

**HARRISONBURG-ROCKINGHAM
COMMUNITY SERVICES BOARD**

FINANCIAL REPORT

June 30, 2016

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

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INTRODUCTORY SECTION

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

DIRECTORY OF PRINCIPAL OFFICIALS

June 30, 2016

Board of Directors

Ms. Daphyne Thomas, Chair

Dr. Pamela Ungar, Vice-Chair

Linda Burner, Secretary

Sherry Mongold, Treasurer

Brian Hanger

Sarah Berry

Judy Bland

Geraldine Rush

David Briggman

Herbert Salisbury

Sheriff Bryan Hutcheson

Ben Risser

Principal Management Team

Ellen Harrison

Executive Director

Lynn R. Grigg

Behavioral Health Services Director

Holly Albrite

Administrative Services Director

Vacant

Acute Services Director

Karla Souder

Community Recovery Services
Director

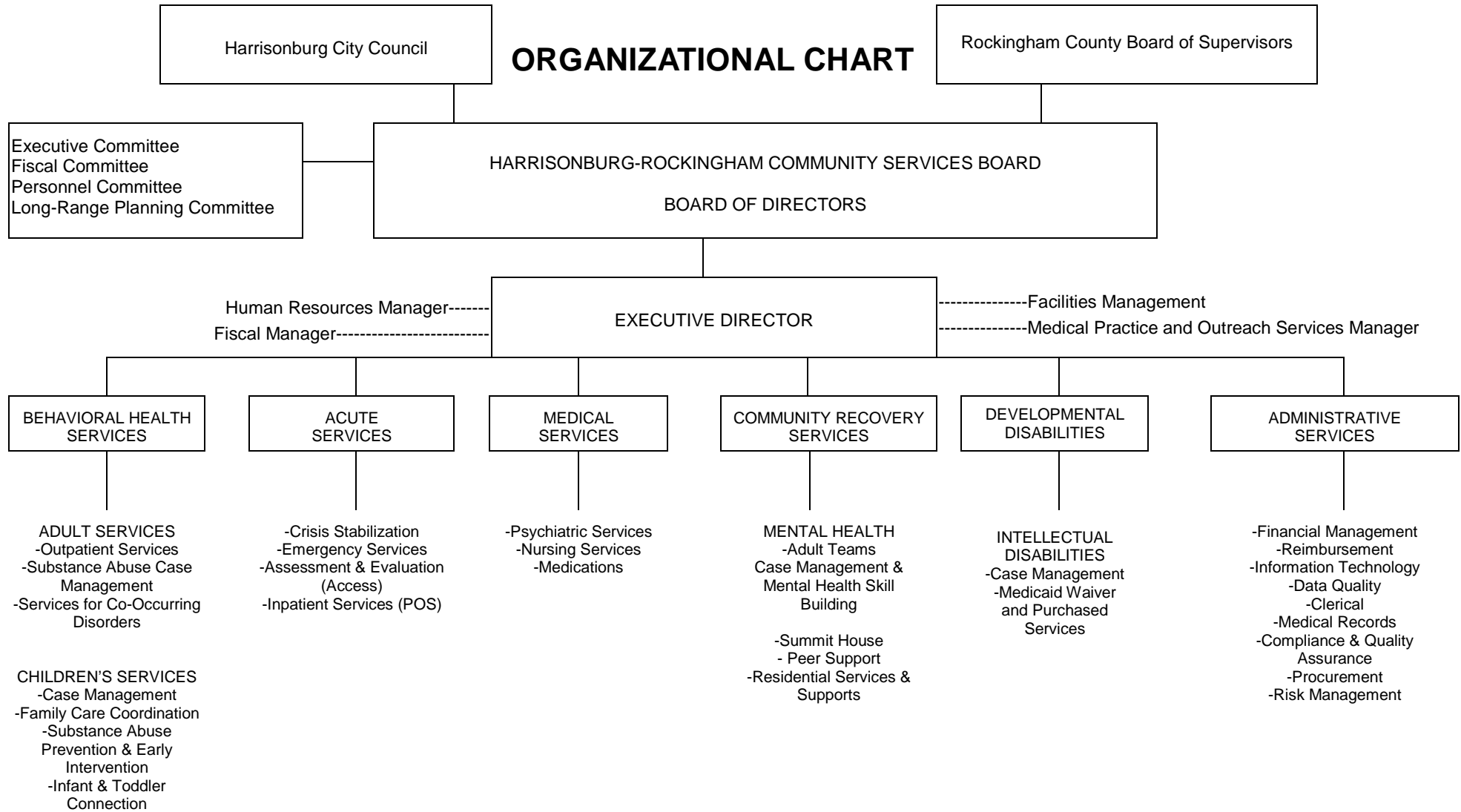
John Malone

Developmental Services Director

James Styron, M.D.

Medical Director

ORGANIZATIONAL CHART



The Harrisonburg-Rockingham CSB provides community-based behavioral health and developmental services

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

ORGANIZATIONAL INFORMATION

June 30, 2016

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 – Adult Services
1351 North Main Street, Harrisonburg – Financial Offices & IT Services
1353 North Main Street, Harrisonburg – Crisis Stabilization Program and Administrative Offices

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

ORGANIZATIONAL INFORMATION

June 30, 2016

COMPUTER SYSTEMS INFORMATION

The CSB uses Credible Wireless, a web-based electronic health record system. The CSB also uses Microsoft Dynamics SL for financial data and Silver Brook Human Resources for staff data. The CSB computer system also includes:

Windows servers providing authentication and file sharing services; Linux based servers providing router, firewall, mail, Intranet/Internet services, and backup services; approximately 200 desktop PCs running Microsoft Windows, Microsoft Office, and a variety of other productivity and utility applications.

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.**



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, 2016, 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Harrisonburg-Rockingham Community Services Board, as of June 30, 2016, 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.

Report on Summarized Comparative Information

We have previously audited the Board's 2015 financial statements, on which, in our report dated November 24, 2015, we expressed an unmodified opinion. The 2015 financial information is provided for comparative purposes only.

