MIDDLE PENINSULA - NORTHERN NECK

COMMUNITY SERVICES BOARD

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2019

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MIDDLE PENINSULA - NORTHERN NECK COMMUNITY SERVICES BOARD

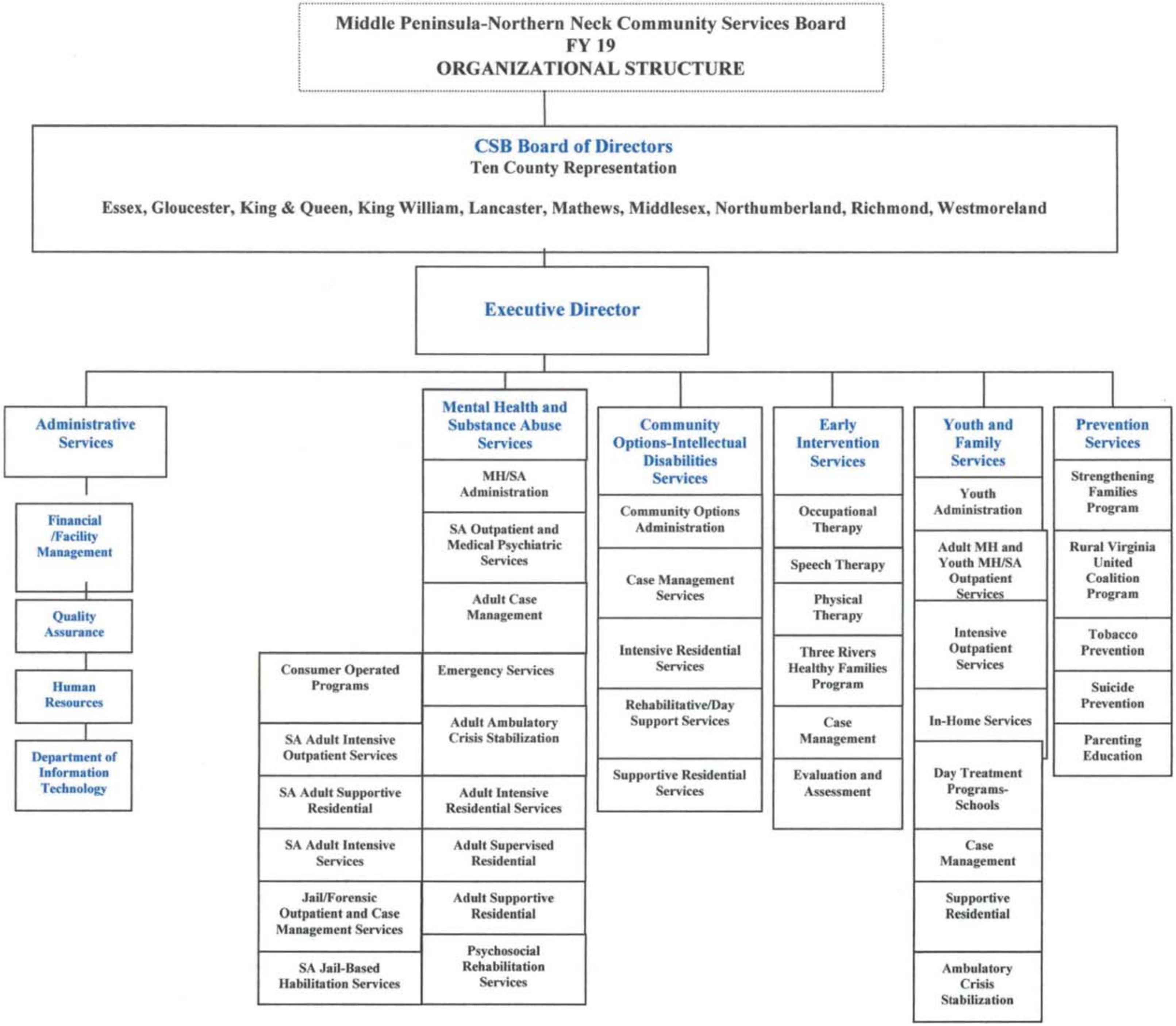
BOARD OF DIRECTORS
At June 30, 2019

Alice Coates, Chair

H. Pratt Haynie, Jr.	Timothy Doss	Dr. Darryl Pirok
Kathryn Knoeller	Stanley Langford	Edith Turner
J. David Parr	Melissa Kenney	Rosalyn Trent

PRINCIPAL MANAGEMENT TEAM

Charles R. Walsh	Executive Director
Yvonne Wingrove	Chief Financial Officer
Linda Hodges	Director of Clinical Mental Health & Substance Abuse
Lynnie McCrobie	Director of Intellectual Disabilities
Emily Eanes	Director of Youth and Family Services
William F. Wallace	Director of Human Resources
Katherine Phillips	Director of Early Intervention
Cheryl Matteo-Kerney	Director of Prevention Services
Erich Campbell	Director of Information Technology
Scott Britton	Director of Quality Assurance


Middle Peninsula-Northern Neck Community Services Board
FY 19
ORGANIZATIONAL STRUCTURE
CSB Board of Directors
Ten County Representation
Essex, Gloucester, King & Queen, King William, Lancaster, Mathews, Middlesex, Northumberland, Richmond, Westmoreland
Executive Director
Administrative Services
Financial /Facility Management
Quality Assurance
Human Resources
Department of Information Technology
Mental Health and Substance Abuse Services
MH/SA Administration
SA Outpatient and Medical Psychiatric Services
Adult Case Management
Emergency Services
Adult Ambulatory Crisis Stabilization
Adult Intensive Residential Services
Adult Supervised Residential
Adult Supportive Residential
Psychosocial Rehabilitation Services
Consumer Operated Programs
SA Adult Intensive Outpatient Services
SA Adult Supportive Residential
SA Adult Intensive Services
Jail/Forensic Outpatient and Case Management Services
SA Jail-Based Habilitation Services
Community Options-Intellectual Disabilities Services
Community Options Administration
Case Management Services
Intensive Residential Services
Rehabilitative/Day Support Services
Supportive Residential Services
Early Intervention Services
Occupational Therapy
Speech Therapy
Physical Therapy
Three Rivers Healthy Families Program
Case Management
Evaluation and Assessment
Youth and Family Services
Youth Administration
Adult MH and Youth MH/SA Outpatient Services
Intensive Outpatient Services
In-Home Services
Day Treatment Programs-Schools
Case Management
Supportive Residential
Ambulatory Crisis Stabilization
Prevention Services
Strengthening Families Program
Rural Virginia United Coalition Program
Tobacco Prevention
Suicide Prevention
Parenting Education

Independent Auditors' Report

To the Board of Directors
Middle Peninsula-Northern Neck Community Services Board
Saluda, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Middle Peninsula-Northern Neck Community Services Board, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Middle Peninsula-Northern Neck Community Services Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of Middle Peninsula-Northern Neck Community Services Board, as of June 30, 2019, and the changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 17 to the financial statements, in 2019, the Board adopted new accounting guidance, GASB Statement No. 88 *Certain Disclosures Related to Debt, Including Borrowing Direct Placements*. 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 related to pension and OPEB funding on pages 4-13, and 44-49 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Middle Peninsula-Northern Neck Community Services Board's basic financial statements. The combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

Report on Summarized Comparative Information

We have previously audited Middle Peninsula-Northern Neck Community Services Board's 2018 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated October 26, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2019, on our consideration of Middle Peninsula-Northern Neck 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Middle Peninsula-Northern Neck Community Services Board's 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 Middle Peninsula-Northern Neck Community Services Board's internal control over financial reporting and compliance.

Robinson Farmer Cox Associates

Charlottesville, Virginia
November 16, 2019

The following Management's Discussion and Analysis of the Middle Peninsula - Northern Neck Community Services Board's (MPNNCSB) activities and financial performance provides an introduction and overview to the financial statements for fiscal year ended June 30, 2019. The financial statements not only represent the operations of the Board but are blended with Properties, Inc. and three HUD projects, Kilmarnock New Horizons, Lively Turning Point and Woodland Pointe. Properties, Inc. is a property holding organization for the Board. The HUD projects were organized to own and operate facilities for individuals with disabilities. All three of these components are not-for-profit organizations exempt under Section 501(c)(3) of the Internal Revenue Code.

HIGHLIGHTS ON FISCAL YEAR 2019

MPNNCSB's focus in FY 19 included:

1. MPNNCSB was awarded a Substance Use Disorder Federal OPT-R Prevention Opioid grant that totaled $114,900 in FY 19.
2. The four year grant, System of Care (total award $617,152), continued into FY 19 for $178,773.
3. MPNNCSB was awarded $$288,333 in a Substance Use Disorder Federal OPT-R Treatment grant.
4. Collaborated with Western Tidewater Mental Health (WTMH) CSB to provide Mental Health Skill Building services at Tidewater Cove run by WTMH CSB.
5. Received $80,000 from the region to hire an additional emergency services position.
6. The USDA funded $15,182 in groceries for the Psychosocial Rehabilitative program, Charterhouse.
7. Another Substance Use Disorder Federal Opioid Response grant was awarded in the amount of $385,000.
8. MPNNCSB received additional support for it's Consumer/Peer Run program in Federal one time funding of $45,000 as well as receiving $15,000 in SA state Peer Resource funds.
9. MPNNCSB experienced a $165,620 reduction in state general funds due to Medicaid expansion.
10. Due to psychiatric shortage in clinics MPNNCSB discontinued psychiatric services to two area nursing homes.
11. Participated in Anthem's Behavioral Health Quality Incentive program and are a gold card member.
12. MPNNCSB is a major player in the region's telehealth opioid initiative and initiated behavioral health behavioral health services in Colonial Beach, Westmoreland and Northumberland schools.
13. The agency outsourced its accounts receivable effort to Credible. MPNNCSB is the first CSB in the state to outsource billing. All claiming, posting and follow-up are processed by Credible staff. MPNNCSB was able to undergo this effort by not hiring three billing staff and replacing with outsourcing.
14. MPNCSB leased an additional ten vehicles from Enterprise, using the cooperative agreement from another CSB to avoid the cost and time of having the agency perform an RFP. MPNNCSB's fleet continues to age and in need of replacement and leasing was an option that other CSBs had also tried.
15. A one-time $15,000 donation was made from the Zaruba Foundation to assist with suicide prevention and treatment. The Zaruba's set up the foundation in honor of their son who committed suicide.

HIGHLIGHTS ON FISCAL YEAR 2019 (continued)

16. The Middle Peninsula Regional Jail increased funding for another position in the jail for a total of $96,188 and the Northern Neck Regional jail funded 2 full time and one part time position for a total of $119,000.
17. Lancaster Sheriff contract of $15,000 and Gloucester Sherriff's contract of $25,000 continued in FY 19.
18. A continuation of the Healthy Families Grant through the Department of Social Services continued at $181,816 for FY 19.
19. MPNCSB continued as the fiscal agent for the region managing $125,000 in a regional suicide and mental health first aid grant.
20. MPNNCSB continued with a $50,000 Virginia Tobacco Grant and the HCAT nutritional grant at $30,000.
21. The Same Day Access program, a new way of processing consumers to be seen on the same day they call or come in for services, continued in FY 19 with MTM consultants training clinical staff in measuring productivity and efficiency. Walk in appointments have significantly increased in the clinics. Received 303,175 for implementation of Same Day Access.
22. The PACT program continued with another $750,000 in state funds for the year.
23. Ongoing federal consumer grants continued with the Consumer Operated Program -$31,164 and Peer Recovery $108,290.
24. The CIT Assessment site in Tappahannock was closed due to low usage. A new site was opened in Gloucester which has seen a dramatic increase in referrals.
25. The VOCA grant continued with an award of $67,777.
26. Properties Inc., which MPNNCSB leases office space and group homes, worked to complete space planning and architectural work on the two new bank buildings-completion is slated for some time 2020.
27. MPNNCSB closed the King William Counseling Center as it was not financially successful.
28. The MPNNCSB terminated the Community options Case Management office lease as staff are telecommuting and using other offices.
29. Fees were $13,577.948 in FY 19 compared to $12,774,420 in FY 18. This was a 6.29% increase from prior year mainly from Medicaid. Fees accounted for 57.78% of total revenue.
30. Operating expenses increased by $692,247 or 3.04% from the prior year.
31. Revenues from the Commonwealth of Virginia increased $498,961 or 7.77%; federal opioid grants contributed significantly. Federal funds had an increase/decrease of $203,688 or 13.08% while Local funds increased by $8,622 or 1.69%.

