VALLEY COMMUNITY SERVICES BOARD

STAUNTON, VIRGINIA

FINANCIAL AND COMPLIANCE REPORTS

YEAR ENDED JUNE 30, 2020

PBMares

ASSURANCE, TAX & ADVISORY SERVICES

VALLEY COMMUNITY SERVICES BOARD

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INTRODUCTORY SECTION

Valley Community Services Board
Board of Directors
Augusta Co, Highland Co,
Staunton City, Waynesboro City

Vice Chair
Dan Sullivan

Chair
Phil Floyd

Treasurer
Mike Hamp

Personnel Committee
Cynthia Burnett (S), Chair
Nichole Nicholson (W)
- Sue Krzastek
- Susan Richardson

Communication & Advocacy Committee
Dan Sullivan, Chair (H)
John Hartless (S)
Phil Floyd (S)
Aaron LeVeck (A)
Misty Cook (A)

Executive Committee
Phil Floyd, Chair (S)
Dan Sullivan , Vice Chair (H)
Mike Hamp, Treasurer (W)
Cynthia Burnett (S)
Lisa Dunn (A)

Finance Committee
Mike Hamp, Chair
Dan Sullivan, Chair (W)
John Hartless (S)
Phil Floyd (S)
Debbie Pyles (A)

Quality & Compliance Committee
Lisa Dunn, Chair (S)
Deborah Pyles (A)
Phil Floyd (A)
Linda Czyzyk (S)
Miranda Ball (A)

- Community Members

A = Augusta County
H = Highland County
S = Staunton City
W = Waynesboro City

6/30/2020

VALLEY COMMUNITY SERVICES BOARD

ORGANIZATIONAL INFORMATION

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

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

Board Membership

Phil Floyd, Chair
Dan Sullivan, Vice Chair
Mike Hamp, Treasurer

Misty Cook
Deborah Pyles
Nichole Nicholson
Miranda Ball
Aaron Leveck
Sue Krzastek

Susan Richardson
John Hartless
Cynthia Burnett
Linda Czyzyk
Lisa Dunn

Executive Management

Vacant, Executive Director
Cindi Johnson, Chief Financial Officer
Lauren Gearhart, Human Resources Director
Dana Fitzgerald, Quality Management Director
Tammy Dubose, Director of Administrative Services
Steven Kessler, M.D., Medical Director
Kathy Kristiansen, Director of Behavioral Health
Tina Martina, Director of Developmental Disability Services

VALLEY COMMUNITY SERVICES BOARD

ORGANIZATIONAL INFORMATION (Continued)

COMPUTER SYSTEM

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

- Valley CSB's primary software system is Credible.
    - Credible is a contemporary Electronic Health Record (EHR) software package from Credible Behavioral Health Software.
    - Great Plains Accounting continues to be used for all accounting functions, including the Representative Payee program.
- Approximately 286 desktop and notebook computers are running Microsoft Windows.
- Microsoft Office and other desktop applications, as well as the Credible software, are provided through a cloud environment.
- Additional Windows services are provided through Dell and HP servers.
- Desktop and notebook computers are protected by Sophos Endpoint Anti-Virus software.
- Primary network storage is provided through an EMC storage area network (SAN).
- Primary data backup is provided through an EMC Data Domain compressed storage unit and Veratos Backup Exec. Network backup procedures utilize local and cloud storage servers.
- Barracuda Networks web filter which blocks inappropriate web browsing activity as well as malware filtering at the firewall.
- SonicWall firewall provides protection and virtual private network (VPN) connectivity for remote facilities and users.
- HP, Avaya, and SonicWall routers and switches provide local area network (LAN) connectivity.
- Secured and climate-controlled data center (server room) at the Sanger's Lane facility with uninterruptible power supply (UPS) and external power generator.
- Internet connectivity at the primary Sanger's Lane facility is through a fiber optic circuit provided by Lumos Networks. Connectivity at remote facilities is achieved through cable internet circuits from Lumos Networks or Comcast Communications.
- Microsoft Windows Servers provide authentication, directory services, and terminal services.
- Office 365 provides e-mail services.
- Encryption technologies are used to maintain HIPAA compliance as needed.

VALLEY COMMUNITY SERVICES BOARD

ORGANIZATIONAL INFORMATION (Continued)

FACILITIES

• 85 Sanger's Lane, Staunton	Behavioral Health, Developmental Disabilities & Substance Abuse Services
• 446 Commerce Square, Staunton	Clubhouse Program
• 704B Richmond Road, Staunton	Community Participation Program
• 61 First Street, Staunton	ID Day Program – Orchard Lane
• 32 Angus Drive, Waynesboro	DS/Intermediate Care Facility – Greenstone
• Highland County Medical Center, Monterey	Outpatient Behavioral Health Services
• 1206 Red Top Orchard Road, Waynesboro	DS/Intermediate Care Facility – Grandview

CONTACT INFORMATION

You may contact Valley Community Services Board by:

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

FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Valley Community Services Board

Report on the Financial Statements

We have audited the accompanying financial statements of Valley Community Services Board (the Board), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Board as of June 30, 2020, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require the Management's Discussion and Analysis and the required supplementary information on pages 3-6 and 47-51, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Board's basic financial statements. The accompanying schedules listed in the table of contents as supplementary information and introductory section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2020 on our consideration of the Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 the 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 Board's internal control over financial reporting and compliance.

