the prior year. Personnel costs such as health insurance and retirement were stable from FY 2018 to FY 2019, although salaries and wages – the largest expense for the Commission – increased by \$45,120 with a full staff for most of the fiscal year. Total expenses were lower than our total revenues.

Capital Assets

At the end of fiscal year 2019, the Commission had invested \$426,745 in capital assets which consisted of the office building, office furniture and equipment. This amount has been depreciated by \$218,289, for a carrying amount of \$208,456.

Long-Term Debt

On August 12, 2000 the Commission received loan proceeds in the amount of \$376,000 from the U.S. Department of Agriculture to finance construction of office facilities. The loan is due in monthly installments of \$1,993 through July 12, 2029. Interest on the loan is at 4.75%. The balance of this loan was \$191,932 as of June 30, 2019.

Economic Factors and Future Projects

The Commission receives a substantial amount of its support from local and state governments. The Regional Commission was successful in beginning to restore its reserve fund balance in FY 2017 based on controlling expenses and continued success with state and federal grant applications. The Regional Commission expects that revenues and expenses will be more closely balanced in future years. Operating expenses will generally remain at a level in proportion to the revenues.

Presently, management of the Commission is not aware of any significant changes in conditions that would have a significant effect on the financial position or results of activity of the Commission in the near future. However, uncertainty at the federal and state level may cause some long-term changes, depending upon funding priorities and availability of grant funding. In particular, funding for housing, transit, mobility management, and environmental planning has been the subject of discussion at the state and federal levels during the past fiscal year.

The Commission is currently involved in numerous projects including but not limited to agricultural development, rural transportation planning, ridesharing, environmental planning, regional housing, economic development, community development planning, and regional tourism.

Contacting the Commission's Financial Management

This financial report is designed to provide a general overview of the Commission's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in the report or requests for additional financial information should be directed to the Commission's Executive Director at 420 Southridge Parkway, Suite 106, Culpeper, VA 22701.

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
STATEMENT OF NET POSITION
JUNE 30, 2019

ASSETS

Cash and investments	\$ 264,035
Accounts receivable	109,759
Net pension asset	331,439
Capital assets, net	<u>208,456</u>
 Total Assets	 <u>913,689</u>

DEFERRED OUTFLOWS OF RESOURCES

Pension contributions after the measurement date	1,368
Difference between expected and actual experience	<u>95,446</u>
 Total Deferred Outflows of Resources	 <u>96,814</u>

LIABILITIES

Accounts payable	46,234
Accrued liabilities	10,758
Accrued annual leave	25,380
Rural Development loan payable	<u>191,932</u>
 Total Liabilities	 <u>274,304</u>

DEFERRED INFLOWS OF RESOURCES

Net difference between projected and actual earnings on plan investments	<u>13,925</u>
 Total Deferred Inflows of Resources	 <u>13,925</u>

NET POSITION

Investment in capital assets, net of related debt	16,524
Unrestricted	<u>705,750</u>
 Total Net Position	 <u><u>\$ 722,274</u></u>

See accompanying notes.

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019

Operating Revenues:

DEQ Chesapeake Bay watershed implementation plan III	\$ 50,000
Dues	145,375
Freedom grant	242,057
Hazard Mitigation	13,820
Rideshare program	118,400
Rural transportation program	57,800
State regional planning grant	75,971
Van pool grant	8,000
Virginia homeless solution program	84,501
Virginia Housing Development Authority VISTA grant	11,000
USDA farmers market promotion program	83,359
Other Income	
Orange County community development block grant	2,000
Regional housing	48,605
Regional tourism	7,000
VTC marketing leverage program grant	19,831
Miscellaneous	4,792

Total Operating Revenues	972,511
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Operating Expenses:

Annual meeting	4,457
Audit	3,650
Depreciation	12,733
Equipment	1,733
Freedom grant	220,496
Insurance health	34,247
Insurance liability	1,295
Insurance workers' compensation	500
Maintenance and repairs	5,144
Membership dues	3,495
Miscellaneous	365
PATH planning grant	2,470
Payroll taxes	29,083
Postage	558

See accompanying notes.