SUMMARY OF OPERATIONS AND CHANGES IN NET POSITION

The change in net position as of June 30, 2019 was ($67,589) as compared to ($911,010) in 2018.

	2019	2018
Operating revenues	$ 13,577,948	$ 12,774,420
Operating expenses	23,459,251	22,767,004
Operating income (loss)	$ (9,881,303)	$ (9,992,584)
Net nonoperating income	9,813,714	9,081,574
Change in net position	$ (67,589)	$ (911,010)

FINANCIAL POSITION SUMMARY

Net position may serve over time as a useful indicator of MPNNCSB's financial position. MPNNCSB's financial position is measured in terms of resources (assets and deferred outflows of resources) owned and obligations (liabilities and deferred inflows of resources) owed as of June 30, 2019. This information is reflected on the Statement of Net Position. The excess of assets and deferred outflows of resources over liabilities and deferred inflows of resources is the net position. MPNNCSB's net position was $8.4M.

A condensed summary of the CSB's Statements of Net Position at June 30, 2019 and 2018 is shown below:

		2019		2018
Assets				
Current assets	$	4,597,550	$	5,777,206
Restricted current assets		168,353		200,248
Capital assets (net of depreciation)		6,261,842		6,640,489
Other assets		4,784,220		4,220,650
Total assets	$	15,811,965	$	16,838,593
Deferred outflows of resources	$	431,831	$	461,260
Liabilities				
Current liabilities	$	5,498,753	$	3,863,613
Current liabilities payable from restricted current assets		91,384		120,700
Long-term liabilities		1,077,092		3,158,297
Total liabilities	$	6,667,229	$	7,142,610
Deferred inflows of resources	$	1,163,491	$	1,676,578
Net position	$	8,413,076	$	8,480,665

CASH FLOWS

The flow of cash resources into and out of MPNNCSB during the fiscal year is reflected on the Statement of Cash Flows. This statement also reflects net increases or decreases in cash and cash equivalents for the year and the ending cash and cash equivalents as of June 30, 2019 and 2018.

		2019		2018
Cash flows from operating activities	$	(10,665,288)	$	(10,315,387)
Cash flows from noncapital financing activities		9,903,003		9,113,852
Cash flows from capital and related financing activities		(164,742)		337,728
Cash flows from investing activities		33,262		38,482
Net increase (decrease) in cash and cash equivalents	$	(893,765)	$	(825,325)

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

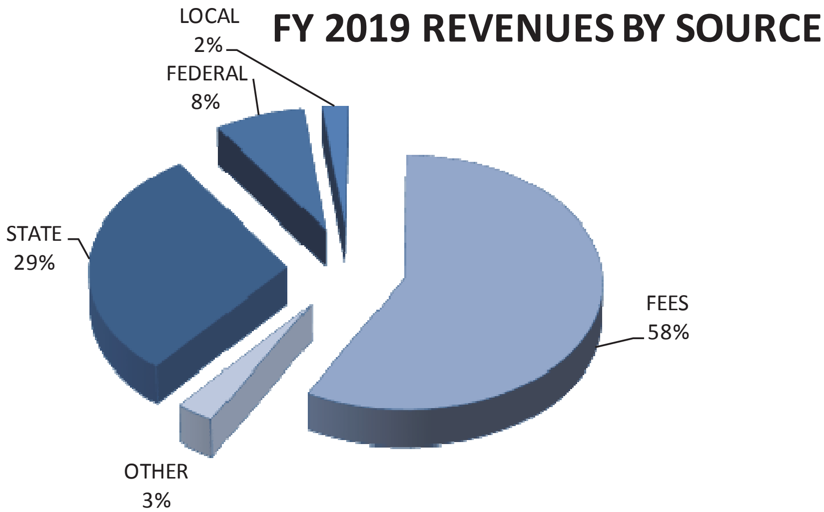
Cash Flows from Noncapital and Related Financing Activities consists of income received primarily as government grants.

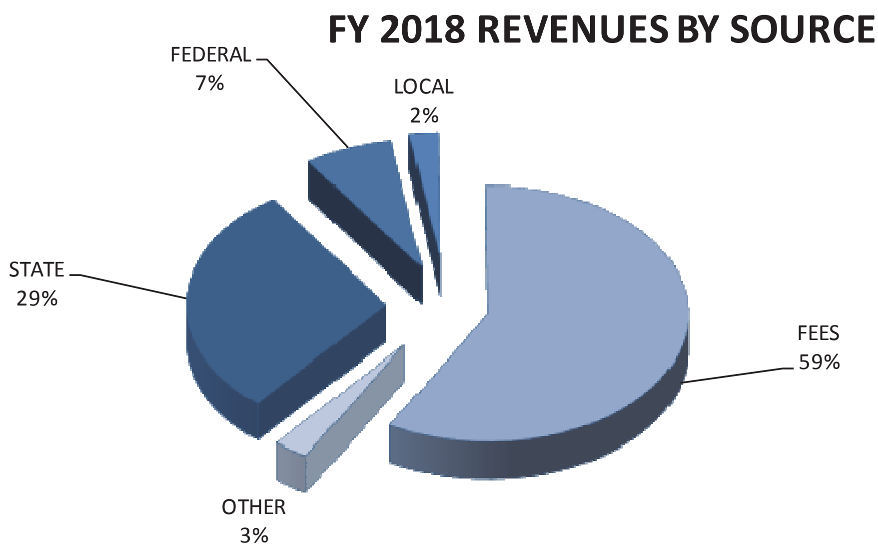
Cash Flows from Capital and Related Financing Activities represents income from acquisition of fixed assets, interest payment on long term debt, principal payments on mortgages and loans payable.

The decrease in cash of $893,765 is due mainly to the decrease of patient service revenue.

REVENUES

The following charts show the major sources and the percentages of operating revenues for the years ended June 30, 2019 and 2018:





REVENUES (continued)

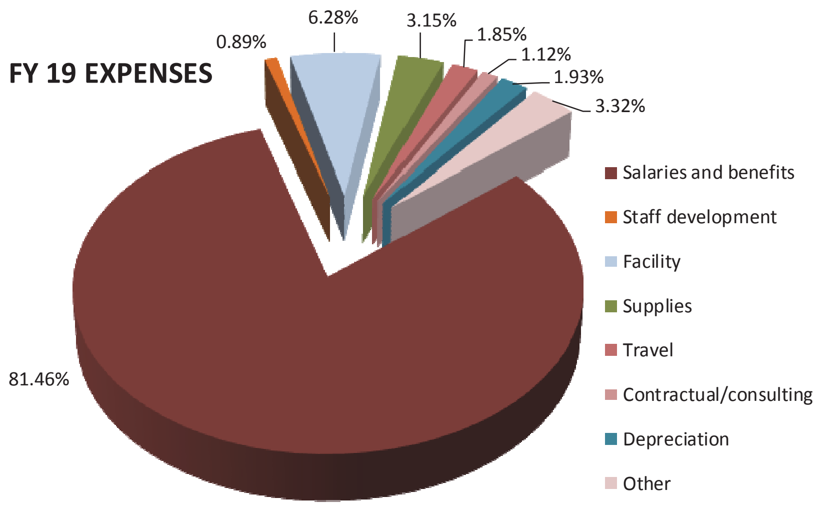
A summary of revenues for the years ended June 30, 2019 and 2018 and the amount and percentage change of 2019 in relation to 2018 are as follows:

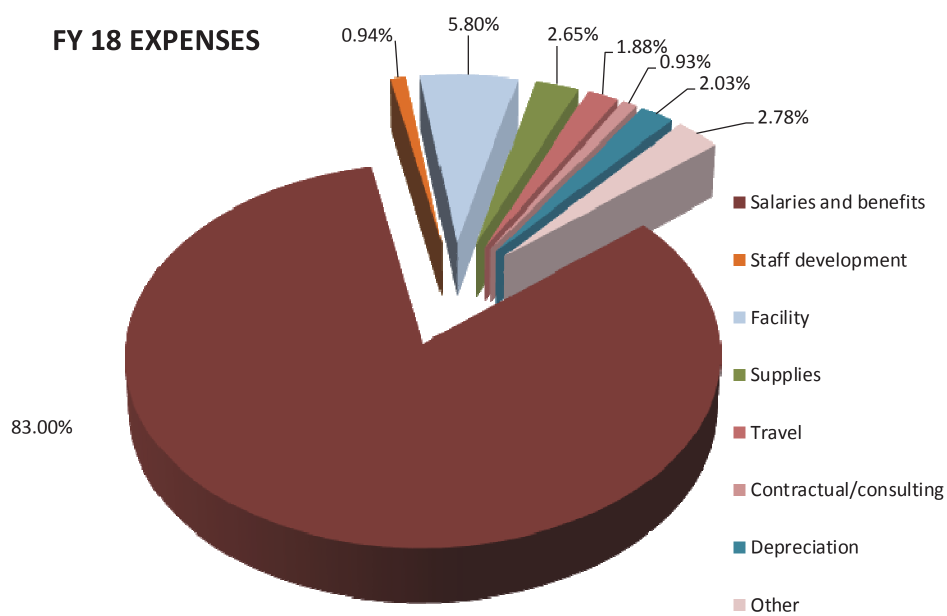
Major Revenue Category Comparison Fiscal Years 2019 and 2018

Revenue	2019	Percent of Total	2018	Percent of Total	Increase (Decrease) from 2018	Percent Increase (Decrease) from 2018
State	$ 6,918,253	29.44%	$ 6,419,292	29.32%	$ 498,961	7.77%
Federal	1,761,202	7.49%	1,557,514	7.12%	203,688	13.08%
Local	518,626	2.21%	510,004	2.33%	8,622	1.69%
Fees	13,577,948	57.78%	12,774,420	58.36%	803,528	6.29%
Other	723,237	3.08%	628,766	2.87%	94,471	15.02%
Total	$ 23,499,266	100.00%	$ 21,889,996	100.00%	$ 1,609,270	43.86%

EXPENSES

The following charts show the expense categories and percentage of operating expenses for the years ended June 30, 2019 and 2018.





EXPENSES (continued)

A summary of operating expenses for the years ended June 30, 2019 and 2018 and the amount and percentage change in 2019 in relation to 2018 are as follows:

Major Operating Expense Category Comparison Fiscal Years 2019 and 2018

Operating Expenses	Expenses 2019	Percent of Total	2018	Percent of Total	Increase (Decrease) from 2018	Percent Increase (Decrease) from 2018
Salaries and benefits	$ 19,109,833	81.46%	$ 18,896,796	82.99%	$ 213,037	1.13%
Staff development	208,524	0.89%	213,005	0.94%	(4,481)	-2.10%
Facility	1,474,226	6.28%	1,320,378	5.80%	153,848	11.65%
Supplies	737,817	3.15%	602,195	2.65%	135,622	22.52%
Travel	434,802	1.85%	428,494	1.88%	6,308	1.47%
Contractual/Consulting	263,476	1.12%	210,715	0.93%	52,761	25.04%
Depreciation	452,352	1.93%	462,185	2.03%	(9,833)	-2.13%
Other	778,221	3.32%	633,236	2.78%	144,985	22.90%
Total	$ 23,459,251	100.00%	$ 22,767,004	100.00%	$ 692,247	3.04%

