

VALLEY COMMUNITY SERVICES BOARD

STAUNTON, VIRGINIA



FINANCIAL AND COMPLIANCE REPORTS

YEAR ENDED JUNE 30, 2016



ASSURANCE, TAX & ADVISORY SERVICES

VALLEY COMMUNITY SERVICES BOARD

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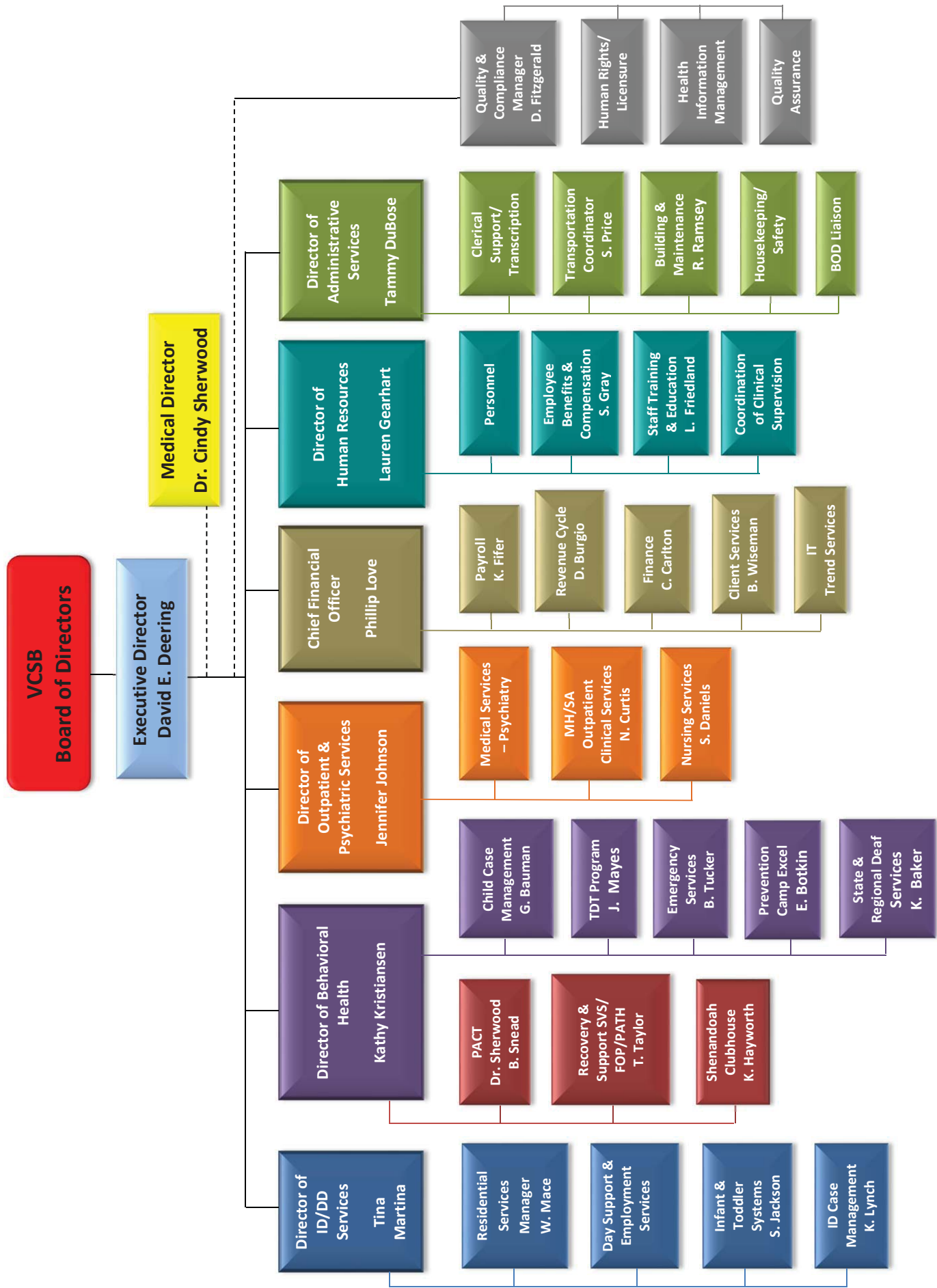
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INTRODUCTORY SECTION



VALLEY COMMUNITY SERVICES BOARD

ORGANIZATIONAL INFORMATION

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

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

Board Membership

Susan Richardson, Chair
Rebecca Simmons, Vice Chair
Doug Cochran, Treasurer

Lora Cantwell
Doug Cockran
Phil Floyd
John Hartless

Cherish Humphries
Deborah Pyles
Sarah Rexrode
Glenn Slack

Executive Management

David Deering, CEO, Executive Director
Phillip Love, Chief Financial Officer
Lauren Gearhart, Human Resources Director
Danielle Ross, Quality Management Director
Tammy Dubose, Director of Administrative Services
Cindy Sherwood, M.D., Medical Director
Kathy Kristiansen, Director of Behavioral Health
Tina Martina, Director of ID/DD Services
Jennifer Johnson, Director of Outpatient and Psychiatric Services

VALLEY COMMUNITY SERVICES BOARD
ORGANIZATIONAL INFORMATION (Continued)

COMPUTER SYSTEM

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

- Valley CSB's primary software system is CoCentrix Pro-Filer.
 - The CoCentrix Pro-Filer system is a contemporary Electronic Health Record (EHR) software package from CoCentrix Systems.
 - Great Plains Accounting continues to be used for all accounting functions, including the Representative Payee program. Great Plains Accounting is linked to Pro-Filer through an interface provided by CoCentrix Systems.
 - Valley CSB uses an Oracle 10g driven small application for the Emergency Services Department.
- Approximately 375 desktop and notebook computers are running Microsoft Windows.
- Microsoft Office and other desktop applications, as well as the Pro-Filer software, are provided through virtualized Windows servers on Sun Microsystem blade servers.
- Additional Windows services are provided through Dell and HP servers.
- Desktop and notebook computers are protected by McAfee Anti-Virus software.
- Primary network storage is provided through an EMC storage area network (SAN).
- Primary data backup is provided through and EMC Data Domain compressed storage unit. Network backup procedures utilize removable/portable hard disks and tape media in a rotation cycle; backup media is transported off site for secure storage.
- Barracuda Networks web filter which blocks inappropriate web browsing activity as well as malware filtering at the firewall.
- Cisco firewall to provide protection and virtual private network (VPN) connectivity for remote facilities and users.
- HP and Cisco routers and switches provide local area network (LAN) connectivity.
- Secured and climate controlled data center (server room) at the Sanger's Lane facility with uninterruptible power supply (UPS) and external power generator.
- Internet connectivity at the primary Sanger's Lane facility is through a fiber optic circuit provided by Lumos Networks. Connectivity at remote facilities is achieved through DSL, or cable internet circuits from Lumos Networks or Comcast Communications.
- Microsoft Windows Servers provide authentication, directory services, and terminal services.
- Microsoft Exchange Server provides e-mail services.
- Linux servers host an Intranet content management system and MySQL data reporting warehouse.
- Encryption technologies are used to maintain HIPAA compliance as needed.