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2019

Operating Expenses (Continued):

Printing	\$ 1,760
Regional tourism	4,717
Retirement	8,358
Rideshare	51,170
Rural transportation planning	988
Salary	395,999
Subscriptions and publications	400
Supplies	4,267
Technology	4,381
Travel	10,239
Utilities	4,940
USDA farmers market promotion program	65,660
Vanpool expense	8,552
Virginia Housing Development Authority	11,000
VTC marketing leverage program grant	19,831
Virginia homeless solution program expense	4,036
Watershed implementation plan	414
Total Operating Expenses	<u>916,938</u>
Operating Gain	55,573
Nonoperating Income (Expense)	
GASB 68 actuarial adjustment	112,111
Interest income	3,487
Net gain on investments	3,927
Interest expense	(9,491)
Total Nonoperating Income (Expense)	<u>110,034</u>
Change in Net Position	165,607
Net Position at beginning of year	<u>556,667</u>
Net Position at end of year	<u><u>\$ 722,274</u></u>

See accompanying notes.

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019

Cash Flows from Operating Activities:	
Cash received from customers and users	\$ 958,719
Payments to suppliers	(499,273)
Payments to employees	(390,929)
	<u>68,517</u>
Net Cash Provided by Operating Activities	<u>68,517</u>
Cash Flows from Capital and Related Financing Activities:	
Principal payments on debt	(14,425)
Interest payments on debt	(9,491)
	<u>(23,916)</u>
Net Cash Used in Capital and Related Financing Activities	<u>(23,916)</u>
Cash Flows from Investing Activities	
Purchases of new equipment	(26,036)
Proceeds from investments	4,037
Purchases of investments	(4,037)
Interest earned	3,487
	<u>(22,549)</u>
Net Cash Used in Investing Activities	<u>(22,549)</u>
Net Change in Cash and Cash Equivalents	22,052
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>241,983</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u><u>\$ 264,035</u></u>
Reconciliation of Operating Gain	
to Net Cash Provided by Operating Activities	
Operating Gain	\$ 55,573
Adjustments to Reconcile Operating Loss	
to Net Cash Provided by Operating Activities:	
Depreciation	12,733
GASB 68 adjustment	112,111
Gain on investments	3,927
Changes in current assets and liabilities:	
Increase in accounts receivable	(13,792)
Decrease in net pension asset	118,506
Increase in deferred outflows	(72,185)
Increase in accounts payable	5,006
Increase in accrued liabilities	269
Increase in accrued annual leave	4,801
Decrease in deferred inflows	(158,432)
	<u>(158,432)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 68,517</u></u>

See accompanying notes.

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – Summary of Significant Accounting Policies

The financial statements of the Rappahannock-Rapidan Regional Commission conform to generally accepted accounting principles (GAAP) applicable to government units promulgated by the Government Accounting Standards Board (GASB). The following is a summary of the more significant accounting policies:

A. The Financial Reporting Entity

The Rappahannock-Rapidan Regional Commission was chartered in 1971. The Commission includes the Counties of Culpeper, Fauquier, Madison, Orange and Rappahannock and the towns of Remington, Warrenton, Culpeper, Orange, Madison, Gordonsville, Washington and The Plains. Regional Commissions achieved their being and legal status by the Virginia Area Development Act, passed by the General Assembly on March 13, 1968. The Act was an amendment of Chapters 34 and 35 of the *Code of Virginia* and provided the State with a uniform set of sub-state administrative boundaries and local government the authority to create planning and/or service district commissions, all in an effort to improve state and local relations which would enable government to be more responsive to the needs of its people.