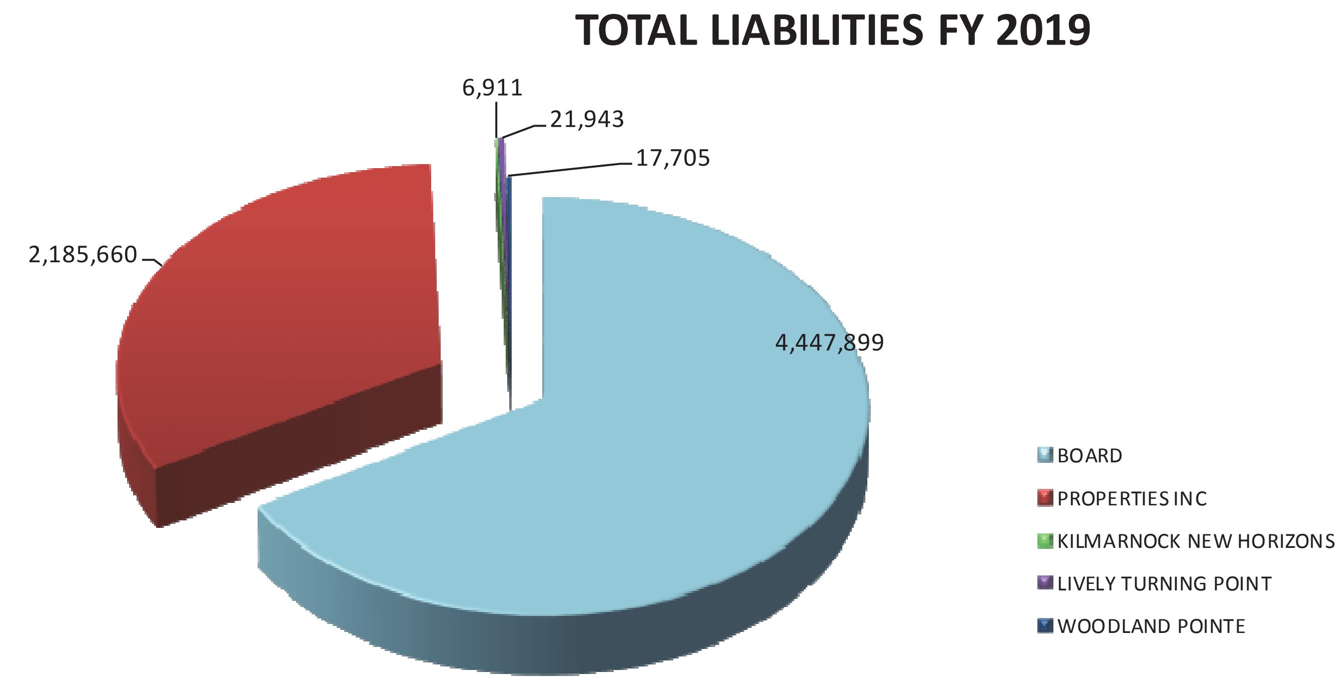
Debt Administration:

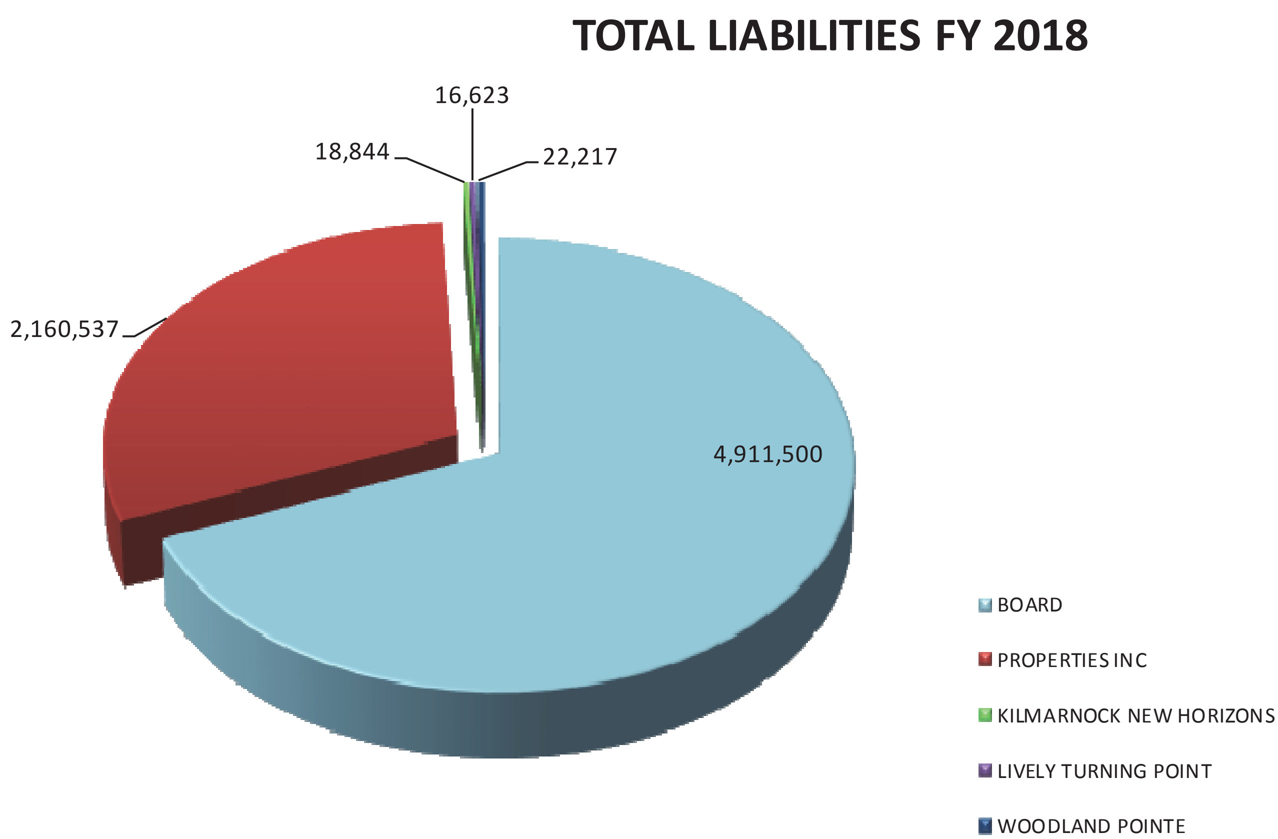
The component units of the organization contribute in varying degrees to the current and long-term debt. For MPNNCSB, current and total liabilities decreased by 6.31% for FY 2019. Total liabilities for Kilmarnock New Horizons and Lively Turning Point decreased due to a reduction in payables and a loan repayment. Woodland Pointe incurred a change in accrued expenses from the prior year.

Debt Administration

	FY 2019	Increase (Decrease) from 2018	FY 2018	Percent Increase (Decrease) from 2018
Board	$ 4,447,899	$ (463,601)	$ 4,911,500	-9.44%
Properties Inc.	2,185,660	25,123	2,160,537	1.16%
Kilmarnock New Horizons	6,911	(11,933)	18,844	-63.33%
Lively Turning Point	21,943	5,320	16,623	32.00%
Woodland Pointe	17,705	(4,512)	22,217	-20.31%
Total	$ 6,680,118	$ (449,603)	$ 7,129,721	-6.31%

EXPENSES (continued)



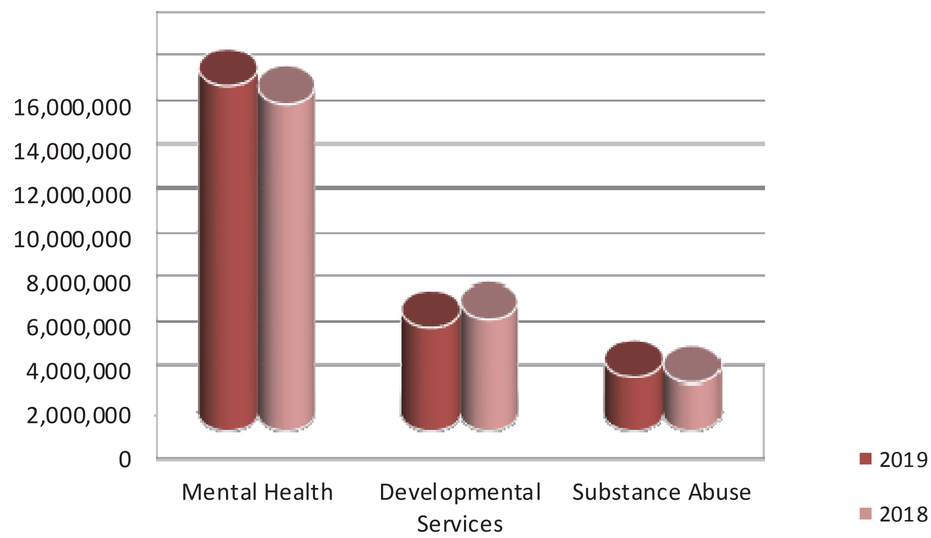


Summary of Revenue and Expenses by Disability (as reported on the Year End Financial Report to the Department of Behavioral Health and Developmental Services):

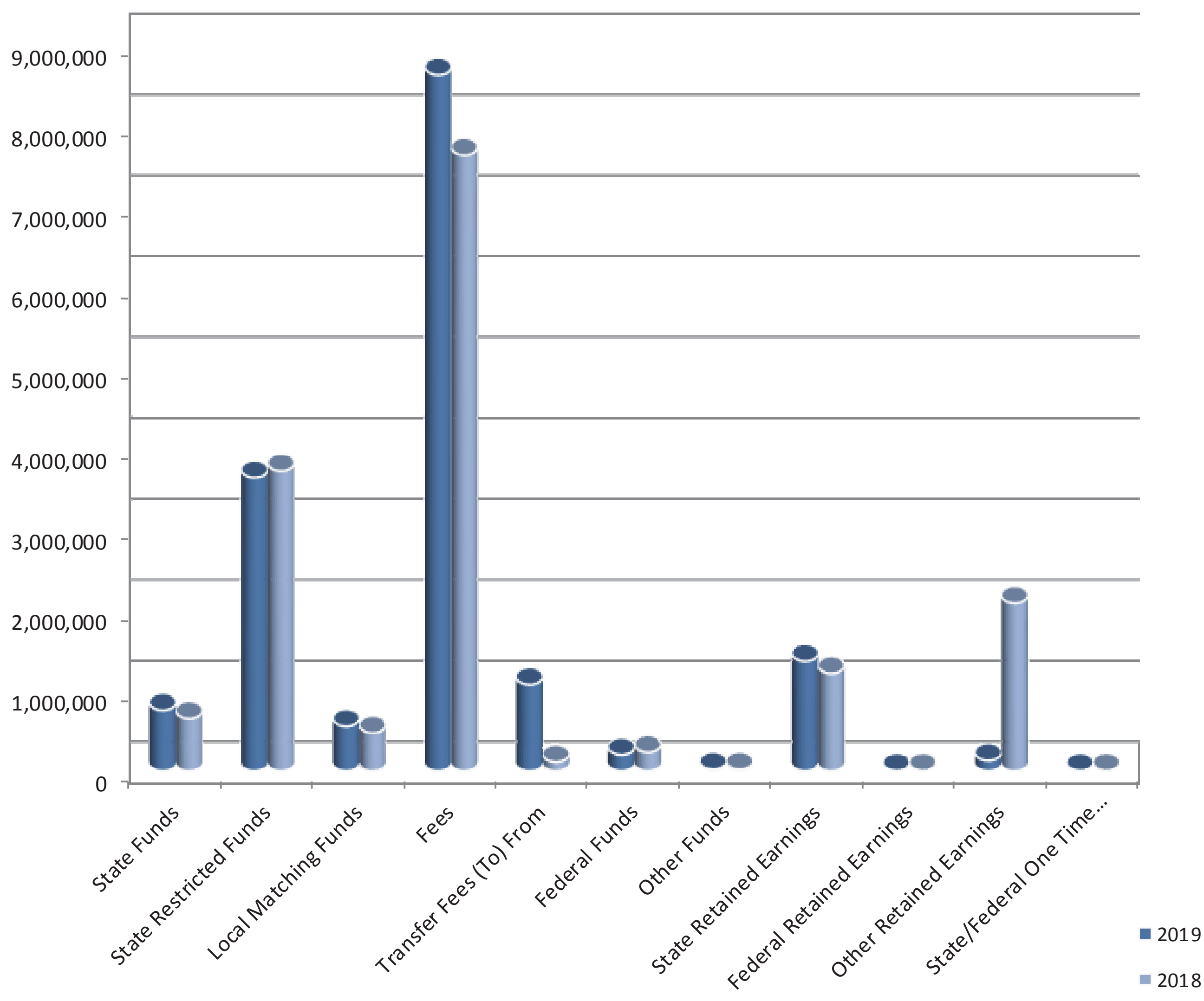
Summary of Revenue and Expenses by Disability

