

HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2019

HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

Board of Directors

Thomas F. Morehouse, III
Chair

Venerria Thomas
Vice Chair

Timothy Supler
Treasurer

Beatrice Dahlen
Secretary

Members of the Board

Golden Bethune-Hill
Steven Bond
Chris Bowman
Steven Brown
Arva Davidson

June Owens
Sheriff B. J. Roberts
Morgan Russell
Mary L. Stewart
Elva Williams Hunt

THIS PAGE LEFT BLANK INTENTIONALLY

Table of Contents

	Page
Independent Auditors' Report	1-3
Management's Discussion and Analysis	4-8
<i>Basic Financial Statements:</i>	
Statement of Net Position	9
Statement of Revenues, Expenses and Changes in Net Position	10
Statement of Cash Flows	11
Notes to Financial Statements	12-30
<i>Required Supplementary Information:</i>	
Schedule of Changes in Net Pension Liability (Asset) and Related Ratios	31
Schedule of Employer Contributions	32
Notes to Required Supplementary Information	33
<i>Other Supplementary Information:</i>	
<u>Combining Financial Statements:</u>	
Combining Statement of Net Position	34-35
Combining Statement of Revenues, Expenses and Changes in Net Position	36-37
Combining Statement of Cash Flows	38-39
<i>Compliance:</i>	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	40-41
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	42-43
Schedule of Expenditures of Federal Awards	44
Schedule of Findings and Questioned Costs	45
Summary Schedule of Prior Audit Findings	46

THIS PAGE LEFT BLANK INTENTIONALLY



ROBINSON, FARMER, COX ASSOCIATES, PLLC

Certified Public Accountants

Independent Auditors' Report

To the Board of Directors
Hampton-Newport News Community Services Board
Hampton, Virginia

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Hampton-Newport News 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 15 to the financial statements, in 2019, the Board adopted new accounting guidance, GASB Statement No. 88 *Certain Disclosures Related to Debt, Including Direct Borrowings and 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 funding on pages 4-8 and pages 31-33 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 Hampton-Newport News 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2019, on our consideration of Hampton-Newport News 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 Hampton-Newport News 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 the Hampton-Newport News Community Services Board's internal control over financial reporting and compliance.

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

Richmond, Virginia
October 2, 2019

THIS PAGE LEFT BLANK INTENTIONALLY

HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

Management's Discussion and Analysis

The following Management Discussion and Analysis (MD&A) of the Hampton-Newport News Community Services Board (CSB) activities and financial performance provides the reader with an introduction and overview of the financial statements of the CSB and its associated business entities for the fiscal year ended June 30, 2019. While the MD&A primarily focuses on CSB operations, the accompanying financial statements, which follow the MD&A, also include the Hampton-Newport News Community Services Board Property Company, Inc. (Property Company), Share-a-Homes of the Virginia Peninsula, Inc. (SAH), and Peninsula Community Homes, Inc. (PCH) as described below.

This CSB is an extension and agency of the local governments of the City of Hampton and the City of Newport News, Virginia. The CSB has adopted the provisions of Governmental Accounting Standards Board Accounting Standards Codification (ASC) Topic 2100, *Defining the Financial Reporting Entity*. This guidance amended GASB Statement No. 14 to provide additional guidance to determine whether certain organizations for which the CSB should report as a component unit based on the nature and significance of their relationship with the CSB. Generally, it requires reporting as a component unit, any organization that raises and holds economic resources for the direct benefit of the CSB. In the basic financial statements which follow the MD&A, the operations of the Property Company, SAH, and PCH have been blended with the CSB.

Following the MD&A are the basic financial statement of the CSB together with the notes thereto which are essential to a full understanding of the data contained in the financial statements, certain supplementary information including the Schedule of expenditures of federal awards and the Schedules of Changes in Net Pension Liability (Asset) and Related Ratios and the Schedule of Employer Contributions.

Summary of Operations and Changes in Net Assets - Primary Government Unit

	2019	2018
Operating revenues and appropriations	\$ 57,935,260	\$ 60,378,267
Operating expenses	56,730,748	58,050,605
Excess before interest income (expense)	1,204,512	2,327,662
Interest income	7,555	6,729
Rent of property	263,701	266,148
Other development fees	10,000	-
Interest expense	(581,332)	(549,466)
Change in net position	\$ 904,436	\$ 2,051,073

The increase in net position for the year ended June 30, 2019 of approximately \$0.9 million occurred primarily in the CSB business entity which had a net change in position before transfers of approximately \$0.8 million.

For Operating revenues and appropriations, the net change was an approximate \$2.4 decrease. Within this category, Net Patient service revenues was down approximately \$0.7 million due mainly to tightening of eligibility requirements for Medicaid patients and managed care payers adopting new standards and requirements for authorization and payments. Other operating revenue was down approximately \$1.3 million due to less revenue recognized in 2019 for the Hancock grant of approximately \$1 million and the discontinuance of the REACH program for decrease of approximately \$300K.

Operating expenses were down by approximately \$1.3 million due mainly to the decrease in the cost of the purchase of in-patient bed days on behalf of the region. In addition, the application of pension accounting and the increase in the pension asset resulted in a reduction to pension expense from the prior year of approximately \$738K. Payroll and benefits continue to be a significant part of the Company operating expenses (70% in 2019 and 2018, respectively). The purchase of supplies increased \$407k in 2019.

Interest expense was up approximately \$32K as the interest rate was increased during the 2018 year. No use of the Company's line of credit occurred in fiscal years 2019 or 2018.

The final payment of a development fee of \$10,000 was paid in 2019. All other development fee installments have been paid in prior years. This development fee was from a one-time tax credit financing project completed in 2015.

Uncompensated care was approximately \$4.3 million and \$3.3 million in 2019 and 2018, respectively.

Statements of Net Assets - Primary Government Unit

A condensed summary of the Primary Government Unit's statements of net position is shown below:

	2019	2018
Assets		
Current and other assets	\$ 11,692,770	\$ 11,208,460
Restricted assets	7,359,150	5,133,466
Capital Assets - net of depreciation	22,527,585	23,605,435
Due from other agencies	470,800	1,232,560
Net pension asset	13,033,671	11,844,945
Total Assets	<u>\$ 55,083,976</u>	<u>\$ 53,024,866</u>
Deferred outflows of resources		
Pension contributions made subsequent to measurement date	\$ 330,777	\$ 587,431
Items related to measurement of net pension asset	-	-
Total deferred outflows of resources	<u>330,777</u>	<u>587,431</u>
Liabilities		
Current liabilities	\$ 13,482,203	\$ 10,891,113
Long-term liabilities	15,055,218	15,687,264
Total liabilities	<u>\$ 28,537,421</u>	<u>\$ 26,578,377</u>
Deferred inflows of resources		
Items related to measurement of net pension asset	\$ 2,107,694	\$ 3,168,718
Net Assets		
Net investment in capital assets	\$ 8,221,224	\$ 8,671,170
Restricted	260,228	347,771
Unrestricted	16,288,186	14,846,261
Total net position	<u>\$ 24,769,638</u>	<u>\$ 23,865,202</u>