VALLEY COMMUNITY SERVICES BOARD
ORGANIZATIONAL INFORMATION (Continued)

FACILITIES

- | | |
|--|---|
| • 85 Sanger's Lane, Staunton | Mental Health, Intellectual Disabilities & Substance Abuse Services |
| • 446 Commerce Square, Staunton | Clubhouse Program |
| • 704B Richmond Road, Staunton | Community Participation Program |
| • 61 First Street, Staunton | ID Day Program – Orchard Lane |
| • 32 Angus Drive, Waynesboro | DS/Intermediate Care Facility – Greenstone |
| • 847 Lee Jackson Highway, Staunton | Group Home – Greenville (Closed in fiscal year 2016) |
| • Highland County Medical Center, Monterey | Outpatient Behavioral Health Services |
| • 1206 Red Top Orchard Road, Waynesboro | DS/Intermediate Care Facility – Grandview |

CONTACT INFORMATION

You may contact Valley Community Services Board by:

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

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Board of Directors
Valley Community Services Board
Staunton, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of Valley Community Services Board (the Board), as of and for the year ended June 30, 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 and specifications require we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Board as of June 30, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis and the required supplementary information on pages 4-7 and 39-40, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

Comparative Information

The financial statements of the Board, as of and for the year ended June 30, 2015, were audited by other auditors, whose report, dated October 23, 2015, expressed an unmodified opinion on those statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 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.

PBMares, LLP

Harrisonburg, Virginia
October 6, 2016

VALLEY COMMUNITY SERVICES BOARD
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016

The management of Valley Community Services Board (Board) offers readers of our financial statements this narrative overview and analysis of the financial activities of the Board for the fiscal year ended June 30, 2016.

Overview of the Financial Statements

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

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

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

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

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

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

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

Financial Review

- This fiscal year showed a decrease in net patient service revenue from fiscal year 2015 to fiscal year 2016 year-end of \$833,322 or 6.3% primarily due to significant Medicaid paybacks in the Outpatient, Case Management, and PACT programs.
- Interest Income increased by \$1,747 or 17.8%.
- Fiscal year 2016 ended with a deficit of \$455,453, again primarily due to significant Medicaid paybacks in the Outpatient, Case Management, and PACT programs.

Financial Review (Continued)

- Net Operating Revenue is \$833,322 lower than in fiscal year 2015 and Operating Expenses are \$390,194 higher than fiscal year 2015.
- Accounts Receivable and Billing process required detail review for collectability of outstanding balances. \$168,546 was adjusted to correct for accounts due but not collectible.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a board's financial position. In the case of the Board, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$4,480,960 at the close of the most recent fiscal year. Net position decreased by 9.2% from the beginning of fiscal year 2015. A summary of the Board's net position for fiscal years 2016 and 2015 is presented below.

SUMMARY OF NET POSITION

	2016	2015
Current and other assets	\$ 5,505,027	\$ 6,413,768
Capital assets	4,536,798	4,498,388
Total assets	10,041,825	10,912,156
Pension plan	532,984	527,375
Total deferred outflows of resources	532,984	527,375
Long-term liabilities outstanding	3,282,379	3,407,770
Other liabilities	1,877,546	1,571,871
Total liabilities	5,159,925	4,979,641
Pension plan	933,924	1,523,477
Total deferred inflows of resources	933,924	1,523,477
Net position:		
Net investment in capital assets	1,750,602	1,544,841
Restricted for debt service	78,840	78,840
Unrestricted	2,651,518	3,312,732
Total net position	\$ 4,480,960	\$ 4,936,413

A summary of the Board's revenues, expenses and changes in net position for fiscal years 2016 and 2015 is presented below.

SUMMARY OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

	2016	2015
Revenues:		
Operating revenues	\$ 12,352,819	\$ 13,186,141
Intergovernmental	7,547,816	7,492,103
Other	508,454	261,427
	<u>20,409,089</u>	<u>20,939,671</u>
Expenses:		
Operating expenses	20,294,559	19,898,202
Depreciation expenses	447,637	453,800
Other	122,346	145,318
	<u>20,864,542</u>	<u>20,497,320</u>
Change in net position	(455,453)	442,351
Net position, beginning	<u>4,936,413</u>	4,494,062
Net position, ending	<u>\$ 4,480,960</u>	<u>\$ 4,936,413</u>

The Board's net position decreased by \$455,453 during fiscal year 2016. The net decrease was primarily due to significant Medicaid paybacks in the Outpatient, Case Management, and PACT programs.

Capital Assets and Debt Administration

Capital Assets: The Board's investment in capital assets as of June 30, 2016 amounted to \$4,536,798 (net of accumulated depreciation). Investment in capital assets increased during the year because of the purchase of computers and software. Below is a comparison of the items that make up capital assets as of June 30, 2016 and 2015:

	2016	2015
Land	\$ 481,671	\$ 512,505
Construction in progress	-	78,818
Building and improvements	4,969,627	5,146,828
Equipment	303,950	279,022
Vehicles	1,060,422	1,083,180
Software	1,980,063	1,506,308
Leasehold improvements	164,550	164,550
Total capital assets	<u>\$ 8,960,283</u>	<u>\$ 8,771,211</u>

Long-Term Debt: Total long-term obligations at June 30, 2016 were \$3,282,379, which include obligations for the main facility at Sanger's Lane. Other long-term obligations of the Board include accrued vacation pay. Detailed information on the Board's long-term liabilities is presented in Note 6 of the notes to financial statements.

Review of Operations

Operating Revenues: Operating revenues is the amount of revenue received from providing client services. These revenues decreased 6.3% from the prior year.

Operating/Depreciation Expenses: Operating expenses consist of personnel and contractual expenses, facility costs, and supplies. There was an increase of 1.9% over the prior year due to COLA increase to employees, additional therapeutic services purchased for the Intermediate Care Facilities, additional cost to maintain the retired telephone system until its replacement, and traditional increases in leases and utilities.