	2019	2018	Percent Increase/ (Decrease)
Mental Health Services			
Revenue			
State Funds	$ 744,274	$ 641,756	15.97%
State Restricted Funds	3,621,457	3,704,517	-2.24%
Local Matching Funds	544,075	462,953	17.52%
Total Fees	8,603,057	7,610,664	13.04%
Transfer Fees (To)/From	1,060,955	104,519	915.08%
Federal Funds	193,406	224,843	-13.98%
Other Funds	15,000	14,733	1.81%
State Retained Earnings	1,351,122	1,198,987	12.69%
Other Retained Earnings	123,800	2,067,386	-94.01%
Total Revenues	$ 16,257,146	$ 16,030,358	1.41%
Expenses	15,521,256	14,757,871	5.17%
Balances	$ 735,890	$ 1,272,487	-42.17%
Developmental Services			
Revenue			
State Funds	$ 5,554	$ 5,008	10.90%
Local Matching Funds	71,951	47,051	52.92%
Total Fees	4,912,635	4,542,935	8.14%
Other Funds	1,800	-	100.00%
Transfer Fees (To)/From	(327,745)	433,791	-175.55%
Total Revenues	$ 4,664,195	$ 5,028,785	-7.25%
Expenses	4,664,195	5,028,785	-7.25%
Balances	$ -	$ -	0.00%
Substance Abuse Services			
Revenue			
State Funds	$ 1,002,864	$ 999,681	0.32%
Total Fees	771,448	572,545	34.74%
Transfer Fees (To)/From	(733,210)	(538,310)	36.21%
Federal Funds	1,483,656	1,207,843	22.84%
Other Funds	5,520	94,049	-94.13%
State One Time Funds	-	107,500	-100.00%
State Retained Earnings	92,162	-	100.00%
Federal Retained Earnings	212,317	34,235	520.18%
Other Retained Earnings	4,050	-	100.00%
Federal One Time Funds	7,931	1,400	466.50%
Total Revenues	$ 2,846,738	$ 2,478,943	14.84%
Expenses	2,393,293	2,141,526	11.76%
Balances	$ 453,445	$ 337,417	100.00%

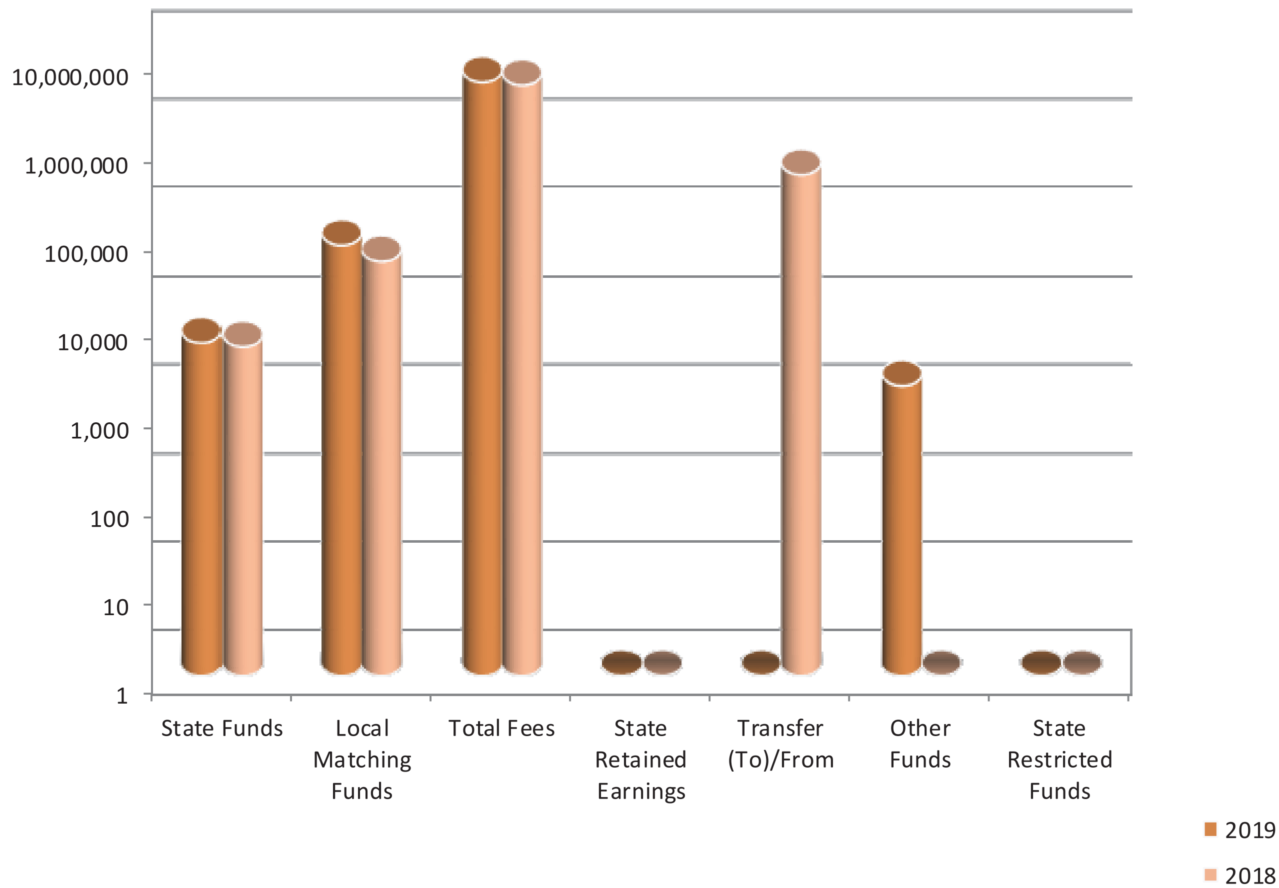
Expenses by Disability 2019 vs. 2018



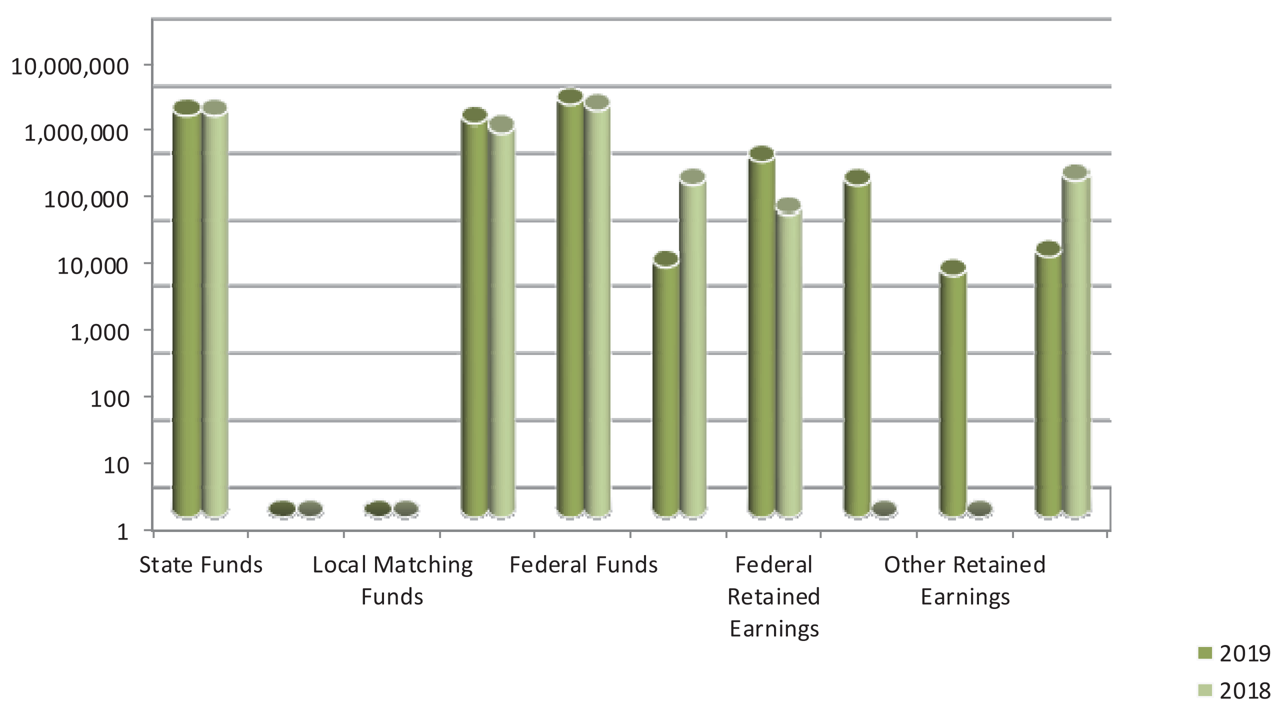
Mental Health Services Revenue FY 2019 vs. FY 2018



Developmental Services Revenue 2019 vs. 2018



Substance Abuse Services Revenue 2019 vs. 2018



- Basic Financial Statements -

MIDDLE PENINSULA-NORTHERN NECK COMMUNITY SERVICES BOARD

Statement of Net Position
At June 30, 2019
(With Comparative Totals for 2018)

	2019	2018
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 2,778,942	$ 3,659,003
Accounts receivable, less allowance for uncollectibles	1,378,126	1,750,620
Due from other governments	247,160	357,327
Prepaid items	193,322	10,256
Total current assets	$ 4,597,550	$ 5,777,206
Restricted Current Assets:		
Cash and cash equivalents	$ 123,528	$ 137,232
Client funds	44,825	63,016
Total restricted current assets	$ 168,353	$ 200,248
Other Assets:		
Net pension asset	$ 4,784,220	$ 4,220,650
Capital Assets:		
Property and equipment, less accumulated depreciation	$ 6,261,842	$ 6,640,489
Total assets	$ 15,811,965	$ 16,838,593
DEFERRED OUTFLOWS OF RESOURCES		
Pension related items	$ 271,446	$ 346,660
OPEB related items	160,385	114,600
Total deferred outflows of resources	$ 431,831	$ 461,260
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued expenses	$ 662,711	$ 525,361
Deposits and other	68,432	91,416
Compensated absences	1,280,468	1,323,177
Unearned revenue	1,428,128	1,838,397
Long-term debt, current portion	2,059,014	85,262
Total current liabilities	$ 5,498,753	$ 3,863,613
Current Liabilities Payable from Restricted Current Assets:		
Client funds	$ 44,825	$ 63,016
Accounts payable and accrued expenses	40,166	51,426
Security deposits	6,393	6,258
Total current liabilities payable from restricted current assets	$ 91,384	$ 120,700
Long-Term Liabilities:		
Net OPEB liability	$ 1,069,000	$ 1,091,000
Long-term debt, less current portion	8,092	2,067,297
Total long-term liabilities payable	$ 1,077,092	$ 3,158,297
Total liabilities	$ 6,667,229	$ 7,142,610
DEFERRED INFLOWS OF RESOURCES		
Pension related items	$ 1,035,491	$ 1,555,578
OPEB related items	128,000	121,000
Total deferred inflows of resources	$ 1,163,491	$ 1,676,578
NET POSITION		
Net investment in capital assets	$ 4,194,736	$ 4,487,930
Restricted	16,143	19,198
Unrestricted	4,202,197	3,973,537
Total net position	$ 8,413,076	$ 8,480,665

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

MIDDLE PENINSULA-NORTHERN NECK COMMUNITY SERVICES BOARD

Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2019
(With Comparative Totals for 2018)

	2019	2018
Operating revenues:		
Net patient service revenue	$ 13,577,948	$ 12,774,420
Operating expenses:		
Salaries and benefits	$ 19,109,833	$ 18,896,796
Staff development	208,524	213,005
Facility	1,474,226	1,320,378
Supplies	737,817	602,195
Travel	434,802	428,494
Contractual and consulting	263,476	210,715
Depreciation	452,352	462,185
Other	778,221	633,236
Total operating expenses	$ 23,459,251	$ 22,767,004
Operating income (loss)	$ (9,881,303)	$ (9,992,584)
Nonoperating income (expense):		
Appropriations:		
Commonwealth of Virginia	$ 6,918,253	$ 6,419,292
Federal government	1,761,202	1,557,514
Local governments	518,626	510,004
Contributions	29,743	46,551
Other	660,232	543,733
Interest income	33,262	38,482
Interest expense	(107,604)	(34,002)
Net nonoperating income (expense)	$ 9,813,714	$ 9,081,574
Change in net position	$ (67,589)	$ (911,010)
Net position, beginning of year	8,480,665	9,391,675
Net position, end of year	$ 8,413,076	$ 8,480,665