Changes in the Statement of Net Position Explanations - CSB and Component Units

- **Assets and Liabilities**

- During 2019, current and other assets increased by \$484k primarily related to cash.
- Restricted assets are up approximately \$2.2 million due mainly to cash from regional/restricted programs received in 2019 that will be spent in 2020.
- Capital assets are down approximately \$1.1 million mainly due to limited additions offset by normal depreciation expense.
- Due from other agencies decreased by approximately \$761K due to monies due from a City that were normally paid prior to year-end in the past but were received in July of 2018.
- Net pension asset is down \$1.2 million from the prior year due to the actuarially determined evaluations showing higher expected vs. actual experience. The decrease in the deferred pension contribution subsequent to measurement date of approximately \$256K is due to a smaller required pension payment made after the measurement date. Actuarially determined calculations also explain why the deferred inflow of resources- net pension asset decreased by approximately of \$1.1 million was due to differences between expected and actual experience.
- Current liabilities are up approximately \$2.6 million compared to 2018. The main reason for this change is an increase in deferred revenue of over \$2.3 million due to more advanced funding of projects for which the work will be performed in 2020.
- Long terms liabilities are down approximately \$632K from 2018 to 2019 due mainly to scheduled debt payments.
- The net change to operating expenses of GASB 68 for 2018 was approximately \$2.3 million decrease to salaries and benefits for 2019.
- Change in Net Position - The increase in net position of approximately \$904K is due to positive results on the operating entities discussed above. All entities experienced positive changes in net position (except for PCHI with a loss of \$1,025) for the year ended June 30, 2019.

A condensed summary of the Primary Government Unit's statements of cash flows is shown below:

	2019	2018
Cash Flows from Operating Activities	\$ (26,140,865)	\$ (26,979,122)
Cash Flows from Non-Capital Activities	31,170,482	28,672,566
Cash Flows from Capital Activities	(1,681,757)	(1,443,486)
Cash Flows from Investing Activities	7,555	6,729
Net Increase in Cash	\$ 3,355,415	\$ 256,687
Cash - Beginning of Year	\$ 10,772,661	\$ 10,515,924
Cash - End of Year	14,128,026	10,772,611

Cash flows (use of cash) for operating activities decreased by approximately \$838K in 2019 over 2018. This is primarily the result of a decrease in receipts from customers of approximately 0.7 million as the CSB experienced a delay in payments from various insurance companies which was offset by decreased payments to suppliers of approximately \$1.3 million.

Cash flows from Non-Capital Activities increased by approximately \$2.5 million in 2019 over 2018. This is primarily the result of more State grants received in 2019 over 2018 (a portion of which are in deferred revenue which increased approximately \$2.3 million over 2018).

Cash flows used for Capital Activities increased by approximately \$238K which is due mainly to higher purchases of capital assets of approximately \$194K.

CSB Rates and Charges

Every year during budget development the program directors along with the program managers evaluate the rates charged for each service and determine where adjustments are warranted. The fee schedule for each applicable service is then included in the budget. The Board of Directors approves the CSB budget submission and rate changes in June of each year.

Debt

As of June 30, 2019, the Hampton-Newport News Community Services Board, Hampton-Newport News Property Company, Inc. and Share-A-Homes of the Virginia Peninsula have total long-term debt (including current portion) as follows

Hampton-Newport News CSB	\$ 218,000
Hampton-Newport News Property Company, Inc.	12,908,074
Share-A-Homes of the Virginia Peninsula	<u>1,180,287</u>
Total long-term debt (including current portion)	<u>\$ 14,306,361</u>

All of the debt is collateralized by properties owned by the indebted entities and assignments of lease payments from the CSB where applicable. The related notes are held by, TowneBank, Virginia Housing Development Authority (VHDA) and Federal Housing Authority (FHA). The Primary Government has access to a line of credit with TowneBank for \$5 million of which \$5 million was available at June 30, 2019.

At June 30, 2019 and 2018, the CSB, the Hampton Property Company, Inc., and Share-A-Homes of the Virginia Peninsula were in compliance with required debt service coverage (as defined) for -Newport News Community Services Board, Hampton-Newport News loan agreements with TowneBank.

- **Uncompensated Care** - Services for citizens of Hampton and Newport News who are not covered by insurance or some other third party payer are provided on an ability to pay basis. Both income and number of dependents are considered when determining the portion of service for which the client is responsible. The reduction in fees based on the ability of the citizen to pay is considered uncompensated. In fiscal year 2018, the CSB provided approximately \$3.3 million in uncompensated care.

Financial Statements

CSB provides behavioral health care services in the areas of mental health, developmental disabilities and substance use disorder services. According to Governmental Accounting Standards Board (GASB) Statement No. 34, community services boards are special purpose governmental entities engaged in business-type activities. Therefore, the appropriate financial reporting model utilized by the CSB is the enterprise fund method of accounting using the accrual basis. On the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when incurred, regardless of when the related cash flows take place.

Request for Information

The financial report is designed to provide a general overview of the CSB's finances for all those interested. Questions concerning any of the information provided in this report or request for additional information should be addressed in writing to the Chief Financial Officer, Financial Services, Hampton-Newport News Community Services Board, 300 Medical Drive, Hampton, Virginia 23666.

THIS PAGE LEFT BLANK INTENTIONALLY

BASIC FINANCIAL STATEMENTS

THIS PAGE LEFT BLANK INTENTIONALLY

HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

Statement of Net Position
June 30, 2019

ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 6,789,104
Accounts receivable, less allowance for uncollectibles	4,510,238
Prepaid items	393,428
Restricted Assets:	
Cash and cash equivalents	7,338,922
Security deposits	20,228
Total current assets	\$ 19,051,920
Capital Assets:	
Land and other non-depreciable assets	\$ 5,838,835
Other capital assets, less accumulated depreciation	16,688,750
Total capital assets, net	\$ 22,527,585
Other Assets:	
Due from other agencies	\$ 470,800
Net pension asset	13,033,671
Total other assets	\$ 13,504,471
	\$ 55,083,976
DEFERRED OUTFLOWS OF RESOURCES	
Pension related items	\$ 330,777
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued expenses	\$ 3,926,063
Wages payable	895,029
Other current liabilities	796,303
Accrued interest payable	45,542
Compensated absences, current portion	146,920
Notes payable, current portion	573,424
Current Liabilities Payable From Restricted Assets:	
Client and consumer funds	340,471
Unearned regional revenue	6,748,451
Security deposits	10,000
Total current liabilities	\$ 13,482,203
Long-Term Liabilities:	
Compensated absences, less current portion	\$ 1,322,281
Notes payable, less current portion	13,732,937
Total long-term liabilities	\$ 15,055,218
Total liabilities	\$ 28,537,421
DEFERRED INFLOWS OF RESOURCES	
Pension related items	\$ 2,107,694
NET POSITION	
Net investment in capital assets	\$ 8,221,224
Restricted	260,228
Unrestricted	16,288,186
Total net position	\$ 24,769,638