B. Financial Statement Presentation

Management's Discussion and Analysis – GASB Statement #34 requires the financial statements be accompanied by a narrative introduction and analytical overview of the government's financial activities in the form of "management's discussion and analysis" (MD&A).

Enterprise Fund Financial Statements:

The Statement of Net Position is designed to display the financial position of the Commission. Governments will report all capital assets and will report depreciation expense – the cost of "using up" capital assets – in the Statement of Revenues, Expenses and Changes in Net Position. The net position of the government is broken down into three categories – 1) invested in capital assets, net of related debt; 2) restricted; and 3) unassigned.

C. Basis of Accounting

The accounting and reporting policies of the Commission relating to the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB) the American Institute of Certified Public Accountants in the Publication entitled Audits of State and Local Government Units and by the Financial Accounting Standards Board (when applicable).

D. Budgets and Budgetary Accounting

A budget is prepared for information and fiscal planning purposes. None of the participating entities are required to approve the budget. The budget is adopted as a planning document and is not a legal control on expenses. The budget is prepared on the same basis of accounting as the actual financial statements are prepared except for depreciation and capital asset purchases are expensed.

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 1 – Summary of Significant Accounting Policies (continued)

E. Capital Assets

Property, plant and equipment purchased is stated at cost or estimated cost for all items with an initial costs exceeding \$1,000. Donated property is recorded at fair market value prevailing at the date of donation. Depreciation for capital asset has been provided for over the following estimated useful lives using the straight-line method:

Equipment	3-12 years
Buildings	39 years

Activity of the capital assets for the Commission for the year ended June 30, 2019 was as follows:

	Balance July 1, 2018	Additions	Disposals	Balance June 30, 2019
Office furniture and equipment	\$ 32,454	\$ 4,183	\$ -	\$ 36,637
Buildings and improvements	368,255	21,853	-	390,108
Less:				
Accumulated Depreciation	(205,556)	(12,733)	-	(218,289)
Net capital assets	<u>\$195,153</u>	<u>\$13,303</u>	<u>\$ -</u>	<u>\$ 208,456</u>

F. Cash and Cash Equivalents

For purposes of the statement of cash flows, the Commission considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

G. Use of Estimates

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

H. Accounts Receivable

Accounts receivable are reported at their gross value when earned as the underlying exchange transaction occurs. Receivables related to non-exchange transactions are recognized when their eligibility requirements have been met. Receivables are reduced by the estimated portion that is expected to be uncollectible. This estimate is made based on collection history and current information regarding the credit worthiness of the debtors. When continued collection activity results in receipts of amounts previously written off, revenue is recognized for the amount collected. Management considers all of the receivables collectible at June 30, 2019, and no allowance for doubtful accounts has been provided.

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 1 – Summary of Significant Accounting Policies (continued)

I. Deferred Outflows/Inflows of Resources

The Commission reports deferred outflows of resources on its statement of net position. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until the applicable period. The Commission has two items that qualify for reporting in this category. They are the employer pension contributions made after the actuarial measurement date and the difference between expected and actual experience. Employer contributions made after the measurement date of June 30, 2019, were \$1,368. The difference between expected and actual experience, per the actuarial report dated of June 30, 2018, was \$95,446.

The Commission reports deferred inflows of resources on its statement of net position. Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until a future period. The Commission had three items that qualify for reporting in this category. The net difference between the projected and actual earnings on plan investments, per the actuarial report dated of June 30, 2018, was \$13,925.

J. Pension

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Commission's Retirement Plan and additions to/deductions from the Commission's Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by 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.

K. Restricted Resources

When both restricted and unrestricted resources are available for use, it is the Commission's policy to use restricted resources first, then unrestricted, as they are needed.

L. Advertising Costs

Advertising costs are expensed as incurred.