PBMares, LLP

Harrisonburg, Virginia
December 14, 2020

VALLEY COMMUNITY SERVICES BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2020

The management of Valley Community Services Board (VCSB) offers readers of our financial statements this narrative overview and analysis of the financial activities of VCSB for the fiscal year ended June 30, 2020.

Overview of the Financial Statements

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

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

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

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

The basic financial statements can be found on pages 8 through 11 of this report.

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

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

Financial Review

- This fiscal year showed a decrease in net patient service revenue from fiscal year 2019 to fiscal year 2020 year-end of $1,138,300 or 8% due to COVID 19 and closing of several clinical programs. VCSB continued internal audit efforts to ensure compliance with Medicaid regulations and continued efforts to improve productivity.

- Interest Income decreased by $1,971 or 29%.

- Fiscal year 2020 ended with a loss of $316,071.

Financial Review (Continued)

- Revenues are $1,686,795 lower than in fiscal year 2019 and Expenses are $813,307 lower than fiscal year 2019.

- Accounts Receivable and Billing process required detail review for collectability of outstanding balances. $968,975 was adjusted to correct for accounts due but not collectible.

Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a board's financial position. In the case of VCSB, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $4,202,674 at the close of the most recent fiscal year. Net position decreased by 7% from the beginning of fiscal year 2019. A summary of VCSB's net position for fiscal years 2020 and 2019 is presented below.

SUMMARY OF NET POSITION
June 30, 2020 and 2019

	2020	2019
Current and other assets	**$ 7,271,878**	$ 8,075,387
Capital assets	**3,480,357**	3,822,183
Total assets	**10,752,235**	11,897,570
Pension plan	**783,294**	220,494
Other postemployment benefits	**173,684**	95,231
Total deferred outflows of resources	**956,978**	315,725
Long-term liabilities outstanding	**3,085,284**	3,106,442
Other liabilities	**3,960,803**	3,585,644
Total liabilities	**7,046,087**	6,692,086
Pension plan	**396,569**	916,464
Other postemployment benefits	**63,883**	86,000
Total deferred inflows of resources	**460,452**	1,002,464
Net position:		
Net investment in capital assets	**1,383,289**	1,597,029
Restricted for debt service	**78,840**	78,840
Unrestricted	**2,740,545**	2,842,876
Total net position	**$ 4,202,674**	$ 4,518,745

A summary of VCSB's revenues, expenses and changes in net position for fiscal years 2020 and 2019 is presented below.

SUMMARY OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Years Ended June 30, 2020 and 2019

	2020	2019
Revenues:		
Operating revenues	**$ 12,895,398**	$ 14,033,698
Intergovernmental	**8,383,353**	8,980,694
Other	**526,816**	477,970
	21,805,567	23,492,362
Expenses:		
Operating expenses	**21,618,444**	22,357,653
Depreciation and amortization	**408,899**	474,016
Other	**94,295**	103,276
	22,121,638	22,934,945
Change in net position	**(316,071)**	557,417
Net position, beginning	**4,518,745**	3,961,328
Net position, ending	**$ 4,202,674**	$ 4,518,745

VCSB's net position decreased by $316,071 during fiscal year 2020.

Capital Assets and Debt Administration

Capital Assets: VCSB's investment in capital assets as of June 30, 2020 amounted to $3,480,357 (net of accumulated depreciation). Investment in capital assets decreased during the year because of the retirement of equipment and software. Below is a comparison of the items that make up capital assets as of June 30, 2020 and 2019:

	2020	2019
Land	**$ 439,171**	$ 439,171
Building and improvements	**4,584,369**	4,584,071
Equipment	**162,093**	196,091
Vehicles	**462,363**	438,118
Software	**1,237,442**	1,243,569
Total capital assets	**$ 6,885,438**	$ 6,901,020

Capital Assets and Debt Administration (Continued)

Long-Term Debt: Total long-term obligations at June 30, 2020 were $3,085,284, which include obligations for the main facility at Sanger's Lane. Other long-term obligations of VCSB include accrued vacation pay and other postemployment liabilities. Detailed information on VCSB's long-term liabilities is presented in Note 6 of the notes to financial statements.

Review of Operations

Operating Revenues: Operating revenues is the amount of revenue received from providing client services. These revenues decreased 8% from the prior year.

Operating/Depreciation Expenses: Operating expenses consist of personnel and contractual expenses, facility costs, and supplies. There was a decrease of 3% over the prior year due to COVID 19 and closing several programs resulting in a decrease in staffing and staffing costs, additional bad debts due to limited collection efforts and decreases in vehicle leases.