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

HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

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

Operating Revenues:	
Net patient service revenue	\$ 28,772,227
Other	1,339,625
Total operating revenues	<u>\$ 30,111,852</u>
Operating Expenses:	
Salaries and benefits	\$ 40,515,397
Staff development	217,442
Facility	3,149,423
Supplies	2,931,309
Travel	525,728
Contractual and consulting	3,787,456
Depreciation	1,576,736
Client support	3,813,331
Other	228,098
Total operating expenses	<u>\$ 56,744,920</u>
Operating Income (Loss)	<u>\$ (26,633,068)</u>
Nonoperating Income (Expenses):	
Rental income	\$ 263,701
Other development fees	10,000
Appropriations:	
Commonwealth of Virginia	20,480,573
Federal government	3,990,287
Local governments	3,352,548
Interest income	7,555
Gain on disposition of capital assets	14,172
Interest expense	(581,332)
Net nonoperating income (expense)	<u>\$ 27,537,504</u>
Change in Net Position	<u>\$ 904,436</u>
Net Position, Beginning of Year	<u>23,865,202</u>
Net Position, End of Year	<u><u>\$ 24,769,638</u></u>

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

HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

Statement of Cash Flows
Year Ended June 30, 2019

Cash flows from operating activities:	
Receipts from customers	\$ 30,643,975
Payments to suppliers	(14,420,534)
Payments to and for employees	(42,350,134)
Total cash flows provided by (used for) operating activities	\$ (26,126,693)
Cash flows from noncapital and related financing activities:	
Rental income	\$ 263,701
Other development fees	10,000
Government grants	30,896,781
Total cash flows provided by (used for) noncapital and related financing activities	\$ 31,170,482
Cash flows from capital and related financing activities:	
Purchase of capital assets	\$ (498,886)
Proceeds from sale of assets	14,172
Interest on long-term debt	(583,311)
Principal payments on notes payable	(627,904)
Total cash flows provided by (used for) capital and related financing activities	\$ (1,695,929)
Cash from investing activities:	
Interest income	\$ 7,555
Net increase (decrease) in cash and cash equivalents	\$ 3,355,415
Cash and cash equivalents, beginning of year , including restricted	10,772,611
Cash and cash equivalents, end of year , including restricted	\$ 14,128,026
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	\$ (26,633,068)
Adjustments to reconcile operating income (loss) to cash provided by (used for) operations:	
Depreciation	1,576,736
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:	
Accounts receivable	530,509
Security deposits	37,543
Prepaid items	56,469
Net pension asset	(1,188,726)
Deferred outflows of resources	256,654
Accounts payable and accrued expenses	138,215
Wages payable	151,581
Other accrued liabilities	26
Compensated absences	6,778
Client and consumer funds	1,614
Deferred inflows of resources	(1,061,024)
Cash flows provided by (used for) operating activities	\$ (26,126,693)

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

THIS PAGE LEFT BLANK INTENTIONALLY

HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

Notes to Financial Statements June 30, 2019

NOTE 1-DESCRIPTION OF AGENCY:

Financial Reporting Entity

Hampton-Newport News Community Services Board (CSB) operates as an agent for the Cities of Hampton and Newport News, Virginia in the establishment and operation of community mental health, intellectual and developmental disability and substance abuse programs as provided for in Chapter 10 of Title 37.2 of the Code of Virginia (1950), as amended, relating to the Virginia Department of Behavioral Health and Developmental Services. In addition, the CSB provides a system of community mental health, mental retardation and substance abuse services that relate to, and are integrated with, existing and planned programs. The CSB's Board of Directors is comprised of 15 members appointed by the City Councils of Hampton and Newport News.

In addition to the CSB functioning as a political subdivision of the Commonwealth of Virginia resulting from its creation by the cities of Hampton and Newport News, Virginia, the CSB was also organized as a not for profit entity exempt from taxation under section 501(c) 3 of the U. S. Internal Revenue Code. As a result of its political subdivision status, the CSB is not required to file an annual 990 Information Return with the Internal Revenue Service.

Component Units

Following are the descriptions of legally separate component units that are presented as blended component units of the CSB. Detailed information or separately issued financial statements for these component units can be obtained from the CSB's Chief Financial Officer.

Hampton-Newport News Community Services Board Property Company, Inc. (Property Company) was organized as a nonprofit organization, 501(c) 3, for the purpose of aiding the CSB in assisting the mentally disabled citizens of the Virginia Peninsula by acquiring real estate for subsequent use by the CSB. The Executive Director and the Chief Financial Officer and Property Management of the CSB serve as President and Secretary/Treasurer of the Property Company Board.

Share-A-Homes of the Virginia Peninsula, Inc. (SAH) was organized in 1981 as a nonprofit organization, (501(c) 3). The purpose of SAH is to provide low-cost housing and other facilities for persons with mental disabilities for the benefit of the CSB. The houses center on a family-like environment while providing assistance in the education, recreation, health and welfare of the mentally handicapped. The Executive Director and the Chief Financial Officer and Property Management of the CSB serve as President and Secretary/Treasurer of the SAH Board.

Peninsula Community Homes, Inc. (PCH) was structured as a nonprofit organization (501(c) 3) and was formed in 1997. It is certified as a Community Housing Development Organization (CHDO) for the cities of Hampton (2003) and Newport News (2001). Working in partnership with the CSB and its other entities, PCH seeks to leverage federal and state grant funds for the purpose of developing and improving low income housing for the disabled which benefits the CSB and its consumers. The entity has a self-appointing board of directors in accordance with the requirements of CHDO and staff is provided by the CSB.

HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

Notes to Financial Statements June 30, 2019 (Continued)

NOTE 2-SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Accounting

The accompanying financial statements report the financial position and results of operations of the CSB in accordance with generally accepted accounting principles. The CSB is a governmental health care entity and is required to follow the accounting and reporting practices of the Governmental Accounting Standards Board (GASB). These statements are prepared on an enterprise fund basis and present the CSB's operating revenues and expenses in a manner similar to a private business, where the costs, including depreciation, of providing services to the public on a continuing basis are financed or recovered primarily through user charges.

An enterprise fund, a proprietary fund type, is accounted for on an economic resources measurement focus. All assets and liabilities, whether current or noncurrent, associated with its activities are included on its statements of net position. Proprietary fund type operating statements present increases (revenues) and decreases (expenses) in net position. The financial statements are presented on the accrual basis of accounting, whereby revenues are recorded when earned and expenses are recorded when incurred, regardless of when the related cash flows take place.

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

Deferred Outflow/Inflow 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 CSB has one item that qualifies for reporting in this category. It is comprised of contributions to the pension plan made during the current year and subsequent to the net pension asset measurement date, which will be recognized as a reduction of the net pension asset next fiscal year. For more detailed information on these items, reference the pension note.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The CSB has one type of item that qualifies for reporting in this category. Certain items related to the measurement of the net pension asset are reported as deferred inflows of resources. For more detailed information on these items, reference the pension note.

Prepaid Items

Certain payments to vendors reflect costs applied to future accounting periods and are not recorded as prepaid items. Prepaid items are accounted for using the consumption method and are valued at cost.

HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

Notes to Financial Statements June 30, 2019 (Continued)

NOTE 2–SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

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 represent 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.

Net Position Flow Assumption

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

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 CSB Retirement Plan and the additions to/deductions from the CSB'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.

Budgets and Budgetary Accounting

The CSB's annual budget is a management tool that assists users in analyzing financial activity for its fiscal year ending June 30. The CSB's largest funding source is fee-for-service payments, primarily from Medicaid and other insurers. Federal, state and local appropriations are also significant revenue sources that have periods that may or may not coincide with the CSB's fiscal year. These appropriations normally are for a twelve-month period; however, they can be awarded for periods shorter or longer than twelve months. Because of the CSB's dependency on uncertain fee revenues and on federal, state, and local budgetary decisions, revenue estimates are based upon the best available information as to potential sources of funding. The CSB's annual budget differs from that of a local government due to the uncertain nature of fee for-service payments from other payers. The resultant annual budget is subject to constant change within the fiscal year due to:

- The extent to which fee revenues are realized;
- Increases/decreases in actual appropriation from those estimated;
- Unanticipated appropriations not included in the budget; and
- Expected appropriations that fail to materialize.