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 2 - Cash and Investments

State statute authorizes the Commission to invest in obligations of the U. S. Treasury, agencies, and instrumentalities, repurchase agreements, certificates of deposit or time deposits insured by the FDIC, and the local government investment pool. Cash and cash equivalents include amounts in demand deposits as well as short-term, highly liquid investments with a maturity date within three months of the date acquired by the Commission. Deposits are carried at cost, which approximates fair value. At year end, the carrying value of the Commission's bank account balances was \$30,862, and the bank balances totaled \$45,422.

There is no custodial credit risk to these accounts, as the entire bank balance was covered by federal depository insurance or collateralized in accordance with the Virginia Security for Public Deposits Act (Act). Under the Act, banks holding public deposits in excess of the amounts insured by the FDIC must pledge collateral in the amount of 50% of excess deposits to a collateral pool in the name of the State Treasury Board. Savings and loan institutions are required to collateralize 100% of deposits in excess of FSLIC limits. The State Treasury Board is responsible for monitoring compliance by banks and savings and loans. Accordingly, there is no custodial risk for either of the accounts as they are fully collateralized. In addition there is no interest rate risk as the interest rates are adjusted daily.

The Commission is a participant in the Virginia Investment Pool, a jointly-administered investment pool. Jointly-administered investment pools, such as VIP, are allowable investment as identified in the Investment of Public Funds Act. Participants own and control VIP, which is a governmental trust under Section 115 of the Internal Revenue Code. Public Trust Advisors, LLC (PTA) serves as Investment Manager. PTA is a Securities and Exchange Commission registered, independent investment advisor with significant local government investment pool experience. PTA manages more than \$30 billion in public funds nationwide. Wells Fargo Bank is VIP's custodian bank.

The investment pool has not been assigned a risk category since the Commission is not issued securities, but rather owns an undivided interest in the assets of the pool. At June 30, 2019 the Commission's balance in the investment pool was \$233,174 and included the follow investments:

VIP Liquidity Pool Account	\$129,690
VIP Long Term Bond Fund	103,484

NOTE 3 – Rural Development Loan

The Commission received loan proceeds in the amount of \$376,000 from the Department of Agriculture on August 12, 2000. The loan is secured by the Commission's real estate and due in monthly installments of \$1,993 including interest of 4.75% through July 12, 2029.

Current year debt activity was as follows:

Beginning Balance	Increases	Decreases	Ending Balance
<u>\$206,357</u>	<u>\$ -</u>	<u>\$ 14,425</u>	<u>\$191,932</u>

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 3 – Rural Development Loan (continued)

Mandatory debt service requirements consist of the following:

Year Ending <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 15,126	\$ 8,790
2021	15,860	8,056
2022	16,630	7,286
2023	17,437	6,479
2024	18,288	5,628
2025-2029	105,632	13,948
2030	<u>2,959</u>	<u>16</u>
Total	<u>\$ 191,932</u>	<u>\$ 50,203</u>

NOTE 4 – Defined Benefit Pension Plan

Pensions

The Virginia Retirement System (VRS) Political Subdivision Retirement Plan is a multi-employer, agent plan. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Commission's Retirement Plan and the additions to/deductions from the Commission'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.

Plan Description

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

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

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 – Defined Benefit Pension Plan (continued)

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT
<p>About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</p>	<p>About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</p>	<p>About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan.</p> <ul style="list-style-type: none"> • 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.
<p>Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken refund.</p> <p>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.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p>Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>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.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none"> • Political subdivision employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014 <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none"> • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 – Defined Benefit Pension Plan (Continued)

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.	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.	Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	Retirement Contributions Same as Plan 1.	Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages
Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	Creditable Service Same as Plan 1.	Creditable Service <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. <u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 – Defined Benefit Pension Plan (Continued)

<p>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.</p> <p>Members are always 100% vested in the contributions that they make</p>	<p>Vesting Same as Plan 1.</p>	<p>Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contributions Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • 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. <p>Distribution is not required by law until age 70½.</p>
<p>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.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>	<p>Calculating the Benefit See definition under Plan 1.</p>	<p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1</p> <p><u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 – Defined Benefit Pension Plan (Continued)