Nonoperating Income: Nonoperating income includes state and local appropriations, federal grants, and miscellaneous income. There was a 94.5% increase in nonoperating income from the prior year primarily due to an increase in miscellaneous income and the gain on sale of property.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

VALLEY COMMUNITY SERVICES BOARD

STATEMENT OF NET POSITION

June 30, 2016

(With Comparative Totals for 2015)

	2016	2015
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 2,270,840	\$ 2,935,033
Restricted cash and cash equivalents	78,840	78,840
Accounts receivable, less allowance for uncollectibles	1,305,719	1,311,318
Due from other governmental units	18,925	171,607
Prepaid items	55,705	67,286
Deposit on capital asset	-	8,770
Total current assets	3,730,029	4,572,854
Noncurrent Assets		
Capital Assets		
Non-depreciable capital assets	481,671	591,323
Depreciable capital assets, less accumulated depreciation and amortization	4,055,127	3,907,065
Total capital assets, net	4,536,798	4,498,388
Net pension asset	1,774,998	1,840,914
Total noncurrent assets	6,311,796	6,339,302
Total assets	10,041,825	10,912,156
DEFERRED OUTFLOWS OF RESOURCES		
Pension Plan	532,984	527,375
Total deferred outflows of resources	532,984	527,375

VALLEY COMMUNITY SERVICES BOARD

STATEMENT OF NET POSITION (Continued)

June 30, 2016

(With Comparative Totals for 2015)

	2016	2015
LIABILITIES		
Current Liabilities		
Accounts payable	\$ 367,748	\$ 406,537
Accrued payroll and benefits	823,933	770,804
Amounts held for others	238,747	123,402
Unearned revenue	272,467	106,057
Notes payable, current portion	174,651	165,071
Total current liabilities	1,877,546	1,571,871
Noncurrent Liabilities		
Notes payable, less current portion	2,611,545	2,788,476
Compensated absences	670,834	619,294
Total noncurrent liabilities	3,282,379	3,407,770
Total liabilities	5,159,925	4,979,641
DEFERRED INFLOWS OF RESOURCES		
Pension Plan	933,924	1,523,477
Total deferred inflows of resources	933,924	1,523,477
NET POSITION		
Net Investment in Capital Assets	1,750,602	1,544,841
Restricted for Debt Service	78,840	78,840
Unrestricted	2,651,518	3,312,732
Total net position	\$ 4,480,960	\$ 4,936,413

VALLEY COMMUNITY SERVICES BOARD**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION****Year Ended June 30, 2016****(With Comparative Totals for 2015)**

	2016	2015
Operating Revenues		
Net patient service revenue	\$ 12,352,819	\$ 13,186,141
Operating Expenses		
Salaries and wages	10,839,979	10,581,151
Fringe benefits	3,081,419	3,186,690
Contractual services	894,095	808,528
Leases and rentals	381,404	266,095
Depreciation and amortization	447,637	453,800
Other charges and supplies	4,929,116	4,895,266
Bad debt expense	168,546	160,472
Total operating expenses	20,742,196	20,352,002
Operating loss	(8,389,377)	(7,165,861)
Nonoperating Income (Expenses)		
Intergovernmental revenues:		
Commonwealth of Virginia	6,179,670	6,124,707
Federal government	964,328	980,316
Participating localities	403,818	387,080
Interest income	11,551	9,804
Miscellaneous income	386,280	209,625
Gain on disposal of property	110,623	41,998
Interest expense	(122,346)	(145,318)
Nonoperating income, net	7,933,924	7,608,212
Change in net position	(455,453)	442,351
Net Position, beginning of year	4,936,413	4,494,062
Net Position, end of year	\$ 4,480,960	\$ 4,936,413

VALLEY COMMUNITY SERVICES BOARD

STATEMENT OF CASH FLOWS

Year Ended June 30, 2016

(With Comparative Totals for 2015)

	2016	2015
Cash Flows From Operating Activities		
Receipts from customers	\$ 12,356,282	\$ 12,865,748
Payments to suppliers	(6,116,478)	(5,825,361)
Payments to and for employees	(14,345,975)	(13,954,444)
Net cash used in operating activities	(8,106,171)	(6,914,057)
Cash Flows From Noncapital and Related Financing Activities		
Government grants	7,700,498	7,561,111
Other	386,280	297,335
Net cash provided by noncapital and related financing activities	8,086,778	7,858,446
Cash Flows From Capital and Related Financing Activities		
Purchase of capital assets	(606,847)	(159,602)
Proceeds from sale of assets	240,193	41,999
Proceeds from indebtedness	-	1,713,138
Principal payments on long-term debt	(167,351)	(1,837,505)
Interest expense	(122,346)	(145,318)
Net cash used in capital and related financing activities	(656,351)	(387,288)
Cash Flows From Investing Activities		
Interest income	11,551	9,804
Net cash provided by investing activities	11,551	9,804
Net increase (decrease) in cash and cash equivalents	(664,193)	566,905
Cash and Cash Equivalents, beginning of year	3,013,873	2,446,968
Cash and Cash Equivalents, end of year	\$ 2,349,680	\$ 3,013,873

VALLEY COMMUNITY SERVICES BOARD

STATEMENT OF CASH FLOWS (Continued)

Year Ended June 30, 2016

(With Comparative Totals for 2015)

	2016	2015
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:		
Operating loss	\$ (8,389,377)	\$ (7,253,571)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	447,637	453,800
Pension expense (benefit)	(523,637)	(545,595)
Changes in assets and liabilities:		
Decrease (increase) in:		
Accounts receivable, less allowance for uncollectibles	5,599	(98,268)
Prepaid items	11,581	141,643
Deferred outflows of resources	(5,609)	189,219
Increase (decrease) in:		
Accounts payable	(38,789)	4,347
Accrued payroll and benefits	53,129	9,705
Compensated absences	51,540	160,068
Amounts held for others	115,345	(1,462)
Unearned revenue	166,410	26,057
Net cash used in operating activities	\$ (8,106,171)	\$ (6,914,057)

VALLEY COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

A. Organization and Purpose

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

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

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

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

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

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

B. Basic Financial Statements

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

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

VALLEY COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

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

D. Comparative Totals

Comparative amounts for the prior year are presented for information purposes only. Certain reclassifications have been made to the prior year amounts to provide a more comparative presentation with the current year financial reporting presentation.

E. Cash and Cash Equivalents

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

F. Restricted Cash and Cash Equivalents

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

G. Accounts Receivable and Allowance for Uncollectible Accounts

At June 30, 2016, the Board had accounts receivable for service fees due in the amount of \$1,305,719 from Medicaid, third party insurers and direct clients, net of an allowance for doubtful accounts of approximately \$38,700 at June 30, 2016. The allowance was determined based on historical collections.

H. Inventory

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

I. Capital Assets

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

VALLEY COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

I. Capital Assets (Continued)

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

Buildings and improvements	39 years
Equipment	5 – 10 years
Vehicles	5 years
Leasehold improvements	10 – 15 years
Software	5 years

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

J. Compensated Absences

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

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

K. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Board only has one item that qualifies for reporting in this category. It is comprised of contributions to the pension plan made during the current year and subsequent to the net position liability measurement date, which will be recognized as an adjustment to the net pension asset next fiscal year. For more detailed information on this item, reference the pension plan note.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Board has one type of item that qualifies for reporting in this category. Certain items related to the measurement of the net pension asset are reported as deferred inflows of resources. These include the differences between expected and actual experience, and the net difference between projected and actual earnings on pension plan investments. For more detailed information on this item, reference the pension plan note.