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 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.

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 21, 2016 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 21, 2016

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, 2016.

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 Community Services Board 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).

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

Notes to financial statements: The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. The notes to the financial statements can be found on pages 9 through 33 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 post-employment 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 34 through 37.

2016 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 \$12,458,920 and expenditures of \$11,018,814, producing a net gain of \$1,440,106 for the year.

The Board's net position totaled \$10,192,763 of which \$6,870,615 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 2016 and 2015 is presented below:

Condensed Statement of Net Position

	<u>2016</u>	<u>2015</u>
ASSETS		
Current assets	\$ 7,792,979	\$ 6,184,988
Noncurrent assets	<u>4,241,501</u>	<u>4,500,366</u>
TOTAL ASSETS	12,034,480	10,685,354
DEFERRED OUTFLOWS OF RESOURCES	<u>355,177</u>	<u>499,338</u>
LIABILITIES		
Current liabilities	1,431,669	1,160,871
Long-term liabilities	<u>266,473</u>	<u>279,195</u>
TOTAL LIABILITIES	1,698,142	1,440,066
DEFERRED INFLOWS OF RESOURCES	<u>498,752</u>	<u>991,969</u>
NET POSITION		
Net investment in capital assets	3,322,148	3,520,336
Unrestricted	<u>6,870,615</u>	<u>5,232,321</u>
TOTAL NET POSITION	<u>\$10,192,763</u>	<u>\$ 8,752,657</u>

In 2016, the net value of the Board's current assets increased \$1,607,991 or 26%. This increase is primarily from receiving payments for the developmental services Medicaid claims that were delayed at the end of last fiscal year, unspent funding balances, and miscellaneous receivables for new programs/projects launched during the year.

The net value of the Board's capital assets decreased \$235,688 or 6.57%, reflecting the net of depreciation and the purchase of a vehicle for the new mobile crisis program and a mobile module for the electronic health record.

Deferred outflows of resources consist of contributions made to VRS during the fiscal year, subsequent to the measurement date for pensions. Fiscal Year 2015 contribution amount includes a prepayment amount of \$150,000.

Current liabilities increased \$270,798 or 23.33% over 2015, as the Board recorded increases in accrued salaries and fringe benefits, but a decrease in compensated absences. The Board also received several payments of restricted funds at year end, which caused unearned revenues to increase.

Deferred inflows of resources decreased \$493,217, which is attributed to pension-related net differences between projected and actual investment earnings and expected and actual actuarial experience.

A multi-year historical compilation of year end total net position indicates the Board's overall financial condition has tracked a positive trend line.

2016	\$10,192,763
2015	\$8,752,657, as restated (adoption of GASB No. 68)
2014	\$9,191,387
2013	\$9,579,742
2012	\$9,144,777

Overall, the financial position of the Board remains strong, as evidenced by continuing strong liquidity and modest debt.

Change in Net Position: A summary of the Board's Statement of Revenues, Expenses, and Changes in Fund Net Position including all programs and operations, for 2016 and 2015 is presented below:

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

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES	\$ 4,825,860	\$ 4,529,611
OPERATING EXPENSES	<u>11,015,935</u>	<u>10,828,692</u>
Operating loss	(6,190,075)	(6,299,081)
NONOPERATING REVENUES		
(EXPENSES)	<u>7,630,181</u>	<u>6,729,691</u>
Change in net position	<u>\$ 1,440,106</u>	<u>\$ 430,610</u>

Operating revenues are defined as the amount of revenue received from providing client services. During 2016, operating revenues increased \$296,249 or 6.54% in comparison with 2015, most of which is attributable to adding staff to expand service capacity. The Board added case managers and mobile crisis intervention clinicians for both children and adult services. As well, the Board also began submitting claims for injectable medication and saw an increase in telepsychiatry appointments and psychosocial rehabilitation attendance.

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 2016, operating expenses increased \$187,243 or 1.73% from 2015. The Board incurred cost increases in salaries and associated fringe benefits from granting a COLA and market-based salary adjustments for service provider staff and adding staff for multiple new programs. However, these increases were somewhat offset by extended vacancies at staff turnover and the retirement of several seasoned employees. Occupancy costs were higher last year because of furnishing the new office and meeting space. Contractual and professional services are higher due to consulting services for leadership development, branding, and strategic planning, as well as greater demand for purchased services and acquiring security services from local law enforcement for the Crisis Intervention Team Assessment Center.

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. The Board's non-operating revenues increased significantly in 2016 as state, federal, and local funds were received to implement new services/programs, such as Crisis Intervention Team Assessment Center, mobile crisis, and early intervention counseling. The Board was one of eight in Virginia to receive Certified Community Behavioral Health Clinic (CCBHC) funds to help create a plan to meet federal standards to become a certified behavioral health clinic. Interest income totaled \$7,677 in 2016, reflecting the continuation of low interest rate earnings from the Board's conservative investments. Non-operating expenses include interest expense associated with debt.

Cash Flows: A summary of the Board's Statement of Cash Flows, including all programs and operations, for 2016 and 2015 is presented below:

Condensed Statement of Cash Flows

	<u>2016</u>	<u>2015</u>
OPERATING ACTIVITIES	\$(6,102,145)	\$(6,548,227)
NON-CAPITAL FINANCING ACTIVITIES	7,810,628	6,753,404
CAPITAL AND RELATED FINANCIAL ACTIVITIES	(77,936)	(316,092)
INVESTING ACTIVITIES	<u>7,677</u>	<u>3,778</u>
Net increase/(decrease) in cash	1,638,224	(107,137)
Cash – Beginning at July 1	<u>5,227,268</u>	<u>5,334,405</u>
Cash – Ending June 30	<u>\$ 6,865,492</u>	<u>\$ 5,227,268</u>

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, net OPEB expense, 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.