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

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 – Defined Benefit Pension Plan (Continued)

<p>Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Unreduced Retirement Eligibility Defined Benefit Component: VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p>Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Reduced Retirement Eligibility Defined Benefit Component: VRS: Age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p>Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement Defined Benefit Component: Same as Plan 2.</p> <p>Defined Contribution Component: Not applicable.</p>

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 – Defined Benefit Pension Plan (Continued)

<p><u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p>	<p><u>Eligibility:</u> Same as Plan 1</p>	<p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p>
<p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • 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. 	<p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1</p>	<p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 – Defined Benefit Pension Plan (Continued)

<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p>	<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p>	<p>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.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work- related disability benefits.</p>
<p>Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.</p>	<p>Purchase of Prior Service Same as Plan 1.</p>	<p>Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none"> • Hybrid Retirement Plan members are ineligible for ported service. <p><u>Defined Contribution Component:</u> Not applicable.</p>

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 – Defined Benefit Pension Plan (Continued)

Employees Covered by Benefit Terms

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

		Number
Inactive Members or Their Beneficiaries Currently Receiving Benefits		4
Inactive Members		
Vested inactive members	4	
Non-vested inactive members	6	
Active members active elsewhere in VRS	<u>4</u>	
Total Inactive Members		14
Active Members		<u>7</u>
Total covered employees		<u>25</u>

Contributions

The contribution requirement for active employees is governed by § 51.1-145 of the *Code of Virginia*, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement.

The Commission's contractually required contribution rate for the year ended June 30, 2019 was 2.90% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contribution to the pension plan from the Commission was \$1,368 and \$20,245 for the years ended June 30, 2019 and June 30, 2018, respectively.

Net Pension Liability

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

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 – Defined Benefit Pension Plan (Continued)

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Commission's Retirement Plan was based on an actuarial valuation as of June 30, 2017, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

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

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

Mortality rates:

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 – Defined Benefit Pension Plan (Continued)

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-Hazardous Duty:

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

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

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

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:

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 – Defined Benefit Pension Plan (Continued)

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	<u>15.00%</u>	9.53%	<u>1.43%</u>
Total	<u>100.00%</u>		<u>4.80%</u>
Inflation			2.50%
* Expected arithmetic nominal return			<u>7.30%</u>

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

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for the state and teacher employer contributions; political subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 20, 2018, the alternate rate was the employer contribution rate used in FY2012 or 90% of the actuarially determined employer contribution rate from the June 30, 2015 actuarial valuations, whichever was greater. From July 1, 2018 on, participating employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the Long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 – Defined Benefit Pension Plan (Continued)

Change in the Net Pension Liability:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balances at June 30, 2017	\$ 881,283	\$1,331,228	\$(449,945)
Changes for the year:			
Service cost	34,100		34,100
Interest	60,863		60,863
Change in assumption	-		-
Differences between expected and actual experience	159,504		159,504
Contributions – employer		20,150	(20,150)
Contributions – employee		17,480	(17,480)
Net investment income		99,250	(99,250)
Benefit payments, including refunds of employee contributions	(23,630)	(23,630)	-
Administrative expense		(829)	829
Other changes	-	(90)	90
Net changes	230,837	112,331	118,506
Balances at June 30, 2018	\$1,112,120	\$1,443,559	\$(331,439)

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

The following presents the net pension liability of the Commission using the discount rate of 7%, as well as what the Commission's net pension liability would be if it were calculated using a discount rate that is one percentage-point lower (6%) or one percentage-point higher (8%) than the current rate:

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
Commission's Net Pension Liability	\$(173,995)	\$(331,439)	\$(459,426)