VALLEY COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

L. Net Position

Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation and amortization, less any outstanding debt related to the acquisition, construction or improvement of those assets.

M. Net Position Flow Assumption

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

N. Net Patient Service Revenue

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered. Revenue under third-party payor agreements is subject to audit and retroactive adjustment. Retroactive adjustments are reported in operations in the year of settlement. The Board is required to collect the cost of services from third-party sources and those individuals who are able to pay. However, the payment of amounts charged is based on individual circumstances and unpaid balances are pursued to the extent of the patient's ability to pay. The Board has established procedures for granting financial assistance in cases of hardship. The granting of financial assistance results in a substantial reduction and/or elimination of charges to individual patients. Because the Board does not pursue collection of amounts determined to qualify for financial assistance, they are not reported as revenue.

O. Operating and Nonoperating Revenues and Expenses

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

P. Pensions

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

VALLEY COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies (Continued)

Q. Budget Process

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

R. Use of Estimates

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

S. Subsequent Events

The Board has evaluated subsequent events through October 6, 2016, the date on which the financial statements were available to be issued.

Note 2. Deposits and Investments

Deposits: Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act"), Section 2.2-4400 et., seq. of the *Code of Virginia*. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized. During the year, one account did not comply with the Act.

VALLEY COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

Note 2. Deposits and Investments (Continued)

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

The Board has investments in the LGIP. The LGIP is a professionally managed money market fund which invests in qualifying obligations and securities as permitted by Virginia statutes. Pursuant to Section 2.2-4605 of the *Code of Virginia*, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings. The LGIP is reported at the value of the pool shares, i.e., the LGIP maintains a stable net asset value of \$1 per share. The LGIP has been assigned an "AAAm" rating by Standard & Poors. The maturity of the LGIP is less than one year.

Custodial Credit Risk (Deposits)

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

Interest Rate Risk

Interest rate risk is defined as the risk that changes of interest rates will adversely affect the fair value of an investment. The Board does not have a formal policy related to the interest rate risk. Interest rate risk does not apply to LGIP since it is a 2a7-like pool.

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

The Board has the following recurring fair value measurement as of June 30, 2016:

- Money market account of \$2,142,358 is valued using quoted market prices (Level 1 inputs).

Concentrations of Credit Risk

Concentration of credit risk is defined as the risk of loss attributed to the magnitude of an investment in a single issuer. If certain investments in any one issuer represents 5% of total investments, there must be a disclosure for the amount and issuer. At June 30, 2016, 100% of the Board's investments, excluding LGIP, were in money market funds.

Note 3. Due From Other Governmental Units

Amounts due from local, state, and federal governments totaled \$18,925 at June 30, 2016.

VALLEY COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2016 is summarized below:

	Beginning Balance	Increases	(Deletions)/ Reclassifications	Ending Balance
Capital assets not being depreciated or amortized:				
Land	\$ 512,505	\$ -	\$ (30,834)	\$ 481,671
Construction in progress	78,818	29,784	(108,602)	-
Total capital assets not being depreciated or amortized	591,323	29,784	(139,436)	481,671
Capital assets being depreciated or amortized:				
Buildings and improvements	5,146,828	19,189	(196,390)	4,969,627
Equipment	279,022	40,898	(15,970)	303,950
Vehicles	1,083,180	160,593	(183,351)	1,060,422
Software	1,506,308	365,153	108,602	1,980,063
Leasehold improvements	164,550	-	-	164,550
Total capital assets being depreciated or amortized	8,179,888	585,833	(287,109)	8,478,612
Less accumulated depreciation and amortization	4,272,823	447,637	(296,975)	4,423,485
Total capital assets being depreciated or amortized, net	3,907,065	138,196	9,866	4,055,127
Capital assets, net	\$ 4,498,388	\$ 167,980	\$ (129,570)	\$ 4,536,798

Depreciation and amortization expense amounted to \$447,637 for the year ended June 30, 2016.

Note 5. Unearned Revenue

Unearned revenue represents amounts for which asset recognition criteria have been met, but the revenue recognition criteria have not been met. At June 30, 2016 there was \$272,467 in unearned revenue as a result of the receipt of unearned grant revenue.

VALLEY COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

Note 6. Long-Term Obligations

The following is a summary of long-term obligations transactions of the Board for the year ended June 30, 2016:

	Beginning Balance	Increases/ Issuances	Decreases/ Retirements	Ending Balance
Rural development loan	\$ 1,308,569	\$ -	\$ 23,529	\$ 1,285,040
Note payable	1,644,978	-	143,822	1,501,156
	<u>2,953,547</u>	<u>-</u>	<u>167,351</u>	<u>2,786,196</u>
Compensated absences	619,294	796,170	744,630	670,834
Total	<u>\$ 3,572,841</u>	<u>\$ 796,170</u>	<u>\$ 911,981</u>	<u>\$ 3,457,030</u>

Detail of long-term obligations at June 30, 2016 follows:

	Total Amount	Amount Due Within One Year
\$1,500,000 rural development loan dated April 26, 2004, maturing April 26, 2044, monthly payments of \$6,570, interest at 4.25%, collateralized by a deed of trust of buildings and property at 85 Sanger's Lane, Staunton, Virginia.	\$ 1,285,040	\$ 24,701
\$1,713,138 note payable dated December 4, 2014 to First Bank & Trust Company, maturing ten years from date of final drawdown, monthly payments of \$17,571, interest at 4.25%, collateralized by a deed of trust of buildings and property at 85 Sanger's Lane, Staunton, Virginia.	1,501,156	149,950
Total notes payable	<u>2,786,196</u>	<u>174,651</u>
Compensated absences	670,834	-
Total long-term obligations	<u>\$ 3,457,030</u>	<u>\$ 174,651</u>

VALLEY COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

Note 6. Long-Term Obligations (Continued)

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

Year(s) Ending June 30,	Rural Development Loan		Note Payable		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2017	\$ 24,701	\$ 54,139	\$ 149,950	\$ 60,908	\$ 174,651	\$ 115,047
2018	25,771	53,069	156,448	54,409	182,219	107,478
2019	26,888	51,952	163,228	47,629	190,116	99,581
2020	27,913	50,927	170,194	40,663	198,107	91,590
2021	29,263	49,577	177,678	33,179	206,941	82,756
2022-2026	166,336	227,864	683,658	5,328	849,994	233,192
2027-2031	205,656	188,545	-	-	205,656	188,545
2032-2036	254,207	139,993	-	-	254,207	139,993
2037-2041	314,408	79,792	-	-	314,408	79,792
2042-2044	209,897	13,258	-	-	209,897	13,258
Total	\$ 1,285,040	\$ 909,116	\$ 1,501,156	\$ 242,116	\$ 2,786,196	\$ 1,151,232