The Board of Directors formally approves the annual budget but greater emphasis is placed on complying with the fee-for-service, insurance reimbursements and appropriations. As a result, the CSB also conducts a mid-year budget review process based on actual revenues and expenditures.

HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

Notes to Financial Statements June 30, 2019 (Continued)

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

Cash and Cash Equivalents

The CSB considers all highly liquid investments with original maturities of three months or less to be cash equivalents. Restricted cash and cash equivalents include cash held in trust for disabled persons, unearned regional revenue and security deposits.

Accounts Receivable

Accounts receivable are stated at net realizable value. Receivables related to the provision of services are reported net of contractual allowances and an allowance for doubtful accounts. The CSB evaluates its accounts receivables using historical data and, in certain cases, specific account analysis. At June 30, 2019 the allowance for doubtful accounts was \$2,461,706.

Capital Assets

Capital assets are stated at cost when purchased or at acquisition value if donated. The CSB follows the practice of capitalizing all expenditures for property and equipment in excess of \$5,000 with an expected life greater than one year. Depreciation is calculated by the straight-line method over the following estimated useful lives:

Buildings and improvements	30 years
Land improvements	15 years
Office furniture and equipment	3 - 5 years
Vehicles	5 years
Leasehold improvements	5 - 15 years
Intangibles	5 years

Taxes

As an agency of the Cities of Hampton and Newport News, which are political subdivisions of the Commonwealth of Virginia, the CSB is exempt from sales and federal and state income taxes.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and assumptions.

Risk Management

The CSB is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The CSB purchases commercial insurance for all risks of loss noted above.

HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

Notes to Financial Statements June 30, 2019 (Continued)

NOTE 3-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.

Investments

Statutes authorize the Board to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP). The Board does not have an investment policy that addresses the various types of risks related to investments.

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.

Board's Rated Debt Investments' Values	
Rated Debt Investments	Fair
	Quality Ratings
	AAAm
Local Government Investment Pool	\$ 10,474

Interest Rate Risk

Investment Maturities (in years)		
Investment Type	Fair Value	Less Than
		1 Year
Local Government Investment Pool	\$ 10,474	\$ 10,474

HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

Notes to Financial Statements
June 30, 2019 (Continued)

NOTE 3-DEPOSITS AND INVESTMENTS: (CONTINUED)

External Investment Pools

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

NOTE 4-CAPITAL ASSETS:

A summary of changes in capital assets follows:

	Balances		Balances	
	July 1, 2018	Increases	Decreases	June 30, 2019
Non-Depreciable Capital Assets				
Land	\$ 5,838,835	\$ -	\$ -	\$ 5,838,835
Total not subject to depreciation	\$ 5,838,835	\$ -	\$ -	\$ 5,838,835
Depreciable Capital Assets				
Buildings	\$ 27,256,792	\$ -	\$ -	\$ 27,256,792
Furniture/equipment	2,512,752	-	-	2,512,752
Vehicles	2,409,512	389,975	125,235	2,674,252
Leasehold improvements	4,342,332	108,911	-	4,451,243
Intangibles	66,409	-	-	66,409
Total depreciable capital assets	\$ 36,587,797	\$ 498,886	\$ 125,235	\$ 36,961,448
Accumulated Depreciation	\$ 18,821,197	\$ 1,576,736	\$ 125,235	\$ 20,272,698
Net Depreciable Capital Assets	\$ 17,766,600	\$ (1,077,850)	\$ -	\$ 16,688,750
Capital Assets, Net	\$ 23,605,435	\$ (1,077,850)	\$ -	\$ 22,527,585

HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

Notes to Financial Statements June 30, 2019 (Continued)

NOTE 5-LOCAL REVENUES:

Appropriations from local governments consisted of the following:

City of Hampton	\$ 1,740,662
City of Newport News	1,611,886
Total	<u>\$ 3,352,548</u>

NOTE 6-UNEARNED REVENUE:

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

Unearned revenue consisted of the following:

State Revenue:	
MH grants	\$ 790,542
MR grants	380,998
Regional funds	2,706,875
SA grants	2,134,811
Federal Revenue:	
SA grants	<u>735,225</u>
Total	<u>\$ 6,748,451</u>

NOTE 7-LINE OF CREDIT:

The CSB has a working capital line of credit of \$5,000,000 with Towne Bank. Advances on the line-of-credit are collateralized by a general blanket assignment of all accounts, contracts or other receivables and proceeds. Interest on advances is payable at the monthly London Interbank Offered Rate (LIBOR) plus 2.750 percentage points. At June 30, 2019, the CSB outstanding balance against this line of credit was \$0 and the interest rate was 5.15%.

Debt Coverage

The terms of the working capital line of credit agreement with Towne Bank call for a debt service coverage ratio of 1.15:1 (as defined) based on annual amounts at June 30, 2019. The CSB met the debt service coverage ratio for the year ended June 30, 2019.

HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

Notes to Financial Statements June 30, 2019 (Continued)

NOTE 8—LONG-TERM OBLIGATIONS:

The following is a summary of changes in long-term debt obligation transactions for the year ended June 30, 2019:

	Beginning Balance	Increases/ Issuances	Decreases/ Retirements	Ending Balance
Compensated Absences	\$ 1,462,423	\$ 153,020	\$ 146,242	\$ 1,469,201
Direct Borrowings and Placements	14,934,265	-	627,904	14,306,361
Total	<u>\$ 16,396,688</u>	<u>\$ 153,020</u>	<u>\$ 774,146</u>	<u>\$ 15,775,562</u>

Details of CSB's long-term obligations at June 30, 2019 are as follows:

	Interest Rates	Issue Date	Maturity Date	Original Amount	Balance at 6/30/2019	Due Within One Year
Direct Borrowings and Placements:						
TowneBank	5.50%	8/8/2012	8/8/2037	\$ 300,000	\$ 218,000	\$ 12,000
TowneBank	(A)	7/23/2015	8/1/2035	14,000,000	12,021,888	473,911
TowneBank	(B)	7/23/2015	8/1/2035	1,030,000	886,186	39,695
TowneBank	(C)	7/23/2015	8/1/2035	1,366,000	1,180,287	47,818
Total Direct Borrowings and Placements					<u>\$ 14,306,361</u>	<u>\$ 573,424</u>
Other Long-term Obligations:						
Compensated Absences	N/A	N/A	N/A	N/A	\$ 1,469,201	\$ 146,920
Total Long-term Obligations					<u>\$ 15,775,562</u>	<u>\$ 720,344</u>

(A) Initially 3.18%. The interest rate on the bond reset January 1, 2018 to 3.86%. The interest rate resets on August 1, 2022 and every 5 years thereafter.

(B) Initially 3.55%. The interest rate resets on August 1, 2022 and every 5 years thereafter.

(C) Initially 3.55%. The interest rate on the bond reset January 1, 2018 to 4.31%. The interest rate resets on August 1, 2022 and every 5 years thereafter.