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

For the year ended June 30, 2019, the Commission recognized pension benefit of \$112,111. At June 30, 2019, the Commission 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 actual and expected experience	\$95,446	\$ -
Changes in assumptions	-	-
Net difference between projected and actual earnings on plan investments	-	13,925
Employer contributions subsequent to the Measurement Date	1,368	-
Total	\$96,814	\$13,925

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
NOTES TO FINANCIAL STATEMENTS
(Continued)

NOTE 4 – Defined Benefit Pension Plan (Continued)

\$95,446 reported as deferred outflows of resources related to pensions resulting from Commission's contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in future reporting periods as follows:

Year ending June 30,	
2020	66,984
2021	29,268
2022	(13,609)
2023	(1,122)
2024	-
Thereafter	-

Pension Plan Data

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

NOTE 5 – Commitments and Contingencies

The Commission receives a substantial amount of its support from local and state governments. A significant reduction in the level of this support, if this were to occur, could have an adverse effect on the Commission's programs and activities.

NOTE 6 – Evaluation of Subsequent Events

The Commission has evaluated subsequent events through December 11, 2019, the date which the financial statements were available to be issued.

Dunham, Aukamp & Rhodes, PLC
Certified Public Accountants

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**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 Commissioners
Rappahannock-Rapidan Regional Commission
Culpeper, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate remaining fund information of the Rappahannock-Rapidan Regional Commission as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Rappahannock-Rapidan Regional Commission's basic financial statements, and have issued our report thereon dated December 11, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Rappahannock-Rapidan Regional Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rappahannock-Rapidan Regional Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of Rappahannock-Rapidan Regional Commission'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 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.

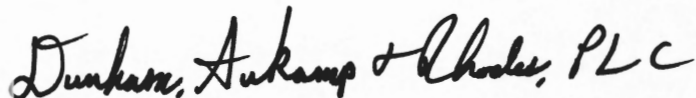
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during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

Compliance and Other Matters

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

Purpose of this Report

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



Certified Public Accountants
Chantilly, Virginia

December 11, 2019

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
SCHEDULE OF REVENUES AND EXPENSES-BUDGET
AND ACTUAL (BUDGETARY BASIS)
FOR THE YEAR ENDED JUNE 30, 2019

	Original Budget	Final Budget	Actual Budgetary- Basis	Variance Favorable (Unfavorable)
Operating Revenues:				
DEQ Chesapeake Bay watershed implementation plan III	\$ 50,000	\$ 50,000	\$ 50,000	\$ -
Dues	145,377	145,377	145,375	(2)
Freedom grant	250,000	250,000	247,542	(2,458)
Hazard mitigation	13,820	13,820	13,820	-
Madison county planning	2,000	2,000	1,104	(896)
Orange county community development block grant	-	-	2,000	2,000
Rappahannock comp plan	4,000	4,000	-	(4,000)
Regional housing	48,604	48,604	48,605	1
Regional tourism	7,000	7,000	7,000	-
Rideshare program	118,400	118,400	118,369	(31)
Rural transportation program	58,000	58,000	58,020	20
State regional planning grant	75,971	75,971	75,971	-
Town of Madison comp plan	500	500	-	(500)
Van pool grant	8,000	8,000	4,448	(3,552)
Virginia homeless solution program	84,000	84,000	84,501	501
Virginia Housing Development Authority VISTA grant	15,000	15,000	15,000	-
VTC marketing leverage program grant	21,012	21,012	-	(21,012)
USDA farmers market promotion program	83,000	83,000	81,423	(1,577)
Other Income	750	750	4,792	4,042
Water Supply Plan	-	-	749	749
Total Operating Revenues	985,434	985,434	958,719	(26,715)
Operating Expenses:				
Advertising	500	500	-	500
America's wine country	1,100	1,100	-	1,100
Annual meeting	4,500	4,500	4,457	43
Audit	5,500	5,500	3,650	1,850
DEQ Chesapeake Bay watershed implementation plan III	2,500	2,500	414	2,086
Equipment	7,000	7,000	5,916	1,084
Freedom grant	222,500	222,500	216,975	5,525
Insurance health	45,000	35,000	34,247	753
Insurance liability	1,400	1,400	1,295	105
Insurance workers' compensation	500	500	500	-
Maintenance and repairs	10,000	26,025	26,997	(972)
Membership dues	4,000	4,000	3,495	505
Miscellaneous	500	500	365	135

See accompanying notes.

