WESTERN TIDEWATER

COMMUNITY SERVICES BOARD

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2017

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2017

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BOARD OF DIRECTORS

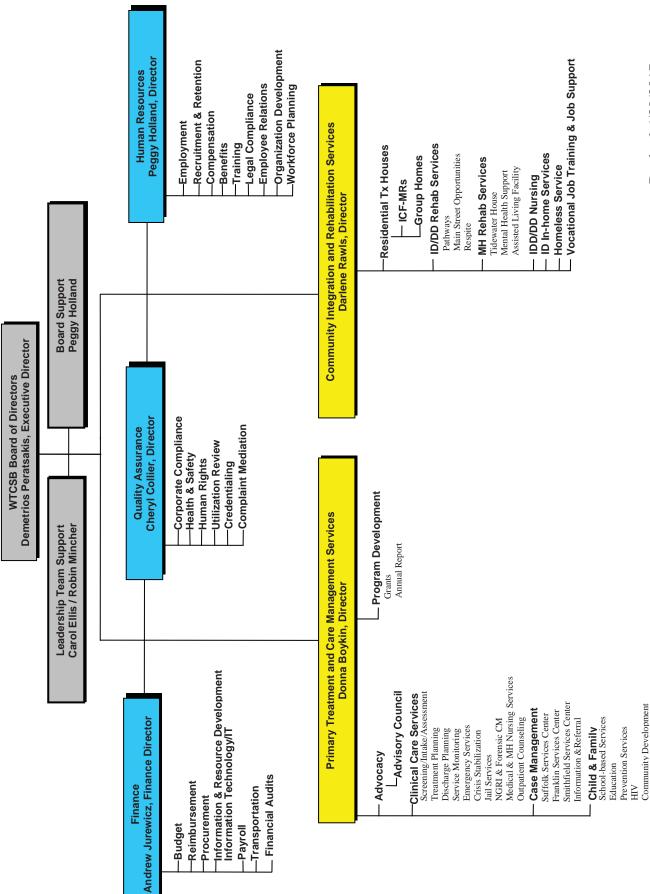
David Byrd Mary Sue Rawls Cindy Edwards Phyllis Austin Dorothy Jones Amy Lehman Rachel Lewis

Vicki Wiggins Pittman
Donald Robertson
Gwendolyn Wilson
Toni Brown

SENIOR MANAGEMENT TEAM

Demetrios Peratsakis Executive Director
Andrew Jurewicz Finance Director

Peggy W. Holland Human Resources Director
Cheryl Collier Quality Assurance Director
Darlene Rawls Community Support Director
Donna Boykin Care Coordination Director





ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

To the Board of Directors Western Tidewater Community Services Board Suffolk, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Western Tidewater Community Services Board, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Western Tidewater Community Services 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Western Tidewater Community Services 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 that the management's discussion and analysis and schedules related to pension and OPEB funding on pages 4-7 and 45-48 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 Western Tidewater Community Services Board's basic financial statements. The combining financial statements 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 presented for purposes of additional analysis 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*, and is also not a required part of the basic financial statements.

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

Report on Summarized Comparative Information

We have previously audited Western Tidewater Community Services Board's 2016 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated June 9, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2017, on our consideration of Western Tidewater Community Services 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 Western Tidewater Community Services Board's internal control over financial reporting and compliance.

Robinson, Farm, Cox Associates

Charlottesville, Virginia

November 28, 2017



Management's Discussion and Analysis Year Ended June 30, 2017

This Management's Discussion and Analysis (MD&A) of Western Tidewater Community Services Board's (WTCSB) financial performance provides an overview to the financial statements of the WTCSB for the fiscal year ended June 30, 2016.

Western Tidewater Community Services Board (WTCSB) presents three basic financial statements for the purpose of analyzing the financial position of the WTCSB as of June 30, 2017. These are: (1) Statement of Net Position; (2) Statement of Revenues, Expenses and Changes in Net Position; and (3) Statement of Cash Flows.

WTCSB's financial position is measured in terms of resources (assets and deferred outflows) owned and obligations (liabilities and deferred inflows) owed as of June 30, 2017 and 2016. This information is reflected on the Statement of Net Position. The excess of assets and deferred outflows of resources over liabilities and deferred inflows of resources is the net position.

Information showing the results of operations during fiscal year 2017 and 2016 is reported in the Statement of Revenues, Expenses and Changes in Net Position. This statement details total revenue and total expenses and reflects an excess or deficiency of revenue over expenses for the fiscal years ending June 30, 2017 and 2016.

The flow of cash resources into and out of WTCSB during the fiscal year is reflected on the Statement of Cash Flows. This statement also reflects the net increase or decrease in cash and cash equivalents for the year and the ending cash and cash equivalents as of June 30, 2017 and 2016.

A summary of WTCSB's statements of net position at June 30, 2017 and 2016 is presented below:

Summary Statement of Net Position

Summary Statement of Net 1 osition							
	2017	2016					
Current assets Restricted assets Capital assets	\$ 13,308,041 554,029 12,373,616	\$ 10,955,395 567,744 9,499,961					
Total assets	\$ 26,235,686	\$ 21,023,100					
Deferred outflows of resources	\$ 1,468,078	\$ 855,728					
Current liabilities	\$ 4,642,308	\$ 3,950,903					
Liabilities payable from restricted assets Long-term liabilities	186,410 3,031,258	204,753 2,187,229					
Total liabilities	\$ 7,859,976	\$ 6,342,885					
Deferred inflows of resources	\$ 807,509	\$ 1,296,496					
Net Position: Net investment in capital assets Restricted Unrestricted	\$ 10,263,509 517,777 8,254,993	\$ 6,967,144 379,674 6,892,629					
Total net position	\$ 19,036,279	\$ 14,239,447					

The financial position of Western Tidewater Community Services Board increased by \$4,796,832 during the year ended June 30, 2017 and increased by \$2,099,853 in 2016.

A summary of WTCSB's Statement of Revenues, Expenses and Changes in Net Position for fiscal years 2017 and 2016 is presented below.

Summary Statement of Revenues, Expenses and Changes in Net Position

	2017		2016
Operating revenues: Net patient service revenue	\$	17,023,517	\$ 17,316,290
Operating expenses		28,712,915	22,722,406
Operating income (loss)	\$	(11,689,398)	\$ (5,406,116)
Net non-operating income		16,486,230	 7,505,969
Change in net position	\$	4,796,832	\$ 2,099,853

Operating Income is generated from providing patient services. The majority of Operating Income is generated from Medicaid services. In fiscal years 2017 and 2016, net Patient Service Revenue decreased 1.69% and increased by 4.36%, respectively.

Operating expenses increased 26.36% in 2017 and increased 9.69% in 2016.

<u>Cash Flow:</u> A summary of WTCSB's Statement of Cash Flows for fiscal years 2017 and 2016 is presented below.

Summary Statement of Cash Flows

	2017	2016
Cash flows from operating activities Cash flows from non-capital financing activities Cash flows from capital and related financing activities Cash flows from investing activities	\$ (10,494,961) 16,593,503 (3,814,888) 13,965	\$ (7,797,430) 7,327,428 (1,141,104) 6,000
Net increase (decrease) in cash and cash equivalents	\$ 2,297,619	\$ (1,605,106)
Cash and cash equivalents beginning of year	9,551,644	11,156,750
Cash and cash equivalents end of year	\$ 11,849,263	\$ 9,551,644

Cash Flows provided or used by Operating Activities reconcile the operating loss recorded on the Statement of Revenues, Expenses and Changes in Net Position to cash provided by operating activities. In this process, the Operating Loss is decreased by the amount of any non-cash transaction (depreciation) and adjusted for changes in assets and liabilities. (Please see the full Statement of Cash Flows for a full listing of these transactions).

Cash Flows from Noncapital Financing Activities consist of income received primarily from government grants.

Cash Flows from Capital and Related Financing Activities represent funds from loan proceeds less the costs of acquisitions of capital assets (see Notes to Financial Statements, Note 4 - Capital Assets). Also reflected are principal and interest payments on mortgages and loans payable.

Cash Flows from Investing Activities are comprised of interest income.

Cash and cash equivalents decreased \$2,372,819 in 2017 and increased \$1,647,962 in 2016. The decrease in 2016 was due largely to the acquisition of fixed assets. The decrease in 2016 was largely due to the acquisition of fixed assets.

Capital Assets and Debt Administration

Capital Assets

At June 30, 2017 and 2016 the WTCSB had \$12,373,616 and \$9,499,961 in net capital assets. These were comprised primarily of land, buildings and improvements, and equipment and vehicles. (See Notes to Financial Statements, Note 4 - Capital Assets.)

Long-term Debt

Long-term obligations as of June 30, 2017 are \$2,542,310 a net decrease of \$297,425 from June 30, 2016 (see Notes to Financial Statements, Note 6 - Long-term Obligations). This debt is for five facilities. 1000 Commercial Lane, our Suffolk Services Center and the Pathways ID day support complex is financed by SunTrust Bank with a balance of \$1,602,823. 5268 Godwin Boulevard our Administration/Day Program Complex is financed by Bank of America with a balance of \$182,035 The two Intermediate Care Facilities located at 4373 and 4395 Pruden Blvd. are financed with a \$574,800 loan from Farmer's Bank with a balance of \$479,803. Neighbor's Place located at 22510 Thomas Woods Lane, Zuni, Virginia is financed with a loan from the Department of Housing and Urban Development with a balance of \$287,187.