In the event of default for the notes payable from direct borrowings and placements, at the discretion of the lender, all amounts owed under the note at the time of default, including principal, interest and all other fees and charges, if applicable, will become immediately due and payable.

The CSB's \$300,000 note payable issued August 8, 2012 is secured by 1st Deed of Trust on property and improvements located at 301 Bowman Lane in Newport News, Virginia.

HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

Notes to Financial Statements June 30, 2019 (Continued)

NOTE 8—LONG-TERM OBLIGATIONS: (CONTINUED)

Future principal maturities of long-term notes payable are as follows:

	Notes Payable From Direct Borrowings and Placements	
	Principal	Interest
2020	\$ 573,424	\$ 633,397
2021	585,844	620,316
2022	626,098	579,403
2023	666,351	538,489
2024	706,604	497,576
2025-2029	4,136,822	1,874,177
2030-2034	5,143,158	851,337
2035-2039	1,868,060	57,870
	<u>\$ 14,306,361</u>	<u>\$ 5,652,565</u>

Debt Coverage

The terms of the 2015A and 2015B Loan Agreements with TowneBank call for a debt service coverage ratio of 1.15:1 (as defined) based on annual amounts at June 30, 2019. The CSB met the debt service coverage ratio for the year ended June 30, 2019.

NOTE 9—PENSION PLAN:

Plan Description

All full-time, salaried permanent employees of the CSB 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.

- 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.

HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

Notes to Financial Statements June 30, 2019 (Continued)

NOTE 9—PENSION PLAN: (CONTINUED)

Plan Description

- 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.

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, and 1.85% for sheriffs and regional jail superintendents. 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, and 1.85% for sheriffs and regional jail superintendents. 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.

HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

Notes to Financial Statements June 30, 2019 (Continued)

NOTE 9—PENSION PLAN: (CONTINUED)

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:

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	142
Inactive members:	
Vested inactive members	137
Non-vested inactive members	339
Inactive members active elsewhere in VRS	<u>211</u>
Total inactive members	687
Active members	<u>620</u>
Total covered employees	<u><u>1,449</u></u>

Contributions

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

The CSB's contractually required employer contribution rate for the year ended June 30, 2019 was 1.74% 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 CSB were \$330,777 and \$587,431 for the years ended June 30, 2019 and June 30, 2018, respectively.

Net Pension Asset

The net pension asset (NPA) 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 CSB, the net pension asset was measured as of June 30, 2019. 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.

HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

Notes to Financial Statements June 30, 2019 (Continued)

NOTE 9-PENSION PLAN: (CONTINUED)

Actuarial Assumptions - General Employees

The total pension liability for General Employees in the CSB'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.

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.

HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

Notes to Financial Statements June 30, 2019 (Continued)

NOTE 9-PENSION PLAN: (CONTINUED)

Actuarial Assumptions - 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:

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%

The remainder of this page left blank intentionally.

HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

Notes to Financial Statements June 30, 2019 (Continued)

NOTE 9—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:

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-term Expected Rate of Return</u>	<u>Weighted Average Long-term Expected Rate of Return</u>
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 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 CSB 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.

HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

Notes to Financial Statements
June 30, 2019 (Continued)

NOTE 9-PENSION PLAN: (CONTINUED)

Changes in Net Pension Asset

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Asset (a) - (b)
Balances at June 30, 2017	\$ 58,025,927	\$ 69,870,872	\$ (11,844,945)
Changes for the year:			
Service cost	\$ 2,416,756	\$ -	\$ 2,416,756
Interest	3,980,116	-	3,980,116
Differences between expected and actual experience	(589,691)	-	(589,691)
Contributions - employer	-	588,176	(588,176)
Contributions - employee	-	1,291,429	(1,291,429)
Net investment income	-	5,164,976	(5,164,976)
Benefit payments, including refunds of employee contributions	(2,334,248)	(2,334,248)	-
Administrative expenses	-	(44,048)	44,048
Other changes	-	(4,626)	4,626
Net changes	\$ 3,472,933	\$ 4,661,659	\$ (1,188,726)
Balances at June 30, 2018	\$ 61,498,860	\$ 74,532,531	\$ (13,033,671)

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

The following presents the net pension asset of the CSB using the discount rate of 7.00%, as well as what the CSB's net pension 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 (Asset)	\$ (3,758,421)	\$ (13,033,671)	\$ (20,617,500)

HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

Notes to Financial Statements
June 30, 2019 (Continued)

NOTE 9—PENSION PLAN: (CONTINUED)

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

For the year ended June 30, 2019, the CSB recognized pension expense of (\$1,661,574). At June 30, 2019, the CSB 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 \$	-	\$ 1,059,777
Net difference between projected and actual earnings on pension plan investments	-	367,477
Changes of assumptions	-	680,440
Employer contributions subsequent to the measurement date	330,777	-
Total	\$ 330,777	\$ 2,107,694

\$330,777 reported as deferred outflows of resources related to pensions resulting from the CSB's contributions subsequent to the measurement date will be recognized as a component of the Net Pension Asset 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	\$ (741,594)
2021	(528,894)
2022	(778,879)
2023	(58,327)
Thereafter	-

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.

HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

Notes to Financial Statements June 30, 2019 (Continued)

NOTE 10—COMPENSATED ABSENCES:

Each employee earns vacation, compensatory leave, overtime leave and sick leave in accordance with the CSB's policy. At termination or retirement, employees will be paid for all vacation and overtime leave up to 160 hours. Compensatory leave has been combined with the employees' vacation balances. At June 30, 2019, the CSB has accruals of \$1,469,201 for compensated absences. The amount of annual and sick leave recognized as expense is the amount earned during the year. At June 30, 2019, this amount was reflected in the statement of net position under current liabilities in the amount of \$146,920 and under long term liabilities - compensated absences of \$1,322,281. Upon termination, employees are not vested in accrued sick leave; therefore, no accrual is required in the accompanying financial statements.

NOTE 11—TRUST FUND FOR DISABLED PEOPLE:

On May 18, 1995, the CSB established the Hampton-Newport News Community Services Board Trust for Disabled People (Trust). The CSB, as Trustee, is responsible for administering the Trust, which is available to any beneficiary, as defined in the Trust. Under the Trust, beneficiaries may elect to contribute cash or property for the Trustee to hold, retain, invest, reinvest or manage.

The Trustee, in its sole discretion, may make any payment under the Trust either (a) directly to a beneficiary, (b) in any form allowed by law, (c) to any person deemed suitable by the Trustee, or (d) by direct payment of a beneficiary's expenses. As part of its fiduciary responsibility, the CSB has an obligation of due care in administering the Trust, and, in the opinion of the CSB's legal counsel, the CSB has acted in a prudent manner. The asset and liability for the Trust is recorded in the CSB's statements of net position. Annual earnings are recognized as an increase to the respective asset and liability.

NOTE 12—COMMITMENTS AND CONTINGENCIES:

Operating Leases

The CSB leases various facilities and equipment under operating agreements. Lease expenditures under operating leases included in facility expenses for 2019, amount to \$1,594,082.