Note 7. Pension Plan

Name of Plan: Virginia Retirement System (VRS)

Identification of Plan: Agent Multiple-Employer Pension Plan

Administering Entity: Virginia Retirement System (System)

A. Plan Description

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

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

VALLEY COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plan (Continued)

A. Plan Description (Continued)

Plan 1	Plan 2	Hybrid Retirement Plan
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. 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.	About the 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. (See "Eligible Members") <ul style="list-style-type: none">• The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.• The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.• In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

VALLEY COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plan (Continued)

A. Plan Description (Continued)

Plan 1	Plan 2	Hybrid Retirement Plan
<p>Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>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.</p>	<p>Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p> <p>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.</p>	<p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none">• Political subdivision employees.*• Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 through April 30, 2014; the plan's effective date for opt-in members was July 1, 2014. <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none">• Political subdivision employees who are covered by enhanced benefits for hazardous duty employees. <p>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.</p>

VALLEY COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plan (Continued)

A. Plan Description (Continued)

Plan 1	Plan 2	Hybrid Retirement Plan
Retirement Contributions Members contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution, but all employees will be paying the full 5% 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.	Retirement Contributions Employees contribute 5% 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% member contribution; all employees will be paying the full 5% by July 1, 2016.	Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.
Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	Creditable Service Same as Plan 1.	Creditable Service <u>Defined Benefit Component</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. <u>Defined Contribution Component</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.

VALLEY COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plan (Continued)

A. Plan Description (Continued)

Plan 1	Plan 2	Hybrid Retirement Plan
<p>Vesting</p> <p>Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p>Vesting</p> <p>Same as Plan 1.</p>	<p>Vesting</p> <p><u>Defined Benefit Component</u></p> <p>Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contribution Component</u></p> <p>Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none">• After two years, a member is 50% vested and may withdraw 50% of employer contributions.• After three years, a member is 75% vested and may withdraw 75% of employer contributions. <p>After four or more years, a member is 100% vested and may withdraw 100% of employer contributions.</p> <p>Distribution is not required by law until age 70½.</p>

VALLEY COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plan (Continued)

A. Plan Description (Continued)

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

VALLEY COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plan (Continued)

A. Plan Description (Continued)

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

VALLEY COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plan (Continued)

A. Plan Description (Continued)

Plan 1	Plan 2	Hybrid Retirement Plan
<p>Cost-of-Living Adjustment (COLA) in Retirement</p> <p>The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). 	<p>Cost-of-Living Adjustment (COLA) in Retirement</p> <p>The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 2%) up to a maximum COLA of 3%.</p> <p><u>Eligibility:</u> Same as Plan 1.</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement</p> <p><u>Defined Benefit Component</u> Same as Plan 2.</p> <p><u>Defined Contribution Component</u> Not applicable.</p> <p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>

VALLEY COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plan (Continued)

A. Plan Description (Continued)

	Plan 1	Plan 2	Hybrid Retirement Plan
Cost-of-Living Adjustment (COLA) in Retirement (Continued)			
<u>Exceptions to COLA Effective Dates:</u> (Continued)			
	<ul style="list-style-type: none"> The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. 		
Disability Coverage	Disability Coverage	Disability Coverage	Disability Coverage
Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.	Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service regardless of when it was earned, purchased or granted.	Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service regardless of when it was earned, purchased or granted.	Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.
VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	Virginia Sickness and Disability Program (VSDP) members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.	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.	

VALLEY COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plan (Continued)

A. Plan Description (Continued)

Plan 1	Plan 2	Hybrid Retirement Plan
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	Purchase of Prior Service Same as Plan 1.	Purchase of Prior Service <u>Defined Benefit Component</u> Same as Plan 1, with the following exceptions: <ul style="list-style-type: none">• Hybrid Retirement Plan members are ineligible for ported service.• The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation.• Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one year period, the rate for most categories of service will change to actuarial cost. <u>Defined Contribution Component</u> Not applicable.

VALLEY COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plan (Continued)

A. Plan Description (Continued)

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>107</u>
Inactive members:	
Vested	55
Non-vested	121
Active elsewhere in VRS	<u>134</u>
Total inactive members	<u>310</u>
Active members	<u>233</u>
Total covered employees	<u><u>650</u></u>

Contributions

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

The Board's contractually required contribution rate for the year ended June 30, 2016 was 5.54% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2014.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by an employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Board were \$532,984 and \$520,327 for the years ended June 30, 2016 and 2015, respectively.

VALLEY COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plan (Continued)

B. Net Pension Asset

The Board's net pension asset was measured as of June 30, 2015. The total pension asset used to calculate the net pension asset 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 Employee's in the Board'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%
Salary increases, including inflation	3.50% - 5.35%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation*

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

Mortality Rates:	14% of deaths are assumed to be service related.
– Pre-retirement:	RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years.
– Post-retirement:	RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year.
– Post-disablement:	RP-2000 Disabled Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement.

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:

- 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

VALLEY COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plan (Continued)

B. Net Pension Asset (Continued)

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
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%

* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons, the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

VALLEY COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plan (Continued)

B. Net Pension Asset (Continued)

Discount Rate

The discount rate used to measure the total pension asset was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Board's retirement plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 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 asset.

C. Changes in the Net Pension Asset

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balances at June 30, 2014	\$ 23,192,722	\$ 25,033,636	\$ (1,840,914)
Changes for the year:			
Service cost	998,145	-	998,145
Interest	1,589,609	-	1,589,609
Difference between expected and actual experience	(386,702)	-	(386,702)
Contributions – employer	-	520,327	(520,327)
Contributions – employee	-	474,302	(474,302)
Net investment income	-	1,156,321	(1,156,321)
Benefit payments, including refunds of employee contributions	(968,032)	(968,032)	-
Administrative expense	-	(15,567)	15,567
Other changes	-	(247)	247
Net changes	1,233,020	1,167,104	65,916
Balances at June 30, 2015	\$ 24,425,742	\$ 26,200,740	\$ (1,774,998)

VALLEY COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plan (Continued)

C. Changes in the Net Pension Asset (Continued)

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

The following presents the net pension asset of the Board, using the discount rate of 7.00%, as well as what the Board's net pension (asset) liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Board's net pension (asset) liability	\$ 1,756,897	\$ (1,774,998)	\$ (4,656,573)

Detailed information about the pension plan's fiduciary net position is available in the separately issued VRS financial report. Additional financial information supporting the preparation of the VRS Political Subdivision Plan Schedules (including the unmodified audit opinion on the financial statements and required supplementary information) is presented in the separately issued VRS 2015 Comprehensive Annual Financial Report (CAFR). A copy of the 2015 VRS CAFR is publically available through the About VRS link on the VRS website at www.varetire.org, or a copy may be obtained by submitting a request to the VRS Chief Financial Officer at P.O. Box 2500, Richmond, Virginia 23218-2500.