Other Significant Activities in Fiscal Year 2017

Western Tidewater Community Services Board provided 382,049 units of service across all disabilities (Mental Health, Substance Abuse, and Intellectual Disabilities) to over 4,960 distinct consumers in the cities of Suffolk, Franklin, and the counties of Southampton and Isle of Wight. This represents an increase of 3 percent in services and 6 percent in consumers. These consumers were primarily underinsured families with children or adult members suffering from chronic and pervasive disabilities.

In Fiscal Year 2018 WTCSB will assume control two additional Crisis Programs for the Region. The Regional Adult Mobile Crisis Team and the Crisis Therapy Home located in Hampton Virginia. WTCSB's excellence in developing and operating the Region's Child REACH Mobile Crisis Team was cited as the primary reason for inheriting the programs. The Adult Mobile Team and Crisis Center is a 24/7 emergency intervention and placement service for adults with Intellectual Disability or Developmental Disability challenges exhibiting difficulties that place them at risk of personal harm or hospitalization. The Adult REACH team and Crisis Home will add an estimated 39 full-time positions to WTCSB, with some of the current staff from the Hampton Newport News CSB potentially conveying with the transfer. The two programs are valued at \$2.1 M in annual state restricted funds.

Western Tidewater CSB continues as the fiscal agent for the Regional Discharge Assistance Program (RDAP). As part of a RDAP modernization plan that began in February of 2017 Western Tidewater assumed more responsibilites effective with the new fiscal year. WTCSB will now manage payment and contracts directly with each vendor that provides services and supports to Eastern State discharges. Prior to the change WTCSB was reimbursing the other CSB's in Region Five for payments made to vendors. This has significantly increased the administrative burden to the WTCSB. A Regional DAP manager position and ancillary supports are funded by the region to effectively manage the payments, contracts and regional financial report responsibilities. In FY 2017 the total expenditures for DAP plans were approximately \$4.4 million dollars.

In 2017 the Department of Behavioral Health and Development Services (DBHDS) issued an invitation to Health Planning Region 5 to develop a comprehensive discharge assistance and geriatric care program for patients hospitalized at Eastern State. WTCSB successfully obtained the grant award, representing \$1.3 million in ongoing state general funds and \$3.2 million in one-time dollars for the purchase and renovation of a former Adult Living Facility (ALF). The transitional supports home is now being called Tidewater Cove. By design, the WTCSB Tidewater Cove project creates a Behavioral Health Home (BHH) through the establishment and operation of a 65 bed residential care facility, with 40 beds specifically dedicated to gero-psychiatric patients with a serious and persistent mental illness. Tidewater Cove has two essential treatment teams formed to transition residents from Eastern State Hospital. There is direct care support team for all Tidewater Cove residents responsible for the day to day resident activities of daily living (ADLs) i.e., eating, dressing, toileting, and bathing, as well as medication administration and social activities. In addition there is a The Clinical Team focusing on assessing the behavioral healthcare needs of Tidewater Cove residents. The team will provide ongoing treatment planning, care management, community based supports, transportation and crisis management. The Clinical Team will be able to bridge supports to residents as they transition between the Behavioral Health Home and the Psychosocial Rehabilitation program. Great emphasis will be placed on ensuring appropriate integrated care options are available to all residents. An additional focus of the team will be that of community integration and independence.





Statement of Net Position As of June 30, 2017 (With Comparative Totals for 2016)

(with comparative rotals for 2016)			
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		2017	2016
Current Assets: Cash and cash equivalents Accounts receivable, less allowance for uncollectibles Grants receivable	\$	11,321,326 \$ 1,986,715	8,948,507 1,964,032 42,856
Total current assets	\$	13,308,041 \$	10,955,395
Restricted Assets: Cash and cash equivalents Accounts receivable	\$	527,937 \$ 26,092	560,281 7,463
Total restricted assets	\$	554,029 \$	567,744
Capital Assets: Land Construction in progress	\$	2,263,349 \$ 2,989,396	2,173,592
Other capital assets, less accumulated depreciation	_	7,120,871	7,326,369
Total capital assets, net	\$	12,373,616 \$	9,499,961
Total assets	\$_	26,235,686 \$	21,023,100
Deferred Outflows of Resources:			
Post measurement date employer pension contributions Net difference between projected and actual earnings on plan investments	\$	657,444 \$ 810,634	855,728 -
Total deferred outflows of resources	\$	1,468,078 \$	855,728
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	_		
Current Liabilities: Accounts payable and accrued expenses Compensated absences Amounts held for others - regional funds Long-term debt, current portion	\$	2,096,040 \$ 1,159,441 1,081,530 305,297	1,552,385 1,063,667 566,631 768,220
Total current liabilities	\$	4,642,308 \$	3,950,903
Liabilities Payable from Restricted Assets: Client and consumer funds Accounts payable and accrued	\$	125,845 \$	149,011
expenses Long-term debt, current portion Security deposits		45,334 9,539 5,692	41,409 8,775 5,558
Total liabilities payable from restricted assets	\$	186,410 \$	204,753
Long-term Liabilities: Net pension liability Long-term debt, less current portion	\$	794,245 \$ 2,237,013	115,714 2,071,515
Total long-term liabilities	\$	3,031,258 \$	2,187,229
Total liabilities	\$	7,859,976 \$	6,342,885
Deferred Inflows of Resources: Net difference of actual and expected pension liability earnings	\$_	807,509 \$	1,296,496
Net Position: Net investment in capital assets Restricted Unrestricted	\$	10,263,509 \$ 517,777 8,254,993	6,967,144 379,674 6,892,629
Total net position	\$	19,036,279 \$	14,239,447
	=		

The accompanying notes to financial statements are an integral part of this statement.

Statement of Revenues, Expenses and Changes in Net Position Year Ended June 30, 2017 (With Comparative Totals for 2016)

		2017	2016
Operating revenue:	•		
Net patient service revenue	\$	17,023,517	\$ 17,316,290
Operating expenses:			
Salaries and benefits	\$	20,810,544	\$ 19,024,383
Staff development		280,407	207,719
Facility		1,849,248	1,220,850
Supplies		1,499,156	1,462,334
Travel		585,685	430,948
Contractual and consulting		2,898,809	(286,332)
Depreciation		504,501	460,734
Other		284,565	201,770
Total operating expenses	\$	28,712,915	\$ 22,722,406
Operating income (loss)	\$	(11,689,398)	\$ (5,406,116)
Nonoperating income (expenses):			
Appropriations:			
Commonwealth of Virginia	\$	14,038,246	\$ 5,073,079
Federal government		1,125,505	990,687
Local governments		551,297	551,297
Rentals		227,742	211,142
Interest income		13,965	6,000
Other		669,546	826,312
Loss on disposition of capital assets		(2,240)	(1,533)
Interest expense		(137,831)	(151,015)
Net nonoperating income	\$	16,486,230	\$ 7,505,969
Change in net position	\$	4,796,832	\$ 2,099,853
Net position, beginning of year		14,239,447	12,139,594
Net position, end of year	\$	19,036,279	\$ 14,239,447

The accompanying notes to financial statements are an integral part of this statement.

Statement of Cash Flows Year Ended June 30, 2017 (With Comparative Totals for 2016)

		2017	2016
Cash flows from operating activities: Receipts from customers	\$	17,000,834 \$	17,486,997
Payments to suppliers	Ψ	(6,358,219)	(5,504,453)
Payments to and for employees	_	(21,137,576)	(19,779,974)
Net cash provided by (used for) operating activities	\$_	(10,494,961) \$	(7,797,430)
Cash flows from noncapital financing activities:			
Government grants Other	\$	15,715,048 \$	6,248,217
	_	878,455	1,036,355
Net cash provided by (used for) noncapital financing activities	\$_	16,593,503 \$	7,284,572
Cash flows from capital and related financing activities:			
Acquisition of capital assets	\$	(3,380,396) \$	(706,592)
Interest on long-term debt		(137,831)	(151,015)
Principal payments on mortgages and capital leases payable		(296,661)	(283,497)
Net cash provided by (used for) capital and related financing activities	\$_	(3,814,888) \$	(1,141,104)
Cash from investing activities: Interest income	\$_	13,965 \$	6,000
Net increase (decrease) in cash and cash equivalents	\$	2,297,619 \$	(1,647,962)
Cash and cash equivalents, beginning of year		9,551,644	11,156,750
Cash and cash equivalents, end of year	\$	11,849,263 \$	9,508,788
Reconciliation to statement of net position:			
Cash and cash equivalents	\$	11,321,326 \$	8,948,507
Cash and cash equivalents - restricted	_	527,937	560,281
Total cash and cash equivalents, end of year	\$	11,849,263 \$	9,508,788
Reconciliation of operating income (loss) to net cash			
<pre>provided by (used for) operating activities: Operating income (loss)</pre>	\$	(11,689,398) \$	(5,406,116)
Adjustments to reconcile operating income (loss) to net	Ψ	(11,007,370) ¥	(3,400,110)
cash provided by (used for) operating activities:			
Depreciation Changes in assets, liabilities, and		504,501	460,734
deferred outflows/inflows of resources:			
Accounts receivable		(22,683)	170,707
Deferred outflows of resources		(612,350)	(186,919)
Accounts payable and accrued expenses		547,918	251,468
Compensated absences Amounts held for others - regional funds		95,774 514,899	99,463 (2,577,936)
Client and consumer funds		(23,166)	59,304
Net pension liability		678,531	(222,585)
Deferred inflows of resources		(488,987)	(445,550)
Net cash provided by (used for) operating activities	\$	(10,494,961) \$	(7,797,430)

The accompanying notes to financial statements are an integral part of this statement.