Self-Insurance

The CSB provides self-insured medical, dental and vision benefit plans for its employees. The medical plan pays all claims up to \$175,000 per covered person per year. Any claims exceeding \$175,000 per covered person per year are paid by specific stop-loss insurance provided by a third-party insurance company. Aggregate claims in excess of 125% of expected claims, as determined by the reinsurance underwriter, are also paid by a third-party insurance company. All premiums paid by the CSB related to the plan are recorded as expenses.

Claims expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These liabilities include an estimate of claims that have been incurred but not reported. At June 30, 2019, the amount of these liabilities were approximately \$207,446. These liabilities are the CSB's best estimate as calculated by the CSB's Third Party Administrator.

HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

Notes to Financial Statements June 30, 2019 (Continued)

NOTE 12—COMMITMENTS AND CONTINGENCIES: (CONTINUED)

Self-Insurance (Continued)

The changes in estimated claims liability reported as accrued liabilities for the last three fiscal years are summarized below:

Fiscal Year	Estimated Claims Liability Beginning of Fiscal Year	Current Year Claims and Changes in Estimates	Claim Payments	Estimated Claims Liability End of Fiscal Year
2019	\$ 473,563	\$ 3,913,200	\$ 4,116,317	\$ 270,446
2018	526,652	4,002,314	4,055,403	473,563
2017	544,433	5,543,774	5,561,555	526,652

Health Reimbursement Arrangement

The CSB implemented a Health Reimbursement Arrangement (HRA) on January 1, 2018. The HRA is an IRS approved employer funded health benefit plan that reimburses employees for out-of-pocket medical expenses.

The CSB elected to contribute \$1,500 for employee only and \$2,500 for family coverage to help offset the cost of the health insurance deductible. As of June 30, 2019, the estimated liability was \$1,736,870.

Reserve Funds

The CSB has accrued reserves to cover potential paybacks for possible overpayments on cost reimbursed facilities.

Federally Assisted Grant Programs

Federal programs in which the CSB participate were audited in accordance with the provisions of Title 2 U.S. *Code of Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Pursuant to the provisions of the Uniform Guidance all major programs and certain other programs were tested for compliance with applicable grant requirements.

While no matters of noncompliance were disclosed by the audit, the Federal Government may subject grant programs to additional compliance tests which may result in disallowed expenditures. In the opinion of management, any future disallowance of current grant program expenditures, if any, would be immaterial.

NOTE 13—OPERATING LEASES:

The Board leases office space and other facilities from private entities as well as its blended component units, generally on a year to year basis. Rent expense of the Board totaled \$3,283,204 for the fiscal year ended June 30, 2019 and was reported with "Facility Expenses." Of that amount, \$1,689,122 was eliminated as intercompany transactions, leaving a net amount of \$1,594,082.

HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

Notes to Financial Statements June 30, 2019 (Continued)

NOTE 14—UPCOMING PRONOUNCEMENTS:

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.

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, provides guidance for reporting capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. 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.

NOTE 15—ADOPTION OF ACCOUNTING PRINCIPLES:

The CSB 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 notes to financial statements. No restatement was required as a result of this implementation.

THIS PAGE LEFT BLANK INTENTIONALLY

REQUIRED SUPPLEMENTARY INFORMATION

THIS PAGE LEFT BLANK INTENTIONALLY

HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

Schedule of Changes in Net Pension Liability (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	\$ 2,416,756	\$ 2,568,823	\$ 2,609,101	\$ 2,686,402	\$ 3,007,464
Interest	3,980,116	3,781,978	3,497,615	3,342,042	3,017,837
Differences between expected and actual experience	(589,691)	(680,916)	(506,031)	(2,441,434)	-
Changes in assumptions	-	(847,841)	-	-	-
Benefit payments, including refunds of employee contributions	(2,334,248)	(1,648,737)	(1,427,980)	(1,301,091)	(1,486,530)
Net change in total pension liability	\$ 3,472,933	\$ 3,173,307	\$ 4,172,705	\$ 2,285,919	\$ 4,538,771
Total pension liability - beginning	58,025,927	54,852,620	50,679,915	48,393,996	43,855,225
Total pension liability - ending (a)	<u>\$ 61,498,860</u>	<u>\$ 58,025,927</u>	<u>\$ 54,852,620</u>	<u>\$ 50,679,915</u>	<u>\$ 48,393,996</u>
Plan fiduciary net position					
Contributions - employer	\$ 588,176	\$ 637,150	\$ 1,291,789	\$ 1,269,061	\$ 1,855,976
Contributions - employee	1,291,429	1,378,082	1,385,675	1,320,251	1,374,201
Net investment income	5,164,976	7,617,894	1,101,066	2,599,385	7,498,891
Benefit payments, including refunds of employee contributions	(2,334,248)	(1,648,737)	(1,427,980)	(1,301,091)	(1,486,530)
Administrative expense	(44,048)	(42,765)	(35,986)	(33,780)	(38,533)
Other	(4,626)	(6,828)	(452)	(557)	395
Net change in plan fiduciary net position	\$ 4,661,659	\$ 7,934,796	\$ 2,314,112	\$ 3,853,269	\$ 9,204,400
Plan fiduciary net position - beginning	69,870,872	61,936,076	59,621,964	55,768,695	46,564,295
Plan fiduciary net position - ending (b)	<u>\$ 74,532,531</u>	<u>\$ 69,870,872</u>	<u>\$ 61,936,076</u>	<u>\$ 59,621,964</u>	<u>\$ 55,768,695</u>
CSB's net pension asset - ending (a) - (b)	\$ (13,033,671)	\$ (11,844,945)	\$ (7,083,456)	\$ (8,942,049)	\$ (7,374,699)
Plan fiduciary net position as a percentage of the total pension liability	121.19%	120.41%	112.91%	117.64%	115.24%
Covered payroll	\$ 27,587,321	\$ 28,578,128	\$ 27,935,037	\$ 27,294,419	\$ 26,687,258
CSB's net pension asset as a percentage of covered payroll	-47.25%	-41.45%	-25.36%	-32.76%	-27.63%

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

HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

Schedule of Employer Contributions
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 Employee Payroll (5)
2019	\$ 330,777	\$ 330,777	\$ -	\$ 27,564,448	1.74%
2018	587,431	587,431	-	27,587,321	2.60%
2017	743,031	743,031	-	28,578,128	2.60%
2016	1,366,023	1,366,023	-	27,935,037	4.89%
2015	1,310,312	1,310,312	-	27,294,419	4.80%
2014	1,860,800	1,860,800	-	26,687,258	6.97%
2013	1,972,169	1,972,169	-	28,133,657	7.01%
2012	1,367,941	1,367,941	-	26,105,740	5.24%
2011	1,260,413	1,260,413	-	24,053,690	5.24%
2010	1,127,132	1,127,132	-	23,336,060	4.83%

HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

Notes to Required Supplementary Information Year Ended June 30, 2019

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%

THIS PAGE LEFT BLANK INTENTIONALLY

OTHER SUPPLEMENTARY INFORMATION

THIS PAGE LEFT BLANK INTENTIONALLY

COMBINING FINANCIAL STATEMENTS

HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

Combining Statement of Net Position

June 30, 2019

	Hampton- Newport News Community Services Board	Hampton- Newport News Community Services Board Property Company, Inc.	Share-A- Homes of the Virginia Peninsula, Inc.
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 3,002,028	\$ 3,310,288	\$ 383,135
Accounts receivable, less allowance for uncollectibles	4,531,138	-	-
Prepaid items	393,428	-	-
Restricted Assets:			
Cash and cash equivalents	7,088,922	200,000	50,000
Security deposits	10,228	10,000	-
Total current assets	\$ 15,025,744	\$ 3,520,288	\$ 433,135
Capital Assets			
Land and other non-depreciable capital assets	\$ 694,315	\$ 4,853,484	\$ 291,036
Other capital assets, less accumulated depreciation	2,697,955	12,153,668	1,837,127
Total capital assets	\$ 3,392,270	\$ 17,007,152	\$ 2,128,163
Other Assets:			
Due from affiliates	\$ 29,978	\$ -	\$ -
Due from other agencies	-	470,000	-
Net pension asset	13,033,671	-	-
Total other assets	\$ 13,063,649	\$ 470,000	\$ -
Total assets	\$ 31,481,663	\$ 20,997,440	\$ 2,561,298
DEFERRED OUTFLOWS OF RESOURCES			
Pension related items	\$ 330,777	\$ -	\$ -
LIABILITIES			
Current Liabilities:			
Accounts payable and accrued expenses	\$ 3,746,728	\$ 200,038	\$ 197
Wages payable	895,029	-	-
Other current liabilities	796,303	-	-
Accrued interest payable	-	41,302	4,240
Due to affiliates	-	20,900	9,053
Compensated absences, current portion	146,920	-	-
Notes payable, current portion	12,000	513,606	47,818
Current Liabilities Payable From Restricted Funds:			
Client and consumer funds	340,471	-	-
Unearned regional revenue	6,748,451	-	-
Security deposits	-	10,000	-
Total current liabilities	\$ 12,685,902	\$ 785,846	\$ 61,308
Long-Term Liabilities:			
Compensated absences, less current portion	\$ 1,322,281	\$ -	\$ -
Notes payable, less current portion	206,000	12,394,468	1,132,469
Total long-term liabilities	\$ 1,528,281	\$ 12,394,468	\$ 1,132,469
Total liabilities	\$ 14,214,183	\$ 13,180,314	\$ 1,193,777
DEFERRED INFLOW OF RESOURCES			
Pension related items	\$ 2,107,694	\$ -	\$ -
NET POSITION			
Net investment in capital assets	\$ 3,174,270	\$ 4,099,078	\$ 947,876
Restricted	10,228	200,000	50,000
Unrestricted	12,306,065	3,518,048	369,645
Total net position	\$ 15,490,563	\$ 7,817,126	\$ 1,367,521

Peninsula Community Homes, Inc.	Inter- Company Eliminations	Total
\$ 93,653	\$ -	\$ 6,789,104
-	(20,900)	4,510,238
-	-	393,428
-	-	7,338,922
-	-	20,228
<u>\$ 93,653</u>	<u>\$ (20,900)</u>	<u>\$ 19,051,920</u>
\$ -	\$ -	\$ 5,838,835
-	-	16,688,750
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,527,585</u>
\$ -	\$ (29,978)	\$ -
800	-	470,800
-	-	13,033,671
<u>\$ 800</u>	<u>\$ (29,978)</u>	<u>\$ 13,504,471</u>
<u>\$ 94,453</u>	<u>\$ (50,878)</u>	<u>\$ 55,083,976</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 330,777</u>
\$ -	\$ (20,900)	\$ 3,926,063
-	-	895,029
-	-	796,303
-	-	45,542
25	(29,978)	-
-	-	146,920
-	-	573,424
-	-	340,471
-	-	6,748,451
-	-	10,000
<u>\$ 25</u>	<u>\$ (50,878)</u>	<u>\$ 13,482,203</u>
\$ -	\$ -	\$ 1,322,281
-	-	13,732,937
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,055,218</u>
<u>\$ 25</u>	<u>\$ (50,878)</u>	<u>\$ 28,537,421</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,107,694</u>
\$ -	\$ -	\$ 8,221,224
-	-	260,228
94,428	-	16,288,186
<u>\$ 94,428</u>	<u>\$ -</u>	<u>\$ 24,769,638</u>

HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

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

	Hampton- Newport News Community Services Board	Hampton- Newport News Community Services Board Property Company, Inc.
Operating Revenues:		
Net patient service revenue	\$ 28,772,227	\$ -
Other	1,391,125	-
Total operating revenues	\$ 30,163,352	\$ -
Operating Expenses:		
Salaries and benefits	\$ 40,515,397	\$ -
Staff development	217,442	-
Facility	4,712,681	110,058
Supplies	2,931,309	-
Travel	525,728	-
Contractual and consulting	3,756,878	61,298
Depreciation	455,875	1,017,683
Client support	3,813,331	-
Other	228,098	-
Total operating expenses	\$ 57,156,739	\$ 1,189,039
Operating Income (Loss)	\$ (26,993,387)	\$ (1,189,039)
Nonoperating Income (Expenses):		
Rental income	\$ -	\$ 1,748,953
Other development fees	-	10,000
Appropriations:		
Commonwealth of Virginia	20,480,573	-
Federal government	3,990,287	-
Local governments	3,352,548	-
Interest income	7,555	-
Gain on disposition of capital assets	14,172	-
Interest expense	(16,082)	(512,663)
Net nonoperating income (expense)	\$ 27,829,053	\$ 1,246,290
Change in Net Position	\$ 835,666	\$ 57,251
Net Position, Beginning of Year	14,654,897	7,759,875
Net Position, End of Year	\$ 15,490,563	\$ 7,817,126

Share-A- Homes of the Virginia Peninsula, Inc.	Peninsula Community Homes, Inc.	Inter- Company Eliminations	Total
\$ -	\$ -	\$ -	\$ 28,772,227
-	-	(51,500)	1,339,625
\$ -	\$ -	\$ (51,500)	\$ 30,111,852
\$ -	\$ -	\$ -	\$ 40,515,397
-	-	-	217,442
15,806	-	(1,689,122)	3,149,423
-	-	-	2,931,309
-	-	-	525,728
19,755	1,025	(51,500)	3,787,456
103,178	-	-	1,576,736
-	-	-	3,813,331
-	-	-	228,098
\$ 138,739	\$ 1,025	\$ (1,740,622)	\$ 56,744,920
\$ (138,739)	\$ (1,025)	\$ 1,689,122	\$ (26,633,068)
\$ 203,870	\$ -	\$ (1,689,122)	\$ 263,701
-	-	-	10,000
-	-	-	20,480,573
-	-	-	3,990,287
-	-	-	3,352,548
-	-	-	7,555
-	-	-	14,172
(52,587)	-	-	(581,332)
\$ 151,283	\$ -	\$ (1,689,122)	\$ 27,537,504
\$ 12,544	\$ (1,025)	\$ -	\$ 904,436
1,354,977	95,453	-	23,865,202
\$ 1,367,521	\$ 94,428	\$ -	\$ 24,769,638

HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

Combining Statement of Cash Flows
Year Ended June 30, 2019

	Hampton- Newport News Community Services Board	Hampton- Newport News Community Services Board Property Company, Inc.
Cash flows from operating activities:		
Receipts from customers	\$ 30,695,475	\$ -
Payments to suppliers	(15,971,594)	(162,251)
Payments to and for employees	(42,350,134)	-
Total cash flows provided by (used for) operating activities	\$ (27,626,253)	\$ (162,251)
Cash flows from noncapital and related financing activities:		
Rental income	\$ -	\$ 1,748,953
Other development fees	-	10,000
Government grants	30,896,781	-
Total cash flows provided by (used for) noncapital and related financing activities	\$ 30,896,781	\$ 1,758,953
Cash flows from capital and related financing activities:		
Purchase of capital assets	\$ (389,975)	\$ (95,958)
Proceeds from sale of assets	14,172	-
Interest on long-term debt	(16,082)	(514,465)
Principal paid on notes payable	(12,000)	(566,369)
Total cash flows provided by (used for) capital and related financing activities	\$ (403,885)	\$ (1,176,792)
Cash flows from investing activities:		
Interest income	\$ 7,555	\$ -
Net increase (decrease) in cash and cash equivalents	\$ 2,874,198	\$ 419,910
Cash and cash equivalents, beginning of year, including restricted	7,216,752	3,090,378
Cash and cash equivalents, end of year, including restricted	\$ 10,090,950	\$ 3,510,288
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ (26,993,387)	\$ (1,189,039)
Adjustments to reconcile operating income (loss) to cash provided by (used for) operations:		
Depreciation	455,875	1,017,683
Changes in assets, deferred outflows of resources, liabilities and deferred inflows of resources:		
Accounts receivable	530,509	-
Security deposits	37,543	-
Prepaid items	56,469	-
Net pension asset	(1,188,726)	-
Deferred outflows of resources	256,654	-
Accounts payable and accrued expenses	146,313	(8,295)
Wages payable	151,581	-
Other accrued liabilities	26	-
Due to/from affiliates	(26,478)	17,400
Compensated absences	6,778	-
Client and consumer funds	1,614	-
Deferred inflows of resources	(1,061,024)	-
Cash flows provided by (used for) operating activities	\$ (27,626,253)	\$ (162,251)

Share-A-Homes of the Virginia Peninsula, Inc.	Peninsula Community Homes, Inc.	Inter- Company Eliminations	Total
\$ -	\$ -	\$ (51,500)	\$ 30,643,975
(26,311)	(1,000)	1,740,622	(14,420,534)
-	-	-	(42,350,134)
<u>\$ (26,311)</u>	<u>\$ (1,000)</u>	<u>\$ 1,689,122</u>	<u>\$ (26,126,693)</u>
\$ 203,870	\$ -	\$ (1,689,122)	\$ 263,701
-	-	-	10,000
-	-	-	30,896,781
<u>\$ 203,870</u>	<u>\$ -</u>	<u>\$ (1,689,122)</u>	<u>\$ 31,170,482</u>
\$ (12,953)	\$ -	\$ -	\$ (498,886)
-	-	-	14,172
(52,764)	-	-	(583,311)
<u>(49,535)</u>	<u>-</u>	<u>-</u>	<u>(627,904)</u>
<u>\$ (115,252)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,695,929)</u>
\$ -	\$ -	\$ -	\$ 7,555
\$ 62,307	\$ (1,000)	\$ -	\$ 3,355,415
370,828	94,653	-	10,772,611
<u>\$ 433,135</u>	<u>\$ 93,653</u>	<u>\$ -</u>	<u>\$ 14,128,026</u>
\$ (138,739)	\$ (1,025)	\$ 1,689,122	\$ (26,633,068)
103,178	-	-	1,576,736
-	-	-	530,509
-	-	-	37,543
-	-	-	56,469
-	-	-	(1,188,726)
-	-	-	256,654
197	-	-	138,215
-	-	-	151,581
-	-	-	26
9,053	25	-	-
-	-	-	6,778
-	-	-	1,614
-	-	-	(1,061,024)
<u>\$ (26,311)</u>	<u>\$ (1,000)</u>	<u>\$ 1,689,122</u>	<u>\$ (26,126,693)</u>

THIS PAGE LEFT BLANK INTENTIONALLY

COMPLIANCE

THIS PAGE LEFT BLANK INTENTIONALLY

**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
Hampton-Newport News Community Services Board
Hampton, 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, and the financial statements of the business-type activities as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Hampton-Newport News Community Services Board's basic financial statements and have issued our report thereon dated October 2, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hampton-Newport News 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 Hampton-Newport News Community Services Board's internal control. Accordingly, we do not express an opinion on the effectiveness of Hampton-Newport News 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 Hampton-Newport News Community Services Board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

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

Richmond, Virginia
October 2, 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
Hampton-Newport News Community Services Board
Hampton, Virginia

Report on Compliance for Each Major Federal Program

We have audited Hampton-Newport News 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 Hampton-Newport News Community Services Board's major federal programs for the year ended June 30, 2019. Hampton-Newport News Community Services Board's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with 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 Hampton-Newport News 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 Hampton-Newport News Community Services Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Hampton-Newport News 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 Hampton-Newport News 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 Hampton-Newport News 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 Hampton-Newport News 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.



Richmond, Virginia
October 2, 2019

HAMPTON-NEWPORT NEWS 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
<u>Department of Agriculture</u>			
Pass-Through Payments:			
Virginia Department of Agriculture			
Child and Adult Care Food Program	10.558	not available	\$ 31,449
<u>Department of Housing and Urban Development</u>			
Direct Payments:			
Supportive Housing Program	14.235	not applicable	\$ 281,608
Continuum of Care Program	14.267	not applicable	181,573
Total Department of Housing and Urban Development			\$ 463,181
<u>Department of Transportation</u>			
Pass-Through Payments:			
Virginia Department of Rail and Public Transportation:			
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	not available	\$ 137,314
<u>Department of Health and Human Services</u>			
Direct Payments:			
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	not applicable	\$ 163,296
Pass-Through Payments:			
Virginia Department of Behavioral Health and Developmental Services:			
Regional and National Significance	93.243	445001-52001 445006-50778	489,667 \$ 652,963
Projects for Assistance in Transition from Homelessness (PATH)	93.150	445006-50998	101,826
Substance Abuse and Mental Health Services Projects of Opioid STR	93.788	445001-51002 445001-53001 445001-53031	272,363
Block Grants for Community Mental Health Services	93.958	445006-50128	637,636
Block Grants for Prevention and Treatment of Substance Abuse	93.959	445001-50168 445001-50198 445001-50788	1,693,555
Total Department of Health and Human Services			\$ 3,358,343
Total expenditures of federal awards			\$ 3,990,287

Notes to Schedule of Expenditures of Federal Awards

Note A - Basis of Accounting:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of the Hampton-Newport News 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 Hampton-Newport News Community Services Board, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Hampton-Newport News Community Services Board.

Note B - Summary of Significant Accounting Policies:

- (1) Expenditures are reported on the accrual basis of accounting.
- (2) Hampton-Newport News Community Services Board did not elect to use the 10 percent de minimis indirect cost rate allowed under Uniform Guidance.

Note C - Subrecipients:

No awards were passed through to subrecipients. Pass-through identifying numbers are presented where available.

HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

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:

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
---------------	---

93.959	Block Grants for Prevention and Treatment of Substance Abuse
--------	--

Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
---	-----------

Auditee qualified as low-risk auditee?	Yes
--	-----

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

HAMPTON-NEWPORT NEWS COMMUNITY SERVICES BOARD

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

There were no prior year findings.

THIS PAGE LEFT BLANK INTENTIONALLY