For the year, there was a \$1,638,224 net increase in cash, bringing the year end cash total to \$6,865,492. In comparison with the benchmark of the 2016 Performance Contract budget of \$11,266,281, year end cash measured 60.9%. In 2015 year end cash was 50.3% of the budget, and in 2014 it was 53.0%.

As part of the strategic planning process, management has identified the need for sufficient cash reserves as we begin to plan for construction specific to building redesign and anticipate substantial changes to both program requirements and the unknown impact of revised reimbursement rates via Commonwealth Coordinated Care Plus program. Additionally, the looming budget deficit for the Commonwealth of VA may have an impact on revenues should the convening General Assembly choose to extend budget reductions to the CSB system in fiscal year 2017-18. Of note, demand for both child and adult services continue on a trajectory upward for all offered mental health, substance use and developmental disability services. Overall, an adequate financial “safety net” of cash reserves best positions the Board to manage through these challenging times, including multiple regulatory changes and the daunting array of healthcare reforms, while fulfilling the Board’s community mission.

DEBT

The Board has a mortgage payable of \$28,125. As described in the accompanying notes, the Board also has a Guidance Line of Credit with SunTrust Bank, which was not accessed during 2016.

CAPITAL AND OTHER ASSETS

At the end of 2016, the Harrisonburg-Rockingham CSB had a total of \$3,350,273 in net capital assets, of which \$663,632 is held by the Rockingham-Harrisonburg Halfway House, Inc. The total is comprised of \$6,546,633 in capital assets less \$3,196,360 in accumulated depreciation.

Asset classes include: land (8.5%), land improvements (4.8%), buildings (42.6%), building improvements (27.9%), equipment (5.6%), vehicles (6.1%), and software (4.5%).

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, 2016

	2016	(For Comparative Purposes Only) 2015
ASSETS		
Current assets		
Cash and cash equivalents (Note 2)	\$ 6,763,062	\$ 5,129,555
Accounts receivable, net (Note 3)	746,184	895,177
Miscellaneous accounts receivable	74,570	15,723
Due from other governments (Note 4)	66,836	25,113
Prepaid expenses	39,897	21,707
Cash and cash equivalents, restricted for representative payee beneficiaries (Note 2)	102,430	97,713
Total current assets	7,792,979	6,184,988
Noncurrent assets		
Net pension asset (Note 10)	891,228	914,405
Capital assets, net (Note 5)	3,350,273	3,585,961
Total noncurrent assets	4,241,501	4,500,366
Total assets	12,034,480	10,685,354
DEFERRED OUTFLOWS OF RESOURCES		
Pension contributions subsequent to the measurement date (Note 10)	355,177	499,338
LIABILITIES		
Current liabilities		
Accounts payable and other current liabilities	120,529	99,655
Accrued payroll and related liabilities	519,580	512,611
Accrued interest	121	281
Amounts held for representative payee beneficiaries, payable from restricted assets	102,430	97,713
Unearned revenues (Note 8)	317,256	56,861
Current portion of long-term liabilities (Note 6)	371,753	393,750
Total current liabilities	1,431,669	1,160,871
Long-term liabilities (Note 6)	266,473	279,195
Total liabilities	1,698,142	1,440,066
DEFERRED INFLOWS OF RESOURCES		
Pension-related deferred inflows (Note 10)	498,752	991,969
NET POSITION		
Net investment in capital assets	3,322,148	3,520,336
Unrestricted	6,870,615	5,232,321
Total net position	\$ 10,192,763	\$ 8,752,657

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION Year Ended June 30, 2016

	2016	(For Comparative Purposes Only) 2015
OPERATING REVENUES		
Net client service revenue (Note 13)	\$ 4,825,860	\$ 4,529,611
OPERATING EXPENSES		
Salaries	7,179,772	6,983,270
Benefits	1,535,151	1,503,694
Facility, equipment, and vehicle	456,656	573,140
Contractual and professional services	925,590	808,897
Depreciation and amortization	273,085	277,657
Other	645,681	682,034
Total operating expenses	11,015,935	10,828,692
Operating loss	(6,190,075)	(6,299,081)
NONOPERATING REVENUES (EXPENSES)		
Commonwealth of Virginia grants	5,296,891	5,000,256
Federal grants	616,008	550,937
Contributions from participating local governments (Note 14)	1,418,406	1,003,335
Interest income	7,677	3,757
Interest expense	(2,879)	(5,217)
Other income	294,078	176,623
Net nonoperating revenues	7,630,181	6,729,691
Change in net position	1,440,106	430,610
NET POSITION AT JULY 1, as restated (Note 19)	8,752,657	8,322,047
NET POSITION AT JUNE 30	<u>\$ 10,192,763</u>	<u>\$ 8,752,657</u>

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

STATEMENT OF CASH FLOWS Year Ended June 30, 2016

	2016	(For Comparative Purposes Only) 2015
OPERATING ACTIVITIES		
Receipts from clients, private insurers, Medicaid, and others	\$ 4,949,433	\$ 4,362,716
Payments to suppliers	(2,025,243)	(2,149,325)
Payments to and for employees	(9,031,052)	(8,770,032)
Other receipts	4,717	8,414
Net cash used in operating activities	(6,102,145)	(6,548,227)
NON-CAPITAL FINANCING ACTIVITIES		
Contributions from local, state, and federal governments	7,575,397	6,574,492
Other receipts	235,231	178,912
Net cash provided by non-capital financing activities	7,810,628	6,753,404
CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(37,397)	(273,214)
Principal paid on debt	(37,500)	(37,500)
Interest paid on debt	(3,039)	(5,378)
Net cash used in capital and related financing activities	(77,936)	(316,092)
INVESTING ACTIVITIES		
Interest received	7,677	3,778
Net increase (decrease) in cash and cash equivalents	1,638,224	(107,137)
CASH AND CASH EQUIVALENTS		
Beginning at July 1	5,227,268	5,334,405
Ending at June 30	\$ 6,865,492	\$ 5,227,268
RECONCILIATION TO STATEMENT OF NET POSITION		
Cash and cash equivalents	\$ 6,763,062	\$ 5,129,555
Cash and cash equivalents, restricted for representative payee beneficiaries	102,430	97,713
	\$ 6,865,492	\$ 5,227,268