Nonoperating Income: Nonoperating income includes state and local appropriations, federal grants, and miscellaneous income. There was a 6% decrease in nonoperating income from the prior year primarily due to a decrease Performance Contract funding, and Discharge Assistance Program funding.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

VALLEY COMMUNITY SERVICES BOARD

STATEMENT OF NET POSITION
June 30, 2020
(With Comparative Totals for 2019)

	2020	2019
ASSETS		
Current Assets		
Cash and cash equivalents	$ **2,675,993**	$ 1,657,730
Restricted cash and cash equivalents	**78,840**	78,840
Accounts receivable, less allowance for uncollectibles	**973,727**	1,616,193
Due from other governmental units	**81,164**	167,988
Prepaid items	**125,800**	181,611
Total current assets	**3,935,524**	3,702,362
Noncurrent Assets		
Capital Assets		
Non-depreciable capital assets	**439,171**	439,171
Depreciable capital assets, less accumulated depreciation and amortization	**3,041,186**	3,383,012
Total capital assets, net	**3,480,357**	3,822,183
Net Pension Asset	**3,336,354**	4,373,025
Total noncurrent assets	**6,816,711**	8,195,208
Total assets	**10,752,235**	11,897,570
DEFERRED OUTFLOWS OF RESOURCES		
Pension Plan	**783,294**	220,494
Other Postemployment Benefits	**173,684**	95,231
Total deferred outflows of resources	**956,978**	315,725

VALLEY COMMUNITY SERVICES BOARD

STATEMENT OF NET POSITION (Continued)
June 30, 2020
(With Comparative Totals for 2019)

	2020	2019
LIABILITIES		
Current Liabilities		
Accounts payable	**$ 385,117**	$ 524,587
Accrued payroll and benefits	**1,167,028**	1,143,573
Amounts held for others	**384,245**	634,314
Due to other governmental units	**169,702**	172,593
Unearned revenue	**1,177,134**	435,715
Notes payable, current portion	**154,817**	184,095
Compensated absences	**522,760**	490,767
Total current liabilities	**3,960,803**	3,585,644
Noncurrent Liabilities		
Notes payable, less current portion	**1,942,251**	2,041,059
Compensated absences	**261,380**	245,383
Other postemployment benefits	**881,653**	820,000
Total noncurrent liabilities	**3,085,284**	3,106,442
Total liabilities	**7,046,087**	6,692,086
DEFERRED INFLOWS OF RESOURCES		
Pension Plan	**396,569**	916,464
Other Postemployment Benefits	**63,883**	86,000
Total deferred inflows of resources	**460,452**	1,002,464
NET POSITION		
Net Investment in Capital Assets	**1,383,289**	1,597,029
Restricted for Debt Service	**78,840**	78,840
Unrestricted	**2,740,545**	2,842,876
Total net position	**$ 4,202,674**	$ 4,518,745

VALLEY COMMUNITY SERVICES BOARD

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
Year Ended June 30, 2020
(With Comparative Totals for 2019)

	2020	2019
Operating Revenues		
Net patient service revenue	**$ 12,895,398**	$ 14,033,698
Operating Expenses		
Salaries and wages	**12,038,871**	12,183,634
Fringe benefits	**3,276,822**	2,394,687
Contractual services	**911,183**	1,167,139
Leases and rentals	**404,669**	410,093
Depreciation and amortization	**408,899**	474,016
Other charges and supplies	**4,377,240**	5,644,402
Bad debt expense	**609,659**	557,698
Total operating expenses	**22,027,343**	22,831,669
Operating loss	**(9,131,945)**	(8,797,971)
Nonoperating Income (Expenses)		
Intergovernmental revenues:		
Commonwealth of Virginia	**6,384,292**	7,317,967
Federal government	**1,450,523**	1,150,171
Participating localities	**548,538**	512,556
Interest income	**4,765**	6,736
Miscellaneous income	**445,569**	471,234
Gain on disposal of property and equipment	**76,482**	-
Interest expense	**(94,295)**	(103,276)
Nonoperating income, net	**8,815,874**	9,355,388
Change in net position	**(316,071)**	557,417
Net Position, beginning of year	**4,518,745**	3,961,328
Net Position, end of year	**$ 4,202,674**	$ 4,518,745

VALLEY COMMUNITY SERVICES BOARD

STATEMENT OF CASH FLOWS
Year Ended June 30, 2020
(With Comparative Totals for 2019)

	2020	2019
Cash Flows From Operating Activities		
Receipts from customers	$ 13,669,624	$ 13,566,112
Payments to suppliers	(6,026,820)	(6,875,165)
Payments to and for employees	(15,329,189)	(15,491,713)
Net cash used in operating activities	(7,686,385)	(8,800,766)
Cash Flows From Noncapital and Related Financing Activities		
Government grants	8,467,286	8,980,117
Other	445,569	471,234
Net cash provided by noncapital and related financing activities	8,912,855	9,451,351
Cash Flows From Capital and Related Financing Activities		
Purchase of capital assets	(71,199)	(147,248)
Proceeds from sale of assets	80,608	-
Principal payments on long-term debt	(128,086)	(204,059)
Interest expense	(94,295)	(103,276)
Net cash used in capital and related financing activities	(212,972)	(454,583)
Cash Flows From Investing Activities		
Interest income	4,765	6,736
Net cash provided by investing activities	4,765	6,736
Net increase in cash and cash equivalents	1,018,263	202,738
Cash and Cash Equivalents, beginning of year	1,736,570	1,533,832
Cash and Cash Equivalents, end of year	$ 2,754,833	$ 1,736,570