Notes to Financial Statements As of June 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Description and Purpose of Organization:

The Board operates as an agent for the Cities of Suffolk and Franklin and Counties of Isle of Wight and Southampton in the establishment and operation of community mental health, intellectual disability and substance abuse programs as provided for in Chapter 5 of Title 37.2 of the Code of Virginia (1950), as amended, relating to the Virginia Department of Behavioral Health and Developmental Services. The Board provides a system of community mental health and intellectual disability and substance abuse services which are developed in and meet the needs of the participating localities.

B. Reporting Entity:

For financial reporting purposes, in conformance with GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, the Board includes all organizations for which it is considered financially accountable. All component units included in these financial statements have years which end on June 30.

C. Individual Component Unit Disclosures:

<u>Blended Component Units:</u> Blended component units, although legally separate entities are, in substance, part of the Board's operations, and so data from these units are combined with data of the Board. The Board has the following blended component units.

<u>Isle of Wight Opportunities for the Disabled:</u> Isle of Wight Opportunities for the Disabled owns a residential facility for intellectually disabled and/or handicapped persons. The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

<u>Jay's Place</u>: Jay's Place is an organization established to operate a residential facility for intellectually disabled and/or handicapped persons. The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

<u>The Wilkins of Suffolk:</u> The Wilkins of Suffolk is an organization established to operate a residential facility for intellectually disabled and/or handicapped persons. The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

<u>Reggie's Place</u>: Reggie's Place is an organization established to operate a residential facility for intellectually disabled and/or handicapped persons. The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

<u>Barrett House:</u> Barrett House is an organization established to operate a residential facility for intellectually disabled and/or handicapped persons. The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

<u>Gabriel's Place</u>: Gabriel's Place is an organization established to operate a residential facility for intellectually disabled and/or handicapped persons. The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

Notes to Financial Statements As of June 30, 2017 (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

D. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of financial 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 pension liability measurement date, which will be recognized as a reduction of the net pension liability next fiscal year. It is also comprised of certain items related to the measurement of the net pension liability. These include differences between expected and actual experience, the net difference between projected and actual earnings on pension plan investments, and changes in proportionate share of employer contributions. For more detailed information on these items, reference the pension note.

In addition to liabilities, the statement of financial 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 liability are reported as deferred inflows of resources. These include differences between expected and actual experience, change in assumptions, and the net difference between projected and actual earnings on pension plan investments. For more detailed information on these items, reference the pension note.

E. Basis of Accounting:

The Board is funded by federal, state and local funds. Its accounting policies are governed by applicable provisions of these grants and applicable pronouncements and publications of the grantors. The Board utilizes the accrual basis of accounting where revenues are recorded when earned and expenses recorded when due.

F. Financial Statement Presentation:

The accompanying financial statements are prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board (GASB) and the Virginia Department of Behavioral Health and Developmental Services. The principles prescribed by GASB represent generally accepted accounting principles applicable to governmental units.

G. <u>Enterprise Fund Accounting:</u>

Western Tidewater Community Services Board is a governmental health care entity and is required to follow the accounting and reporting practices of the Governmental Accounting Standards Board. For financial reporting purposes, the Board utilizes the enterprise fund method of accounting whereby revenue and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

Notes to Financial Statements As of June 30, 2017 (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

H. <u>Use of Estimates:</u>

The preparation of financial statements in conformity with generally accepted accounting principles 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.

I. <u>Cash and Cash Equivalents:</u>

The Board maintains cash accounts with financial institutions in accordance with the Virginia Security for Public Deposits Act of the <u>Code of Virginia</u>. The Act requires financial institutions to meet specific collateralization requirements. Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less from the date of acquisition.

J. Net Client Service Revenue:

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

K. Financial Assistance:

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

The vast majority of fees collected result from Medicaid billings.

L. Capital Assets:

Capital assets, which include property, furniture, equipment and vehicles acquired are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets ranging from 5 to 31 years and is computed using the straight-line method. Donated capital assets are recorded at their acquisition value at the time of the gift. All capital asset additions with a cost greater than \$5,000 are capitalized.

Notes to Financial Statements As of June 30, 2017 (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

M. Restricted Assets:

The Board segregates monies held on behalf of third parties and restricted donations and other items which have not yet been totally expended for their intended purposes.

N. <u>Compensated Absences:</u>

The Board's employees earn annual leave (vacation pay) in varying amounts and can accumulate annual leave based on length of service.

Employees terminating their employment are paid by the Board their accumulated annual leave up to the maximum limit which is 320 hours. Unused sick leave is paid at the date of separation based on length of service. The amount that shall be paid is limited to 25% of accrued sick leave up to a maximum of \$5,000 for employees with at least five years of service.

The liabilities for annual and sick leave have been recorded in accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*. Accordingly, the amount of annual and sick leave recognized as expense is the amount earned during the year. The balance at June 30, 2017 was \$1,159,441. Because the timing of the use of accrued leave is not estimable, the total amount has been classified as a current liability.

O. Investments:

Money market investments, participating interest-earning investment contracts (repurchase agreements) that have a remaining maturity at time of purchase of one year or less, nonparticipating interest-earning investment contracts (nonnegotiable certificates of deposit (CDs)) and external investment pools are measured at amortized cost. All other investments are reported at fair value.

P. <u>Budgetary Accounting:</u>

The Board follows these procedures in establishing its budgets:

- 1. In response to Letters of Notification received from the Virginia Department of Behavioral Health and Developmental Services (the Department), the Board submits a Performance Contract to the Department. This application contains complete budgets for all Core Services.
- 2. The Board's Performance reports are filed with the Department during the fiscal year, 45 working days after the end of the second and third quarters. The final quarterly report is due by September 30, unless extended, following the end of the fiscal year.
- 3. If any changes are made during the fiscal year in state or federal block grants or local match funds, the Board submits Performance Contract revisions which reflect these changes in time to be received by the Department by required deadlines.

Notes to Financial Statements As of June 30, 2017 (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

Q. 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.

R. <u>Comparative Totals:</u>

Comparative totals for the prior year are presented for informational purposes only.

S. 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, less any outstanding debt related to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

T. Net Position Flow Assumption:

The Board may fund outlays for a particular purpose from both restricted 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 or used before unrestricted net position is applied.

U. Rental Income:

The component unit organizations receive rental income from tenants, including those eligible for certain U.S. Department of Housing and Urban Development programs. Tenant lease agreements are generally for one year terms and rental income is recorded when earned. This revenue is reported in other nonoperating income for financial reporting.

V. Pensions:

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

Notes to Financial Statements As of June 30, 2017 (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

W. <u>Unearned Revenue:</u>

Unearned revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. This represents a liability incurred by the Board for monies accepted from a grantor using the advance method for payments. The liability is reduced and revenue recorded when expenses are made in accordance with the grantor's requirements. If expenses are not made, the funds may revert to the grantor.

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.

Restricted Cash:

Restricted cash represents funds held for clients, debt service reserves and cash held by the component unit organizations for various purposes.

Investments:

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

Custodial Credit Risk (Investments):

The Board's investment policy requires it to take all possible precautions to minimize the credit risk of its investments through the monitoring of the credit worthiness of the banks and other organizations in which it deposits its money.

Notes to Financial Statements As of June 30, 2017 (Continued)

NOTE 2 - DEPOSITS AND INVESTMENTS: (continued)

Credit Risk of Debt Securities:

The Board's rated debt investments as of June 30, 2017 were rated by Standard and Poor's and the ratings are presented below using Standard and Poor's rating scale.

Rated Debt Investments' Values

Rated Debt Investments	Fair Quality Ratings				
	AAAm	AA	Α	A1	Unrated
Virginia Local Government Investment Pool Federated Government Obligations	\$ 1,833,871 \$	- \$	- \$	- \$	-
Trust (Money Market Mutual Fund)	265,236				_
Total	\$ 2,099,107 \$	- \$	- \$	- \$	-

Concentration of Credit Risk:

The Board's investment policy regarding the concentration of credit risk requires the minimization of credit risk by limiting investments to the safest securities, prequalifying financial institutions, brokers, dealers and other organizations, and diversifying the investment portfolio to limit potential losses on individual securities.

Interest Rate Risk:

The Board's investment policy requires the investing of operating funds primarily in short-term securities, money market funds or similar investment pools to minimize interest rate risk. The following details the Board's investments at June 30, 2017.