(Continued)

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

STATEMENT OF CASH FLOWS Year Ended June 30, 2016

	2016	(For Comparative Purposes Only) 2015
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES		
Operating loss	\$ (6,190,075)	\$ (6,299,081)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	273,085	277,657
Pension expense net of employer contributions	(325,879)	(441,114)
Decrease (increase) in:		
Accounts receivable, net	148,993	(165,013)
Prepaid expenses	(18,190)	(1,272)
Increase (decrease) in:		
Accounts payable and other current liabilities	20,874	(83,982)
Accrued payroll and related liabilities	6,969	137,975
Compensated absences	(12,622)	2,633
Other post-employment benefits	15,403	17,438
Unearned revenues	(25,420)	(1,882)
Amounts held for representative payee beneficiaries, payable from restricted assets	4,717	8,414
Net cash used in operating activities	<u>\$ (6,102,145)</u>	<u>\$ (6,548,227)</u>

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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 payers, rate adjustments and settlements with third-party payers, 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 payers, and others for services rendered. Revenue under third-party payer agreements is subject to audit and retroactive adjustment. Retroactive adjustments are reported in operations in the year of settlement.

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.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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	5 years

Restricted assets:

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

Deferred outflows/inflows of resources:

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. 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 only one item that qualifies for reporting in this category, which consists of contributions subsequent to the measurement date for pensions; this will be applied to the net pension asset in the next fiscal year.

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 applicable to future periods and so will not be recognized as an inflow of resources (revenue) until that time. The Board has three items that qualify for reporting in this category. The first is unearned revenue, which consists of amounts received, but for which revenue recognition criteria have not been met. The second is the net difference between projected and actual earnings on pension plan investments. This difference will be recognized in pension expense over a closed five year period. The third is differences between expected and actual experience in the pension plan.

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.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 1. Summary of Significant Accounting Policies (Continued)

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.

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 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.

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, 2016, the Board had no significant exposure to interest rate, foreign currency, or concentration of credit risks.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 2. Deposits and Investments (Continued)

Credit risk: (Continued)

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

Deposits and investments:	
Cash on hand	\$ 1,520
Deposits	4,980,512
Local Government Investment Pool	1,883,460
	<hr/>
	\$ 6,865,492
	<hr/>
Statement of net position:	
Cash and cash equivalents	\$ 6,763,062
Cash and cash equivalents, restricted for representative payee beneficiaries	102,430
	<hr/>
	\$ 6,865,492
	<hr/>

Note 3. Accounts Receivable

Accounts receivable consist of the following:

Virginia Department of Medical Assistance Services (Medicaid)	\$ 532,656
Direct client	1,030,257
Third-party insurers	100,135
Other	18,643
	<hr/>
	1,681,691
Allowance for uncollectible accounts	(935,507)
	<hr/>
	\$ 746,184
	<hr/>

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:

Region I Diversion Fund	\$ 19,000
USDA	12,906
Rappahannock Area CSB	33,061
Valley CSB	1,869
	<hr/>
	\$ 66,836
	<hr/>

(Continued)

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

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
Capital assets, depreciable				
Land improvements	312,615	-	-	312,615
Buildings	2,786,871	-	-	2,786,871
Building improvements	1,833,611	-	(7,823)	1,825,788
Equipment	384,371	-	(14,720)	369,651
Vehicles	379,595	19,897	-	399,492
Software	275,312	17,500	-	292,812
Capital assets, depreciable	5,972,375	37,397	(22,543)	5,987,229
Less accumulated depreciation	(2,945,818)	(273,085)	22,543	(3,196,360)
Capital assets, depreciable, net	3,026,557	(235,688)	-	2,790,869
Capital assets, net	<u>\$ 3,585,961</u>	<u>\$ (235,688)</u>	<u>\$ -</u>	<u>\$ 3,350,273</u>

Note 6. Long-Term Liabilities

The following is a summary of changes in long-term liabilities:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Notes payable	\$ 65,625	\$ -	\$ 37,500	\$ 28,125	\$ 28,125
Other post-employment benefits	251,070	15,403	-	266,473	-
Compensated absences	356,250	-	12,622	343,628	343,628
	<u>\$ 672,945</u>	<u>\$ 15,403</u>	<u>\$ 50,122</u>	<u>\$ 638,226</u>	<u>\$ 371,753</u>

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 6. Long-Term Liabilities (Continued)

Annual debt service requirements are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2017	<u>\$ 28,125</u>	<u>\$ 735</u>

Details of notes payable are as follows:

	<u>Interest Rate</u>	<u>Date Issued</u>	<u>Final Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Balance Due</u>
SunTrust Note Payable	6.17%	March 2007	March 2017	\$ 375,000	<u>\$ 28,125</u>

Note 7. 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, 2016, there were no amounts outstanding.

Note 8. Unearned Revenues

Unearned revenues consist of the following:

Unspent state and federal funds	\$ 306,814
Unspent grant proceeds	1,915
Unearned service fees	<u>8,527</u>
	<u>\$ 317,256</u>

Note 9. Lease Commitments

The Board leases several facilities from the Halfway House. All lease agreements expire annually on June 30th. Rental expense for 2016 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 ten operating leases with noncancelable 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:

<u>Fiscal Year</u>	
2017	\$ 16,158
2018	7,017
2019	<u>3,489</u>
	<u>\$ 26,664</u>

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 10. 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 an agent multiple-employer plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. The *Code of Virginia*, as amended, assigns the authority to establish and amend benefit provisions to the Virginia General Assembly. The System issues a publicly available comprehensive annual financial report for VRS. A copy of that report may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2015-annual-report.pdf>.