VALLEY COMMUNITY SERVICES BOARD

STATEMENT OF CASH FLOWS (Continued)
Year Ended June 30, 2020
(With Comparative Totals for 2019)

	2020	2019
Reconciliation of Operating Loss to Net Cash Used in Operating Activities:		
Operating loss	**$ (9,131,945)**	$ (8,797,971)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Bad debt	**609,659**	557,698
Depreciation and amortization	**408,899**	474,016
Pension expense (benefit)	**(179,534)**	(1,244,721)
OPEB expense (benefit)	**(37,476)**	(53,000)
Changes in assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	**32,807**	(792,911)
Prepaid items	**55,811**	(38,034)
Deferred outflows of resources - pension	**133,510**	133,510
Deferred outflows of resources - OPEB	**(1,441)**	(1,441)
Increase (decrease) in:		
Accounts payable	**(139,470)**	39,390
Accrued payroll and benefits	**23,455**	173,136
Compensated absences	**47,990**	79,124
Amounts held for others	**(250,069)**	345,113
Unearned revenue	**741,419**	325,325
Net cash used in operating activities	**$ (7,686,385)**	$ (8,800,766)

Note 1. Summary of Significant Accounting Policies

A. Organization and Purpose

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

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

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

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

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

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

B. Basic Financial Statements

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

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

Note 1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

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

D. Comparative Totals

Comparative amounts for the prior year are presented for information purposes only.

E. Cash and Cash Equivalents

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

F. Restricted Cash and Cash Equivalents

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

G. Accounts Receivable and Allowance for Uncollectible Accounts

At June 30, 2020, the Board had accounts receivable for service fees due in the amount of $973,727 from Medicaid, third party insurers and direct clients, net of an allowance for doubtful accounts of $968,975 at June 30, 2020. The allowance was determined based on historical collections.

H. Inventory

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

I. Capital Assets

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

Note 1. Summary of Significant Accounting Policies (Continued)

I. Capital Assets (Continued)

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

Buildings and improvements	39 years
Equipment	5 – 10 years
Vehicles	5 years
Leasehold improvements	10 – 15 years
Software	3 years
ICF/MR Buildings and Improvements	20 years

Capital assets, which include property and equipment, are reported in the financial statements. Capital assets are defined by the Board as assets with an initial, individual cost or group purchase of more than $5,000 and an estimated useful life in excess of one year. There were no impaired assets at year end.

J. Compensated Absences

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

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

K. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Board has several items that qualify for reporting in this category. These items relate to the pension plan and other postemployment benefits (OPEB) plan. For more detailed information on these items, see Notes 7 and 8.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Board has several items that qualify for reporting in this category. These items relate to the pension plan and OPEB plan. For more detailed information on these items, see Notes 7 and 8.

Note 1. Summary of Significant Accounting Policies (Continued)

L. Net Position

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

M. Net Position Flow Assumption

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

N. Net Patient Service Revenue

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

O. Operating and Nonoperating Revenues and Expenses

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

P. Pensions

The Virginia Retirement System (VRS) Political Subdivision Retirement Plan (the Board's retirement plan) is a multi-employer, agent plan. For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Board's retirement plan and the additions to/deductions from the Board's retirement plan 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.

Note 1. Summary of Significant Accounting Policies (Continued)

Q. Other Postemployment Benefits

Group Life Insurance Program

The VRS Group Life Insurance Program (GLI) is a multiple employer, cost-sharing plan. It provides coverage to state employees, teachers, and employees of participating political subdivisions. The GLI was established pursuant to Section 51.1-500 et seq. of the *Code of Virginia*, as amended, and which provides the authority under which benefit terms are established or may be amended. The GLI is a defined benefit plan that provides a basic GLI benefit for employees of participating employers. For purposes of measuring the total GLI OPEB liability, deferred outflows of resources and deferred inflows of resources related to the GLI OPEB, and GLI OPEB expense, information about the fiduciary net position of the VRS GLI OPEB and the additions to/deductions from the VRS GLI OPEB's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

R. Budget Process

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

S. Use of Estimates

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

T. Subsequent Events

The Board has evaluated subsequent events through December 14, 2020, the date on which the financial statements were available to be issued.

Note 2. Deposits and Investments

Deposits: Deposits with banks are covered by the Federal Deposit Insurance Corporation (FDIC) and collateralized in accordance with the Virginia Security for Public Deposits Act (the "Act"), Section 2.2-4400 et., seq. of the *Code of Virginia*. Under the Act, banks and savings institutions holding public deposits in excess of the amount insured by the FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial institutions may choose between two collateralization methodologies and depending upon that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

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

The Board has investments in the LGIP. The LGIP is a professionally managed money market fund which invests in qualifying obligations and securities as permitted by Virginia statutes. Pursuant to Section 2.2-4605 of the *Code of Virginia*, the Treasury Board of the Commonwealth sponsors the LGIP and has delegated certain functions to the State Treasurer. The LGIP reports to the Treasury Board at their regularly scheduled monthly meetings. The Board's investments in the LGIP, totaling $84,760, are stated at amortized cost and classified as cash and cash equivalents. The LGIP has been assigned an "AAAm" rating by Standard & Poor's. The maturity of the LGIP is less than one year.

