

EASTERN SHORE COMMUNITY SERVICES BOARD

ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

INTRODUCTORY SECTION

**EASTERN SHORE
COMMUNITY SERVICES BOARD**

ANNUAL FINANCIAL REPORT

**FOR THE FISCAL YEAR
ENDED JUNE 30, 2015**

TABLE OF CONTENTS

Introductory Section:

	<u>Page</u>
Title Page	i
Table of Contents	ii
Board Officials	iii
Organizational Chart	iv-vii

Financial Section:

Independent Auditors' Report	1-3
Management's Discussion and Analysis	4-7
Statement of Net Position	8
Statement of Revenues, Expenses and Changes in Net Position	9
Statement of Cash Flows	10
Notes to Financial Statements	11-38

Required Supplementary Information:

Schedule of Components of and Changes in Net Pension Liability and Related Ratios	39
Schedule of Employer Contributions	40
Notes to Required Supplementary Information	41

Other Supplementary Information:

Combining Statements

Combining Statement of Net Position	42
Combining Statement of Revenues, Expenses and Changes in Net Position	43
Combining Statement of Cash Flows	44

Compliance:

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 <i>Government Auditing Standards</i>	45-46
Independent Auditors' Report on Compliance For Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133	47-48
Schedule of Expenditures of Federal Awards	49
Notes to Schedule of Expenditures of Federal Awards	50
Schedule of Findings and Questioned Costs	51-52
Schedule of Prior Year Findings	53

EASTERN SHORE COMMUNITY SERVICES BOARD

BOARD OF DIRECTORS

Mr. Richard L. Hubbard - Chairperson
Ms. Sallye Dukes - Vice Chairperson
Ms. Joan Wilson - Secretary
Ms. Sandy Taylor - Treasurer

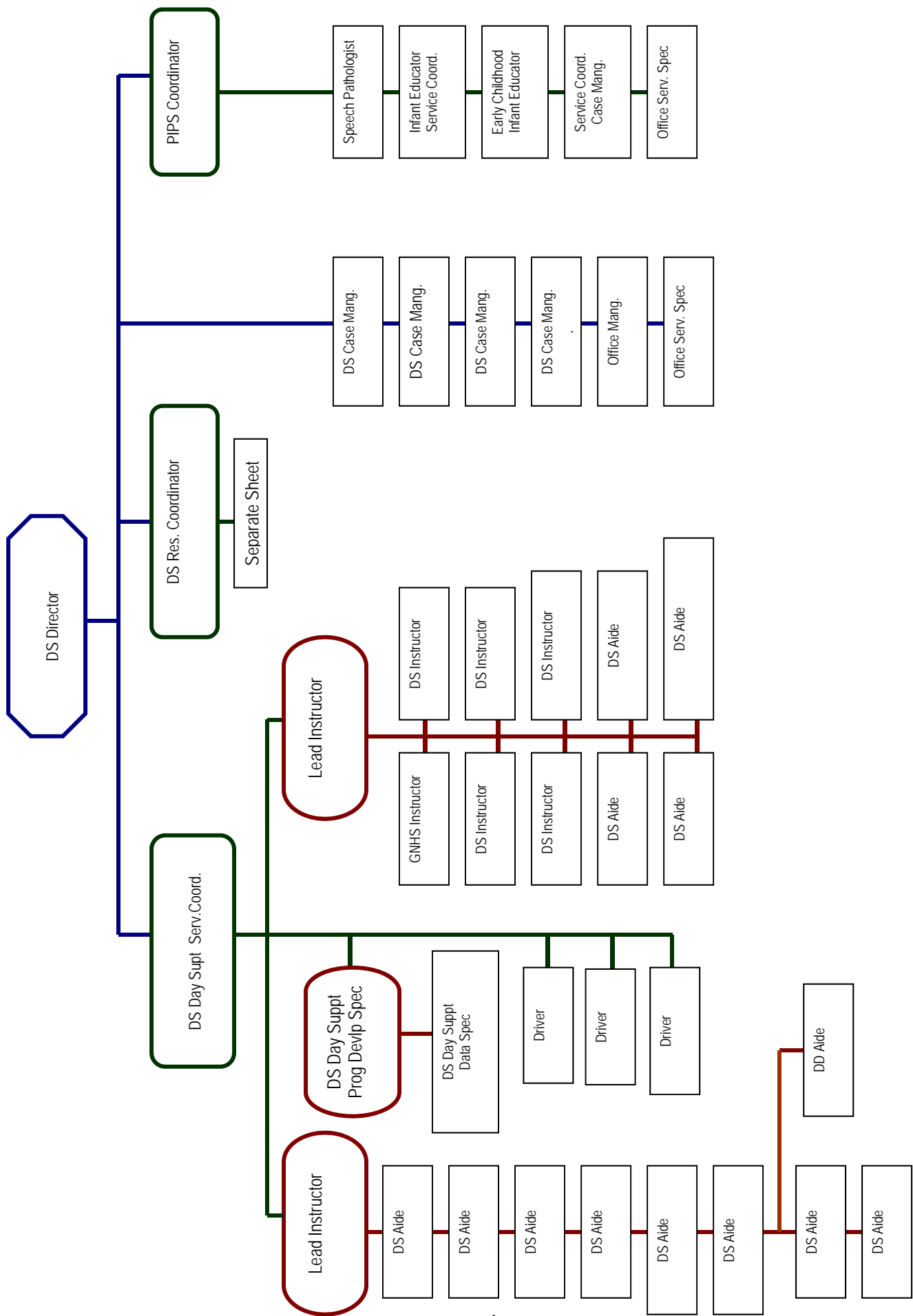
Ms. Marva L. Annis
Mr. Robert J. Bloxom
Mrs. Gina Crockett
Mr. Dee N. Fitch
Dr. John D. Ogram