Investment Type	Value	Less Than One Year	1-5 Years	6-10 Years	10 Years +
Virginia Local Government Investment Pool Federated Government Obligations	\$ 1,833,871 \$	1,833,871 \$	- \$	- \$	-
Trust (Money Market Mutual Fund)	265,236	265,236			
Total	\$ 2,099,107 \$	2,099,107 \$	\$	\$	

External Investment Pool:

The value of the positions in the external investment pool (Local Government Investment Pool) is the same as the value of the pool shares. As these pools are not SEC registered, regulatory oversight of the pools rests with the Virginia State Treasury. LGIP is an amortized cost basis portfolio under the provisions of GASB Statement No. 79. There are no withdrawal limitations or restrictions imposed on participants.

NOTE 2 - DEPOSITS AND INVESTMENTS: (continued)

<u>Summary of Cash, Deposits and Investments:</u>

	2017	2016
Cash on hand	\$ 3,875	\$ 3,890
Cash in banks	9,746,281	7,419,554
Investments	2,099,107	2,085,254
Total	\$ 11,849,263	\$ 9,508,698
Cash and cash equivalents:		
Unrestricted	\$ 11,321,326	\$ 8,948,507
Restricted	527,937	560,281
Total	\$ 11,849,263	\$ 9,508,788
Restricted cash and cash equivalents consist of:		
Client and consumer funds	\$ -	\$ 147,411
Debt service reserves	441,742	315,693
Other entities	86,195	97,177
Total	\$ 527,937	\$ 560,281

Fair Value Measurements:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Board categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The Board maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair value hierarchy categorizes the inputs to valuation techniques used to measure fair value into three levels as follows:

- Level 1. Quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at a measurement date
- Level 2. Directly or indirectly observable inputs for the asset or liability other than quoted prices
- Level 3. Unobservable inputs that are supported by little or no market activity for the asset or liability

Inputs are used in applying the various valuation techniques and broadly refer to the assumptions that market participants use to make valuation decisions, including assumptions about risk.

Notes to Financial Statements As of June 30, 2017 (Continued)

NOTE 2 - DEPOSITS AND INVESTMENTS: (continued)

The Board has the following recurring fair value measurements as of June 30, 2017:

		Fair Value Measurement Using					
Investment	6/30/2017		Quoted Prices in Active Markets for Identical Assets (Level 1)		Significant Other Observable Inputs (Levels 2)	Significant Unobservabl Inputs (Level	е
Federated Government Obligations		-					
Trust (Money Market Mutual Fund)	\$ 265,236		265,236		-		-
Total	\$ 265,236	\$	265,236	\$	-	\$	-

NOTE 3 - ACCOUNTS RECEIVABLE:

At June 30, 2017 and 2016 the Board had accounts receivable due from the following primary sources.

	2017	2016
Virginia Department of Medical Assistance Services (Medicaid)	\$ 1,951,894	\$ 1,846,667
Direct client and third party	386,202	743,631
Other	 93,956	443,760
Total	\$ 2,432,052	\$ 3,034,058
Less: Allowance for uncollectibles	(445,337)	(1,070,026)
Net accounts receivable	\$ 1,986,715	\$ 1,964,032

Other than the amounts due for Medicaid charges, there are no other individually significant sources of receivables.

Net accounts receivables are allocated as follows:

	2017	_	2016
Unrestricted	\$ 1,986,715		\$ 1,964,032
Restricted	26,092	_	7,463
Total	\$ 2,012,807		\$ 1,971,495
		_	

The allowance for uncollectible accounts has been computed using historical data and specific account analysis.

NOTE 4 - CAPITAL ASSETS:

Capital asset activity for the year is as follows:

		alance / 1, 2016	 ncreases	D	ecreases	Ju	Balance ne 30, 2017
Capital assets not being depreciated: Land Construction in progress	\$:	2,173,592 -	\$ 89,757 2,989,396	\$	- -	\$	2,263,349 2,989,396
Total capital assets not being depreciated	\$	2,173,592	\$ 3,079,153	\$		\$	5,252,745
Other capital assets: Buildings and improvements Furniture and equipment Vehicles Total other capital assets	;	8,914,985 1,235,401 3,074,758 3,225,144	\$ 13,915 124,073 163,255 301,243	\$	6,250 38,048 211,852 256,150	\$	8,922,650 1,321,426 3,026,161 13,270,237
Less: Accumulated depreciation Buildings and improvements Furniture and equipment Vehicles		2,549,579 669,513 2,679,683	\$ 251,727 142,972 109,802	\$	4,010 38,048 211,852	\$	2,797,296 774,437 2,577,633
Total accumulated depreciation	\$	5,898,775	\$ 504,501	\$	253,910	\$	6,149,366
Other capital assets, net	\$	7,326,369	\$ (203,258)	\$	2,240	\$	7,120,871
Net capital assets	\$	9,499,961	\$ 2,875,895	\$	2,240	\$	12,373,616

Depreciation expense totaled \$504,501 for FY 2017 and \$460,734 for FY 2016.

NOTE 5 - LEASE COMMITMENTS:

The Board leases office space, vehicles and other facilities from various lessors. The lease terms generally range from monthly to one year.

Rent expenses totaled \$196,184 for fiscal year 2017 and \$173,541 for fiscal year 2016.

NOTE 6 - LONG-TERM OBLIGATIONS:

The following is a summary of long-term obligation transactions for the year:

	Mortgages Payable	Net Pension Liability	Total
Balance at July 1, 2016	\$ 2,848,510	\$ 115,714	\$ 2,964,224
Additions	-	3,189,512	3,189,512
Retirements	(296,661)	(2,510,981)	(2,807,642)
Balance at June 30, 2017	\$ 2,551,849	\$ 794,245	\$ 3,346,094

Notes to Financial Statements As of June 30, 2017 (Continued)

NOTE 6 - LONG-TERM OBLIGATIONS: (Continued)

Annual requirements to amortize mortgages payable at current interest rates are as follows:

Year Ending			
June 30,	Principal	I	nterest
2018	\$ 314,836	\$	117,958
2019	263,966		105,373
2020	212,041		94,738
2021	222,361		84,418
2022	582,457		73,578
2023-2027	811,368		139,802
2028-2032	130,756		35,397
2033	14,064		284
Total	\$ 2,551,849	\$	651,548

<u>Details of Long-term Obligations:</u>

Mortgages Payable:

	Balance	Current Portion
\$3,000,000, SunTrust Bank, interest at 4.60%, due in monthly installments of \$19,171 through November 2025, secured by real estate	\$ 1,602,824	\$ 159,687
\$375,000, U.S. Department of Housing and Urban Development, interest at 8.375%, due in monthly installments of \$2,769 through October 2032, secured		
by real estate	287,187	9,539
\$1,372,500, Bank of America, interest at 4.50%, due in monthly installments of \$10,501 through December 2018, secured by real estate	182,035	120,285
\$574,800, Farmer's Bank, interest at 4.255%, payable in monthly installments of \$3,817 through May 2022 with a final payment due June 2022	479,803	25,325
Total mortgages payable	\$ 2,551,849	\$ 314,836
Net pension liability	\$ 794,245	\$ -
Total long-term obligations	\$ 3,346,094	\$ 314,836

The Board is in compliance with federal arbitrage regulations.

Total interest cost for fiscal year 2016 was \$151,015, all of which was expensed.

NOTE 7 - PENSION PLAN:

Plan Description

All full-time, salaried permanent employees of the Board are automatically covered by a VRS Retirement Plan upon employment. This is an agent multiple-employer plan administered by the Virginia Retirement System (the System) along with plans for other employer groups in the Commonwealth of Virginia. Members earn one month of service credit for each month they are employed and for which they and their employer pay contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the <u>Code of Virginia</u>, 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 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:

RETIREMENT PLAN PROVISIONS						
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") • 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.				

NOTE 7 - PENSION PLAN: (continued)

Plan Description (continued)

RETI	REMENT PLAN PROVISIONS (CONTI	NUED)
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
About Plan 1 (Cont.)	About Plan 2 (Cont.)	About the Hybrid Retirement Plan (Cont.) • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013. Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.	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. Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.	Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • Political subdivision employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014. *Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.

NOTE 7 - PENSION PLAN: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)					
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN			
Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	*Non-Eligible Members (Cont.) 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 unde 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) of ORP.			
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 but all employees are paying the full 5% as of 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 but all employees are paying the full 5% as of 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.			

NOTE 7 - PENSION PLAN: (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)						
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN				
Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	Creditable Service Same as Plan 1.	Creditable Service <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. <u>Defined Contributions</u> <u>Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.				

NOTE 7 - PENSION PLAN: (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)						
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN				
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	Vesting Same as Plan 1.	Vesting Defined Benefit Component: Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. Defined Contributions Component: Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make.				

NOTE 7 - PENSION PLAN: (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)						
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN				
Vesting (Cont.)	Vesting (Cont.)	Vesting (Cont.) Defined Contributions Component: (Cont.) Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.				
Calculating the Benefit 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.	Calculating the Benefit See definition under Plan 1.	Calculating the Benefit Defined Benefit Component: See definition under Plan 1.				