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

Interest rate risk: Interest rate risk is defined as the risk that changes of interest rates will adversely affect the fair value of an investment. The Board does not have a formal policy related to the interest rate risk. Interest rate risk does not apply to LGIP since it is an external investment pool classified in accordance with GASB Statement No. 79.

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

The Board has the following recurring fair value measurement as of June 30, 2020:

- Money market account of $508,542 is valued using quoted market prices (Level 1 inputs).

Concentrations of credit risk: Concentration of credit risk is defined as the risk of loss attributed to the magnitude of an investment in a single issuer. If certain investments in any one issuer represents 5% of total investments, there must be a disclosure for the amount and issuer. At June 30, 2020, 100% of the Board's investments, excluding LGIP, were in money market funds.

Note 3. Due To/From Other Governmental Units

Amounts due from local, state, and federal governments totaled $81,164 at June 30, 2020. Amounts due to state governmental units totaled $169,702 at June 30, 2020.

Note 4. Capital Assets

Capital assets activity for the year ended June 30, 2020 is summarized below:

	Beginning Balance	Increases	(Deletions)/ Reclassifications	Ending Balance
Capital assets not being depreciated or amortized:				
Land	$ 439,171	$ -	$ -	$ 439,171
Total capital assets not being depreciated or amortized	439,171	-	-	439,171
Capital assets being depreciated or amortized:				
Buildings and improvements	4,584,071	5,800	(5,502)	4,584,369
Equipment	196,091	7,438	(41,436)	162,093
Vehicles	438,118	24,245	-	462,363
Software	1,243,569	33,716	(39,843)	1,237,442
Total capital assets being depreciated or amortized	6,461,849	71,199	(86,781)	6,446,267
Less accumulated depreciation and amortization	3,078,837	408,899	(82,655)	3,405,081
Total capital assets being depreciated or amortized, net	3,383,012	(337,700)	(4,126)	3,041,186
Capital assets, net	$ 3,822,183	$ (337,700)	$ (4,126)	$ 3,480,357

Depreciation and amortization expense amounted to $408,899 for the year ended June 30, 2020.

Note 5. Unearned Revenue

Unearned revenue represents amounts for which asset recognition criteria have been met, but the revenue recognition criteria have not been met. At June 30, 2020, there was $1,177,134 in unearned revenue as a result of the receipt of unearned grant revenue.

Note 6. Long-Term Obligations

The following is a summary of long-term obligations transactions of the Board for the year ended June 30, 2020:

	Beginning Balance	Increases/ Issuances	Decreases/ Retirements	Ending Balance
Rural development loan	$ 1,207,314	$ -	$ 27,921	$ 1,179,393
Note payable	1,017,840	-	100,165	917,675
	2,225,154	-	128,086	2,097,068
Compensated absences	736,150	1,085,035	1,037,045	784,140
Total	$ 2,961,304	$ 1,085,035	$ 1,165,131	$ 2,881,208

Detail of long-term obligations at June 30, 2020 follows:

	Total Amount	Amount Due Within One Year
$1,500,000 rural development loan dated April 26, 2004, maturing April 26, 2044, monthly payments of $6,570, interest at 4.25%, collateralized by a deed of trust of buildings and property at 85 Sanger's Lane, Staunton, Virginia.	$ 1,179,393	$ 29,263
$1,713,138 note payable dated December 4, 2014 to First Bank & Trust Company, maturing ten years from date of final drawdown, monthly payments of $17,571, interest at 4.25%, collateralized by a deed of trust of buildings and property at 85 Sanger's Lane, Staunton, Virginia.	917,675	125,554
Total notes payable	2,097,068	154,817
Compensated absences	784,140	522,760
Total long-term obligations	$ 2,881,208	$ 677,577

The Board's rural development loan and note payable contain a provision that in the event of default, the timing of repayment of outstanding amounts immediately become due, in the amount of proportionate net proceeds from sale of collateral.

Note 6. Long-Term Obligations (Continued)

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

Year(s)	Rural Development Loan		Note Payable		Total	
Ending June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2021	$ 29,263	$ 49,577	$ 125,554	$ 27,483	$ 154,817	$ 77,060
2022	30,531	48,309	173,743	30,307	204,274	78,616
2023	31,854	46,986	181,272	22,777	213,126	69,763
2024	33,109	45,731	189,128	14,921	222,237	60,652
2025	34,670	44,170	197,325	6,725	231,995	50,895
2026-2030	197,113	197,087	50,653	359	247,766	197,446
2031-2035	243,709	150,491	-	-	243,709	150,491
2036-2040	301,287	92,913	-	-	301,287	92,913
2041-2045	277,857	23,766	-	-	277,857	23,766
Total	$ 1,179,393	$ 699,030	$ 917,675	$ 102,572	$ 2,097,068	$ 801,602

Note 7. Pension Plan

Name of Plan: Virginia Retirement System (VRS)

Identification of Plan: Agent Multiple-Employer Pension Plan

Administering Entity: Virginia Retirement System (System)

A. Plan Description

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

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

Note 7. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, service credit and average final compensation at retirement using a formula.	**About Plan 2** Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, service credit and average final compensation at retirement using a formula.	**About the Hybrid Retirement Plan** The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. • The defined benefit is based on a member's age, service credit and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

Note 7. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1

Eligible Members

Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a refund.