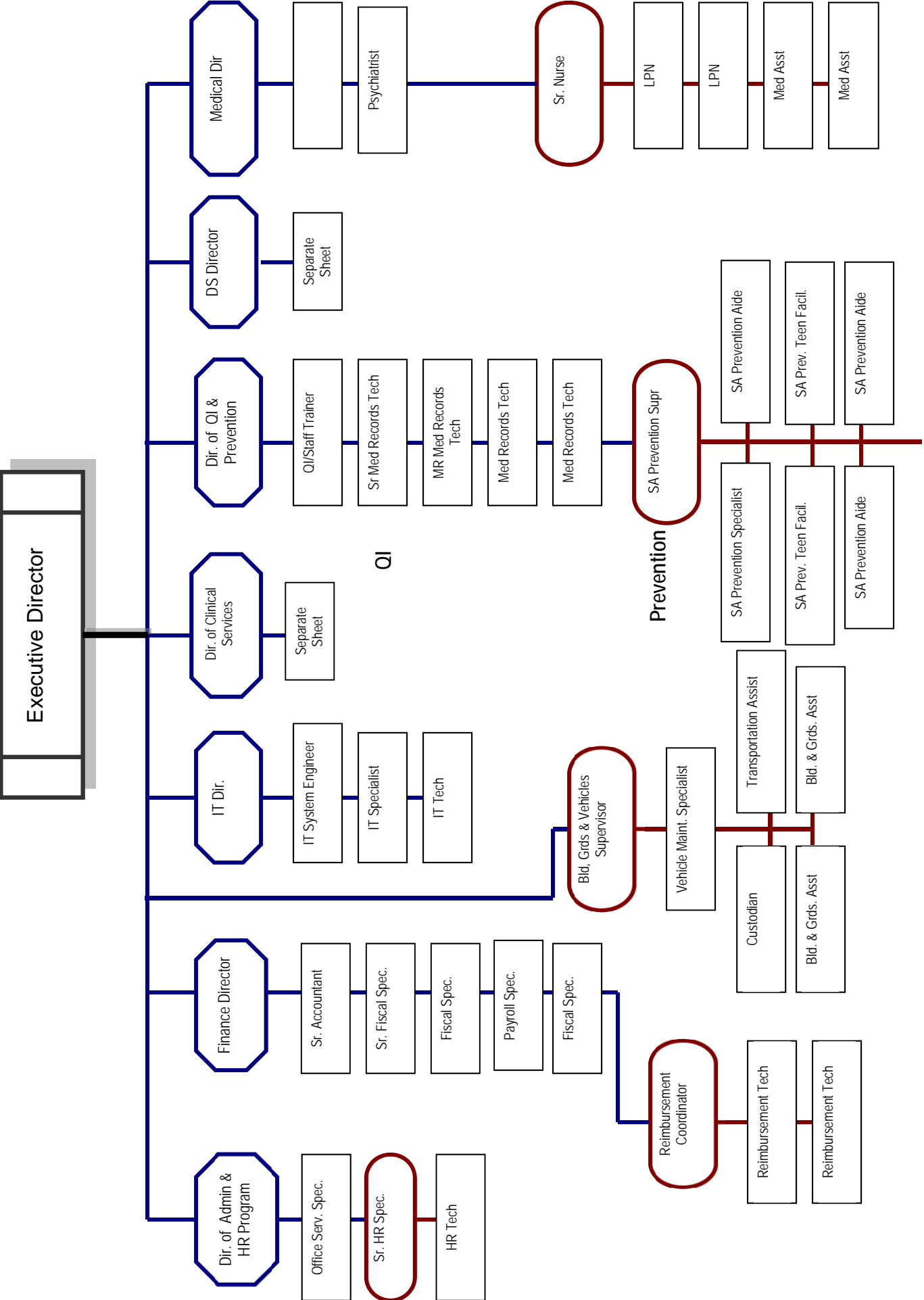
LEADERSHIP TEAM

Lisa B. Sedjat
Lynier Linton
Dr. Nick McClean-Rice
Thomas Nelson
Sarah Lewis

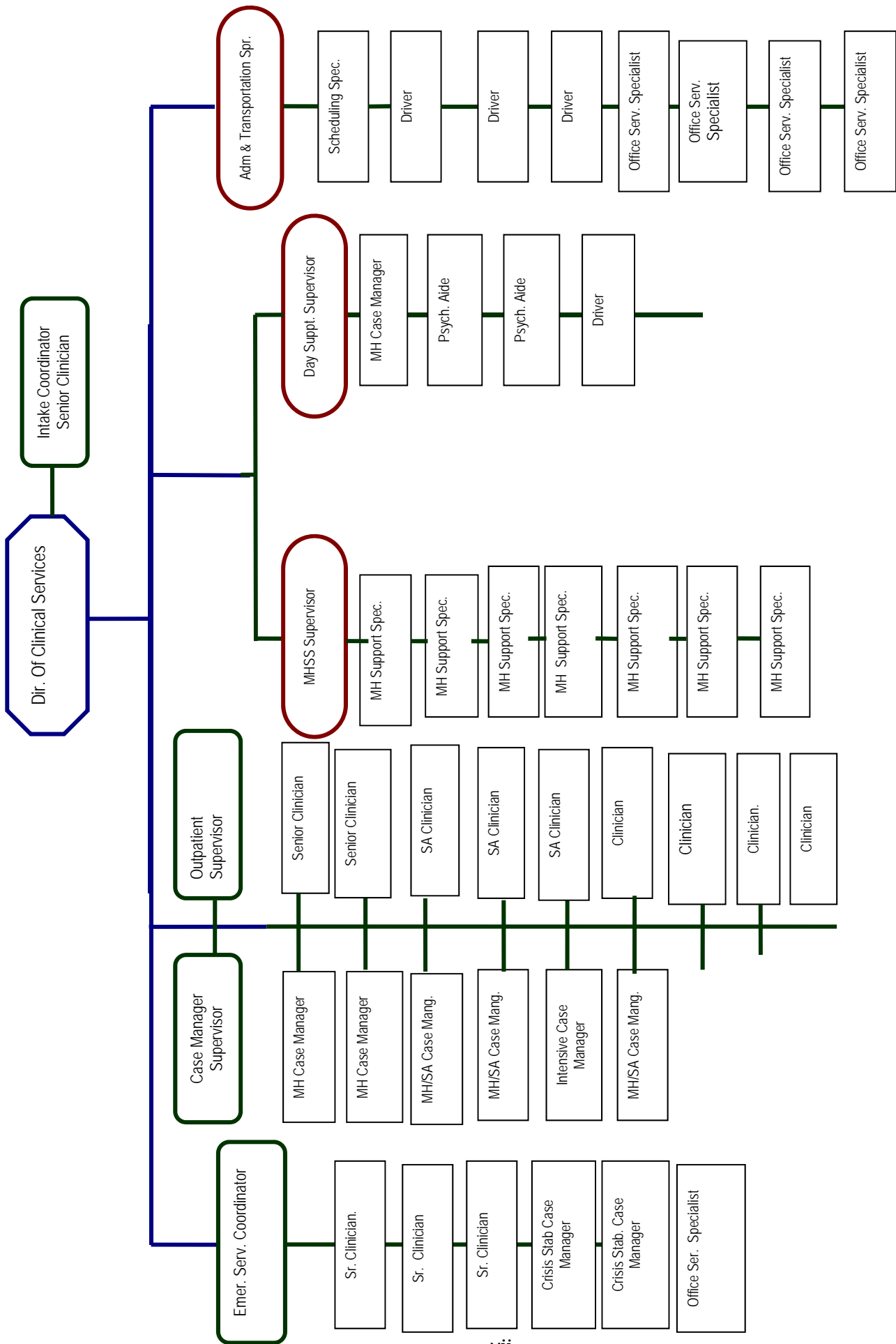
T. Michael Leahy
Damien Greene

Executive Director
Director of Finance & Administration
Medical Director
Director of Human Resources
Clinical Director of Mental Health &
Quality Improvement
Developmental Services Program Director
IT Director









FINANCIAL SECTION

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY CORPORATION

INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS
EASTERN SHORE COMMUNITY SERVICES BOARD
NASSAWADOX, VIRGINIA

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities of Eastern Shore Community Services Board, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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 respective financial position of the business-type activities of the Eastern Shore Community Services Board, as of June 30, 2015, and the respective 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.

Change in Accounting Principle

As described in Note 1 to the financial statements, in 2015, the Community Services Board adopted new accounting guidance, GASB Statement Nos. 68 *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* and 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

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 relating to pension funding on pages 4-7 and 41-43 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 Eastern Shore Community Services Board's basic financial statements. The introductory section and combining 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 U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining statements and schedule of expenditures of federal awards are the responsibility of management and were derived from 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 statements and schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2015, on our consideration of Eastern Shore 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 Eastern Shore Community Services Board's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "D. F. Clark", followed by a horizontal line.