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 is 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.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 10. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Plan 1 (Continued)

- **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.
- **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%.
- **Disability Coverage** for 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.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 10. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

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.
- **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%.
- **Disability Coverage** – Same as Plan 1 except that the retirement multiplier is 1.65%.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 10. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

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.

- **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 and is generally subject to the same terms as in Plans 1 and 2.
 - **Defined Contributions Component:** Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 10. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **Vesting –**
 - **Defined Benefit Component:** Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.
 - **Defined 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.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 10. Defined Benefit Pension Plan (Continued)

Plan Description (Continued)

Hybrid Retirement Plan (Continued)

- **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.
- **Earliest Unreduced 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.
- **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 and 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 –** As with Plans 1 and 2, members may choose to purchase prior service credits subject to the Plan provisions.

Employees Covered by Benefit Terms

As of the June 30, 2014 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	<u>45</u>
Inactive members:	
Vested inactive members	32
Non-vested inactive members	21
Inactive members active elsewhere in VRS	<u>43</u>
Total inactive members	96
Active members	<u>118</u>
Total covered employees	<u>259</u>

(Continued)

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 10. Defined Benefit Pension Plan (Continued)

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, 2016 was 6.31% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

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 \$355,177 and \$499,338 for the years ended June 30, 2016 and June 30, 2015, respectively.

Net Pension Liability

The political subdivision's net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

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, 2014, 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, 2015.

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

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 10. Defined Benefit Pension Plan (Continued)

Actuarial Assumptions (Continued)

Mortality rates: General employees – 14% of deaths are assumed to be service related. Public Safety Employees – 60% of deaths are assumed to be service related. Mortality is projected using the applicable RP-2000 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, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

General Employees – Largest 10 – Non-LEOS and all Others (Non 10 Largest): Update mortality table; decrease in rates of service retirement; decrease in rates of disability retirement; and reduce rates of salary increase by 0.25% per year.

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:

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-Term Expected Rate of Return</u>	<u>Weighted Average Long-Term Expected Rate of Return</u>
U.S. Equity	19.50 %	6.46 %	1.26 %
Developed Non U.S. Equity	16.50 %	6.28 %	1.04 %
Emerging Market Equity	6.00 %	10.00 %	0.60 %
Fixed Income	15.00 %	0.09 %	0.01 %
Emerging Debt	3.00 %	3.51 %	0.11 %
Rate Sensitive Credit	4.50 %	3.51 %	0.16 %
Non Rate Sensitive Credit	4.50 %	5.00 %	0.23 %
Convertibles	3.00 %	4.81 %	0.14 %
Public Real Estate	2.25 %	6.12 %	0.14 %
Private Real Estate	12.75 %	7.10 %	0.91 %
Private Equity	12.00 %	10.41 %	1.25 %
Cash	1.00 %	(1.50)%	(0.02)%
Total	100.00 %		5.83 %
	Inflation		2.50 %
	Expected arithmetic nominal return		8.33 %

(Continued)

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 10. 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, 2018 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, 2014	\$ 15,391,043	\$ 16,305,448	\$ (914,405)
Changes for the year:			
Service cost	572,318	-	572,318
Interest	1,061,809	-	1,061,809
Differences between expected and actual experience	(87,811)	-	(87,811)
Contributions – employer	-	494,311	(494,311)
Contributions – employee	-	274,749	(274,749)
Net investment income	-	764,229	(764,229)
Benefit payments, including refunds of employee contributions	(444,682)	(444,682)	-
Administrative expenses	-	(9,989)	9,989
Other changes	-	(161)	161
Net changes	1,101,634	1,078,457	23,177
Balances at June 30, 2015	\$ 16,492,677	\$ 17,383,905	\$ (891,228)

(Continued)

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 10. 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)	<u>\$ 1,384,009</u>	<u>\$ (891,228)</u>	<u>\$ (2,773,608)</u>

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

For the year ended June 30, 2016, the political subdivision recognized pension expense of \$24,271. At June 30, 2016, 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	\$ -	\$ 65,295
Change in assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	433,457
Employer contributions subsequent to the measurement date	<u>355,177</u>	<u>-</u>
Total	<u>\$ 355,177</u>	<u>\$ 498,752</u>

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 10. Defined Benefit Pension Plan (Continued)

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

The \$355,177 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, 2017. 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,	Reduction to Pension Expense
2017	\$ (192,878)
2018	(192,878)
2019	(190,626)
2020	77,630
2021	-
Thereafter	-

Payables to the Pension Plan

At June 30, 2016, approximately \$51,765 was payable to the Virginia Retirement System for the legally required contributions related to June 2016 payroll.

Note 11. Other Post-Employment Benefits Program

Plan Description:

The Board offers two other post-employment benefits (OPEB) programs:

Health Insurance for Retirees: 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 and vision coverage. 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.

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 meet one of the following criteria to be eligible for benefits:

- Non-Medicare Eligible Retirees – 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.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 11. Other Post-Employment Benefits Program (Continued)

Plan Description: (Continued)

Health Insurance for Retirees: (Continued)

- Medicare Eligible Retirees – Participants must have attained age 65 with a minimum of 15 years of service with VRS. Of the required 15 years of service, the last 5 years must be with the Board and covered by the group health insurance plan.

VRS Health Insurance Credit Program: The Board participates in the Health Insurance Credit Program, a plan designed to assist retirees with the cost of health insurance coverage. This program is an agent and cost sharing, multiple-employer defined benefit plan administered by the VRS. The Virginia General Assembly establishes the dollar amount of the health insurance credit for each year of creditable service. The credit amount and eligibility differs for state, school division, political subdivision, local officer, local social services department, and general registrar retirees.

An employee of the Board, who retires under VRS with at least 15 years of total creditable service under the System and is enrolled in a health insurance plan, is eligible to receive a monthly health insurance credit of \$1.50 per year of creditable service up to a maximum monthly credit of \$45. However, such credit shall not exceed the health insurance premium for the retiree. Disabled retirees automatically receive the maximum monthly health insurance credit of \$45.