Hybrid Opt-In Election

VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.

PLAN 2

Eligible Members

Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.

Hybrid Opt-In Election

Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.

The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.

If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.

Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.

HYBRID RETIREMENT PLAN

Eligible Members

Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:

- Political subdivision employees.*
- Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1 through April 30, 2014; the plan's effective date for opt-in members was July 1, 2014.

**Non-Eligible Members*

Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:

- Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.

Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.

Note 7. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Retirement Contributions Members contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	**Retirement Contributions** Same as Plan 1.	**Retirement Contributions** A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.
Service Credit Service credit includes active service. Members earn service credit for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional service credit the member was granted. A member's total service credit is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	**Service Credit** Same as Plan 1.	**Service Credit** *Defined Benefit Component* Under the defined benefit component of the plan, service credit includes active service. Members earn service credit for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional service credit the member was granted. A member's total service credit is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. *Defined Contribution Component* Under the defined contribution component, service credit is used to determine vesting for the employer contribution portion of the plan.

Note 7. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of service credit. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	**Vesting** Same as Plan 1.	**Vesting** *Defined Benefit Component* Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of service credit. Plan 1 or Plan 2 members with at least five years (60 months) of service credit who opted into the Hybrid Retirement Plan remain vested in the defined benefit component. *Defined Contribution Component* Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distributions not required, except as governed by law.

Note 7. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Calculating the Benefit The basic benefit is determined using the average final compensation, service credit and plan multiplier. An early retirement reduction is applied to this amount if the member is retiring with a reduced benefit. In cases where the member has elected an optional form of retirement payment, an option factor specific to the option chosen is then applied.	**Calculating the Benefit** See definition under Plan 1.	**Calculating the Benefit** *Defined Benefit Component* See definition under Plan 1. *Defined Contribution Component* The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** A member's average final compensation is the average of the 60 consecutive months of highest compensation as a covered employee.	**Average Final Compensation** Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier ***VRS:*** The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.	**Service Retirement Multiplier** ***VRS:*** Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members, the retirement multiplier is 1.65% for service credit earned, purchased or granted on or after January 1, 2013.	**Service Retirement Multiplier** *Defined Benefit Component* ***VRS:*** The retirement multiplier for the defined benefit component is 1.00%. For members that opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. *Defined Contribution Component* Not applicable.

Note 7. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Normal Retirement Age ***VRS:*** Age 65.	**Normal Retirement Age** ***VRS:*** Normal Social Security retirement age.	**Normal Retirement Age** *Defined Benefit Component* ***VRS:*** Same as Plan 2. *Defined Contribution Component* Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Unreduced Retirement Eligibility ***VRS:*** Age 65 with at least five years (60 months) of service credit or at age 50 with at least 30 years of service credit.	**Earliest Unreduced Retirement Eligibility** ***VRS:*** Normal Social Security retirement age and have at least 5 years (60 months) of service credit or when their age plus service credit equals 90.	**Earliest Unreduced Retirement Eligibility** *Defined Benefit Component* ***VRS:*** Normal Social Security retirement age and have at least 5 years (60 months) of service credit or when their age plus service credit equals 90. *Defined Contribution Component* Members are eligible to receive distributions upon leaving employment, subject to restrictions.
Earliest Reduced Retirement Eligibility ***VRS:*** Age 55 with at least five years (60 months) of service credit or age 50 with at least 10 years of service credit.	**Earliest Reduced Retirement Eligibility** ***VRS:*** Age 60 with at least five years (60 months) of service credit.	**Earliest Reduced Retirement Eligibility** *Defined Benefit Component* ***VRS:*** Age 60 with at least five years (60 months) of service credit. *Defined Contribution Component* Members are eligible to receive distributions upon leaving employment, subject to restrictions.

Note 7. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.	**Cost-of-Living Adjustment (COLA) in Retirement** The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 2%) up to a maximum COLA of 3%.	**Cost-of-Living Adjustment (COLA) in Retirement** *Defined Benefit Component* Same as Plan 2. *Defined Contribution Component* Not applicable.
Eligibility: For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of service credit, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of service credit, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.	*Eligibility:* Same as Plan 1.	*Eligibility:* Same as Plan 1 and Plan 2.
Exceptions to COLA Effective Dates: The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. • The member retires directly from short-term or long-term disability.	*Exceptions to COLA Effective Dates:* Same as Plan 1.	*Exceptions to COLA Effective Dates:* Same as Plan 1 and Plan 2.