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

MIDDLE PENINSULA-NORTHERN NECK COMMUNITY SERVICES BOARD

Statement of Cash Flows
Year Ended June 30, 2019
(With Comparative Totals for 2018)

	2019	2018
Cash flows from operating activities:		
Receipts from customers	$ 13,635,394	$ 12,565,198
Payments to suppliers	(4,078,912)	(3,194,719)
Payments to and for employees	(20,221,770)	(19,685,866)
Net cash flows provided by (used for) operating activities	$ (10,665,288)	$ (10,315,387)
Cash flows from noncapital financing activities:		
Government appropriations	$ 9,198,081	$ 8,486,810
Other	704,922	627,042
Net cash flows provided by (used for) noncapital financing activities	$ 9,903,003	$ 9,113,852
Cash flows from capital and related financing activities:		
Purchase of capital assets	$ (73,705)	$ (1,571,579)
Proceeds from loan payable	-	2,000,000
Interest payment on long-term debt	(5,584)	(9,536)
Principal payments on long-term debt	(85,453)	(81,157)
Net cash flows provided by (used for) capital and related financing activities	$ (164,742)	$ 337,728
Cash flows from investing activities:		
Interest income	$ 33,262	$ 38,482
Net increase (decrease) in cash and cash equivalents	$ (893,765)	$ (825,325)
Cash and cash equivalents, beginning of year	3,796,235	4,621,560
Cash and cash equivalents, end of year	$ 2,902,470	$ 3,796,235
Summary of Cash and Cash Equivalents		
Cash and cash equivalents	$ 2,778,942	$ 3,659,003
Cash and cash equivalents - restricted	123,528	137,232
Total	$ 2,902,470	$ 3,796,235

MIDDLE PENINSULA-NORTHERN NECK COMMUNITY SERVICES BOARD

Statement of Cash Flows
Year Ended June 30, 2019 (Continued)
(With Comparative Totals for 2018)

	2019	2018
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	$ (9,881,303)	$ (9,992,584)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	452,352	462,185
Changes in assets, liabilities and deferred inflows/outflows of resources:		
Accounts receivable and due from other governments	467,715	(571,300)
Prepaid items	(183,066)	197,154
Net pension asset	(563,570)	(2,325,339)
Deferred outflows of resources	29,429	846,075
Accounts payable and accrued expenses	24,069	13,194
Deposits and other	(22,849)	2,956
Compensated absences	(42,709)	(4,507)
Unearned revenue	(410,269)	362,078
Net OPEB liability	(22,000)	(125,000)
Deferred inflows of resources	(513,087)	819,701
Net cash flows provided by (used for) operating activities	$ (10,665,288)	$ (10,315,387)

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Description and Purpose of Organization:

The Board operates as an agent for the Counties of Essex, Gloucester, King and Queen, King William, Lancaster, Mathews, Middlesex, Northumberland, Richmond, and Westmoreland in the establishment and operation of community mental health, developmental disabilities and substance abuse programs as provided for in Title 37.2 of the *Code of Virginia* (1950), relating to the Virginia Department of Behavioral Health and Developmental Services. In addition, the Board provides a system of community mental health and developmental disabilities and substance abuse services which relate to and are integrated with existing and planned programs.

B. Financial Reporting Entity:

For financial reporting purposes, the Board includes all organizations for which it is considered financially accountable. The component units included in these financial statements have a year end of June 30.

Blended Component Units:

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

Properties, Inc. is a property holding organization for the Board and is exempt from taxation under the Federal Internal Revenue Code Section 501(c)(3).

Kilmarnock New Horizons, Lively Turning Point and Woodland Pointe have been included as part of the reporting entity. These entities are not-for-profit organizations exempt under Section 501(c)(3) of the Internal Revenue Code and were organized to own and operate facilities for persons with disabilities.

C. Deferred Outflows/Inflows of Resources:

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

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

C. Deferred Outflows/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 asset and net OPEB liability are reported as deferred inflows of resources. For more detailed information on this item, reference the related notes.

D. Basis of Accounting:

The Board is funded by federal, state, local funds and fees. 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 are recorded when due.

E. Financial Statement Presentation:

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

All significant intercompany transactions and accounts have been eliminated for the combining statements.

F. Enterprise Fund Accounting:

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

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.

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

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 from the date of acquisition.

I. Investments:

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

J. Net Patient Service Revenue:

Net patient 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.

K. Financial Assistance:

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

The vast majority of fees collected result from Medicaid billings.

L. Rental Income:

Rental income is recognized on a monthly basis pursuant to lease agreements, which generally have terms of three to five years. Rental revenue is reported in other nonoperating income.

M. Capital Assets:

Capital assets acquired are recorded at cost. All capital asset purchases of $5,000 or more and with an estimated useful life of at least one year are capitalized. Donated capital assets are recorded at acquisition value at the time of the gift. Depreciation is provided over the estimated useful life of each class of depreciable assets ranging from 5 to 30 years and is computed using the straight-line method.

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

N. Restricted Assets:

The Board segregates monies held on behalf of third parties and other organizations. Client funds are held in escrow for various participants in Board programs. These funds consist of client bank accounts and cash not recorded in the Board's name.

O. Compensated Absences:

Employees are entitled to certain compensated absences based upon length of employment. Paid time off, which includes vacation and certain other compensated absences, vest with the employee. A provision for the estimated liability for these compensated absences has been recorded in the financial statements.

P. Budgetary Accounting:

The Board follows these procedures in establishing its budgets:

1. In response to Letters of Notification received from the Virginia Department of Behavioral Health and Developmental Services (the Department), the Board submits a Performance Contract to the Department. This application contains complete budgets for all Core Services.

2. The Board's Performance reports are filed with the Department during the fiscal year, 45 working days after the end of the second and fourth quarters. The final quarterly report is due by August 31 following the end of the fiscal year, unless extended.

3. If any changes are made during the fiscal year in state or federal block grants or local match funds, the Board submits the quarterly reports which reflect these changes in time to be received by the Department by required deadlines.

Q. Operating and Nonoperating Revenues and Expenses:

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

R. Comparative Totals:

Comparative totals are presented for informational purposes only.

S. Net Position:

Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

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

T. Net Position Flow Assumption:

The Board may fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Board's policy to consider restricted net position to have been depleted or used before unrestricted net position is applied.

U. Pensions:

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

V. Other Postemployment Benefits (OPEB)

For purposes of measuring the net VRS related OPEB liabilities, deferred outflows of resources and deferred inflows of resources related to the OPEB, and OPEB expense, information about the fiduciary net position of the VRS GLI OPEB Plan and the additions to/deductions from the VRS OPEB Plans' net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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)

Restricted Cash:

Restricted cash represents funds held for related organizations and client escrow funds. Client escrow funds are not held in the name of the Board.

Investments:

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

Custodial Credit Risk (Investments):

To protect the Board against potential fraud, the Board requires the investment assets of the Board to be secured through third-party custody and safekeeping procedures. Collateralized securities, such as repurchase agreements, shall be purchased using the delivery versus payment procedure.

At June 30, 2019 the Board had some investments in a single financial institution collateral pool as a part of a cash management arrangement with a bank. The investments in the pool are registered in the name of the pool and consist of FDIC insured certificates of deposit and U.S. government backed securities. The Board's investments in the collateral pool at June 30, 2019 were $1,366,639 or 5.4% of the pool's total value of $25,460,851. None of the collateral pool was uninsured or uncollateralized at June 30, 2019.

The Board's investments at June 30, 2019 were held in the Board's name by the Board's custodial banks.

Credit Risk of Debt Securities:

The Board's rated debt investments as of June 30, 2019 were rated by Standard and Poor's and the ratings are presented below using Standard and Poor's rating scale.

Rated Debt Investments' Values

Rated Debt Investments	Fair Quality Ratings				
	AAAm	AA	A	A1	Unrated
Virginia Local Government Investment Pool	$ 293,112	$ -	$ -	$ -	$ -
U.S. Savings Bonds	-	-	-	-	54,156
Chesapeake Bank Collateral Pool	-	-	-	-	1,366,369
Total	$ 293,112	$ -	$ -	$ -	$ 1,420,525

NOTE 2 - DEPOSITS AND INVESTMENTS: (continued)

Concentration of Credit Risk:

At June 30, 2019 the Board's investment policy regarding the concentration of credit risk requires the minimization of investment risk through the monitoring of credit worthiness of banks and investment pools.

The Board had investments at June 30, 2019 with approximately 86% of the total investments in the Chesapeake Bank Collateral Pool.

Interest Rate Risk:

The following details the Board's interest rate risk at June 30, 2019.

Investment Type	Value	Less Than One Year	1-5 Years	6-10 Years	10 Years +
Virginia Local Government Investment Pool	$ 293,112	$ 293,112	$ -	$ -	$ -
U.S. Savings Bonds	54,156	54,156	-	-	-
Chesapeake Bank Collateral Pool	1,366,369	1,366,369	-	-	-
Total	$ 1,713,637	$ 1,713,637	$ -	$ -	$ -

External Investment Pools:

The value of the positions in the external investment pools is the same as the value of the pool shares. Investments in the Local Government Investment Pool are not SEC registered, but are monitored by the Treasurer of Virginia and other applicable state agencies. The external investment pools are amortized cost basis portfolios. There are no withdrawal limitations or restrictions imposed on participants. Investments in other external investment pools are all SEC registered or federal securities.

There were no involuntary participations in external investment pools. The Board does not sponsor any external investment pools.

NOTE 2 - DEPOSITS AND INVESTMENTS: (continued)

Summary of Cash and Cash Equivalents:

	2019	2018
Cash:		
Petty cash	$ 3,220	$ 3,220
Checking	1,185,613	1,332,287
Total cash	$ 1,188,833	$ 1,335,507
Investments	1,713,637	2,460,728
Total cash and cash equivalents	$ 2,902,470	$ 3,796,235
Allocation:		
Unrestricted	$ 2,778,942	$ 3,659,003
Restricted	123,528	137,232
Total allocation	$ 2,902,470	$ 3,796,235

NOTE 3 - ACCOUNTS RECEIVABLE AND ACCRUED REVENUE:

Client Accounts Receivable:

At June 30, 2019 and 2018 the Board had client accounts receivable due, net of estimated uncollectibles of $1,378,126 and $1,750,6520, respectively, from the following primary sources:

	2019	2018
Virginia Department of Medical Assistance Services (Medicaid)	$ 1,140,803	$ 1,579,276
Direct client and third party	174,000	119,981
Other	63,323	51,363
Total	$ 1,378,126	$ 1,750,620

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

Due from Other Governments:

	2019	2018
Commonwealth of Virginia - grants	$ 223,061	$ 215,510
Federal	-	9,830
Others	24,099	131,987
Total	$ 247,160	$ 357,327

NOTE 4 - CAPITAL ASSETS:

Capital assets consist of the following:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	$ 1,283,078	$ -	$ -	$ 1,283,078
Total capital assets not being depreciated	$ 1,283,078	$ -	$ -	$ 1,283,078
Capital assets being depreciated:				
Buildings	$ 7,027,042	$ 36,882	$ -	$ 7,063,924
Vehicles	2,141,271	-	405,659	1,735,612
Furniture, equipment and software	1,259,886	36,823	289,282	1,007,427
Total capital assets being depreciated	$ 10,428,199	$ 73,705	$ 694,941	$ 9,806,963
Accumulated depreciation:				
Buildings	$ 2,356,468	$ 238,674	$ -	$ 2,595,142
Vehicles	1,915,763	78,055	405,659	1,588,159
Furniture, equipment and software	798,557	135,623	289,282	644,898
Total accumulated depreciation	$ 5,070,788	$ 452,352	$ 694,941	$ 4,828,199
Net capital assets being depreciated	$ 5,357,411	$ (378,647)	$ -	$ 4,978,764
Net capital assets	$ 6,640,489	$ (378,647)	$ -	$ 6,261,842

Total depreciation expense was $452,352 for 2019 and $462,185 for 2018.