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

For the year ended June 30, 2016, the Board recognized pension expense of \$523,637. The Board also reported deferred outflows of resources and deferred inflows of resources from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 268,445
Net difference between projected and actual earnings on pension plan investments	-	665,479
Employer contributions subsequent to the measurement date	532,984	-
Total	\$ 532,984	\$ 933,924

\$532,984 reported as deferred outflows of resources related to pensions resulting from the Board's contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2016.

VALLEY COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

Note 7. Pension Plan (Continued)

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

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

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ (379,844)
2018	(379,844)
2019	(293,519)
2020	119,283
	<u><u>\$ (933,924)</u></u>

Note 8. Participating Localities' Contributions

Contributions from localities for the year ended June 30, 2016 was as follows:

County of Augusta	\$ 147,530
County of Highland	7,245
City of Staunton	126,627
City of Waynesboro	122,416
	<u><u>\$ 403,818</u></u>

Note 9. Operating Leases

The Board leases offices, clinics and facilities for residential services under various lease agreements. Lease expense for the year ended June 30, 2016 amounted to \$219,852.

At June 30, 2016, the approximate future minimum annual operating lease commitments (exclusive of projected increases for Consumer Price Index amounts) are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2017	\$ 328,528
2018	304,031
2019	252,413
2020	122,662
2021	37,842
	<u><u>\$ 1,045,476</u></u>

VALLEY COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

Note 10. Risk Management

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

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

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

Note 11. Deferred Compensation Plan

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

Note 12. Contingencies

Federal and State-Assisted Programs

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

VALLEY COMMUNITY SERVICES BOARD

NOTES TO FINANCIAL STATEMENTS

Note 13. Pending GASB Statements

At June 30, 2016, the Governmental Accounting Standards Board (GASB) had issued statements not yet implemented by the Board. The statement which might impact the Board is as follows:

GASB Statement No. 82, *Pension Issues – an Amendment of GASB Statements No. 67, No. 68, and No. 73*, the objective of this Statement is to address certain issues that have been raised with respect to Statement No. 67, *Financial Reporting for Pension Plans*, Statement No. 68, *Accounting and Financial Reporting for Pensions*, and Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 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. Statement No. 82 will be effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017.

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

REQUIRED SUPPLEMENTARY INFORMATION

VALLEY COMMUNITY SERVICES BOARD

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

	Fiscal Year June 30,	
	2014	2015
Total Pension Liability		
Service cost	\$ 1,043,507	\$ 998,145
Interest	1,476,016	1,589,609
Differences between expected and actual experience	-	(386,702)
Benefit payments, including refunds of employee contributions	(825,486)	(968,032)
Net change in pension liability	1,694,037	1,233,020
Total pension liability - beginning	21,498,685	23,192,722
Total pension liability - ending (a)	<u>\$ 23,192,722</u>	<u>\$ 24,425,742</u>
Plan Fiduciary Net Position		
Contributions - employer	\$ 716,594	\$ 520,327
Contributions - employee	483,856	474,302
Net investment income	3,405,789	1,156,321
Benefit payments, including refunds of employee contributions	(825,486)	(968,032)
Administrative expense	(17,823)	(15,567)
Other	179	(247)
Net change in plan fiduciary net position	3,763,109	1,167,104
Plan fiduciary net position - beginning	21,270,527	25,033,636
Plan fiduciary net position - ending (b)	<u>\$ 25,033,636</u>	<u>\$ 26,200,740</u>
The Board's net pension asset - ending (a) - (b)	<u>\$ (1,840,914)</u>	<u>\$ (1,774,998)</u>
Plan fiduciary net position as a percentage of the total pension liability	107.94%	107.27%
Covered-employee payroll	\$ 9,598,646	\$ 9,849,056
The Board's net pension asset as a percentage of covered-employee payroll	19.18%	18.02%

Notes to Schedule:

- (1) **Changes of benefit terms:** There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014. 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.
- (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 ended June 30, 2012:
 - a. Update mortality table
 - b. Decrease in rates of service retirement
 - c. Decrease in rates of disability retirement
 - d. Reduce rates of salary increases by 0.25% per year
- (3) This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Board will present information for those years for which information is available.

VALLEY COMMUNITY SERVICES BOARD

SCHEDULE OF BOARD CONTRIBUTIONS - VIRGINIA RETIREMENT SYSTEM

	Fiscal Year June 30,	
	2014	2015
Contractually required contribution (CRC)	\$ 535,462	\$ 520,327
Contributions in relation to the CRC	527,375	520,327
Contribution deficiency (excess)	\$ 8,087	\$ -
Employer's covered-employee payroll	\$ 9,598,646	\$ 9,849,056
Contributions as a percentage of covered-employee payroll	5%	5%

Notes to Schedule:

- (1) Valuation date: June 30, 2015
- (2) Actuarially determined contribution rates are calculated as of June 30, two years prior to the end of the fiscal year in which contributions are reported.
- (3) Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	20-29 years
Asset valuation method	5-year smoothed market
Cost-of-living adjustments	2.25%-2.50%
Projected salary increases	3.50%-5.35%, including inflation at 2.50%
Investment rate of return	7.0%, including inflation at 2.50%
- (4) This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Board will present information for those years for which information is available.