NOTE 7 - PENSION PLAN: (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)					
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN			
Calculating the Benefit (Cont.) 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 (Cont.)	Calculating the Benefit (Cont.) Defined Contribution Component: The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.			
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.			
Service Retirement Multiplier VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than	Service Retirement Multiplier VRS: Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013. Sheriffs and regional jail superintendents: Same as Plan 1. Political subdivision hazardous duty employees: Same as Plan 1.	Service Retirement Multiplier Defined Benefit Component: VRS: The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. Sheriffs and regional jail superintendents: Not applicable. Political subdivision hazardous duty employees: Not applicable.			
sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.		Defined Contribution Component: Not applicable.			

NOTE 7 - PENSION PLAN: (continued)

RETI	RETIREMENT PLAN PROVISIONS (CONTINUED)					
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN				
Normal Retirement Age VRS: Age 65. Political subdivisions hazardous duty employees: Age 60.	Normal Retirement Age VRS: Normal Social Security retirement age. Political subdivisions hazardous duty employees: Same as Plan 1.	Normal Retirement Age Defined Benefit Component: VRS: Same as Plan 2. Political subdivisions hazardous duty employees: Not applicable. Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.				
Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service. Political subdivisions hazardous duty employees: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.	Earliest Unreduced Retirement Eligibility VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90. Political subdivisions hazardous duty employees: Same as Plan 1.	Earliest Unreduced Retirement Eligibility Defined Benefit Component: VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90. Political subdivisions hazardous duty employees: Not applicable. Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.				
Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.	Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service.	Earliest Reduced Retirement Eligibility Defined Benefit Component: VRS: Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.				

NOTE 7 - PENSION PLAN: (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)						
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN				
Earliest Reduced Retirement Eligibility (Cont.) Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.	Earliest Reduced Retirement Eligibility (Cont.) Political subdivisions hazardous duty employees: Same as Plan 1.	Earliest Reduced Retirement Eligibility (Cont.) Political subdivisions hazardous duty employees: Not applicable. Defined Contribution Component: Members are eligible to receive distributions upon leaving employment, subject to restrictions.				
Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. Eligibility: For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.	Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%. Eligibility: Same as Plan 1.	Cost-of-Living Adjustment (COLA) in Retirement Defined Benefit Component: Same as Plan 2. Defined Contribution Component: Not applicable. Eligibility: Same as Plan 1 and Plan 2.				

NOTE 7 - PENSION PLAN: (continued)

PLAN 1 Cost-of-Living Adjustment	DI ANI 2	
Cost-of-Living Adjustment	PLAN 2 HYBRID RETIREME	
(COLA) in Retirement (Cont.) Exceptions to COLA Effective Dates: The COLA is effective July 1	Cost-of-Living Adjustment (COLA) in Retirement (Cont.) Exceptions to COLA Effective Dates: Same as Plan 1.	Cost-of-Living Adjustment (COLA) in Retirement (Cont.) Exceptions to COLA Effective Dates: Same as Plan 1 and Plan 2.

NOTE 7 - PENSION PLAN: (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)					
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN			
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. WSDR members are subject to a	Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.	Disability Coverage Employees of political subdivisions (including Plan 1 and Plan2 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.	VSDP members are subject to a Hybrid members (inclu				
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 Defined Benefit Component: Same as Plan 1, with the following exceptions: • 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. Defined Contribution Component: Not applicable.			

Notes to Financial Statements As of June 30, 2017 (Continued)

NOTE 7 - PENSION PLAN: (continued)

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2016 Comprehensive Annual Financial Report (CAFR). A copy of the 2016 CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2016-annual-report-pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

Employees Covered by Benefit Terms

As of the June 30, 2015 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	79
Inactive members: Vested inactive members	44
Non-vested inactive members	60
Inactive members active elsewhere in VRS	89
Total inactive members	193
Active members	265
Total covered employees	537

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the <u>Code of Virginia</u>, 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% 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.

Notes to Financial Statements As of June 30, 2017 (Continued)

NOTE 7 - PENSION PLAN: (continued)

Contributions: (Continued)

The Board's contractually required contribution rate for the year ended June 30, 2017 was 4.90% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Board were \$657,444 and \$855,728 for the years ended June 30, 2017 and June 30, 2016, respectively.

Net Pension Liability

The Board's net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2015, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2016.

Actuarial Assumptions - General Employees

The total pension liability for General Employees in the Board's Retirement Plan was based on an actuarial valuation as of June 30, 2015, 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, 2016.

Inflation 2.5%

Salary increases, including inflation 3.5% - 5.35%

Investment rate of return 7.0%, net of pension plan investment

expense, including inflation*

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

Notes to Financial Statements As of June 30, 2017 (Continued)

NOTE 7 - PENSION PLAN: (continued)

Actuarial Assumptions - General Employees (continued)

Mortality rates: 14% of deaths are assumed to be service related

Largest 10 - Non-LEOS:

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 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

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

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 Disability 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, 2015 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:

Largest 10 - Non-LEOS:

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

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

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

NOTE 7 - PENSION PLAN: (continued)

Long-term Expected Rate of Return

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

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

Notes to Financial Statements As of June 30, 2017 (Continued)

NOTE 7 - PENSION PLAN: (continued)

Discount Rate

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

Changes in Net Pension Liability

	_	Increase (Decrease)				
	Total		Plan		Net	
		Pension		Fiduciary		Pension
		Liability		Net Position		Liability (Asset)
	_	(a)		(b)		(a) - (b)
Balances at June 30, 2015	\$	30,407,874	\$	30,292,160	\$	115,714
Changes for the year:						
Service cost	\$	1,079,319	\$	-	\$	1,079,319
Interest		2,091,577		-		2,091,577
Differences between expected						
and actual experience		(559,745)		-		(559,745)
Contributions - employer		-		826,080		(826,080)
Contributions - employee		-		578,410		(578,410)
Net investment income		-		546,746		(546,746)
Benefit payments, including refunds						
of employee contributions		(1,056,417)		(1,056,417)		-
Administrative expenses		-		(18,388)		18,388
Other changes		-		(228)		228
Net changes	\$	1,554,734	\$	876,203	\$	678,531
Balances at June 30, 2016	\$_	31,962,608	\$	31,168,363	\$	794,245

Notes to Financial Statements As of June 30, 2017 (Continued)

NOTE 7 - PENSION PLAN: (continued)

Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate

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

	Rate				
	1% Decrease	1% Increase			
	(6.00%)	(7.00%)	(8.00%)		
Board					
Net Pension Asset	\$ 5,495,342 \$	794,245 \$	(3,067,244)		

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

For the year ended June 30, 2017, the Board recognized pension expense of \$204,990. At June 30, 2017, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	_	Deferred Outflows of Resources	 Deferred Inflows of Resources
Differences between expected and actual experience	\$	-	\$ 807,509
Net difference between projected and actual earnings on pension plan investments		810,634	-
Employer contributions subsequent to the measurement date	_	657,444	
Total	\$	1,468,078	\$ 807,509

\$657,444 reported as deferred outflows of resources related to pensions resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30	
2018	\$ (274,130)
2019	(274,128)
2020	278,184
2021	273,199
Thereafter	-

Notes to Financial Statements As of June 30, 2017 (Continued)

NOTE 8 - FISCAL AGENT:

The City of Franklin, Virginia acts as fiscal agent for the Board pursuant to the requirements of Section 37.1-195 of the <u>Code of Virginia</u> (1950), as amended.

NOTE 9 - COMMITMENTS AND CONTINGENCIES:

The Board operates programs which are funded by grants received from federal, state or local sources. Expenditures financed by grants are subject to audit by the grantor. If expenditures are disallowed due to noncompliance with grant program regulations, the Board may be required to reimburse the grantor. The Board believes that the likelihood of disallowance of expenditures and subsequent reimbursement is remote and would not have a material effect on the overall financial position of the Board. Federal programs in which the Board participates were audited in accordance with the provisions of the U.S. Office of Management and Uniform Guidance.

The reimbursement office of the Board is periodically reviewed by representatives of federal and state authorities regarding its billing of Medicaid and Medicare. These reviews may result in the Board refunding certain collections or prior claims to Medicare and Medicaid. The impact of these reviews cannot be presently determined. However, the Board's management believes that any liability for reimbursement which may arise as the result of these audits is not believed to be material to the financial position of the Board.

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

NOTE 10 - RISK MANAGEMENT:

The Board has contracted with the Commonwealth of Virginia Division of Risk Management and private insurance carriers for property damage and liability, workers' compensation, directors and officers liability and professional liability coverages. Coverages are \$12,090,000 for real and personal property and related items, \$1,000,000 for directors and officers and \$2,100,000 for professional liability policies. Workers' compensation coverages are for statutory amounts. There are no surety bond coverages required or purchased for members of the Board of Directors. Management believes its insurance coverages are sufficient to preclude any significant uninsured losses to the Board. There have been no settlements in excess of insurance coverage for the past three years. The Board and its related entities assume risks related to damages in excess of insurance coverages and related deductibles.