Benefit provisions and eligibility requirements are established by Title 51.1, Chapter 14 of the *Code of Virginia*. The VRS actuarially determines the amount necessary to fund all credits provided, reflects the cost of such credits in the applicable employer contribution rate pursuant to §51.1-145, and prescribes such terms and conditions as are necessary to carry out the provisions of the health insurance credit program. VRS issues separate financial statements as previously discussed in Note 10.

Funding Policy:

Health Insurance for Retirees: 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.

VRS Health Insurance Credit Program: The Board is required to contribute the amount necessary to fund its participation in the VRS health insurance credit program using the actuarial basis specified by the *Code of Virginia* and the VRS Board of Trustees. The Board's contribution rate for fiscal year ended June 30, 2016 was 0.20% of the annual covered payroll.

Annual OPEB Cost and Net OPEB Obligation:

The annual cost of other post-employment benefits (OPEB) is based on the annual required contribution (ARC), an actuarially determined amount. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The difference between the OPEB annual expense and cash payments for OPEB benefits is treated as a liability in financial statements when the liability is not prefunded.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 11. Other Post-Employment Benefits Program (Continued)

Annual OPEB Cost and Net OPEB Obligation:

The following table shows the changes of the Board's OPEB obligation:

	Health Insurance for Retirees
Annual required contribution	\$ 23,400
Interest on OPEB obligation	8,787
Actuarial loss	<u>(9,284)</u>
Annual OPEB cost	22,903
Contributions made	<u>(7,500)</u>
Change in net OPEB obligation	15,403
Net OPEB obligation – beginning of year	<u>251,070</u>
Net OPEB obligation – end of year	<u><u>\$ 266,473</u></u>

Health Insurance for Retirees: The annual pay-as-you-go cost for healthcare benefits was \$23,400 for fiscal year 2016, as determined in the most recent actuarial valuation dated January 1, 2015. The Board has elected not to prefund healthcare benefits at this time.

VRS Health Insurance Credit Program: The Board's annual health insurance credit contribution of \$11,098 was equal to the Board's required and actual contributions.

The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2016 and the two preceding years are as follows:

	Fiscal Year Ending	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
Health Insurance for Retirees:				
	June 30, 2014	\$ 23,599	37.71%	\$ 233,632
	June 30, 2015	21,738	19.78	251,070
	June 30, 2016	22,903	32.75	266,473
VRS Health Insurance Credit:				
	June 30, 2014	\$ 13,405	100%	\$ -
	June 30, 2015	10,647	100	-
	June 30, 2016	11,098	100	-

(Continued)

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 11. Other Post-Employment Benefits Program (Continued)

Funded Status and Funding Progress:

The funded status of the Health Insurance for Retirees Plan as of January 1, 2015, the most recent actuarial valuation date is as follows:

Actuarial accrued liability (AAL)	\$	177,000
Actuarial value of plan assets		-
Unfunded actuarial accrued liability		177,000
Funded ratio (actuarial value of plan assets/AAL)		- %
Covered payroll (active plan members)	\$	5,217,000
UAAL as a percentage of covered payroll		3.39%

The funded status of the VRS Health Insurance Credit Program as of June 30, 2015, the most recent actuarial valuation date is as follows:

Actuarial accrued liability (AAL)	\$	221,785
Actuarial value of plan assets		154,998
Unfunded actuarial accrued liability		66,787
Funded ratio (actuarial value of plan assets/AAL)		69.89%
Covered payroll (active plan members)	\$	5,351,608
UAAL as a percentage of covered payroll		1.25%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and the new estimates are made about the future. The schedules of funding progress, presented as Required Supplementary Information following the notes to the financial statements, present trend information that shows whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Health Insurance for Retirees: In the January 1, 2015, the most recent actuarial valuation date, the projected unit credit actuarial cost method was used. The actuarial assumptions include a 3.50% rate of return, payroll growth at 3.00%, and an annual healthcare cost trend rate of 6.50%, graded to 4.50% over 70 years. The unfunded actuarial accrued liability is being amortized using the level percent of payroll over a period of 30 years.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 11. Other Post-Employment Benefits Program (Continued)

Actuarial Methods and Assumptions: (Continued)

VRS Health Insurance Credit Program: In the June 30, 2015, the most recent actuarial valuation date, the entry age normal actuarial cost method was used. The actuarial assumptions include a 7.00% rate of return, with 2.50% inflation, and payroll growth at 3.00%. Market value of assets was used for the asset valuation method. The unfunded actuarial accrued liability is being amortized using the level percentage of pay, closed, over 28 years.

Note 12. Net Position

The following unrestricted net position has been designated by the Board at June 30, 2016. The Board can change these designations.

Technology Investment	\$ 234,500
Reimbursement Reserve	<u>100,000</u>
Total designated net position	<u><u>\$ 334,500</u></u>

Note 13. Net Client Service Revenue

Net client revenue arose from the following sources:

Medicaid	\$ 4,257,142
Direct client fees	232,216
Third-party	206,969
Other	<u>129,533</u>
	<u><u>\$ 4,825,860</u></u>

Note 14. Contributions from Participating Local Governments

Contributions from participating local governments were as follows:

County of Rockingham	\$ 747,203
City of Harrisonburg	<u>671,203</u>
	<u><u>\$ 1,418,406</u></u>

Note 15. 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.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 16. 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 17. 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 \$264,711 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 18. 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 19. Restatement of Beginning Net Position

The following is a summary of the restatement to net position to correct beginning unearned state and federal revenues:

Net position at June 30, 2015, as previously reported	\$ 8,773,656
To correct state and federal revenues	<u>(20,999)</u>
Net position at June 30, 2015, as restated	<u>\$ 8,752,657</u>

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 20 New Accounting Standards

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

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans other than Pensions* improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement will be effective for the year ending June 30, 2017.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions* improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans* addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above. This Statement will be effective for the year ending June 30, 2017.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants* establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals. This Statement will be effective for the year ending June 30, 2017.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

June 30, 2016

Note 20. New Accounting Standards (Continued)

GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14* clarifies the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations are Component Units*. This Statement will be effective for the year ending June 30, 2017.