Note 7. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Cost-of-Living Adjustment (COLA) in Retirement (Continued) *Exceptions to COLA Effective Dates: (Continued)* • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.		
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.	**Disability Coverage** Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service regardless of when it was earned, purchased or granted.	**Disability Coverage** Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work related disability benefits.

Note 7. Pension Plan (Continued)

A. Plan Description (Continued)

PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as service credit in their plan. Prior service credit counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.	**Purchase of Prior Service** Same as Plan 1.	**Purchase of Prior Service** **Defined Benefit Component** Same as Plan 1, with the following exceptions: • Hybrid Retirement Plan members are ineligible for ported service. **Defined Contribution Component** Not applicable.

B. Employees Covered by Benefit Terms

As of the June 30, 2018 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	142
Inactive members:	
Vested	77
Non-vested	133
Active elsewhere in VRS	158
Total inactive members	368
Active members	231
Total covered employees	741

Note 7. Pension Plan (Continued)

C. Contributions

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

The Board's contractually required contribution rate for the year ended June 30, 2020 was 2.08% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2018.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by an employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Board were $159,804 and $160,734 for the years ended June 30, 2020 and 2019, respectively.

D. Net Pension Liability (Asset)

The net pension liability (asset) is calculated separately for each employer and represents that particular employer's total pension liability (asset) determined in accordance with GASB Statement no. 68, less that employer's fiduciary net position. For political subdivisions, the net pension liability (asset) was measured as of June 30, 2019. The total pension liability (asset) used to calculate the net pension liability (asset) was determined by an actuarial valuation performed as of June 30, 2018 rolled forward to the measurement date of June 30, 2019.

E. Actuarial Assumptions

The total pension liability for General Employee's in the Board's retirement plan was based on an actuarial valuation as of June 30, 2018, 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, 2019.

Inflation	2.50%
Salary increases, including inflation	3.50% - 5.35%
Investment rate of return	6.75%, 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 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify preparation of pension benefits.

Note 7. Pension Plan (Continued)

E. Actuarial Assumptions (Continued)

Mortality Rates: 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 compound from ages 70-90.

– Post-disablement: RP-2014 Disabled Life Mortality Table Projected with scale BB to 2020 with males set forward 2 years, 110% of rates; females 125% of rates.

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled:	Update 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 nine years of service
Disability Rates:	Lowered rates
Salary Scale:	No change
Discount Rate:	Decrease rate from 7.00% to 6.75%

Note 7. Pension Plan (Continued)

F. Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return*
Public Equity	34.00%	5.61%	1.91%
Fixed Income	15.00%	88.00%	0.13%
Credit Strategies	14.00%	5.13%	0.72%
Real Assets	14.00%	5.27%	0.74%
Private Equity	14.00%	8.77%	1.23%
MAPS - Multi-Asset Public Strategies	6.00%	3.52%	0.21%
PIP - Private Investment Partnership	3.00%	6.29%	0.19%
Total	100.00%		5.13%
		Inflation	2.50%
		* Expected arithmetic nominal return	7.63%

* The above allocation provides a one-year return of 7.63%. 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 7.11%, including expected inflation of 2.50%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation.

Note 7. Pension Plan (Continued)

G. Discount Rate

The discount rate used to measure the total pension liability was 6.75%. 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; political subdivisions were also provided with an opportunity to use an alternate employer contribution rate. For the year ended June 30, 2019, the alternate rate was the employer contribution rate used in FY 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2018, actuarial valuations, whichever was greater. From July 1, 2019, 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.

H. Changes in the Net Pension Liability (Asset)

	Total Pension Liability	Plan Fiduciary Net Pension	Net Pension Liability (Asset)
Balances at June 30, 2018	$ 27,313,157	$ 31,686,182	$ (4,373,025)
Changes for the year:			
Service cost	871,081	-	871,081
Interest	1,866,485	-	1,866,485
Changes of assumptions	925,151	-	925,151
Difference between expected and actual experience	100,590	-	100,590
Contributions – employer	-	160,734	(160,734)
Contributions – employee	-	488,291	(488,291)
Net investment income	-	2,099,893	(2,099,893)
Benefit payments, including refunds of employee contributions	(1,298,173)	(1,298,173)	-
Administrative expense	-	(20,960)	20,960
Other changes	-	(1,322)	1,322
Net changes	2,465,134	1,428,463	1,036,671
Balances at June 30, 2019	$ 29,778,291	$ 33,114,645	$ (3,336,354)

Note 7. Pension Plan (Continued)

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

The following presents the net pension asset of the Board, using the discount rate of 6.75%, as well as what the Board's net pension (asset) liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Board's net pension (asset) liability	$ 835,097	$ (3,336,354)	$ (6,606,422)

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

For the year ended June 30, 2020, the Board recognized pension expense of $54,020. At June 30, 2020, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 61,143	$ (107,838)
Changes in assumptions	562,347	-
Net difference between projected and actual earnings on pension plan investments	-	(288,731)
Employer contributions subsequent to the measurement date	159,804	-
Total	$ 783,294	$ (396,569)

The $159,804 reported as deferred outflows of resources related to pensions resulting from the Board's contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ending June 30, 2021. 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 Ending June 30,	Amount
2021	$ 280,819
2022	(65,825)
2023	(7,001)
2024	18,928
	$ 226,921

Note 7. Pension Plan (Continued)

K. Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2019 Comprehensive Annual Financial Report (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at varetire.org/Pdf/Publications/2019-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, Virginia 23218-2500.