NOTE 11 - CONTRIBUTIONS BY PARTICIPANT LOCAL GOVERNMENTS:

Funds contributed by participant local governments were as follows:

	2017	_	2016			
City of Suffolk	\$ 281,152		\$	281,152		
City of Franklin	35,198			35,198		
County of Isle of Wight	165,000			165,000		
County of Southampton	69,947			69,947		
Total	\$ 551,297		\$	551,297		

NOTE 12 - NET PATIENT SERVICE REVENUE SOURCES:

Net patient service revenue sources were as follows:

	2017		2016
Medicaid	\$ 14,638,872	\$	15,109,033
Direct client and third party	307,457		358,525
Other	2,077,188		1,848,732
Total	\$ 17,023,517	\$	17,316,290

NOTE 13 - NET POSITION:

Isle of Wight Opportunities for the Disabled, a component unit of the Board, has a deficit net position balance of \$179,194 at June 30, 2017.

Restricted net position of the Board consists of the following:

Cash and other assets held by component	
unit organizations which are restricted for	
HUD purposes	\$ 76,035
Other Board restrictions	441,742
Total	\$ 517,777

The net position restricted for HUD purposes is considered restricted due to the regulatory oversight over the component units funded by HUD and the restrictions on the use of the properties pursuant to the acceptance of capital advance funds and loans by the organizations.

NOTE 14 - OTHER POST-EMPLOYMENT BENEFITS:

Retiree Health Insurance Credit Program:

A. <u>Plan Description:</u>

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

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

Notes to Financial Statements As of June 30, 2017 (Continued)

NOTE 14 - OTHER POST-EMPLOYMENT BENEFITS: (continued)

Retiree Health Insurance Credit Program: (continued)

A. Plan Description: (continued)

Benefit provisions and eligibility requirements are established by Title 51.1, Chapter 14 of the <u>Code of Virginia</u>. The VRS actuarially determines the amount necessary to fund all credits provided, reflects the cost of such credits in the applicable employer contribution rate pursuant to Section 51.1-145, and prescribes such terms and conditions as are necessary to carry out the provisions of the health insurance credit program. VRS issues separate financial statements as previously discussed in Note 7.

B. Funding Policy:

As a participating local political subdivision, the Board is required to contribute the entire amount necessary to fund participation in the program using the actuarial basis specified by the <u>Code of Virginia</u> and the VRS Board of Trustees. The Board's contribution rate for the fiscal year ended 2017 was .15% of annual covered payroll.

C. Annual OPEB Cost and Net OPEB Obligation:

The annual cost of OPEB under Governmental Accounting Standards Board (GASB) Statement No. 45, Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions, is based on the annual required contribution (ARC). The Board is required to contribute the ARC, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

For 2017, the Board's contribution of \$15,906 was equal to the ARC and OPEB cost. The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and the two preceding years are as follows:

Three-Year Trend Information

,		, ,	Annual	Percentage	ľ	Vet	
	Fiscal Year	OF	PEB Cost	of OPEB Cost	OPEB		
	Ending	(A	ARC) (1)	Contributed	Obli	gation	
	June 30, 2017	\$	15,906	100%	\$	-	
	June 30, 2016		15,906	100%		-	
	June 30, 2015		16,391	100%		-	

(1) Employer portion only

Notes to Financial Statements As of June 30, 2017 (Continued)

NOTE 14 - OTHER POST-EMPLOYMENT BENEFITS: (continued)

Retiree Health Insurance Credit Program: (continued)

D. Funded Status and Funding Progress:

The funded status of the plan as of June 30, 2016, the most recent actuarial valuation date, is as follows:

Actuarial accrued liability (AAL)	\$ 338,621
Actuarial value of plan assets (AVA)	\$ 278,181
Unfunded actuarial accrued liability (UAAL)	\$ 60,440
Funded ratio (actuarial value of plan assets/AAL)	82.15%
Current payroll (active plan members)	\$ 12,408,269
UAAL as a percentage of covered payroll	0.49%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future and reflect a long-term perspective. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations.

E. <u>Actuarial Methods and Assumptions:</u>

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

The entry age normal cost method was used to determine the plan's funding liabilities and costs. The actuarial assumptions included a 7.0% investment rate of return, compounded annually, including an inflation component of 2.5%, and a payroll growth rate of 3%. The UAAL is being amortized as a level percentage of payroll on an open basis. The remaining open amortization period at June 30, 2016 was 29 years.

Notes to Financial Statements As of June 30, 2017 (Continued)

NOTE 15 - UPCOMING PRONOUNCEMENTS:

Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pension, improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement replaces the requirements of Statements No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions, as amended, and No. 57, OPEB Measurements by Agent Employers and Agent Multiple Employer Plans, for OPEB. Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, establishes new accounting and financial reporting requirements for OPEB plans. This Statement is effective for fiscal years beginning after June 15, 2017.

Statement No. 78, Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans, addresses a practice issue regarding the scope and applicability of Statement No. 68, Accounting and Financial Reporting for Pensions. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

Statement No. 80, Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14, improves financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, The Financial Reporting Entity, as amended. The requirements of this Statement are effective for reporting periods beginning after June 15, 2016.

Management is currently evaluating the impact these standards will have on the financial statements when adopted.







Schedule of Changes in Net Pension Liability (Asset) and Related Ratios For the Years Ended June 30, 2017 through June 30, 2015

		2016	2015	2014
Total pension liability				
Service cost	\$	1,079,319 \$	1,022,214 \$	1,025,485
Interest		2,091,577	2,002,356	1,865,455
Changes of benefit terms			-	-
Differences between expected and actual experience		(559,745)	(705,766)	-
Changes in assumptions			-	-
Benefit payments, including refunds of employee contributions	_	(1,056,417)	(1,032,029)	(838,386)
Net change in total pension liability	\$	1,554,734 \$	1,286,775 \$	2,052,554
Total pension liability - beginning	_	30,407,874	29,121,099	27,068,545
Total pension liability - ending (a)	\$	31,962,608 \$	30,407,874 \$	29,121,099
	_			
Plan fiduciary net position				
Contributions - employer	\$	826,080 \$	716,269 \$	766,310
Contributions - employee		578,410	511,262	484,390
Net investment income		546,746	1,331,894	3,905,265
Benefit payments, including refunds of employee contributions		(1,056,417)	(1,032,029)	(838,386)
Administrative expense		(18,388)	(17,753)	(20,500)
Other		(228)	(283)	206
Net change in plan fiduciary net position	\$	876,203 \$	1,509,360 \$	4,297,285
Plan fiduciary net position - beginning		30,292,160	28,782,800	24,485,515
Plan fiduciary net position - ending (b)	\$	31,168,363 \$	30,292,160 \$	28,782,800
	_			
Political subdivision's net pension liability - ending (a) - (b)	\$	794,245 \$	115,714 \$	338,299
	_			
Plan fiduciary net position as a percentage of the total				
pension asset		97.52%	99.62%	98.84%
•				
Covered payroll	\$	12,137,983 \$	10,281,973 \$	9,640,834
· ·				
Political subdivision's net pension liability as a percentage of				
covered payroll		6.54%	1.13%	3.51%

Schedule is intended to show information for 10 years. Information prior to the 2014 valuation is not available. However, additional years will be included as they become available.

Schedule of Employer Contributions For the Years Ended June 30, 2008 through June 30, 2017

Date	Relate Contractually Contractually Contractually Required Required Contractual		Contributions in Relation to Contractually Required Contribution (2)	 Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)	
2017	\$	657,444	\$	657,444	\$ -	\$ 13,417,215	4.90%
2016		855,728		855,728	-	12,137,983	7.05%
2015		724,879		724,879	-	10,281,973	7.05%
2014		767,410		767,410	-	9,640,834	7.96%
2013		774,788		774,788	-	9,733,523	7.96%
2012		565,477		565,477	-	9,633,342	5.87%
2011		609,916		609,916	-	10,390,392	5.87%
2010		591,848		591,848	-	10,683,177	5.54%
2009		537,134		537,134	-	9,695,557	5.54%
2008		371,679		371,679	-	8,466,484	4.39%

Notes to Required Supplementary Information For the Year Ended June 30, 2017

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2016 is not material.