GASB Statement No. 81, *Irrevocable Split-Interest Agreements* provides recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period. This Statement will be effective for the year ending June 30, 2018.

GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73* addresses certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are not within the scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This Statement will be effective for the year ending June 30, 2017, except for certain provisions regarding assumptions for plans with a measurement date that differs from the employer's reporting date – those provisions are effective for the year ending June 30, 2018.

Management has not yet evaluated the effects, if any, of adopting these standards.

**REQUIRED
SUPPLEMENTARY INFORMATION**

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF OPEB FUNDING PROGRESS June 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll	UAAL as % of Covered Payroll (c/e)
	(a)	(b)	(c)	(d)	(e)	(f)
** Health Insurance for Retirees:						
January 1, 2015	\$ -	\$ 177,000	\$ 177,000	- %	\$ 5,217,000	3.39%
January 1, 2012	-	164,100	164,100	-	4,973,500	3.30
January 1, 2009	-	191,500	191,500	-	4,463,100	4.29
VRS Health Insurance Credit Program:						
June 30, 2015	\$ 154,998	\$ 221,785	\$ 66,787	69.89%	\$ 5,351,608	1.25%
June 30, 2014	144,829	212,287	67,458	68.22	5,372,694	1.26
June 30, 2013	118,780	202,865	84,085	58.55	5,139,416	1.64

** OPEB actuarial valuations are performed every 3 years and the valuation at January 1, 2009 was the initial valuation.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS June 30, 2016

	Plan Year	
	2015	2014
Total Pension Liability		
Service cost	\$ 572,318	\$ 557,796
Interest on total pension liability	1,061,809	983,105
Difference between expected and actual experience	(87,811)	-
Benefit payments, including refunds of employee contributions	(444,682)	(388,420)
Net change in total pension liability	1,101,634	1,152,481
Total pension liability – beginning	15,391,043	14,238,562
Total pension liability – ending	16,492,677	15,391,043
Plan Fiduciary Net Position		
Contributions – employer	494,311	392,818
Contributions – employee	274,749	269,140
Net investment income	764,229	2,216,981
Benefit payments, including refunds of employee contributions	(444,682)	(388,420)
Administrative expenses	(9,989)	(11,592)
Other	(161)	117
Net change in plan fiduciary net position	1,078,457	2,479,044
Plan fiduciary net position – beginning	16,305,448	13,826,404
Plan fiduciary net position – ending	17,383,905	16,305,448
Net pension asset – ending	\$ (891,228)	\$ (914,405)
Plan fiduciary net position as a percentage of total pension liability	105%	106%
Covered employee payroll	\$ 5,677,634	\$ 5,771,857
Net pension asset as a percentage of covered employee payroll	-16%	-16%

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.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF PENSION CONTRIBUTIONS June 30, 2016

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
2016	\$ 355,177	\$ 355,177	\$ -	\$ 5,965,982	5.95 %
2015	349,338	499,338	(150,000)	5,677,634	8.79

Schedule is intended to show information for 10 years. Since 2015 was the first year for this presentation, only two years of data is available. Additional years will be included as they become available.

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

June 30, 2016

Note 1. Changes of Benefit Terms

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, 2015 are not material.

Note 2. Changes of Assumptions

The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

Largest 10 – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

Largest 10 – LEOS:

- Update mortality table
- Decrease in male rates of disability

All Others (Non 10 Largest) – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – LEOS:

- Update mortality table
- Adjustments to rates of service retirement for females
- Increase in rates of withdrawal
- Decrease in male and female rates of disability

**OTHER
SUPPLEMENTARY INFORMATION**

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

COMBINING STATEMENT OF NET POSITION

June 30, 2016

	Harrisonburg- Rockingham Community Services Board	Rockingham- Harrisonburg Halfway House, Inc.	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 5,672,098	\$ 1,090,964	\$ 6,763,062
Accounts receivable, net	746,184	-	746,184
Miscellaneous accounts receivable	74,570	-	74,570
Due from other governments	66,836	-	66,836
Prepaid expenses	39,897	-	39,897
Cash and cash equivalents, restricted for representative payee beneficiaries	102,430	-	102,430
Total current assets	6,702,015	1,090,964	7,792,979
Noncurrent assets			
Net pension asset	891,228	-	891,228
Capital assets, net	2,686,641	663,632	3,350,273
Total noncurrent assets	3,577,869	663,632	4,241,501
Total assets	10,279,884	1,754,596	12,034,480
DEFERRED OUTFLOWS OF RESOURCES			
Pension contributions made subsequent to the measurement date	355,177	-	355,177
LIABILITIES			
Current liabilities			
Accounts payable and other current liabilities	120,529	-	120,529
Accrued payroll and related liabilities	519,580	-	519,580
Accrued interest	121	-	121
Amounts held for representative payee beneficiaries, payable from restricted assets	102,430	-	102,430
Unearned revenues	317,256	-	317,256
Current portion of long-term liabilities	371,753	-	371,753
Total current liabilities	1,431,669	-	1,431,669
Long-term liabilities	266,473	-	266,473
Total liabilities	1,698,142	-	1,698,142
DEFERRED INFLOWS OF RESOURCES			
Pension-related deferred inflows	498,752	-	498,752
NET POSITION			
Net investment in capital assets	2,658,516	663,632	3,322,148
Unrestricted	5,779,651	1,090,964	6,870,615
Total net position	\$ 8,438,167	\$ 1,754,596	\$ 10,192,763

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION Year Ended June 30, 2016