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
SCHEDULE OF REVENUES AND EXPENSES-BUDGET
AND ACTUAL (BUDGETARY BASIS) (Continued)
FOR THE YEAR ENDED JUNE 30, 2019

	Original Budget	Final Budget	Actual Budgetary- Basis	Variance Favorable (Unfavorable)
Operating Expenses (Continued):				
Payroll taxes	\$ 30,600	\$ 30,600	\$ 29,083	\$ 1,517
Postage	750	750	558	192
Printing	2,000	2,000	1,760	240
Regional tourism	9,693	9,693	4,717	4,976
Retirement	9,000	9,000	8,358	642
Rideshare	50,000	50,000	51,170	(1,170)
Rural transportation planning	1,000	1,000	988	12
Salary	400,000	400,000	395,999	4,001
Subscriptions and publications	750	750	400	350
Supplies	4,500	4,500	4,267	233
Technology	7,000	7,000	4,381	2,619
Travel	10,000	10,000	10,239	(239)
Utilities	6,200	6,200	4,940	1,260
USDA farmers market promotion program	61,000	61,000	65,365	(4,365)
Vanpool expense	8,500	8,500	8,552	(52)
Virginia Housing Development Authority	15,000	15,000	15,000	-
VTC marketing leverage program grant	18,000	18,000	19,831	(1,831)
Virginia homeless solution program expense	1,000	1,000	4,036	(3,036)
Website update	7,000	7,000	-	7,000
Total Operating Expenses	954,493	953,018	927,955	25,063
Operating Gain/(Loss)	30,941	32,416	30,764	(1,652)
Nonoperating Income (Expense)				
GASB 68 adjustment	-	-	112,111	112,111
Interest income	1,500	1,500	3,487	1,987
Investment gain	-	-	3,927	3,927
Interest expense	(23,916)	(23,916)	(23,916)	-
Total Nonoperating Income (Expense)	(22,416)	(22,416)	95,609	112,111
Net Gain/(Loss)	\$ 8,525	\$ 10,000	\$ 126,373	\$ 110,459

See accompanying notes.

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
SCHEDULE OF REVENUES AND EXPENSES
BUDGET AND ACTUAL - BUDGETARY BASIS
BUDGET-TO-GAAP RECONCILIATION
FOR THE YEAR ENDED JUNE 30, 2019

Note A - Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenue and Expenditures

Sources/inflows of resources

Actual amounts (budgetary basis) from budgetary comparison schedule	\$ 958,719
Collection of receivables accrued as of June 30, 2018 are revenue for budgetary purposes but not for GAAP purposes.	(95,967)
Receivables accrued as of June 30, 2019 are revenue for GAAP purposes but not for budgetary purposes.	<u>109,759</u>
Total operating revenue as reported on the statement of revenues, expenses and changes in net position.	<u><u>\$ 972,511</u></u>

Uses/outflows of resources

Actual amounts (budgetary basis) from budgetary comparison schedule	\$ 927,955
Payments of accounts payable recorded as of June 30, 2018, are expenditures for budgetary purposes but not for GAAP purposes.	(34,207)
Purchases of equipment for the year ended June 30, 2019, are expenditures for budgetary purposes but not for GAAP purposes.	(26,036)
Payables accrued as of June 30, 2019 are expenses for GAAP purposes but not for budgetary purposes.	36,493
Depreciation expense is a expense for GAAP purposes but not for budgetary purposes.	<u>12,733</u>
Total operating expenses as reported on the statement of revenues, expenses and changes in net position.	<u><u>\$ 916,938</u></u>

See accompanying notes.