30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

Largest 10 - Non-LEOS:

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

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

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

Schedule of OPEB Funding Progress Virginia Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (AVA) (a)	Actuarial Accrued Liability (AAL) (b)	d Accrued		Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
Retiree Health I	nsurance Cred	it Program					
June 30, 2016 June 30, 2015	\$ 278,181 266,879	\$ 338,621 320,814		60,440 53,935	82.15% \$ 83.19%	12,408,269 10,662,859	0.49% 0.51%
June 30, 2014	248,520	312,750		64,230	79.46%	9,618,715	0.67%



Combining Statement of Net Position As of June 30, 2017

		Western Tidewater Community Services Board		Isle of Wight Opportunities for the Disabled
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES			_	
Current Assets: Cash and cash equivalents Accounts receivable, less allowance for uncollectibles	\$	11,321,326 1,986,715	\$	-
Total current assets	\$	13,308,041	\$	
Restricted Assets: Cash and cash equivalents Accounts receivable	\$	441,742 -	\$	11,509 3,407
Total restricted assets	\$	441,742	\$	14,916
Capital Assets: Land Construction in progress Other capital assets, less accumulated depreciation	\$	2,147,857 2,989,396 5,940,576	\$	35,192 - 87,575
Total capital assets, net	\$	11,077,829	\$	122,767
Total assets	\$	24,827,612	\$	137,683
Deferred Outflows of Resources: Post measurement date employer pension contributions Net difference between projected and actual earnings on plan investments	\$	657,444 810,634	\$	
Total deferred outflows of resources	\$	1,468,078	\$	-
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION Current Liabilities: Accounts payable and accrued expenses Compensated absences Amounts held for others - regional funds Long-term debt, current portion	- \$	2,096,040 1,159,441 1,081,530 305,297	\$	- - - -
Total current liabilities	\$	4,642,308	\$	_
Liabilities Payable from Restricted Assets: Client and consumer funds Accounts payable and accrued expenses Long-term debt, current portion Security deposits	\$	125,845 - - -	\$	27,436 9,539 2,254
Total liabilities payable from restricted assets	\$	125,845	\$	39,229
Long-term Liabilities: Net pension liability Long-term debt, less current portion	\$	794,245 1,959,365	\$	- 277,648
Total long-term liabilities	\$	2,753,610	\$_	277,648
Total liabilities	\$	7,521,763	\$	316,877
Deferred Inflows of Resources: Differences between expected and actual experience	\$	807,509	\$_	<u> </u>
Net Position: Net investment in capital assets Restricted Unrestricted	\$	9,254,909 441,742 8,269,767	\$	(164,420) - (14,774)
Total net position	\$	17,966,418	\$	(179,194)
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The accompanying notes to financial statements are an integral part of this statement.

,	Jay's Place	į	The Wilkins of Suffolk	-	Reggie's Place	_	Barrett House		Gabriel's Place		Inter- Company Eliminations	_	Total
\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	11,321,326 1,986,715
\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	13,308,041
\$	10,245 2,203	\$	21,430 13,859	\$	17,360 986	\$	8,228 2,403	\$	17,423 3,234	\$	- -	\$	527,937 26,092
\$	12,448	\$	35,289	\$_	18,346	\$_	10,631	\$	20,657	\$	-	\$_	554,029
\$	5,000	\$	5,000	\$	5,000	\$	14,000	\$	51,300	\$	-	\$	2,263,349 2,989,396
•	147,806		137,487	_	196,001	_	186,838		424,588		-	_	7,120,871
\$	152,806 165,254	\$	142,487 177,776	\$ \$	201,001	\$ - \$	200,838	\$ \$	475,888 496,545	\$ \$	-	\$ \$	12,373,616
φ	103,234	Ψ	177,770	Ψ.	217,347	Ψ_	211,409	Ψ.	470,343	Ψ		Ψ_	20,233,000
\$	-	\$	-	\$	- -	\$	-	\$	-	\$	-	\$	657,444 810,634
\$		\$	-	\$_		\$_	-	\$	-	\$		\$_	1,468,078
\$	- - - -	\$	- - - -	\$	- - - -	\$	- - - -	\$	- - - -	\$	- - - -	\$	2,096,040 1,159,441 1,081,530 305,297
\$	-	\$	-	\$_	-	\$_	-	\$	-	\$	-	\$_	4,642,308
\$	- - - 655	\$	1,379 - 627	\$	3,386 - 618	\$	9,133 - 496	\$	4,000 - 1,042	\$	- - -	\$	125,845 45,334 9,539 5,692
\$	655	\$	2,006	\$	4,004	\$	9,629	\$	5,042	\$	-	\$_	186,410
\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	794,245 2,237,013
\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	3,031,258
\$	655	\$	2,006	\$	4,004	\$_	9,629	\$	5,042	\$	-	\$_	7,859,976
\$		\$	-	\$_		\$_	-	\$	-	\$	-	\$_	807,509
\$	152,806 11,793	\$	142,487 33,283	\$	201,001 14,342	\$	200,838 1,002	\$	475,888 15,615	\$	- - -	\$	10,263,509 517,777 8,254,993
\$	164,599	\$	175,770	\$	215,343	\$	201,840	\$	491,503	\$	-	\$	19,036,279

Combining Statement of Revenues, Expenses and Changes in Net Position Year Ended June 30, 2017

	_	Western Tidewater Community Services Board	Isle of Wight Opportunities for the Disabled	Jay's Place
Operating revenue: Net patient service revenue	\$	17,023,517 \$	- 9	-
Operating expenses: Salaries and benefits Staff development Facility Supplies Travel Contractual and consulting Depreciation Other	\$	20,810,544 \$ 280,407 1,672,148 1,499,156 585,685 2,898,809 437,572		
Total operating expenses	\$	284,565 28,468,886 \$	66,014	38,918
Operating income (loss)	\$ - \$ -	(11,445,369) \$		
Nonoperating income (expenses): Appropriations: Commonwealth of Virginia Federal government Local governments Rentals Interest income Other Loss on disposition of capital assets Interest expense Net nonoperating income	\$ - \$	14,038,246 \$ 1,125,505 551,297 - 13,954 669,546 - (113,456) 16,285,092 \$	- 5 - 74,905 2 - - (24,375) 50,532	36,300 1 - (2,240) - 34,061
Change in net position	\$	4,839,723 \$	(15,482) \$	
Net position, beginning of year	Ψ_	13,126,695	(163,712)	169,456
Net position, end of year	\$	17,966,418 \$	(179,194)	\$ 164,599

The accompanying notes to financial statements are an integral part of this statement.

-	The Wilkins of Suffolk		Reggie's Place	. =	Barrett House	 Gabriel's Place		Inter- Company Eliminations		Total
\$_		\$_	-	.\$_	_	\$ -	\$_	-	\$	17,023,517
\$	- (\$	-	\$	-	\$ -	\$	-	\$	20,810,544 280,407
	22,460		23,134		27,481 - -	25,237 - -		-		1,849,248 1,499,156 585,685
	- 6,246 -		- 11,359 -		- 8,779 -	- 14,401 -		-		2,898,809 504,501 284,565
\$	28,706	\$	34,493	\$	36,260	\$ 39,638	\$	-	\$	28,712,915
\$_	(28,706)	\$_	(34,493)	\$_	(36,260)	\$ (39,638)	\$_	-	\$	(11,689,398)
\$	- (\$	-	\$	-	\$ -	\$	-	\$	14,038,246 1,125,505
	- 36,144		- 25,355		- 26,761	- 28,277		-		551,297 227,742
	3		2		1	2		-		13,965
	-		-		-	-		-		669,546
_	-		-		-	-		-		(2,240) (137,831)
\$	36,147	\$	25,357	\$	26,762	\$ 28,279	\$	-	\$	16,486,230
\$	7,441	\$	(9,136)	\$	(9,498)	\$ (11,359)	\$	-	\$	4,796,832
_	168,329	_	224,479		211,338	 502,862	_	-	_	14,239,447
\$	175,770	\$	215,343	\$	201,840	\$ 491,503	\$	-	\$	19,036,279

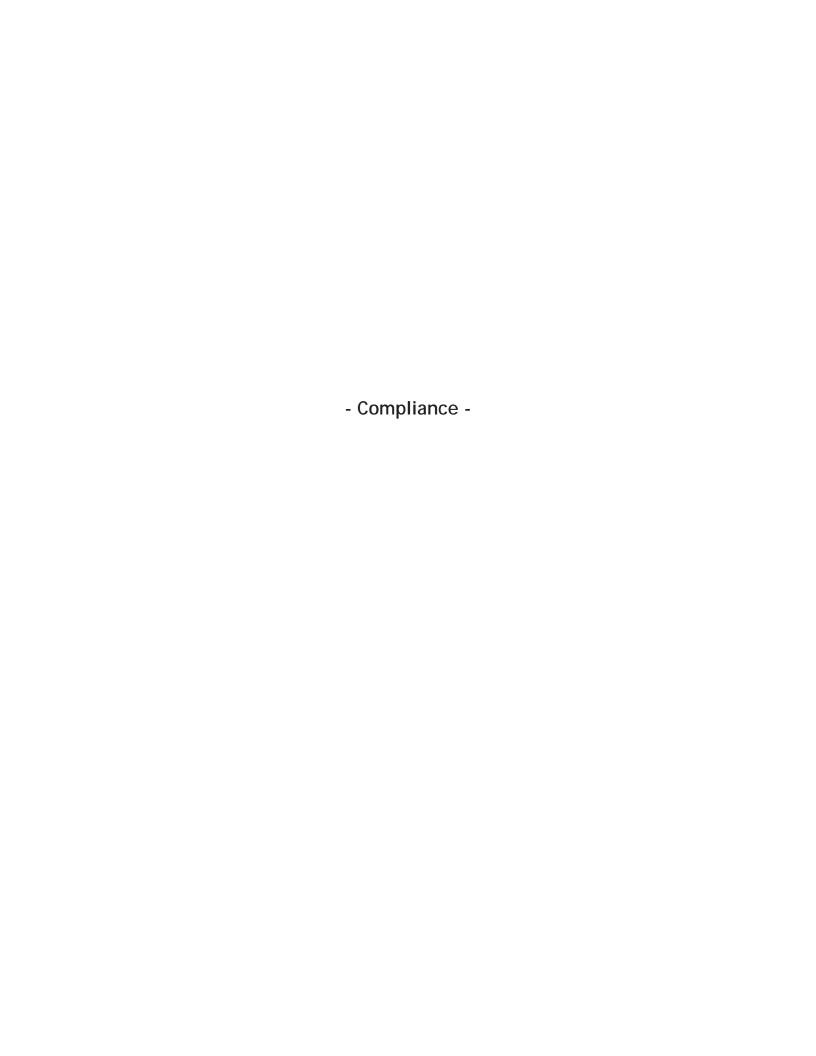
Combining Statement of Cash Flows Year Ended June 30, 2017