	Harrisonburg- Rockingham Community Services Board	Rockingham- Harrisonburg Halfway House, Inc.	Inter- Company Eliminations	Total
OPERATING REVENUES				
Net client service revenue	\$ 4,825,860	\$ -	\$ -	\$ 4,825,860
OPERATING EXPENSES				
Salaries	7,179,772	-	-	7,179,772
Benefits	1,535,151	-	-	1,535,151
Facility, equipment, and vehicle	548,336	-	(91,680)	456,656
Contractual and professional services	925,540	50	-	925,590
Depreciation and amortization	221,510	51,575	-	273,085
Other	645,611	70	-	645,681
Total operating expenses	11,055,920	51,695	(91,680)	11,015,935
Operating loss	(6,230,060)	(51,695)	91,680	(6,190,075)
NONOPERATING REVENUES (EXPENSES)				
Commonwealth of Virginia grants	5,296,891	-	-	5,296,891
Federal grants	616,008	-	-	616,008
Contributions from participating local governments	1,418,406	-	-	1,418,406
Interest income	7,242	435	-	7,677
Interest expense	(2,879)	-	-	(2,879)
Other income	294,078	91,680	(91,680)	294,078
Net nonoperating revenues	7,629,746	92,115	(91,680)	7,630,181
Change in net position	1,399,686	40,420	-	1,440,106
NET POSITION, at July 1, as restated	7,038,481	1,714,176	-	8,752,657
NET POSITION, at June 30	\$ 8,438,167	\$ 1,754,596	\$ -	\$ 10,192,763

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

COMBINING STATEMENT OF CASH FLOWS Year Ended June 30, 2016

	Harrisonburg- Rockingham Community Services Board	Rockingham- Harrisonburg Halfway House, Inc.	Inter- Company Eliminations	Total
OPERATING ACTIVITIES				
Receipts from clients, private insurers, Medicaid, and others	\$ 4,949,433	\$ -	\$ -	\$ 4,949,433
Payments to suppliers	(2,116,803)	(120)	91,680	(2,025,243)
Payments to and for employees	(9,031,052)	-	-	(9,031,052)
Other receipts	4,717	-	-	4,717
Net cash used in operating activities	(6,193,705)	(120)	91,680	(6,102,145)
NON-CAPITAL FINANCING ACTIVITIES				
Contributions from local, state, and federal governments	7,575,397	-	-	7,575,397
Other receipts	235,231	91,680	(91,680)	235,231
Net cash provided by non-capital financing activities	7,810,628	91,680	(91,680)	7,810,628
CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	(37,397)	-	-	(37,397)
Principal paid on debt	(37,500)	-	-	(37,500)
Interest paid on debt	(3,039)	-	-	(3,039)
Net cash used in capital and related financing activities	(77,936)	-	-	(77,936)
INVESTING ACTIVITIES				
Interest received	7,242	435	-	7,677
Net increase in cash and cash equivalents	1,546,229	91,995	-	1,638,224
CASH AND CASH EQUIVALENTS				
Beginning at July 1	4,228,299	998,969	-	5,227,268
Ending at June 30	<u>\$ 5,774,528</u>	<u>\$ 1,090,964</u>	<u>\$ -</u>	<u>\$ 6,865,492</u>
RECONCILIATION TO STATEMENT OF NET POSITION				
Cash and cash equivalents	\$ 5,672,098	\$ 1,090,964	\$ -	\$ 6,763,062
Cash and cash equivalents, restricted for representative payee program	102,430	-	-	102,430
	<u>\$ 5,774,528</u>	<u>\$ 1,090,964</u>	<u>\$ -</u>	<u>\$ 6,865,492</u>

(Continued)

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

COMBINING STATEMENT OF CASH FLOWS Year Ended June 30, 2016

	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	\$ (6,230,060)	\$ (51,695)	\$ 91,680	\$ (6,190,075)
Adjustments to reconcile operating loss to net cash used in operating activities:				
Depreciation and amortization	221,510	51,575	-	273,085
Pension expense net of employer contributions	(325,879)	-	-	(325,879)
Decrease (increase) in:				
Accounts receivable, net	148,993	-	-	148,993
Prepaid expenses	(18,190)	-	-	(18,190)
Increase (decrease) in:				
Accounts payable and other current liabilities	20,874	-	-	20,874
Accrued payroll and related liabilities	6,969	-	-	6,969
Compensated absences	(12,622)	-	-	(12,622)
Other post-employment benefits	15,403	-	-	15,403
Unearned revenues	(25,420)	-	-	(25,420)
Amounts held for representative payee beneficiaries, payable from restricted assets	4,717	-	-	4,717
Net cash used in operating activities	<u>\$ (6,193,705)</u>	<u>\$ (120)</u>	<u>\$ 91,680</u>	<u>\$ (6,102,145)</u>

COMPLIANCE SECTION

**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, 2016, 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 21, 2016.

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. **We did identify a certain deficiency in internal control, as described in the accompanying schedule of findings and responses as Item 2014-001, that we consider to be a significant deficiency.**

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*.**

Harrisonburg-Rockingham Community Services Board's Response to Finding

The Board's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. The Board's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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 21, 2016

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

SUMMARY OF COMPLIANCE MATTERS

June 30, 2016

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

Debt Provisions

Procurement Laws

Uniform Disposition of Unclaimed Property Act

HARRISONBURG-ROCKINGHAM COMMUNITY SERVICES BOARD

SCHEDULE OF FINDINGS AND RESPONSES

June 30, 2016

A. FINDINGS – FINANCIAL STATEMENT AUDIT

2014-001: Segregation of Duties (Significant Deficiency)

Condition:

A fundamental concept of internal controls is the separation of duties. No one employee should have access to both physical assets and the related accounting records, or to all phases of a transaction. System access rights of personnel should be evaluated to determine only necessary access is granted.

Recommendation:

Steps should be taken to eliminate performance of conflicting duties where possible or to implement effective compensating controls.

Management's Response:

Management understands the concern expressed with this finding and believes the outstanding issue has been corrected since fiscal year end. Accounting system access rights were thoroughly reviewed during the year and updated accordingly near fiscal year end. Since fiscal year end, a new procedure to add or modify users/access by IT staff was implemented. We will continue to monitor and make additional changes if warranted.