SUPPLEMENTARY INFORMATION

**VALLEY COMMUNITY SERVICES BOARD
STANDARD SCHEDULE OF
CURRENT PROPERTY & CASUALTY INSURANCE
Year Ended June 30, 2016**

Insurance Coverage	Insurance Co./ Agent/Policy #	Policy Period	Limits of Liability	Deduction	Annual Premium
Automobile Liability Physical Damage	Co: VML Pool Ag: Pol. #: P-VMLP-0603-1	7/1/15 - 6/30/15	BI/PD Uninsured Motorist Medical Payments ACV-Comprehensive ACV-Collision	\$ 1,000,000 \$ 25/50/20 \$ 10,000 \$ 500 \$ 500	\$ 36,171
Boiler & Machinery	Co: VML Pool Ag: Pol. #: P-VMLP-0603-1	7/1/15 - 6/30/15	Direct Damage Business Income Extra Expense	\$ 100,000 \$ 1,000	\$ 614
Crime	Co: VML Pool Ag: Pol. #: P-VMLP-0603-1	7/1/15 - 6/30/15	Employee Dishonesty Forgery or Alteration Money & Securities Money Orders	\$ 500,000 \$ 500,000 \$ 2,500 \$ 2,500	\$ 2,493
Electronic Data Processing	Co: VML Pool Ag: Pol. #: P-VMLP-0603-1	7/1/15 - 6/30/15	Hardware Software Extra Expense	\$ 660,000 Included Included	\$ 250 Included in Property Premium
Garage Liability	Co: Ag: Pol. #:	7/1/15 - 6/30/15	Garage Liability Garage keepers (Direct or Legal Liability)	\$ - \$ -	
General Liability	Co.: VARISK2 Ag: Pol. #: G99D28	7/1/15 - 6/30/15	Aggregate Occurrence Medical Employee Benefits	N/A \$ 100,000 \$ - \$ -	\$ 8,415
Medical Malpractice	Co.: VARISK2 Ag: Pol. #: G99D28	7/1/15 - 6/30/15	Occurrence Aggregate	\$ 2,100,000 unlimited	\$ 1,000 \$ 24,003
Public Officials' Liability	Co.: VARISK2 Ag: Pol. #: G99D28	7/1/15 - 6/30/15	Occurrence Aggregate	\$ 1,000,000 \$ -	\$ 1,000 Included in General Liability
Property	Co.: VML Pool Ag: Pol. #: P-VMLP-0603-1	7/1/15 - 6/30/15	Real Property Personal Property Business Income	\$ 8,653,785 \$ - \$ -	\$ 250 \$ 28,417
Excess Auto Liability	Co.: VML Pool Ag: Pol. #: P-VMLP-0603-1	7/1/15 - 6/30/15	Occurrence Aggregate	\$ 5,000,000 \$ -	\$ 500 \$ 7,257
Workers' Compensation	Co.: VML Pool Ag: Pol. #: P-VMLP-0603-1	7/1/15 - 6/30/15	Each Accident Policy Limit - Disease Each Employee - Disease	\$ 1,000,000 \$ 1,000,000 \$ 1,000,000	N/A \$ 103,797
Miscellaneous Coverage Blanket Accidental Health	Co: BB&T Ins Co/Barger	7/1/15 - 6/30/15	Accident/Health Aggregate Limited	\$ 50,000	\$ 2,876
					Total \$ 214,043

VALLEY COMMUNITY SERVICES BOARD

CLIENT STATISTICS

	Fiscal Year June 30,								
	2008	2009	2010	2011	2012	2013	2014	2015	2016
Unduplicated clients served:									
Mental health	2,095	2,330	2,331	2,534	2,357	2,387	2,505	3,072	3,262
Intellectual disabilities	439	436	419	447	428	424	546	544	551
Substance abuse	1,273	1,203	1,156	1,092	1,047	921	519	400	528
Services outside of program area	1,347	1,478	1,484	1,506	1,902	1,904	885	957	1,272
	5,154	5,447	5,390	5,579	5,734	5,636	4,455	4,973	5,613
Total unduplicated clients served	3,933	4,141	4,148	4,174	4,217	4,217	3,628	4,019	4,310
Intellectual disabilities residential client days	9,565	9,565	9,546	9,516	9,486	8,472	10,928	9,258	7,056

COMPLIANCE SECTION

VALLEY COMMUNITY SERVICES BOARD

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS **Year Ended June 30, 2016**

Federal Grantor/State Pass-through Grantor/Program Title or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Passed Through to Subrecipients	Total Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE				
Pass-through payments:				
Virginia Department of Agriculture and Consumer Services:				
Child and Adult Care Food Program	10.558	Not Available	None	\$ 27,167
Total Department of Agriculture				<u>27,167</u>
DEPARTMENT OF EDUCATION				
Pass-through payments:				
Virginia Department of Behavioral Health and Developmental Services:				
Special Education Grants for Infants and Families	84.181	Not Available	None	60,793
Total Department of Education				<u>60,793</u>
DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Pass-through payments:				
Virginia Department of Social Services:				
Temporary Assistance for Needy Family	93.558	Not Available	None	193,090
Virginia Department of Behavioral Health and Developmental Services:				
Block Grants for Prevention and Treatment of Substance Abuse	93.959	Not Available	None	531,683
Block Grants for Community Mental Health Services	93.958	Not Available	None	113,489
Projects for Assistance in Transportation from Homelessness	93.150	Not Available	None	38,106
Total Department of Health and Human Services				<u>876,368</u>
Total expenditures of federal awards				<u>\$ 964,328</u>

VALLEY COMMUNITY SERVICES BOARD

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS **Year Ended June 30, 2016**

Note 1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (SEFA) includes the federal grant activity of the Valley Community Services Board (Board) under programs of the federal government for the year ended June 30, 2016. The information in this SEFA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, (Uniform Guidance). Because the SEFA presents only a selected portion of the operations of the Board, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Board.

Note 2. Summary of Significant Accounting Policies

Expenditures reported on the SEFA are presented on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Board has elected not to use the 10 percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Pass-through identifying numbers are presented where available.



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

Board of Directors
Valley Community Services Board
Staunton, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the Valley Community Services Board (the Board), as of and for the year ended June 30, 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 October 6, 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 a material misstatement of the Board's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described in the accompanying Schedule of Findings and Questioned Costs (2016-01 and 2016-02).

Board's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Board's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PBMares, LLP

Harrisonburg, Virginia
October 6, 2016



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

Board of Directors
Valley Community Services Board
Staunton, Virginia

Report on Compliance for the Major Federal Program

We have audited Valley Community Services Board's (Board) compliance with the types of compliance requirements described in the OMB *Compliance Supplement* that could have a direct and material effect on the Board's major federal program for the year ended June 30, 2016. The Board's major federal program is identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for the Board's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, (Uniform Guidance). Those standards and the Uniform Guidance require we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Basis for Qualified Opinion on the Block Grants for Prevention and Treatment of Substance Abuse

As described in the accompanying Schedule of Findings and Questioned Costs, the Board did not comply with the requirement regarding CFDA 93.959 Block Grants for Prevention and Treatment of Substance Abuse described in finding number 2016-03 for Allowable Costs. Compliance with the requirement is necessary, in our opinion, for the Board to meet the requirements applicable to this program.

Qualified Opinion on the Block Grants for Prevention and Treatment of Substance Abuse

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the Board complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

Board's Response to Finding

The Board's response to the noncompliance finding identified in our audit as 2016-03 is described in the accompanying Corrective Action Plan. The Board's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the Board is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Board's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a deficiency in internal control over compliance, as described in the accompanying Schedule of Findings and Questioned Costs as item 2016-03 that we consider to be a material weakness.