NOTE 5 - OPERATING LEASE COMMITMENTS:

The Board leases office space and other facilities from various lessors. The lease terms range from monthly to ten years. All leases are subject to availability of funds and are cancelable within 60 days.

Total rent expense for the year ended June 30, 2019, exclusive of intercompany payments of $368,152, totaled $545,243. Rent expense (net) for 2018 totaled $522,818.

NOTE 6 - COMPENSATED ABSENCES:

The Board has accrued the liability arising from compensated absences.

Board employees earn leave based on length of service. The Board has outstanding accrued leave pay totaling $1,280,468 at June 30, 2019 and $1,323,177 at June 30, 2018. Employees are paid their accumulated annual leave up to certain limits. Accrued leave has been reported as a current liability since there is no determination of the amounts which would be used after one year upon termination of employment.

NOTE 7 - PENSION PLAN:

Plan Description

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

Benefit Structures

The System administers three different benefit structures for covered employees – Plan 1, Plan 2 and Hybrid. Each of these benefit structures has different eligibility criteria, as detailed below.

a. Employees hired before July 1, 2010, vested as of January 1, 2013, and have not taken a refund, are covered under Plan 1, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced retirement benefit beginning at age 65 with at least 5 years of creditable service or age 50 with at least 30 years of creditable service. Non-hazardous duty employees may retire with a reduced benefit as early as age 55 with at least 5 years of creditable service or age 50 with at least 10 years of creditable service. Hazardous duty employees (law enforcement officers, firefighters, and sheriffs) are eligible for an unreduced benefit beginning at age 60 with at least 5 years of creditable service or age 50 with at least 25 years of creditable service. Hazardous duty employees may retire with a reduced benefit as early as age 50 with at least 5 years of creditable service.

b. Employees hired 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 are covered under Plan 2, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of creditable service or when the sum of their age and service equals 90. Non-hazardous duty employees may retire with a reduced benefit as early as age 60 with at least 5 years of creditable service.

c. Non-hazardous duty employees hired on or after January 1, 2014 are covered by the Hybrid Plan combining the features of a defined benefit plan and a defined contribution plan. Plan 1 and Plan 2 members also had the option of opting into this plan during the election window held January 1 – April 30, 2014 with an effective date of July 1, 2014. Employees covered by this plan are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of creditable service, or when the sum of their age and service equal 90. Employees may retire with a reduced benefit as early as age 60 with at least 5 years of creditable service. For the defined contribution component, members are eligible to receive distributions upon leaving employment, subject to restrictions.

NOTE 7 - PENSION PLAN: (continued)

Average Final Compensation and Service Retirement Multiplier

The VRS defined benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the employee's average final compensation multiplied by the employee's total creditable service. Under Plan 1, average final compensation is the average of the employee's 36 consecutive months of highest compensation and the multiplier is 1.7% for non-hazardous duty employees. Under Plan 2, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the retirement multiplier is 1.65% for non-hazardous duty employees. Under the Hybrid Plan, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the multiplier 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.

Cost-of-Living Adjustment (COLA) in Retirement and Death and Disability Benefits

Retirees with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service are eligible for an annual COLA beginning July 1 after one full calendar year from the retirement date. Retirees with a reduced benefit and who have less than 20 years of creditable service are eligible for an annual COLA beginning on July 1 after one calendar year following the unreduced retirement eligibility date. Under Plan 1, the COLA cannot exceed 5.00%. Under Plan 2 and the Hybrid Plan, the COLA cannot exceed 3.00%. The VRS also provides death and disability benefits. Title 51.1 of the Code of Virginia, as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

Employees Covered by Benefit Terms

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

	Number
Inactive members or their beneficiaries currently receiving benefits	113
Inactive members:	
Vested inactive members	61
Non-vested inactive members	153
Inactive members active elsewhere in VRS	105
Total inactive members	319
Active members	361
Total covered employees	793

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.

NOTE 7 - PENSION PLAN: (continued)

Contributions: (Continued)

The Board's contractually required employer contribution rate for the year ended June 30, 2019 was 2.59% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Board were $271,446 and $346,660 for the years ended June 30, 2019 and June 30, 2018, respectively.

Net Pension Asset

The net pension asset is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. For Middle Peninsula – Northern Neck Community Services Board, the net pension asset was measured as of June 30, 2018. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation performed as of June 30, 2017 rolled forward to the measurement date of June 30, 2018.

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, 2017, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

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

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

Mortality rates:

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

Pre-Retirement:

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

Post-Retirement:

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

NOTE 7 - PENSION PLAN: (continued)

Actuarial Assumptions – General Employees (Continued)

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

All Others (Non 10 Largest) – Non-Hazardous Duty: 15% of deaths are assumed to be service related
Pre-Retirement:
RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

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

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

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

Largest 10 – Non-Hazardous Duty:

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

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

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

NOTE 7 - PENSION PLAN: (continued)

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
		*Expected arithmetic nominal return	7.30%

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

NOTE 7 - PENSION PLAN: (continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; the Board was also provided with an opportunity to use an alternative employer contribution rate. For the year ended June 30, 2018, the alternate rate was the employer contribution rate used in FY 2012 or 90% of the actuarially determined employer contribution rate from the June 30, 2015 actuarial valuations, whichever was greater. From July 1, 2018 on, participating employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Asset

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2017	$ 30,882,736	$ 35,103,386	$ (4,220,650)
Changes for the year:			
Service cost	$ 1,152,508	$ -	$ 1,152,508
Interest	2,125,324	-	2,125,324
Changes in assumptions	-	-	-
Differences between expected and actual experience	(292,652)	-	(292,652)
Contributions - employer	-	342,784	(342,784)
Contributions - employee	-	623,169	(623,169)
Net investment income	-	2,607,280	(2,607,280)
Benefit payments, including refunds of employee contributions	(1,041,931)	(1,041,931)	-
Administrative expenses	-	(22,149)	22,149
Other changes	-	(2,334)	2,334
Net changes	$ 1,943,249	$ 2,506,819	$ (563,570)
Balances at June 30, 2018	$ 32,825,985	$ 37,610,205	$ (4,784,220)

NOTE 7 - PENSION PLAN: (continued)

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

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

	Rate		
	1% Decrease (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
Net Pension Liability (Asset)	$ (126,789)	$ (4,784,220)	$ (8,613,785)

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

For the year ended June 30, 2019, the Board recognized pension expense of ($740,873). At June 30, 2019, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 460,084
Change in assumptions	-	234,720
Net difference between projected and actual earnings on pension plan investments	-	340,687
Employer contributions subsequent to the measurement date	271,446	-
Total	$ 271,446	$ 1,035,491

$271,446 was reported as deferred outflows of resources related to pensions resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30	
2020	$ (348,579)
2021	(263,772)
2022	(392,431)
2023	(30,711)
2024	-
Thereafter	-

NOTE 7 - PENSION PLAN: (continued)

Pension Plan Data

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

NOTE 8 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN):

Plan Description

The Group Life Insurance (GLI) Program was established pursuant to §51.1-500 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. All full-time, salaried permanent employees of the state agencies, teachers, and employees of participating political subdivisions are automatically covered by the VRS GLI Program upon employment. This is a cost-sharing multiple-employer plan administered by the Virginia Retirement System (the System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

In addition to the Basic GLI benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional GLI Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the GLI Program OPEB.

The specific information for GLI OPEB, including eligibility, coverage and benefits is described below:

Eligible Employees

The GLI Program was established July 1, 1960, for state employees, teachers, and employees of political subdivisions that elect the program. Basic GLI coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their accumulated retirement member contributions and accrued interest.

Benefit Amounts

The GLI Program is a defined benefit plan with several components. The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. The accidental death benefit is double the natural death benefit. In addition to basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances that include the following: accidental dismemberment benefit, safety belt benefit, repatriation benefit, felonious assault benefit, and accelerated death benefit option. The benefit amounts are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value. For covered members with at least 30 years of creditable service, the minimum benefit payable was set at $8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and was increased to $8,279 effective July 1, 2018.

NOTE 8 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (continued)

Contributions

The contribution requirements for the GLI Program are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the GLI Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% x 60%) and the employer component was 0.52% (1.31% x 40%). Employers may elect to pay all or part of the employee contribution; however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2019 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the GLI Program from the entity were $71,385 and $69,600 for the years ended June 30, 2019 and June 30, 2018, respectively.

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB

At June 30, 2019, the entity reported a liability of $1,069,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2018 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the GLI Program for the year ended June 30, 2018 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2018, the participating employer's proportion was .07039% as compared to .07253% at June 30, 2017.

For the year ended June 30, 2019, the participating employer recognized GLI OPEB expense of $9,000. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2019, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 52,000	$ 18,000
Net difference between projected and actual earnings on GLI OPEB program investments	-	35,000
Change in assumptions	-	45,000
Changes in proportion	37,000	30,000
Employer contributions subsequent to the measurement date	71,385	-
Total	$ 160,385	$ 128,000

NOTE 8 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (continued)

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB (Continued)

$71,385 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year Ended June 30		
2020	$	(14,000)
2021		(14,000)
2022		(14,000)
2023		(4,000)
2024		2,000
Thereafter		5,000

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2017, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018. The assumptions include several employer groups as noted below. Mortality rates included herein are for relevant employer groups. Information for other groups can be referenced in the VRS CAFR.

Inflation	2.5%
Salary increases, including inflation:	
General state employees	3.5% – 5.35%
Teachers	3.5%-5.95%
SPORS employees	3.5%-4.75%
VaLORS employees	3.5%-4.75%
JRS employees	4.5%
Locality - General employees	3.5%-5.35%
Locality - Hazardous Duty employees	3.5%-4.75%
Investment rate of return	7.0%, net of investment expenses, 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 OPEB liabilities.

NOTE 8 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (continued)

Actuarial Assumptions: (Continued)

Mortality Rates – Largest Ten Locality Employers – General Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Mortality Rates – Non-Largest Ten Locality Employers – General Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

NOTE 8 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (continued)

Actuarial Assumptions: (Continued)

Mortality Rates – Non-Largest Ten Locality Employers – General Employees: (Continued)

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

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

NET GLI OPEB Liability

The net OPEB liability (NOL) for the GLI Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the measurement date of June 30, 2018, NOL amounts for the GLI Program are as follows (amounts expressed in thousands):

		GLI OPEB Program
Total GLI OPEB Liability	$	3,113,508
Plan Fiduciary Net Position		1,594,773
Employers' Net GLI OPEB Liability (Asset)	$	1,518,735
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability		51.22%

The total GLI OPEB liability is calculated by the System's actuary, and each plan's fiduciary net position is reported in the System's financial statements. The net GLI OPEB liability is disclosed in accordance with the requirements of GASB Statement No. 74 in the System's notes to the financial statements and required supplementary information.

NOTE 8 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (continued)

Long-Term Expected Rate of Return

The long-term expected rate of return on the System's 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 System's 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
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
		*Expected arithmetic nominal return	7.30%

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

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance 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 ended June 30, 2018, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly which was 100% of the actuarially determined contribution rate. From July 1, 2018 on, employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

NOTE 8 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (continued)

Sensitivity of the Employer's Proportionate Share of the Net GLI OPEB Liability to Changes in the Discount Rate

The following presents the employer's proportionate share of the net GLI OPEB liability using the discount rate of 7.00%, as well as what the employer's proportionate share of the net GLI OPEB 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	
	1% Decrease	Current Discount	1% Increase
	(6.00%)	(7.00%)	(8.00%)
Board's proportionate share of the Group Life Insurance Program Net OPEB Liability	$ 1,397,000	$ 1,069,000	$ 802,000

GLI Program Fiduciary Net Position

Detailed information about the GLI Program's Fiduciary Net Position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

NOTE 9 - UNEARNED REVENUE:

Unearned revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. Unearned revenue is comprised of the following:

Unearned Revenue	2019	2018
Unexpended state grant funds	$ 978,529	$ 1,542,351
Unexpended federal grant funds	449,599	212,317
Unexpended restricted contributions	-	83,729
Total	$ 1,428,128	$ 1,838,397

NOTE 10 - RISK MANAGEMENT:

The Board participates in the Commonwealth of Virginia Risk Management Pool for general, professional liability, and director and officers' liability coverage which have $2,000,000 coverage limits. Other insurance coverage for property, workers' compensation, crime, dishonesty and related coverage are purchased from a commercial insurance carrier. Coverage for these items varies from stated property values to $2,000,000. There are no surety bonds for directors. There have been no settlements in excess of insurance coverages for the past three years. The primary risks of loss are generally confined to co-insurance and deductible amounts.