		Western Tidewater Community Services Board	Isle of Wight Opportunities for the Disabled	Jay's Place
Cash flows from operating activities: Receipts from customers Payments to suppliers Payments to and for employees	\$	17,000,834 \$ (6,185,382) (21,137,576)	- \$ (42,302)	(31,313) -
Net cash flows provided by (used for) operating activities	\$	(10,322,124) \$	(42,302) \$	(31,313)
Cash flows noncapital financing activities: financing activities: Government grants Other	\$	15,715,048 \$ 669,546	- \$ 72,539	- 34,525
Net cash flows provided by (used for) noncapital financing activities	\$	16,384,594 \$	72,539 \$	34,525
Cash flows from capital and related financing activities: Acquisition of capital assets Interest on long-term debt Principal payments on mortgages and	\$	(3,366,481) \$ (113,456)		(4,985)
capital leases payable	_	(287,886)	(8,775)	
Net cash flows provided by (used for) capital and related financing activities	\$_	(3,767,823) \$	(35,110) \$	(4,985)
Cash flows from investing activities: Interest income	\$	13,954 \$	2 \$	1
Net increase (decrease) in cash and cash equivalents	\$	2,308,601 \$	(4,871) \$	(1,772)
Cash and cash equivalents, beginning of year		9,454,467	16,380	12,017
Cash and cash equivalents, end of year	\$	11,763,068 \$	11,509 \$	10,245
Reconciliation to combining statement of net position: Cash and cash equivalents Cash and cash equivalents - restricted	\$	11,321,326 \$ 441,742	- \$ 11,509	- 10,245
Total cash and cash equivalents, end of year	\$	11,763,068 \$	11,509 \$	10,245
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities: Operating income (loss) Adjustments to reconcile operating income (loss) to cash provided by (used for) operating activities:	\$	(11,445,369) \$		(38,918)
Depreciation Changes in assets and liabilities:		437,572	17,751	8,393
Accounts receivable Deferred outflows of resources		(22,683) (612,350)	-	-
Accounts payable and accrued expenses		543,655	5,961	(788)
Compensated absences		95,774	-	-
Amounts held for others - regional funds		514,899	-	-
Client and consumer funds Net pension liability		(23,166) 678,531	-	-
Deferred inflows of resources	_	(488,987)		<u>-</u>
Net cash flows provided by (used for) operating activities	\$	(10,322,124) \$	(42,302) \$	(31,313)

The accompanying notes to financial statements are an integral part of this statement.

	The Wilkins of Suffolk	Reggie's Place	Barrett House	Gabriel's Place		Inter- Company Eliminations		Total
\$	- \$ (21,081) -	- \$ (27,781) -	- \$ (24,949) -	- (25,411) -		- - -	\$	17,000,834 (6,358,219) (21,137,576)
\$	(21,081) \$	(27,781) \$	(24,949) \$	(25,411)	\$	-	\$	(10,494,961)
\$	- \$ 22,562	- \$ 25,262	- \$ 25,159	- 28,862	\$	-	\$	15,715,048 878,455
\$	22,562 \$	25,262 \$	25,159 \$	28,862	\$_	-	\$_	16,593,503
\$	(6,970) \$ -	- \$ -	- \$ -	- -	\$	-	\$	(3,380,396) (137,831)
_				-		-		(296,661)
\$_	(6,970) \$	\$_	\$	-	\$_	-	\$_	(3,814,888)
\$	3 \$	2 \$	1 \$	2	\$	_	\$	13,965
\$	(5,486) \$	(2,517) \$	211 \$	3,453		-	-	2,297,619
	26,916	19,877	8,017	13,970		-		9,551,644
\$	21,430 \$	17,360 \$	8,228 \$	17,423	\$	-	\$	11,849,263
\$	- \$ 21,430	- \$ 17,360	- \$ 8,228	- 17,423	\$	-	\$	11,321,326 527,937
\$	21,430 \$	17,360 \$	8,228 \$	17,423	\$	-	\$	11,849,263
\$	(28,706) \$	(34,493) \$	(36,260) \$	(39,638)	\$	-	\$	(11,689,398)
	6,246	11,359	8,779	14,401		-		504,501
	_	-	-	_		-		(22,683)
	-	-	-	- (47.4)		-		(612,350)
	1,379	(4,647)	2,532	(174)		-		547,918 95,774
	-	-	-	-		-		514,899
	-	-	-	-		-		(23,166)
	-	-	-	-		-		678,531 (488,987)
\$	(21,081) \$	(27,781) \$	(24,949) \$	(25,411)	\$		\$	(10,494,961)







ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements

Performed in Accordance with Government Auditing Standards

To the Board of Directors Western Tidewater Community Services Board Suffolk, Virginia

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities*, *Boards*, *and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of Western Tidewater Community Services Board, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise Western Tidewater Community Services Board's basic financial statements and have issued our report thereon dated November 28, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Western Tidewater Community Services 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 Western Tidewater Community Services Board's internal control. Accordingly, we do not express an opinion on the effectiveness of Western Tidewater Community Services Board's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Robinson, Faren, Cox Associates Charlottesville, Virginia

November 28, 2017

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

To the Board of Directors Western Tidewater Community Services Board Suffolk, Virginia

Report on Compliance for Each Major Federal Program

We have audited Western Tidewater Community Services Board's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Western Tidewater Community Services Board's major federal programs for the year ended June 30, 2017. Western Tidewater Community Services Board's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Western Tidewater Community Services Board's basic financial statements include the operations of the component unit organizations Isle of Wight Opportunities for the Disabled, Jay's Place, The Wilkins of Suffolk, Reggie's Place, Barrett House and Gabriel's Place, which received \$1,755,457 in federal awards which is not included in the schedule of expenditures of federal awards during the year ended June 30, 2017. Our audit, described below, did not include the operations of the above component units because each of the component units issues separate financial statements, and audits in compliance with the Uniform Guidance are performed at the component unit level, where applicable.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Western Tidewater Community Services Board's major federal programs 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 that 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 Western Tidewater Community Services Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Western Tidewater Community Services Board's compliance.

Opinion on Each Major Federal Program

In our opinion, Western Tidewater Community Services Board complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of Western Tidewater Community Services 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 Western Tidewater Community Services Board's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each 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 Western Tidewater Community Services 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 combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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.

Charlottesville, Virginia November 28, 2017

Robinson, Fayer, Cox Associates

Schedule of Expenditures of Federal Awards Year Ended June 30, 2017

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identification Number	Federal Expenditures
<u>Department of Health and Human Services</u> Pass-Through Payments:			
Virginia Department of Behavioral Health and			
Disability Services: Block Grants for Community Mental Health Services	93.958	Not available	\$ 460,350
Block Grants for Prevention and Treatment of Substance Abuse	93.959	Not available	665,155
Total Department of Health and Human Services			\$ 1,125,505
Total expenditures of federal awards			\$ 1,125,505

Notes to the Schedule of Expenditure of Federal Awards

Note A - Basis of Accounting:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Western Tidewater Community Services Board under programs of the federal government for the year ended June 30, 2017. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards (Uniform Guidance), Audits of States, Local Governments and Non-Profit Organizations. Because the Schedule presents only a selected portion of the operations of Western Tidewater Community Services Board, it is not intended to and does not present the financial position, changes in net position, or cash flows of Western Tidewater Community Services Board.

Note B - Summary of Significant Accounting Polices:

- (1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance and/or OMB Circular A-87, Cost Principles for States, Local and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
- (2) Pass-through entity identifying numbers are presented where available.

Note C - Subrecipients

No awards were passed through to subrecipients.

Note D - De Minimis Cost Rate

The Board did not elect to use the 10-percent de minimis indirect cost rate under Uniform Guidance.

Note E - Loan Balances

The Board has no loan guarantees which are subject to reporting requirements for the current year.

Schedule of Findings and Questioned Costs Year Ended June 30, 2017

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

Significant deficiency(ies) identified?

None reported

Noncompliance material to financial statements noted?

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

Significant deficiency(ies) identified?

None reported

Type of auditors' report issued on compliance

for major programs: Unmodified

Any audit findings disclosed that are required to be reported in

accordance with 2 CFR Section 200.516(a)?

Identification of major programs:

CFDA # Name of Federal Program or Cluster

93.959 Block Grants for Prevention and Treatment

of Substance Abuse

Dollar threshold used to distinguish between Type A

and Type B programs \$750,000

Auditee qualified as low-risk auditee?

Section II - Financial Statement Findings

There are no financial statement findings to report.

Section III - Federal Award Findings and Questioned Costs

There are no federal award findings and questioned costs to report.

Summary Schedule of Prior Audit Findings Year Ended June 30, 2017

There were no items reported.