Richmond, Virginia
November 19, 2015

EASTERN SHORE COMMUNITY SERVICES BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2015

This section is intended to provide an overview of the financial activity of the Board and as such should be read in conjunction with the accompanying financial statements.

Summary of Organization and Business

The Eastern Shore Community Services Board (the Board) is a political subdivision of the Commonwealth of Virginia formed in 1971 by the Boards of Supervisors of Accomack and Northampton Counties. The Board's mission is to act as the agent of the two counties in providing community mental health, developmental disabilities, and substance abuse services in accordance with Chapter 5, Title 37.2-500 -512 of the Code of Virginia.

Operations of the Board are funded by state, federal and local funds, as well as client fees. As of June 30, 2015, the Board had approximately 152 employees providing mental health, developmental disabilities, substance abuse/prevention, residential, and administrative support services in twelve different facilities, including counseling centers, residential facilities, day support, prevention, and infant intervention programs. During 2015, the total consumers served were 1,394 in Mental Health, 142 in Developmental Disabilities, 222 in Substance Abuse and 587 outside a program area. The Board also has a fleet of 77 vehicles used to transport clients to and from CSB programs, doctor's appointments, jobs, and shopping.

HIGHLIGHTS

Financial Highlights for FY 2015

- Cash and investments decreased \$589 thousand.
- Net position decreased \$531 thousand.
- Operating revenues decreased \$134 thousand.
- Operating expenses increased \$233 thousand.

OVERVIEW OF ANNUAL FINANCIAL REPORT

Management's Discussion and Analysis (MD&A) serves as an introduction to the basic financial statements. The MD&A represents management's examination and analysis of the financial condition and performance of the Board. The financial statements of the Board are presented using the accrual method of accounting.

The financial statements consist of the Statement of Net Position; Statement of Revenues, Expenses, and Changes in Net Position; Statement of Cash Flows; and Notes to the Financial Statements.

The Statement of Net Position presents the financial position of the Board on an accrual basis, including information about the type and amount of resources and obligations, at June 30, 2015. The Statement of Revenues, Expenses, and Changes in Net Position presents the results of the Board's operating and non-operating activities and provides information about changes in net position during the year. The Statement of Cash Flows presents changes in cash and cash equivalents, as a result of operational and financing activities.

The Notes to the Financial Statements provide required disclosures and other pertinent information necessary to provide a reader of the financial statements a complete understanding of the data being presented. The notes are comprised of information about the Board's accounting policies, significant account balances, obligations, commitments, contingencies, and subsequent events. It is important to note that the FY2015 Financial Statements are combined financial statement with MENDISADD, Inc.

CONDENSED FINANCIAL INFORMATION

The following schedule reflects the condensed Statement of Net Position compared to the prior year.

	2015	2014
Current Assets	\$ 2,964,454	\$ 3,308,219
Property and Equipment, less Accumulated Depreciation	<u>2,951,464</u>	<u>3,043,126</u>
TOTAL ASSETS	<u>\$ 5,915,918</u>	<u>\$ 6,351,345</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 424,836</u>	<u>\$ -</u>
Current Liabilities	\$ 883,180	\$ 625,308
Long Term Liabilities	\$ 1,503,493	\$ 1,450,344
Net Pension Liability	<u>1,479,533</u>	<u>-</u>
TOTAL LIABILITIES	<u>\$ 3,866,206</u>	<u>\$ 2,075,652</u>
DEFERRED INFLOWS OF RESOURCES	<u>\$ 890,076</u>	<u>\$ -</u>
Net Position:		
Invested in Capital Assets	\$ 2,067,245	\$ 2,155,877
Unrestricted	<u>(482,773)</u>	<u>2,119,816</u>
TOTAL NET POSITION	<u><u>\$ 1,584,472</u></u>	<u><u>\$ 4,275,693</u></u>

Because prior year information related to pensions was not available, the 2014 numbers have not been restated to reflect GASB 68 calculations.

Statement of Revenues, Expenses, and Changes in Net Position

The following schedule compares the revenues and expenses for the current and previous fiscal year.

	2015	2014
Operating Revenues	\$ 6,071,168	\$ 6,205,502
Operating Expenses	10,138,504	9,905,477
Operating Income (Loss)	\$ (4,067,336)	\$ (3,699,975)
Non-operating Income	3,536,387	3,492,250
Change in Net Position	\$ (530,949)	\$ (207,725)

Because prior year information related to pensions was not available, the 2014 numbers have not been restated to reflect GASB 68 calculations.

OVERALL FINANCIAL ANALYSIS

In general, the financial condition of the Board remains strong. Major financial impacts this year included implementation of a new electronic health record (Credible). This impacts both cash and decreases revenue. We were also closed two weeks this year due to inclement weather. This cost approximately \$186 thousand in lost revenue and additional personnel expense. During FY 15, cash and investments balances decreased approximately \$589 thousand and total net position decreased \$531 thousand. The Statement of Net Position also shows over 53% more total assets than total liabilities.

The Board continues to monitor ways in which new revenues can be generated and expenses can be scaled back. Upgrading and investing in information technology equipment is one step the Board has taken in order to enhance employee productivity and free up time for revenue-generating activities. The Finance Department has continued to heighten its collections procedures; including the use of clinical staff in the collection of amounts due from clients in order to increase the Board's collection percentage.

CONTACTING THE BOARD

This financial report is designed to provide an overview of the financial results of the Board's activities, and to demonstrate the Board's accountability for its revenues. If there are any questions about this report or any financial issue regarding the Board, please contact the Director of Financial Operations, P.O. Box 453, Nassawadox, VA 23413.

EASTERN SHORE COMMUNITY SERVICES BOARD

Statement of Net Position

At June 30, 2015

Current Assets:

Cash and cash equivalents	\$ 1,860,775
Client receivables (net of allowance for uncollectible accounts)	931,869
Due from HUD	139,155
Prepaid expenses	32,655
	<hr/>
Total current assets	\$ 2,964,454

Capital Assets:

Land	\$ 477,448
Property and equipment, less accumulated depreciation	2,474,016
	<hr/>
Total capital assets	\$ 2,951,464
	<hr/>
Total assets	\$ 5,915,918

Deferred Outflows of Resources:

Pension contributions subsequent to measurement date	\$ 424,836
	<hr/>

Current Liabilities:

Accounts payable	\$ 117,756
Accrued expenses	359,763
Unearned revenues	14,443
Line of credit	150,000
Current portion of compensated absences	86,049
Current portion of long-term payable	46,635
Current portion of notes payable	31,935
Current portion of capital lease payable	76,599
	<hr/>
Total current liabilities	\$ 883,180

Long-term Liabilities:

Compensated absences, less current portion	\$ 774,443
Long-term notes payable, less current portion	567,810
Capital lease payable, less current portion	161,240
Net pension liability	1,479,533
	<hr/>
Total long-term liabilities	\$ 2,983,026
	<hr/>
Total liabilities	\$ 3,866,206

Deferred Inflows of Resources:

Items related to measurement of net pension liability	\$ 890,076
	<hr/>

Net Position:

Net investment in capital assets	\$ 2,067,245
Unrestricted	(482,773)
	<hr/>
Total net position	\$ 1,584,472

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

EASTERN SHORE COMMUNITY SERVICES BOARD

Statement of Revenues, Expenses & Changes in Net Position

Year Ended June 30, 2015

Operating revenues:

Patient service fees	\$ 5,973,800
Other fees	97,368
Total operating revenues	<u>\$ 6,071,168</u>

Operating expenses:

Personnel	\$ 7,617,457
Staff development	24,178
Facility charges	761,750
Travel	54,384
Consultants and other professional services	596,239
Other charges	676,936
Depreciation	407,560
Total operating expenses	<u>\$ 10,138,504</u>

Operating income (loss)	<u>\$ (4,067,336)</u>
-------------------------	-----------------------

Nonoperating revenues (expenses):

Commonwealth of Virginia, including pass-through grants of \$500,325 from the federal government	\$ 2,542,590
Local governments	196,533
Other agencies	749,146
Rental income	23,113
Interest income	29,245
Gain (loss) on disposition of property	32,861
Interest expense	<u>(37,101)</u>

Total nonoperating revenues (expenses)	<u>\$ 3,536,387</u>
--	---------------------

Change in net position	\$ (530,949)
------------------------	--------------

Net position at beginning of year, as restated	<u>2,115,421</u>
--	------------------

Net position at end of year	<u><u>\$ 1,584,472</u></u>
-----------------------------	----------------------------

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

EASTERN SHORE COMMUNITY SERVICES BOARD

Statement of Cash Flows

Year Ended June 30, 2015

Cash flows from operating activities:

Receipts from clients' fees and other providers	\$ 5,864,274
Other operating receipts	97,368
Payments to suppliers and employees	<u>(9,817,332)</u>
Total cash provided by (used for) operating activities	\$ <u>(3,855,690)</u>

Cash flows from non-capital and related financing activities:

Government and other agencies	\$ 3,429,403
Rental Properties	<u>(1,809)</u>
Total cash provided by (used for) noncapital and related financing activities	\$ <u>3,427,594</u>

Cash flows from capital and related financing activities:

Purchase of capital assets	\$ (322,553)
Sale of capital assets	39,518
Proceeds from capital lease	154,066
Proceeds from line of credit	150,000
Principal payments on notes payable	(30,255)
Principal payments on capital leases payable	(70,878)
Principal payments made on long-term payable	(55,963)
Interest paid on capital leases and notes payable	<u>(37,201)</u>
Total cash provided by (used for) capital and related financing activities	\$ <u>(173,266)</u>

Cash flows from investing activities:

Interest received	\$ <u>29,245</u>
Net increase (decrease) in cash and cash equivalents	\$ (572,117)
Cash and cash equivalents, beginning of year	<u>2,432,892</u>
Cash and cash equivalents, end of year	\$ <u><u>1,860,775</u></u>

Reconciliation of operating income (loss) to total cash provided by (used for) operating activities:

Operating income (loss)	\$ (4,067,336)
Adjustments to reconcile operating income (loss) to total cash provided by (used for) operating activities:	
Depreciation	407,560
Changes in assets, liabilities, and deferred inflows/outflows of resources:	
Accounts receivable	(123,969)
Prepaid items	(20,596)
Deferred outflows of resources	43,736
Compensated absences	97,461
Accounts payable	1,930
Net pension liability	(1,149,314)
Deferred inflows of resources	890,076
Other accrued expenses	<u>64,762</u>
Cash flows provided by (used for) operating activities	\$ <u><u>(3,855,690)</u></u>

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

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements

As of June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description and Purpose of Agency

The Board operates as an agent for the Counties of Accomack and Northampton in the establishment and operation of community mental health, mental retardation and substance abuse programs as provided for in Chapter 5, Title 37.2-500-512 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, mental retardation, and substance abuse services which are developed in and meet the needs of the participating localities.

B. Financial Reporting Entity

For financial reporting purposes, in conformance with GASB Statement 14, The Reporting Entity, as amended by GASB Statement 39, Determining Whether Certain Organizations are Component Units and GASB Statement 61, The Financial Reporting Entity, the Board includes all organizations for which it is considered financially accountable. The component unit included in these financial statements has a year end of June 30.

C. Individual Component Unit Disclosures

Blended Component Units - The Board has the following blended component unit:

Mendisadd, Inc. has been included as part of the reporting entity. This entity is a not-for-profit organization exempt from taxation under section 501(c)(2) of the Internal Revenue Code. The primary purpose of Mendisadd, Inc. is to purchase real property and to lease such property to the Board.

Discretely Presented Component Units - The Board has no discretely presented component units.

D. 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 incurred, regardless of when the related cash flow takes place.

E. Financial Statement Presentation

The accompanying financial statements are prepared in accordance with pronouncements issued by the Governmental Accounting Standards Board (GASB). The principles prescribed by GASB represent generally accepted accounting principles applicable to governmental units.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)

As of June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Enterprise Fund Accounting

Eastern Shore 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 revenues and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

G. Use of Estimates

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.

H. Cash and Cash Equivalents

The Board maintains cash accounts with financial institutions in accordance with the Virginia Security for Public Deposits Act of the Code of Virginia. 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 at the date of acquisition.

I. Investments

Investments, when applicable, are stated at fair value.

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.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)

As of June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Net Client Service Revenue (Continued)

The Board bills and collects fees for services from its clients. At June 30, 2015, the Board was due \$931,869 in client receivables which was made up primarily of Medicaid funds. When applicable, the Board calculates its allowance for uncollectible accounts using specific account analysis. The allowance at June 30, 2015 was \$166,176.

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 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.

L. Capital Assets

Capital assets acquired are recorded at cost. The Board capitalizes all expenditures for property or equipment in excess of \$5,000 with an expected life greater than one year. Depreciation is provided over the estimated useful life of each class of depreciable assets ranging from 5 to 39 years and is computed using the straight-line method. Donated capital assets are recorded at the estimated fair market value at the time of the gift. No capitalized interest is included in reported historical costs.

M. Restricted Assets

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

N. 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.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)

As of June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. Compensated Absences

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

Employees terminating their employment are paid by the Board their accumulated annual leave up to the maximum limit. Unused sick leave is paid at the date of separation based on length of service.

The liabilities for annual and sick leave have been recorded in accordance with the provisions of GASB 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, 2015 was \$860,492.

P. 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.

Q. Budgetary Accounting

The Board follows these procedures in establishing its budgets:

1. In response to Letters of Notification received from the Department of Mental Health, Mental Retardation and Substance Abuse Services (the Department), the Board submits a Performance Contract to the Department. This application contains budgets for 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 quarter. The final quarterly report is due by September 15 (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 that reflect these changes in time to be received by required deadlines.

R. Deferred Outflow/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for referred outflows of resources. This separate financial statement element, 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 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. For more detailed information on these items, reference the pension note.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)

As of June 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

R. Deferred Outflow/Inflows of Resources (Continued)

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.

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

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

U. Adoption of Accounting Principles:

Governmental Accounting Standards Board Statement No. 68, Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27 and Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68:

The Board implemented the financial reporting provisions of the above Statements for the fiscal year ended June 30, 2015. These Statements establish standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense related to pensions. Note disclosure and required supplementary information requirements about pensions are also addressed. The requirements will improve financial reporting by improving accounting and financial reporting by state and local governments for pensions. The implementation of these statements resulted in a restatement of net position. See Note 12.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)

As of June 30, 2015

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.

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments

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

Credit Risk of Debt Securities

The Board's rated debt investments as of June 30, 2015 were rated by Standard and Poor's and the ratings are presented below using Standard and Poor's rating scale. The Board and its blended component unit have no investment policies that would further limit their investment choices.