NOTE 11 - LONG-TERM OBLIGATIONS:

Summary of Changes in Long-Term Obligations:

Direct Borrowings and Direct Placements

	Mortgages Payable	Loan Payable	Total
Balance at July 1, 2018	$ 2,135,934	$ 16,625	$ 2,152,559
Deduct: Retirements	(76,898)	(8,555)	(85,453)
Balance at June 30, 2019	$ 2,059,036	$ 8,070	$ 2,067,106

Long-term obligations consist of the following:

	Balance	Current Portion
Direct Borrowings and Direct Placements:		
Mortgages Payable:		
Chesapeake National Bank, payable in monthly installments of $1,039, plus interest at variable rates through April, 2021, secured by a Deed of Trust on property located in Gloucester, Virginia.	$ 17,388	$ 9,296
Chesapeake National Bank, payable in full at the date of maturity, plus interest at variable rates through September 2019, secured by a Deed of Trust on property located in Tappahannock, Virginia, matures September 2019.	2,000,000	2,000,000
Chesapeake Bank, original amount of $720,000, payable in monthly payments of $5,994, interest at 5.32%, secured by property located in Gloucester County, Virginia, matures January 26, 2020.	41,648	41,648
Total mortgages payable	$ 2,059,036	$ 2,050,944
Loan Payable:		
USDA loan, original amount of $41,200, payable in monthly payments of $750, interest of 3.50%, matures May 11, 2020.	$ 8,070	$ 8,070
Total long-term obligations	$ 2,067,106	$ 2,059,014

NOTE 11 - LONG-TERM OBLIGATIONS: (continued)

Annual requirements to amortize long-term debt at current interest rates are as follows:

Year Ending June 30,	Direct Borrowings and Direct Placements Principal	Direct Borrowings and Direct Placements Interest
2020	$ 2,059,014	$ 124,814
2021	8,092	129
Total	$ 2,067,106	$ 124,943

The Board has no federal arbitrage liability.

NOTE 12 - PARTICIPANT LOCALITY CONTRIBUTIONS:

The participating localities (counties) appropriated the following amounts to the Board:

	2019	2018
Essex	$ 34,927	$ 34,927
Gloucester	138,849	138,849
King and Queen	28,000	26,378
King William	55,325	50,325
Lancaster	42,231	42,231
Mathews	33,130	33,130
Middlesex	41,257	41,257
Northumberland	46,196	46,196
Richmond	32,000	30,000
Westmoreland	66,711	66,711
Total	$ 518,626	$ 510,004

NOTE 13 - NET PATIENT SERVICE REVENUE SOURCES:

Net patient service revenues were from the following sources:

	2019	2018
Medicaid	$ 11,082,757	$ 11,267,609
Direct client and third party	1,887,908	1,035,299
Other	607,283	471,512
Total	$ 13,577,948	$ 12,774,420

NOTE 14 - COMMITMENTS AND CONTINGENCIES:

The Board participates in federal assistance programs which are subject to audit by the grantor agencies. The Board believes that it is in compliance with applicable grant requirements, and any disallowances of costs by grantor agencies would not be material.

NOTE 15 - LINE OF CREDIT:

The Board has a line of credit with Chesapeake Bank in the amount of $3,000,000. One draw in the amount of $150,000 was made from the line of credit during fiscal year 2019. The outstanding balance at June 30, 2019 was $0.

NOTE 16 - RESTRICTED NET POSITION:

Restricted net position consists of cash balances less liabilities payable from such funds for component unit organizations. These funds are restricted for the operation and maintenance of the properties, and these funds cannot be accessed by the Board without approval from the U. S. Department of Housing and Urban Development.

NOTE 17 - ADOPTION OF ACCOUNTING PRINCIPLES:

The Board implemented the financial reporting provisions of Governmental Accounting Standards Board Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements* during the fiscal year ended June 30, 2019. This Statement clarifies which liabilities governments should include when disclosing information related to debt. It also requires that additional essential information related to debt be disclosed in the notes to the financial statements. No restatement was required as a result of this implementation.

NOTE 18 - UPCOMING PRONOUNCEMENTS:

Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Statement No. 87, *Leases*, requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

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

- Required Supplementary Information -

MIDDLE PENINSULA-NORTHERN NECK COMMUNITY SERVICES BOARD

Schedule of Changes in Net Pension Asset and Related Ratios
For the Measurement Dates of June 30, 2014 through June 30, 2018

	2018	2017	2016	2015	2014
Total pension liability					
Service cost	$ 1,152,508	$ 1,191,525	$ 1,168,349	$ 1,201,394	$ 1,269,861
Interest	2,125,324	2,020,678	1,903,960	1,814,479	1,654,937
Changes in assumptions	-	(533,730)	-	-	-
Differences between expected and actual experience	(292,652)	(189,851)	(482,108)	(944,974)	-
Benefit payments, including refunds of employee contributions	(1,041,931)	(945,432)	(900,166)	(685,020)	(606,247)
Net change in total pension liability	$ 1,943,249	$ 1,543,190	$ 1,690,035	$ 1,385,879	$ 2,318,551
Total pension liability - beginning	30,882,736	29,339,546	27,649,511	26,263,632	23,945,081
Total pension liability - ending (a)	$ 32,825,985	$ 30,882,736	$ 29,339,546	$ 27,649,511	$ 26,263,632
Plan fiduciary net position					
Contributions - employer	$ 342,784	$ 366,037	$ 677,438	$ 666,450	$ 924,133
Contributions - employee	623,169	637,509	610,175	636,928	606,235
Net investment income	2,607,280	3,835,526	547,979	1,328,073	3,822,539
Benefit payments, including refunds of employee contributions	(1,041,931)	(945,432)	(900,166)	(685,020)	(606,247)
Administrative expense	(22,149)	(21,680)	(18,429)	(17,298)	(19,602)
Other	(2,334)	(3,431)	(229)	(283)	201
Net change in plan fiduciary net position	$ 2,506,819	$ 3,868,529	$ 916,768	$ 1,928,850	$ 4,727,259
Plan fiduciary net position - beginning	35,103,386	31,234,857	30,318,089	28,389,239	23,661,980
Plan fiduciary net position - ending (b)	$ 37,610,205	$ 35,103,386	$ 31,234,857	$ 30,318,089	$ 28,389,239
Board's net pension liability (asset) - ending (a) - (b)	$ (4,784,220)	$ (4,220,650)	$ (1,895,311)	$ (2,668,578)	$ (2,125,607)
Plan fiduciary net position as a percentage of the total pension liability	114.57%	113.67%	106.46%	109.65%	108.09%
Covered payroll	$ 13,309,107	$ 13,320,650	$ 12,449,072	$ 12,003,383	$ 12,097,480
Board's net pension liability (asset) as a percentage of covered payroll	-35.95%	-31.69%	-15.22%	-22.23%	-17.57%

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

Schedule of Employer Contributions - Pension Plan
For the Years Ended June 30, 2010 through June 30, 2019

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2019	$ 271,446	$ 271,446	$ -	$ 13,620,240	1.99%
2018	346,660	346,660	-	13,309,107	2.60%
2017	414,272	414,272	-	13,320,650	3.11%
2016	700,883	700,883	-	12,449,072	5.63%
2015	675,790	675,790	-	12,003,383	5.63%
2014	924,248	924,248	-	12,097,480	7.64%
2013	898,674	898,674	-	11,762,747	7.64%
2012	649,567	649,567	-	11,788,876	5.51%
2011	606,068	606,068	-	10,999,427	5.51%
2010	484,832	484,832	-	10,381,832	4.67%

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest 10 – Non-Hazardous Duty:

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

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

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

MIDDLE PENINSULA-NORTHERN NECK COMMUNITY SERVICES BOARD

Schedule of Board's Share of Net OPEB Liability
Group Life Insurance Program
For the Measurement Dates of June 30, 2018 and 2017

Date	Employer's Proportion of the Net GLI OPEB Liability	Employer's Proportionate Share of the Net GLI OPEB Liability	Employer's Covered Payroll	Employer's Proportionate Share of the Net GLI OPEB Liability as a Percentage of Covered Payroll (3)/(4)	Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability
2018	0.07039%	$ 1,069,000	$ 13,384,667	7.99%	51.22%
2017	0.07253%	1,091,000	13,320,650	8.19%	48.86%

Schedule is intended to show information for 10 years. Information prior to the 2017 valuation is not available. However, additional years will be included as they become available.

MIDDLE PENINSULA-NORTHERN NECK COMMUNITY SERVICES BOARD

Schedule of Employer Contributions
Group Life Insurance Program
For the Years Ended June 30, 2017 through June 30, 2019

Date	Contractually Required Contribution	Contributions in Relation to Contractually Required Contribution	Contribution Deficiency (Excess)	Employer's Covered Payroll	Contributions as a % of Covered Payroll
2019	$ 71,385	$ 71,385	$ -	$ 13,727,875	0.52%
2018	69,600	69,600	-	13,384,667	0.52%
2017	69,571	69,571	-	13,320,650	0.52%

Schedule is intended to show information for 10 years. Information prior to 2017 is not available. However, additional years will be included as they become available.

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest Ten Locality Employers - General Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Non-Largest Ten Locality Employers - General Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

- Other Supplementary Information -

Combining Financial Statements

Combining Statement of Net Position
At June 30, 2019

	Middle Peninsula Northern Neck Community Services Board	Properties Inc.	Kilmarnock New Horizons
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 1,219,284	$ 1,559,658	$ -
Accounts receivable, less allowance for uncollectibles	1,390,756	-	-
Due from other governments	247,160	-	-
Prepaid items	193,322	-	-
Total current assets	$ 3,050,522	$ 1,559,658	$ -
Restricted Current Assets:			
Cash and cash equivalents	$ -	$ -	$ 23,054
Client funds	44,825	-	-
Total restricted current assets	$ 44,825	$ -	$ 23,054
Other Assets:			
Net pension asset	$ 4,784,220	$ -	$ -
Capital Assets:			
Property and equipment, less accumulated depreciation	$ 1,450,789	$ 2,665,926	$ 255,557
Total assets	$ 9,330,356	$ 4,225,584	$ 278,611
DEFERRED OUTFLOWS OF RESOURCES			
Pension related items	$ 271,446	$ -	$ -
OPEB related items	160,385	-	-
Total deferred outflows of resources	$ 431,831	$ -	$ -
LIABILITIES			
Current Liabilities:			
Accounts payable and accrued expenses	$ 536,087	$ 126,624	$ -
Deposits and other	81,321	-	-
Compensated absences	1,280,468	-	-
Unearned revenue	1,428,128	-	-
Long-term debt, current portion	8,070	2,050,944	-
Total current liabilities	$ 3,334,074	$ 2,177,568	$ -
Current Liabilities Payable from Restricted Current Assets:			
Client funds	$ 44,825	$ -	$ -
Accounts payable and accrued expenses	-	-	5,250
Security deposits	-	-	1,661
Total current liabilities payable from restricted current assets	$ 44,825	$ -	$ 6,911
Long-Term Liabilities:			
Net OPEB liability	$ 1,069,000	$ -	$ -
Long-term debt, less current portion	-	8,092	-
Total long-term liabilities	$ 1,069,000	$ 8,092	$ -
Total liabilities	$ 4,447,899	$ 2,185,660	$ 6,911
DEFERRED INFLOWS OF RESOURCES			
Pension related items	$ 1,035,491	$ -	$ -
OPEB related items	128,000	-	-
Total deferred inflows of resources	$ 1,163,491	$ -	$ -
NET POSITION			
Net investment in capital assets	$ 1,442,719	$ 606,890	$ 255,557
Restricted	-	-	16,143
Unrestricted	2,708,078	1,433,034	-
Total net position	$ 4,150,797	$ 2,039,924	$ 271,700