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
SCHEDULE OF CHANGES IN THE COMMISSION'S NET PENSION LIABILITY
AND RELATED RATIOS

	2018	2017	2016	2015	2014
Total Pension Liability					
Service cost	\$ 34,100	\$ 34,046	\$ 46,439	\$ 45,136	\$ 44,023
Interest on total pension liability	60,863	76,384	67,864	60,928	54,411
Changes in assumptions	-	(29,189)	-	-	-
Differences between expected and actual experience	159,504	(279,643)	22,652	(589)	-
Benefit payments, including refunds of employee contributions	(23,630)	(23,038)	(7,427)	(5,370)	(5,293)
Net change in total pension liability	230,837	(221,440)	129,528	100,105	93,141
Total pension liability - beginning	881,283	1,102,723	973,195	873,090	779,949
Total pension liability - ending (a)	<u>\$1,112,120</u>	<u>\$ 881,283</u>	<u>\$1,102,723</u>	<u>\$ 973,195</u>	<u>\$ 873,090</u>
Plan fiduciary net position					
Contributions - employer	\$ 20,150	\$ 16,670	\$ 20,601	\$ 21,713	\$ 24,294
Contributions - employee	17,480	14,694	16,585	17,468	17,147
Net investment income	99,250	145,211	22,505	49,158	140,644
Benefit payments, including refunds of employee contributions	(23,630)	(23,038)	(7,427)	(5,370)	(5,293)
Administrative expense	(829)	(815)	(2,049)	(630)	(720)
Other	(90)	(130)	(5)	(11)	7
Net change in plan fiduciary net position	112,331	152,592	50,210	82,328	176,079
Plan fiduciary net position - beginning	1,331,228	1,178,636	1,128,426	1,046,098	870,019
Plan fiduciary net position - ending (b)	<u>\$1,443,559</u>	<u>\$1,331,228</u>	<u>\$1,178,636</u>	<u>\$1,128,426</u>	<u>\$1,046,098</u>
Commission's net pension asset - ending (a)-(b)	<u>\$ (331,439)</u>	<u>\$ (449,945)</u>	<u>\$ (75,913)</u>	<u>\$ (155,231)</u>	<u>\$ (173,008)</u>
Plan fiduciary net position as a percentage of the total					
Pension liability	129.80%	151.06%	106.88%	115.95%	119.82%
Covered - employee payroll	\$ 391,349	\$ 367,005	\$ 268,691	\$ 351,496	\$ 342,940
Commission's net pension liability as percentage of covered-employee payroll	-84.69%	-122.60%	-28.25%	-44.16%	-50.45%

See accompanying notes.

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION
SCHEDULE OF EMPLOYER CONTRIBUTIONS
FOR THE YEARS ENDED JUNE 30, 2010 THROUGH 2019

Date	Contractually Required Contributions (1)	Contributions in Relation to Contractually Required Contributions (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2019	\$ 1,928	\$ 1,368	\$ 560	\$ 356,985	0.38%
2018	11,349	20,245	(8,896)	391,349	5.17%
2017	10,643	16,670	(6,027)	367,005	4.54%
2016	16,766	20,601	(3,835)	268,691	7.67%
2015	21,933	21,713	220	351,496	6.18%
2014	24,383	24,294	89	342,940	7.08%
2013	24,383	28,323	(3,940)	342,940	8.26%
2012	26,840	29,446	(2,606)	322,209	9.14%
2011	26,111	28,702	(2,591)	313,452	9.16%
2010	15,365	19,279	(3,914)	307,307	6.27%

See accompanying notes.

RAPPAHANNOCK-RAPIDAN REGIONAL COMMISSION

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION For the Year Ended June 30, 2019

NOTE 1 – Change of Benefit Terms

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:

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

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

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