<u>Locality's Rated Debt Investment's Values</u>	
<u>Related Debt Investments</u>	<u>Fair Quality Rating</u>
	<u>AAAm</u>
Local Government Investment Pool	\$ <u>26,703</u>
Total	\$ <u><u>26,703</u></u>

External Investment Pools

The fair value of the position in the Local Government Investment Pool (LGIP) is the same as the value of the pool shares. As the LGIP is not SEC registered, regulatory oversight of the pool rests with the Virginia State Treasury. LGIP maintains a policy to operate in a manner consistent with SEC Rule 2a-7.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)

As of June 30, 2015

NOTE 3 - PENSION PLAN

Plan Description

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

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

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p>	<p>About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. 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.</p>	<p>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")</p> <ul style="list-style-type: none">• The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.• The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2015

NOTE 3 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
About Plan 1 (Cont.)	About Plan 2 (Cont.)	About the Hybrid Retirement Plan (Cont.) <ul style="list-style-type: none">• In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
<p>Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p>Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.</p> <p>Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none">• Political subdivision employees*• Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014. <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none">• Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements

As of June 30, 2015

NOTE 3 - 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 under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.	Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements

As of June 30, 2015

NOTE 3 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>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.</p>	<p>Creditable Service Same as Plan 1.</p>	<p>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.</p> <p><u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements

As of June 30, 2015

NOTE 3 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

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

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2015

NOTE 3 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Vesting (Cont.)	Vesting (Cont.)	<p>Vesting (Cont.) <u>Defined Contributions Component:</u> (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.</p> <ul style="list-style-type: none">• After two years, a member is 50% vested and may withdraw 50% of employer contributions.• After three years, a member is 75% vested and may withdraw 75% of employer contributions.• After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p>
<p>Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p>	<p>Calculating the Benefit See definition under Plan 1.</p>	<p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1</p>

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2015

NOTE 3 - PENSION PLAN (CONTINUED)

Plan Description (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.) <u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier 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 sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.	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 <u>Defined Benefit Component:</u> 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. Defined Contribution Component: Not applicable.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements

As of June 30, 2015

NOTE 3 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

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 <u>Defined Benefit Component:</u> VRS: Same as Plan 2. Political subdivisions hazardous duty employees: Not applicable. <u>Defined Contribution Component:</u> 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 <u>Defined Benefit Component:</u> 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. <u>Defined Contribution Component:</u> 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 <u>Defined Benefit Component:</u> VRS: Members may retire with a reduced benefit as early as age 60 with at least five years (60 months) of creditable service.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements

As of June 30, 2015

NOTE 3 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

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

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements

As of June 30, 2015

NOTE 3 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none">• The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013.• The member retires on disability.• The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP).• The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program.• The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2015

NOTE 3 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>	<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p> <p>VSDP members are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.</p>	<p>Disability Coverage Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</p> <p>Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.</p>
<p>Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. 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.</p>	<p>Purchase of Prior Service Same as Plan 1.</p>	<p>Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions:</p> <ul style="list-style-type: none">• Hybrid Retirement Plan members are ineligible for ported service.• 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. <p><u>Defined Contribution Component:</u> Not applicable.</p>

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements

As of June 30, 2015

NOTE 3 - PENSION PLAN (CONTINUED)

Employees Covered by Benefit Terms

As of the June 30, 2013 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	51
Inactive members:	
Vested inactive members	11
Non-vested inactive members	28
Inactive members active elsewhere in VRS	<u>18</u>
Total inactive members	57
Active members	<u>117</u>
Total covered employees	<u><u>225</u></u>

Contributions

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

The Board's contractually required contribution rate for the year ended June 30, 2015 was 9.40% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Board were \$424,836 and \$468,572 for the years ended June 30, 2015 and June 30, 2014, respectively.

Net Pension Liability

The Board's net pension liability was measured as of June 30, 2014. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2013, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2014.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements

As of June 30, 2015

NOTE 3 - PENSION PLAN (CONTINUED)

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, 2013, 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, 2014.

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

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

Mortality rates: 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

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements

As of June 30, 2015

NOTE 3 - PENSION PLAN (CONTINUED)

Actuarial Assumptions - General Employees (Continued)

The actuarial assumptions used in the June 30, 2013 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

The remainder of this page left blank intentionally

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements

As of June 30, 2015

NOTE 3 - 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 arithmetic nominal return	8.33%

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

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements

As of June 30, 2015

NOTE 3 - 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 Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2013	\$ 15,163,649	\$ 12,534,802	\$ 2,628,847
Changes for the year:			
Service cost	\$ 498,592	\$ -	\$ 498,592
Interest	1,041,588	-	1,041,588
Contributions - employer	-	468,572	(468,572)
Contributions - employee	-	236,859	(236,859)
Net investment income	-	1,994,489	(1,994,489)
Benefit payments, including refunds of employee contributions	(567,640)	(567,640)	-
Administrative expenses	-	(10,531)	10,531
Other changes	-	105	(105)
Net changes	\$ 972,540	\$ 2,121,854	\$ (1,149,314)
Balances at June 30, 2014	\$ 16,136,189	\$ 14,656,656	\$ 1,479,533

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements

As of June 30, 2015

NOTE 3 - PENSION PLAN (CONTINUED)

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

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

		Rate		
		(6.00%)	(7.00%)	(8.00%)
Board				
Net Pension Liability (Asset)	\$	3,689,148	\$ 1,479,533	\$ (352,269)

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

For the year ended June 30, 2015, the Board recognized pension expense of \$209,334. At June 30, 2015, 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
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 890,076
Employer contributions subsequent to the measurement date	424,836	-
Total	\$ <u>424,836</u>	\$ <u>890,076</u>

\$424,836 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 year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30

2016	\$ (222,519)
2017	(222,519)
2018	(222,519)
2019	(222,519)
Thereafter	-

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)

As of June 30, 2015

NOTE 4 - CONTINGENT LIABILITIES

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 reimbursements is remote and would not have a material effect on the overall financial position of the Board.

At June 30, 2015, there were no matters of litigation involving the Board which would materially affect the Board's financial position should any court decision or pending matter not be favorable to the Board.

NOTE 5 - RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Board participates with other localities in a public entity risk pool for their coverage of Public Official's Liability through the Commonwealth of Virginia's Division of Risk Management. The Board pays an annual premium to the pool for its general insurance through member premiums. In the event of a loss deficit and depletion of all available excess insurance, the pool may assess all members in the proportion which the premium of each bears to the total premiums of all members in the year in which such deficit occurs. The Board continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The remainder of this page left blank intentionally

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)

As of June 30, 2015

NOTE 6 - CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2015 is presented below:

	Balance July 1, 2014	Increases	Decreases	Balance June 30, 2015
<i>Eastern Shore Community Services Board:</i>				
Capital assets subject to depreciation:				
Computer Equipment	\$ 403,109	\$ -	\$ -	\$ 403,109
Leasehold Improvements	42,234	151,120	-	193,354
Office Furniture & Equipment	158,860	-	-	158,860
Software	777,750	130,587	-	908,337
Vehicles	784,691	5,000	-	789,691
Total capital assets subject to depreciation	<u>\$ 2,166,644</u>	<u>\$ 286,707</u>	<u>\$ -</u>	<u>\$ 2,453,351</u>
Less accumulated depreciation for:				
Computer Equipment	\$ 236,201	\$ 62,165	\$ -	\$ 298,366
Leasehold Improvements	18,224	948	-	19,172
Office Furniture & Equipment	143,867	3,376	-	147,243
Software	403,674	179,835	-	583,509
Vehicles	746,015	14,294	-	760,309
Total accumulated depreciation	<u>\$ 1,547,981</u>	<u>\$ 260,618</u>	<u>\$ -</u>	<u>\$ 1,808,599</u>
Total capital assets subject to depreciation, net	<u>\$ 618,663</u>	<u>\$ 26,089</u>	<u>\$ -</u>	<u>\$ 644,752</u>
ESCSB capital assets, net	<u>\$ 618,663</u>	<u>\$ 26,089</u>	<u>\$ -</u>	<u>\$ 644,752</u>
<i>Component Unit- Mendisadd, Inc.:</i>				
Capital assets not subject to depreciation:				
Land	\$ 481,714	\$ -	\$ 4,266	\$ 477,448
Total capital assets not subject to depreciation	<u>\$ 481,714</u>	<u>\$ -</u>	<u>\$ 4,266</u>	<u>\$ 477,448</u>
Capital assets subject to depreciation:				
Equipment	\$ 176,712	\$ -	\$ -	\$ 176,712
Buildings and Improvements	3,578,329	35,846	119,479	3,494,696
Total capital assets subject to depreciation	<u>\$ 3,755,041</u>	<u>\$ 35,846</u>	<u>\$ 119,479</u>	<u>\$ 3,671,408</u>
Less accumulated depreciation for:				
Equipment	\$ 112,035	\$ 17,131	\$ -	\$ 129,166
Buildings and Improvements	1,700,255	129,811	117,088	1,712,978
Total accumulated depreciation	<u>\$ 1,812,290</u>	<u>\$ 146,942</u>	<u>\$ 117,088</u>	<u>\$ 1,842,144</u>
Total capital assets subject to depreciation, net	<u>\$ 1,942,751</u>	<u>\$ (111,096)</u>	<u>\$ 2,391</u>	<u>\$ 1,829,264</u>
Mendisadd, Inc. capital assets, net	<u>\$ 2,424,465</u>	<u>\$ (111,096)</u>	<u>\$ 6,657</u>	<u>\$ 2,306,712</u>
Total reporting entity capital assets, net	<u>\$ 3,043,128</u>	<u>\$ (85,007)</u>	<u>\$ 6,657</u>	<u>\$ 2,951,464</u>

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)

As of June 30, 2015

NOTE 7 - LEASE AGREEMENTS

The Board leases office space and other facilities from Mendisadd, Inc, a blended component unit. The leases are year to year. Rent expense totaled \$283,060 for the fiscal year ended June 30, 2015.

NOTE 8 - CAPITAL LEASE

The Board entered into leases classified as capital leases of \$315,471. The economic substance of the lease is that the Board is financing the acquisition of the asset through the lease, and accordingly it is recorded in the Board's assets and liabilities. During 2015, amortization under the aforementioned leases was \$70,878.

2016	\$	88,206
2017		88,206
2018		80,583
2019		2,199
	\$	<u>259,194</u>
Less - amount representing interest		(21,355)
	\$	<u><u>237,839</u></u>

The Board has capitalized costs net of depreciation totaling \$249,023 under capital lease at June 30, 2015.

NOTE 9 - LOCAL GOVERNMENT CONTRIBUTIONS BY PARTICIPANT

The participating localities contributed the following for the fiscal year ended June 30, 2015:

County of Accomack	\$	134,995
County of Northampton		61,538
Total	\$	<u><u>196,533</u></u>

NOTE 10 - LONG-TERM OBLIGATIONS

A summary of long-term obligations transactions of the Board for the year ended June 30, 2015 is as follows:

	Restated Amounts payable at July 1, 2014	Increases	Decreases	Amounts payable at June 30, 2015	Amounts due within one year
Compensated Absences	\$ 763,031	\$ 173,764	\$ 76,303	\$ 860,492	\$ 86,049
Long-Term Payable	102,598	-	55,963	46,635	46,635
Note Payable	630,000	-	30,255	599,745	31,935
Net Pension Liability	2,628,847	1,550,711	2,700,025	1,479,533	-
Capital Leases Payable	154,651	154,066	70,878	237,839	76,599
Total	<u>\$ 4,279,127</u>	<u>\$ 1,878,541</u>	<u>\$ 2,933,424</u>	<u>\$ 3,224,244</u>	<u>\$ 241,218</u>

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)

As of June 30, 2015

NOTE 10 - LONG-TERM OBLIGATIONS (CONTINUED)

Details of long-term obligations are as follows:

	<u>Amount Outstanding</u>
Note Payable:	
Mendisadd, Inc. note payable to BB&T to refinance debt on Parksley property. Payable in monthly installments of \$4,779 through June 16, 2029, including an interest rate of 4.375%.	\$ <u>599,745</u>
Long-Term Payable:	
Eastern Shore Community Service Board long-term payable to Credible, Inc. for software purchase entered into April 25, 2014 payable in equal installments of \$4,664 per month over 24 months with no interest.	\$ <u>46,635</u>
Capital Leases Payable:	
Capital lease issued by Dell Financial Services, Inc. to Eastern Shore Community Services Board on May 21, 2014 for computer equipment payable over 48 months in equal installments of \$3,761, interest at 5.84%.	\$ 117,577
Capital lease issued by Dell Financial Services, Inc. to Eastern Shore Community Services Board on August 20, 2014 for computer equipment payable over 48 months in equal installments of \$717, interest at 5.59%.	25,527
Capital lease issued by Dell Financial Services, Inc. to Eastern Shore Community Services Board on July 20, 2014 for computer equipment payable over 48 months in equal installments of \$2,872, interest at 5.59%.	<u>94,735</u>
Total Capital Leases Payable	\$ <u>237,839</u>
Net Pension Liability	\$ <u>1,479,533</u>
Compensated Absences	\$ <u>860,492</u>
Total Long-Term Obligations	\$ <u><u>3,224,244</u></u>

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)

As of June 30, 2015

NOTE 10 - LONG-TERM OBLIGATIONS (Continued)

Annual requirements to amortize long-term obligations and related interest are as follows:

Year Ending June 30	Note Payable	
	Principal	Interest
2016	\$ 31,935	\$ 26,239
2017	33,317	24,842
2018	34,774	23,385
2019	36,296	21,863
2020	37,884	20,275
2021-2025	215,778	75,017
2026-2029	209,761	23,475
Total	\$ <u>599,745</u>	\$ <u>215,096</u>

NOTE 11 - LINE OF CREDIT

The Board has a working capital line of credit of \$500,000 with BB&T. Advances on the line-of-credit are collateralized by a general blanket assignment of all accounts, contracts or other receivables and proceeds. At June 30, 2015, the Board's outstanding balance against this line of credit was \$150,000 and the interest rate was 3.25%.