Board's Response to Finding

The Board's response to the internal control over compliance finding identified in our audit as 2016-03 is described in the accompanying Corrective Action Plan. The Board's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

PBMares, LLP

Harrisonburg, Virginia
October 6, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weaknesses identified?	<u> </u> Yes	<u> √ </u> No
Significant deficiencies identified?	<u> </u> Yes	<u> √ </u> None Reported
Noncompliance material to financial statements noted?	<u> √ </u> Yes	<u> </u> No

Federal Awards

Internal control over major program:

Material weaknesses identified?	<u> √ </u> Yes	<u> </u> No
Significant deficiencies identified?	<u> </u> Yes	<u> √ </u> None Reported

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

- Qualified for CFDA Number 93.959 Block Grants for Prevention and Treatment of Substance Abuse – Allowable Costs
- Unmodified for all other applicable compliance requirements of the Block Grants for Prevention and Treatment of Substance Abuse program

Any audit findings disclosed that are required
to be reported in accordance with section
2 CFR 200.516(a)?

 √ Yes No

Identification of Major Program:

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
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93.959	Block Grants for Prevention and Treatment of Substance Abuse
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Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee?	<u> √ </u> Yes	<u> </u> No
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SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016

II. FINANCIAL STATEMENT FINDINGS

A. Compliance Findings

2016-01: *Compliance with Security for Public Deposits Act*

We noted one bank account was not reported as a public deposit. The Security for Public Deposits Act, contained in the *Code of Virginia*, Sections 2.2-4400 to 2.2-4411, governs security for Virginia public deposits held in financial institutions. In Virginia, all public deposits must be deposited in a qualified public depository to ensure the safety of the deposit.

2016-02: *Compliance with the Conflict of Interest Act*

The State and Local Government Conflict of Interest Act (the Act) is designed to ensure the judgment of public employees is not compromised or affected by inappropriate conflicts. The Act prohibits local government officers or employees from participating in certain transactions. Statements of economic interests are required to be filed with the Virginia Conflict of Interest and Ethics Advisory Council semi-annually by December 15 and June 15 of each year. We noted the economic interest statements were not filed by the Board.

We recommend all required economic disclosure forms be completed semi-annually by December 15th and June 15th of each year as required.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

A. Department of Health and Human Services

2016-03: *Allowable Costs* – Block Grants for Prevention and Treatment of Substance Abuse – CFDA Number 93.959; Grant period: Year Ended June 30, 2016; Pass-through entity name: Virginia Department of Behavioral Health and Developmental Services

Criteria and Condition: According to the Code of Federal Regulations Title 45 CFR Section 96.30, block grants must be expended in accordance with state laws and procedures. The Virginia Federal Grants Management policy specifies for costs to be considered allowable under a grant program, costs must be adequately documented and must “not be included as a cost or used to meet cost sharing or matching requirements of any other federal award in either the current or prior period.” Documentation of the distribution of employee salaries or wages among multiple cost objectives was not adequately documented to ensure the cost had not been included as a cost or used to meet a cost sharing or matching requirement or other federal awards.

Context: Nine of the 40 items tested were for salaries. All nine salaries tested lacked the required documentation to support the distribution of employee salaries or wages among multiple cost objectives, and such lack of documentation is considered a systemic problem. The sampling used was a statistically valid sample.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2016

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS (Continued)

A. Department of Health and Human Services (Continued)

2016-03: Allowable Costs (continued) – Block Grants for Prevention and Treatment of Substance Abuse – CFDA Number 93.959; Grant period: Year Ended June 30, 2016; Pass-through entity name: Virginia Department of Behavioral Health and Developmental Services

Cause: Due to lack of awareness of the program requirement.

Effect: Noncompliance with Virginia Federal Grants Management policies may result in reduced funding for this program.

Questioned costs: Undeterminable

Recommendation: The Board should develop internal control procedures to ensure required documentation to support the distribution of employee salaries or wages among multiple cost objectives is completed and maintained as required by Virginia Federal Grants Management policies for the Block Grants for Prevention and Treatment of Substance Abuse.

Views of responsible officials: Management is in agreement with the recommendation. Supervisors are required to review and revise salary allocations as appropriate whenever there is a significant shift in duties or at least quarterly. The Payroll Administrator will distribute current salary allocations on a quarterly basis. Revisions to salary allocations must be submitted to the Payroll Administrator with appropriate supporting documentation. Supporting documentation will be maintained by the Payroll Administrator for future reference.

CORRECTIVE ACTION PLAN
Year Ended June 30, 2016

I. FINANCIAL STATEMENT FINDINGS

Identifying Number: **2016-01**

Finding: We noted one bank account was not reported as a public deposit. The Security for Public Deposits Act, contained in the *Code of Virginia*, Sections 2.2-4400 to 2.2-4411, governs security for Virginia public deposits held in financial institutions. In Virginia, all public deposits must be deposited in a qualified public depository to ensure the safety of the deposit.

Corrective Action Taken or Planned: A request was made to Union Bank & Trust on September 9, 2016 to classify our account as a public deposit account. The bank confirmed that the account is now classified as a public deposit account on October 4, 2016.

Identifying Number: **2016-02**

Finding: The State and Local Government Conflict of Interest Act (the Act) is designed to ensure the judgment of public employees is not compromised or affected by inappropriate conflicts. The Act prohibits local government officers or employees from participating in certain transactions. Statements of economic interests are required to be filed with the Virginia Conflict of Interest and Ethics Advisory Council semi-annually by December 15 and June 15 of each year. We noted the economic interest statements were not filed by the Board.

Corrective Action Taken or Planned: Statements of Economic Interests were distributed to the Board members on September 28, 2016. Once collected, they will be filed with the Virginia Conflict of Interest and Ethics Advisory Council. Statements of Economic Interests will be distributed, collected, and submitted December and June of each year.

CORRECTIVE ACTION PLAN
Year Ended June 30, 2016

II. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

A. Department of Health and Human Services

Identifying Number: **2016-03**

Program: Block Grants for Prevention and Treatment of Substance Abuse – CFDA Number 93.959; Grant period: Year Ended June 30, 2016; Pass-through entity name: Virginia Department of Behavioral Health and Developmental Services

Finding: The required documentation to support the distribution of employee salaries or wages among multiple cost objectives was not maintained for this program.

Corrective Action Taken or Planned: To bring into compliance, all salary allocations will be reviewed and the appropriate supporting documentation submitted to the Payroll Administrator by October 7, 2016. Supervisors will be required to review and revise salary allocations as appropriate whenever there is a significant shift in duties or at least quarterly. The Payroll Administrator will distribute salary allocations on a quarterly basis. Revisions to salary allocations must be submitted to the Payroll Administrator with appropriate supporting documentation. Supporting documentation will be maintained by the Payroll Administrator for future reference.

VALLEY COMMUNITY SERVICES BOARD

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2016

The prior year single audit disclosed no findings in the Schedule of Findings and Questioned Costs and no uncorrected or unresolved findings exist from prior audit's Summary Schedule of Prior Audit Findings.