	Lively Turning Point		Woodland Pointe		Inter-Company and Other Eliminations		Total
$	-	$	-	$	-	$	2,778,942
	-		259		(12,889)		1,378,126
	-		-		-		247,160
	-		-		-		193,322
$	-	$	259	$	(12,889)	$	4,597,550
$	13,987	$	86,487	$	-	$	123,528
	-		-		-		44,825
$	13,987	$	86,487	$	-	$	168,353
$	-	$	-	$	-	$	4,784,220
$	130,585	$	1,758,985	$	-	$	6,261,842
$	144,572	$	1,845,731	$	(12,889)	$	15,811,965
$	-	$	-	$	-	$	271,446
	-		-		-		160,385
$	-	$	-	$	-	$	431,831
$	-	$	-	$	-	$	662,711
	-		-		(12,889)		68,432
	-		-		-		1,280,468
	-		-		-		1,428,128
	-		-		-		2,059,014
$	-	$	-	$	(12,889)	$	5,498,753
$	-	$	-	$	-	$	44,825
	20,318		14,598		-		40,166
	1,625		3,107		-		6,393
$	21,943	$	17,705	$	-	$	91,384
$	-	$	-	$	-	$	1,069,000
	-		-		-		8,092
$	-	$	-	$	-	$	1,077,092
$	21,943	$	17,705	$	(12,889)	$	6,667,229
$	-	$	-	$	-	$	1,035,491
	-		-		-		128,000
$	-	$	-	$	-	$	1,163,491
$	130,585	$	1,758,985	$	-	$	4,194,736
	-		-		-		16,143
	(7,956)		69,041		-		4,202,197
$	122,629	$	1,828,026	$	-	$	8,413,076

MIDDLE PENINSULA-NORTHERN NECK COMMUNITY SERVICES BOARD

Combining Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2019

	Middle Peninsula Northern Neck Community Services Board	Properties Inc.	Kilmarnock New Horizons
Operating revenues:			
Net patient service revenue	$ 13,577,948	$ -	$ -
Operating expenses:			
Salaries and benefits	$ 19,109,833	$ -	$ -
Staff development	208,524	-	-
Facility	1,495,685	207,752	43,266
Supplies	737,817	-	-
Travel	434,802	-	-
Contractual and consulting	236,662	26,814	-
Depreciation	252,286	124,256	19,393
Other	695,833	82,388	-
Total operating expenses	$ 23,171,442	$ 441,210	$ 62,659
Operating income (loss)	$ (9,593,494)	$ (441,210)	$ (62,659)
Nonoperating income (expense):			
Appropriations:			
Commonwealth of Virginia	$ 6,918,253	$ -	$ -
Federal government	1,761,202	-	-
Local governments	518,626	-	-
Contributions	29,743	-	-
Other	526,399	368,776	39,933
Interest income	24,912	7,254	278
Interest expense	(446)	(107,158)	-
Net nonoperating income (expense)	$ 9,778,689	$ 268,872	$ 40,211
Change in net position	$ 185,195	$ (172,338)	$ (22,448)
Net position, beginning of year	3,965,602	2,212,262	294,148
Net position, end of year	$ 4,150,797	$ 2,039,924	$ 271,700

Lively Turning Point	Woodland Pointe	Inter-Company Eliminations	Total
$ -	$ -	$ -	$ 13,577,948
$ -	$ -	$ -	$ 19,109,833
-	-	-	208,524
42,809	52,866	(368,152)	1,474,226
-	-	-	737,817
-	-	-	434,802
-	-	-	263,476
8,778	47,639	-	452,352
-	-	-	778,221
$ 51,587	$ 100,505	$ (368,152)	$ 23,459,251
$ (51,587)	$ (100,505)	$ 368,152	$ (9,881,303)
$ -	$ -	$ -	$ 6,918,253
-	-	-	1,761,202
-	-	-	518,626
-	-	-	29,743
43,539	49,737	(368,152)	660,232
91	727	-	33,262
-	-	-	(107,604)
$ 43,630	$ 50,464	$ (368,152)	$ 9,813,714
$ (7,957)	$ (50,041)	$ -	$ (67,589)
130,586	1,878,067	-	8,480,665
$ 122,629	$ 1,828,026	$ -	$ 8,413,076

MIDDLE PENINSULA-NORTHERN NECK COMMUNITY SERVICES BOARD

Combining Statement of Cash Flows
Year Ended June 30, 2019

	Middle Peninsula Northern Neck Community Services Board	Properties Inc.	Kilmarnock New Horizons
Cash flows from operating activities:			
Receipts from customers	$ 13,635,394	$ -	$ -
Payments to suppliers	(3,980,044)	(316,954)	(55,199)
Payments to and for employees	(20,221,770)	-	-
Net cash flows provided by (used for) operating activities	$ (10,566,420)	$ (316,954)	$ (55,199)
Cash flows from noncapital financing activities:			
Government grants	$ 9,198,081	$ -	$ -
Other	556,142	381,666	39,933
Net cash flows provided by (used for) noncapital financing activities	$ 9,754,223	$ 381,666	$ 39,933
Cash flows from capital and related financing activities:			
Purchase of capital assets	$ (36,823)	$ (36,882)	$ -
Interest payments on long-term debt	(446)	(5,138)	-
Principal payments on long-term debt	(8,555)	(76,898)	-
Net cash flows provided by (used for) capital and related financing activities	$ (45,824)	$ (118,918)	$ -
Cash flows from investing activities:			
Interest income	$ 24,912	$ 7,254	$ 278
Net increase (decrease) in cash and cash equivalents	$ (833,109)	$ (46,952)	$ (14,988)
Cash and cash equivalents, beginning of year	2,052,393	1,606,610	38,042
Cash and cash equivalents, end of year	$ 1,219,284	$ 1,559,658	$ 23,054
Summary of cash and cash equivalents:			
Cash and cash equivalents	$ 1,219,284	$ 1,559,658	$ -
Cash and cash equivalents - restricted	-	-	23,054
Total	$ 1,219,284	$ 1,559,658	$ 23,054
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:			
Operating income (loss)	$ (9,593,494)	$ (441,210)	$ (62,659)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	252,286	124,256	19,393
Changes in assets, liabilities and deferred inflows/outflows of resources:			
Accounts receivable and due from other governments, net	467,715		-
Prepaid items	(183,066)	-	-
Net pension asset	(563,570)	-	-
Deferred outflows of resources	29,429	-	-
Accounts payable and accrued expenses	35,329	-	(11,948)
Deposits and other	(22,984)	-	15
Compensated absences	(42,709)	-	-
Unearned revenue	(410,269)	-	-
Net OPEB liability	(22,000)	-	-
Deferred inflows of resources	(513,087)	-	-
Net cash flows provided by (used for) operating activities	$ (10,566,420)	$ (316,954)	$ (55,199)

	Lively Turning Point		Woodland Pointe		Inter-Company Eliminations		Total
$	-	$	-	$	-	$	13,635,394
	(37,489)		(57,378)		368,152		(4,078,912)
	-		-		-		(20,221,770)
$	(37,489)	$	(57,378)	$	368,152	$	(10,665,288)
$	-	$	-	$	-	$	9,198,081
	43,539		51,794		(368,152)		704,922
$	43,539	$	51,794	$	(368,152)	$	9,903,003
$	-	$	-	$	-	$	(73,705)
	-		-		-		(5,584)
	-		-		-		(85,453)
$	-	$	-	$	-	$	(164,742)
$	91	$	727	$	-	$	33,262
$	6,141	$	(4,857)	$	-	$	(893,765)
	7,846		91,344		-		3,796,235
$	13,987	$	86,487	$	-	$	2,902,470
$	-	$	-	$	-	$	2,778,942
	13,987		86,487		-		123,528
$	13,987	$	86,487	$	-	$	2,902,470
$	(51,587)	$	(100,505)	$	368,152	$	(9,881,303)
	8,778		47,639		-		452,352
	-		-		-		467,715
	-		-		-		(183,066)
	-		-		-		(563,570)
	-		-		-		29,429
	5,306		(4,618)		-		24,069
	14		106		-		(22,849)
	-		-		-		(42,709)
	-		-		-		(410,269)
	-		-		-		(22,000)
	-		-		-		(513,087)
$	(37,489)	$	(57,378)	$	368,152	$	(10,665,288)

- Compliance -

Robinson, Farmer, Cox Associates, PLLC
Certified Public Accountants

CPAs | Consultants

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
Middle Peninsula-Northern Neck Community Services Board
Saluda, 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 Middle Peninsula-Northern Neck Community Services Board, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Middle Peninsula-Northern Neck Community Services Board's basic financial statements and have issued our report thereon dated November 16, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Middle Peninsula-Northern Neck 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 Middle Peninsula-Northern Neck Community Services Board's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Middle Peninsula-Northern Neck Community Services Board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Robinson Farmer Cox Associates

Charlottesville, Virginia
November 16, 2019

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

To the Board of Directors
Middle Peninsula-Northern Neck Community Services Board
Saluda, Virginia

Report on Compliance for Each Major Federal Program

We have audited Middle Peninsula-Northern Neck Community Services Board's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Middle Peninsula-Northern Neck Community Services Board's major federal programs for the year ended June 30, 2019. Middle Peninsula-Northern Neck 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.

Middle Peninsula-Northern Neck Community Services Board's basic financial statements include the operations of the component unit organizations Properties, Inc., Kilmarnock New Horizons, Lively Turning Point and Woodland Pointe Apartments, which expended $2,129,001 in federal awards which is not included in the schedule of expenditures of federal awards during the year ended June 30, 2019. Our audit, described below, did not include the operations of the above component units because the component units issue separate financial statements, and audits in compliance with the Uniform Guidance are performed at the component unit level, where applicable.

Management's Responsibility

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

Auditors' Responsibility

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

Auditors' Responsibility: (Continued)

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 Middle Peninsula-Northern Neck Community Services Board's compliance.

Opinion on Each Major Federal Program

In our opinion, Middle Peninsula-Northern Neck 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, 2019.

Report on Internal Control over Compliance

Management of Middle Peninsula-Northern Neck 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 Middle Peninsula-Northern Neck Community Services Board's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Middle Peninsula-Northern Neck Community Services Board's internal control over compliance.

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

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

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

Robinson Farmer Cox Associates

Charlottesville, Virginia
November 16, 2019

MIDDLE PENINSULA-NORTHERN NECK COMMUNITY SERVICES BOARD

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identification Number		Federal Expenditures
Department of Agriculture:				
Pass-through payments:				
Virginia Department of Agriculture				
Child and Adult Care Food Program	10.558	Not available	$	15,182
Department of Health and Human Services:				
Pass-through payments:				
Virginia Department of Behavioral Health and Developmental Services				
Temporary Assistance for Needy Families (TANF Cluster)	93.558	Not available		181,816
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2B08TI010053	$	780,387
Block Grants for Community Mental Health Services	93.958	2B0904010053		38,770
Opioid STR	93.788	1H79TI081682		613,372
Total Department of Health and Human Services			$	1,614,345
Department of Education:				
Pass-through payments:				
Virginia Department of Behavioral Health and Developmental Services				
Special Education - Grants for Infants and Families	84.181	Not available	$	131,675
Total Expenditures of Federal Awards			$	1,761,202

Notes to Schedule of Expenditures of Federal Awards

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Middle Peninsula-Northern Neck Community Services Board under programs of the federal government for the year ended June 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements of Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the Middle Peninsula-Northern Neck Community Services Board, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Middle Peninsula-Northern Neck 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 the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

(2) Pass-through entity identifying numbers are presented where available.

Note C - Subrecipients

No awards were passed through to subrecipients.

Note D - De Minimis Cost Rate

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

Note E - Loan Balances

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

Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)?	No

Identification of major programs:

CFDA #	Name of Federal Program or Cluster
93.788	Opioid STR

Dollar threshold used to distinguish between Type A and Type B programs	$750,000
Auditee qualified as low-risk auditee?	Yes

Section II - Financial Statement Findings

There are no financial statement findings to report.

Section III - Federal Award Findings and Questioned Costs

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

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2019

There were no prior year findings.