NOTE 12 - RESTATEMENT OF BEGINNING NET POSITION

The following adjustment was made to beginning net position:

Net position as previously reported at June 30, 2014	\$ 4,275,693
Implementation of GASB 68	<u>(2,160,272)</u>
Net position as restated at July 1, 2014	\$ <u>2,115,421</u>

REQUIRED SUPPLEMENTARY INFORMATION

EASTERN SHORE COMMUNITY SERVICES BOARD

Schedule of Components of and Changes in Net Pension Liability and Related Ratios
For the Year Ended June 30, 2015

		<u>2014</u>
Total pension liability		
Service cost	\$	498,592
Interest		1,041,588
Benefit payments, including refunds of employee contributions		(567,640)
Net change in total pension liability	\$	<u>972,540</u>
Total pension liability - beginning		15,163,649
Total pension liability - ending (a)	\$	<u><u>16,136,189</u></u>
 Plan fiduciary net position		
Contributions - employer	\$	468,572
Contributions - employee		236,859
Net investment income		1,994,489
Benefit payments, including refunds of employee contributions		(567,640)
Administrative expense		(10,531)
Other		105
Net change in plan fiduciary net position	\$	<u>2,121,854</u>
Plan fiduciary net position - beginning		12,534,802
Plan fiduciary net position - ending (b)	\$	<u><u>14,656,656</u></u>
 Board's net pension liability - ending (a) - (b)	\$	1,479,533
 Plan fiduciary net position as a percentage of the total pension liability		90.83%
 Covered-employee payroll	\$	4,640,238
 Board's net pension liability as a percentage of covered-employee payroll		31.88%

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

EASTERN SHORE COMMUNITY SERVICES BOARD

Schedule of Employer Contributions

For the Year Ended June 30, 2015

Date	Contributions in Relation to			Employer's Covered Employee Payroll (4)	Contributions as a % of Covered Employee Payroll (5)
	Contractually Required Contribution (1)	Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)		
2015	\$ 424,836	\$ 424,836	\$ -	\$ 4,519,527	9.40%

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

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Required Supplementary Information

For the Year Ended June 30, 2015

Changes of benefit terms - There have been no significant changes to the System benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. The liabilities presented do not reflect the hybrid plan since it covers new members joining the System after the valuation date of June 30, 2013 and the impact on the liabilities as of the measurement date of June 30, 2014 are minimal.

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

Largest 10 - Non-LEOS:

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

Largest 10 - LEOS:

- Update mortality table
- Decrease in male rates of disability

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

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

All Others (Non 10 Largest) - LEOS:

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

OTHER SUPPLEMENTARY INFORMATION

COMBINING STATEMENTS

EASTERN SHORE COMMUNITY SERVICES BOARDCombining Statement of Net PositionAt June 30, 2015

	ESCSB Operating Fund	Mendisadd, Inc. Fund	Inter- company Eliminations	Total
Current Assets:				
Cash and cash equivalents	\$ 1,700,116	\$ 160,659	\$ -	\$ 1,860,775
Client receivables (net of allowance for uncollectible accounts)	906,947	24,922	-	931,869
Due from HUD	139,155	-	-	139,155
Notes receivable	140,497	-	(140,497)	-
Prepaid expenses	31,355	1,300	-	32,655
Total current assets	\$ 2,918,070	\$ 186,881	\$ (140,497)	\$ 2,964,454
Capital Assets:				
Land	\$ -	\$ 477,448	\$ -	\$ 477,448
Property and equipment, less accumulated depreciation	644,752	1,829,264	-	2,474,016
Total capital assets	\$ 644,752	\$ 2,306,712	\$ -	\$ 2,951,464
Total assets	\$ 3,562,822	\$ 2,493,593	\$ (140,497)	\$ 5,915,918
Deferred Outflows of Resources:				
Pension contributions subsequent to measurement date	\$ 424,836	\$ -	\$ -	\$ 424,836
Current Liabilities:				
Accounts payable	\$ 117,756	\$ -	\$ -	\$ 117,756
Accrued expenses	357,854	1,909	-	359,763
Unearned revenues	14,443	-	-	14,443
Line of credit	150,000	-	-	150,000
Current portion of compensated absences	86,049	-	-	86,049
Current portion of long-term payable	46,635	-	-	46,635
Current portion of note payable	-	49,031	(17,096)	31,935
Current portion of capital lease payable	76,599	-	-	76,599
Total current liabilities	\$ 849,336	\$ 50,940	\$ (17,096)	\$ 883,180
Long-term Liabilities:				
Compensated absences, less current portion	\$ 774,443	\$ -	\$ -	\$ 774,443
Long-term notes payable, less current portion	-	691,211	(123,401)	567,810
Capital lease payable, less current portion	161,240	-	-	161,240
Net pension liability	1,479,533	-	-	1,479,533
Total long-term liabilities	\$ 2,415,216	\$ 691,211	\$ (123,401)	\$ 2,983,026
Total liabilities	\$ 3,264,552	\$ 742,151	\$ (140,497)	\$ 3,866,206
Deferred Inflows of Resources:				
Items related to measurement of net pension liability	\$ 890,076	\$ -	\$ -	\$ 890,076
Net Position				
Net investment in capital assets	\$ 360,278	\$ 1,566,470	\$ 140,497	\$ 2,067,245
Unrestricted	(527,248)	184,972	(140,497)	(482,773)
Total net position	\$ (166,970)	\$ 1,751,442	\$ -	\$ 1,584,472

EASTERN SHORE COMMUNITY SERVICES BOARD

Combining Statement of Revenues, Expenses & Changes in Net Position
Year Ended June 30, 2015

	ESCSB Operating Fund	Mendisadd Inc. Fund	Inter- company Eliminations	Total
Operating revenues:				
Patient service fees	\$ 5,973,800	\$ -	\$ -	\$ 5,973,800
Other fees	97,368	-	-	97,368
Total operating revenues	<u>\$ 6,071,168</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,071,168</u>
Operating expenses:				
Personnel	\$ 7,617,457	\$ -	\$ -	\$ 7,617,457
Staff development	24,178	-	-	24,178
Facility charges	973,327	71,483	(283,060)	761,750
Travel	54,384	-	-	54,384
Consultants and other professional services	596,239	-	-	596,239
Other charges	676,936	-	-	676,936
Depreciation	260,618	146,942	-	407,560
Total operating expenses	<u>\$ 10,203,139</u>	<u>\$ 218,425</u>	<u>\$ (283,060)</u>	<u>\$ 10,138,504</u>
Operating income (loss)	<u>\$ (4,131,971)</u>	<u>\$ (218,425)</u>	<u>\$ 283,060</u>	<u>\$ (4,067,336)</u>
Nonoperating revenues (expenses):				
Commonwealth of Virginia, including pass-through grants of \$500,325 from the federal government	\$ 2,542,590	\$ -	\$ -	\$ 2,542,590
Local governments	196,533	-	-	196,533
Other agencies	749,146	-	-	749,146
Rental income	-	306,173	(283,060)	23,113
Interest income	41,832	-	(12,587)	29,245
Gain (loss) on disposition of property	-	32,861	-	32,861
Interest expense	(9,856)	(39,832)	12,587	(37,101)
Total nonoperating revenues (expenses)	<u>\$ 3,520,245</u>	<u>\$ 299,202</u>	<u>\$ (283,060)</u>	<u>\$ 3,536,387</u>
Change in net position	<u>\$ (611,726)</u>	<u>\$ 80,777</u>	<u>\$ -</u>	<u>\$ (530,949)</u>
Net position at beginning of year, as restated	<u>444,756</u>	<u>1,670,665</u>	<u>-</u>	<u>2,115,421</u>
Net position at end of year	<u><u>\$ (166,970)</u></u>	<u><u>\$ 1,751,442</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,584,472</u></u>

EASTERN SHORE COMMUNITY SERVICES BOARD

Combining Statement of Cash Flows

Year Ended June 30, 2015

	ESCSB Operating Fund	Mendisadd, Inc. Fund	Inter- company Eliminations	Total
Cash flows from operating activities:				
Receipts from clients' fees and other providers	\$ 5,864,274	\$ -	\$ -	\$ 5,864,274
Other operating receipts	97,368	-	-	97,368
Payments to suppliers and employees	(10,028,909)	(71,483)	283,060	(9,817,332)
Total cash provided by (used for) operating activities	\$ (4,067,267)	\$ (71,483)	\$ 283,060	\$ (3,855,690)
Cash flows from non-capital and related financing activities:				
Government and other agencies	\$ 3,429,403	\$ -	\$ -	\$ 3,429,403
Rent of property	-	281,251	(283,060)	(1,809)
Total cash provided by (used for) noncapital and related financing activities	\$ 3,429,403	\$ 281,251	\$ (283,060)	\$ 3,427,594
Cash flows from capital and related financing activities:				
Purchase of capital assets	\$ (286,707)	\$ (35,846)	\$ -	\$ (322,553)
Proceeds from sale of capital assets	-	39,518	-	39,518
Proceeds from capital lease	154,066	-	-	154,066
Proceeds from line of credit	150,000	-	-	150,000
Principal payments on note payable	-	(187,361)	157,106	(30,255)
Principal payments on capital leases payable	(70,878)	-	-	(70,878)
Principal payments made on long-term payable	(55,963)	-	-	(55,963)
Interest paid on capital leases and notes payable	(9,856)	(39,932)	12,587	(37,201)
Total cash provided by (used for) capital and related financing activities	\$ (119,338)	\$ (223,621)	\$ 169,693	\$ (173,266)
Cash flows from investing activities:				
Interest received	\$ 41,832	\$ -	\$ (12,587)	\$ 29,245
Principal received on notes receivable	157,106	-	(157,106)	-
Total cash provided by (used for) investing activities	\$ 198,938	\$ -	\$ (169,693)	\$ 29,245
Net increase (decrease) in cash and cash equivalents	\$ (558,264)	\$ (13,853)	\$ -	\$ (572,117)
Cash and cash equivalents, beginning of year	2,258,380	174,512	-	2,432,892
Cash and cash equivalents, end of year	\$ 1,700,116	\$ 160,659	\$ -	\$ 1,860,775
Reconciliation of operating income (loss) to total cash provided by (used for) operating activities:				
Operating income (loss)	\$ (4,131,971)	\$ (218,425)	\$ 283,060	\$ (4,067,336)
Adjustments to reconcile operating income (loss) to total cash provided by (used for) operating activities:				
Depreciation	260,618	146,942	-	407,560
Changes in assets, liabilities, and deferred inflows/outflows of resources:				
Accounts receivable	(123,969)	-	-	(123,969)
Prepaid items	(20,596)	-	-	(20,596)
Deferred outflows of resources	43,736	-	-	43,736
Compensated absences	97,461	-	-	97,461
Accounts payable	1,930	-	-	1,930
Net pension liability	(1,149,314)	-	-	(1,149,314)
Deferred inflows of resources	890,076	-	-	890,076
Other accrued expenses	64,762	-	-	64,762
Cash provided by (used for) operating activities	\$ (4,067,267)	\$ (71,483)	\$ 283,060	\$ (3,855,690)

COMPLIANCE

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
EASTERN SHORE COMMUNITY SERVICES BOARD
NASSAWADOX, VIRGINIA

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of Eastern Shore Community Services Board as of and for the year ended June 30, 2015 and the related notes to the financial statements, which collectively comprise Eastern Shore Community Services Board's basic financial statements and have issued our report thereon dated November 19, 2015.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Eastern Shore 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 Eastern Shore Community Services Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Eastern Shore 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 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 Eastern Shore 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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "D. F. Cox", followed by a long horizontal line extending to the right.

Richmond, Virginia
November 19, 2015

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report on Compliance For Each Major Program and on Internal Control over Compliance Required by OMB Circular A-133

TO THE BOARD OF DIRECTORS
EASTERN SHORE COMMUNITY SERVICES BOARD
NASSAWADOX, VIRGINIA

Report on Compliance for Each Major Federal Program

We have audited Eastern Shore Community Services Board's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Eastern Shore Community Services Board's major federal programs for the year ended June 30, 2015. Eastern Shore 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.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Eastern Shore 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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 Eastern Shore 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 Eastern Shore Community Services Board's compliance.

Opinion on Each Major Federal Program

In our opinion, Eastern Shore 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, 2015

Report on Internal Control over Compliance

Management of Eastern Shore 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 Eastern Shore 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 OMB Circular A-133, 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 Eastern Shore 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Richmond, Virginia
November 19, 2015

EASTERN SHORE COMMUNITY SERVICES BOARD

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2015

Federal Grantor/ State Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Department of Education Pass Through Payments: Department of Behavioral Health and Developmental Services:			
		4450700-43077 &	
Special Education - Grants for Infants and Families	84.181	4450700-43078	\$ 48,603
Total Department of Education			\$ 48,603
Department of Health and Human Services: Pass Through Payments: Department of Behavioral Health and Developmental Services:			
Block Grants for Community Mental Health Services	93.958	4450600-50124	\$ 36,997
		4450100-50164 &	
Block Grants for Prevention and Treatment of Substance Abuse	93.959	4450100-50194	414,725
Total Department of Health and Human Services			\$ 451,722
Total Expenditures of Federal Awards			\$ 500,325

See accompanying notes to schedule of expenditures of federal awards.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2015

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Eastern Shore Community Services Board under programs of the federal government for the year ended June 30, 2015. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Eastern Shore Community Services Board, it is not intended to and does not present the financial position, changes in net position, or cash flows of Eastern Shore Community Services Board.

Note B - Summary of Significant Accounting Policies

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, 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 - Relationship to Financial Statements

Federal expenditures, revenues and capital contributions are reported in Eastern Shore Community Services Board basic financial statements as follows:

Appropriations from the Commonwealth of Virginia, including pass-through grants	<u>\$ 500,325</u>
Total federal expenditures per basic financial statements	<u>\$ 500,325</u>
Total federal expenditures per the Schedule of Expenditures of Federal Awards	<u><u>\$ 500,325</u></u>

EASTERN SHORE COMMUNITY SERVICES BOARD

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

Section I - Summary of Auditors' Results

Type of auditors' report issued: unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ yes ☒ no

Significant deficiency(ies) identified? _____ yes ☒ none reported

Noncompliance material to financial statements noted? _____ yes ☒ no

Internal control over major programs:

Material weakness(es) identified? _____ yes ☒ no

Significant deficiency(ies) identified? _____ yes ☒ 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 section .510(a) of
Circular A-133?

_____ yes ☒ no

Identification of major programs:

CFDA Number(s)

93.959

Name of Federal Program or Cluster

Block Grants for Prevention and
Treatment of Substance Abuse

Dollar threshold used to distinguish between type A
and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

☒ yes _____ no

EASTERN SHORE COMMUNITY SERVICES BOARD

Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

Section II-Financial Statement Findings

None

Section III-Federal Award Findings and Questioned Costs

None

EASTERN SHORE COMMUNITY SERVICES BOARD
Schedule of Prior Year Findings
Year Ended June 30, 2015

No prior year findings.