Note 8. Other Postemployment Benefits – Group Life Insurance Program

A. Plan Description

All full-time, salaried permanent employees of the Board are automatically covered by the VRS Group Life Insurance Program (GLI) upon employment. This plan is administered by the Virginia Retirement System (the System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

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

Note 8. Other Postemployment Benefits – Group Life Insurance Program (Continued)

A. Plan Description (Continued)

The specific information for GLI OPEB, including eligibility, coverage and benefits is set out in the table below:

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS
Eligible Employees The GLI was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program. Basic GLI coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their accumulated retirement member contributions and accrued interest.
Benefit Amounts The benefits payable under the GLI have several components. • Natural Death Benefit – The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. • Accidental Death Benefit – The accidental death benefit is double the natural death benefit. • Other Benefit Provisions – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include: o Accidental dismemberment benefit o Safety belt benefit o Repatriation benefit o Felonious assault benefit o Accelerated death benefit option
Reduction in Benefit Amounts The benefit amounts provided to members covered under the GLI are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.
Minimum Benefit Amount and Cost-of-Living Adjustment (COLA) For covered members with at least 30 years of service credit, there is a minimum benefit payable under GLI. The minimum benefit was set at $8,000 by statute in 2015. This will be increased annually based on the VRS Plan 2 cost-of-living adjustment calculation. The minimum benefit adjusted for the COLA was $8,463 as of June 30, 2020.

Note 8. Other Postemployment Benefits – Group Life Insurance Program (Continued)

B. Contributions

The contribution requirements for the GLI are governed by Sections 51.1-506 and 51.1-508 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the GLI was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% X 60%) and the employer component was 0.52% (1.31% X 40%). Employers may elect to pay all or part of the employee contribution, however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2020 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2018. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the GLI from the Board were $56,852 and $55,231 for the years ended June 30, 2020 and 2019, respectively.

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

At June 30, 2020, the Board reported a liability of $881,653 for its proportionate share of the net GLI OPEB liability. The net GLI OPEB liability was measured as of June 30, 2020 and the total GLI OPEB liability used to calculate the net GLI OPEB liability was determined by an actuarial valuation performed as of June 30, 2018, and rolled forward to the measurement date of June 30, 2019. The covered employers' proportion of the net GLI OPEB liability was based on the covered employer's actuarially determined employer contributions to the GLI for the year ended June 30, 2019, relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2019, the Board's proportion was 0.05418% as compared to 0.05399% at June 30, 2018.

For the year ended June 30, 2020, the Board recognized GLI OPEB expense of $18,642. Since there was a change in the proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2020, the Board reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the flowing sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 58,635	$ (11,434)
Net difference between projected and actual earnings on GLI OPEB program investments	-	(18,110)
Change in assumptions	55,662	(26,586)
Changes in proportionate share	2,535	(7,753)
Employer contribution subsequent to the measurement date	56,852	-
Total	$ 173,684	$ (63,883)

Note 8. Other Postemployment Benefits – Group Life Insurance Program (Continued)

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

The $56,852 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the net GLI OPEB liability in the fiscal year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year Ending June 30,		Amount
2021	$	1,387
2022		1,388
2023		9,058
2024		17,294
2025		18,617
Thereafter		5,205
Total	$	52,949

D. Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2018, 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, 2019.

Inflation	2.5%
Salary increases, including inflation:	
Locality – general employees	3.5%-5.35%
Investment rate of return	6.75%, net of investment expenses, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% 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 6.75% to simplify preparation of the OPEB liabilities.

Mortality Rates – General Employees

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

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

Post-Disablement: RP-2014 Disability Life Mortality Table projected with Scale BB to 2020; males set forward two years, 110% of rates; females 125% of rates.

Note 8. Other Postemployment Benefits – Group Life Insurance Program (Continued)

D. Actuarial Assumptions (Continued)

The actuarial assumptions used in the June 30, 2018 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Discount Rate	Decrease rate from 7.00% to 6.75%

E. Net GLI Liability

The net OPEB liability (NOL) for the GLI represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the measurement date of June 30, 2019, NOL amounts for the GLI are as follows:

	Group Life Insurance OPEB Program
Total GLI OPEB liability	$ 3,390,238
Plan fiduciary net position	1,762,972
Employers' net GLI OPEB liability	**$ 1,627,266**
Plan fiduciary net position as a percentage of the total GLI OPEB liability	52.00%

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

Note 8. Other Postemployment Benefits – Group Life Insurance Program (Continued)

F. Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return*
Public Equity	34.00%	5.61%	1.91%
Fixed Income	15.00%	88.00%	0.13%
Credit Strategies	14.00%	5.13%	0.72%
Real Assets	14.00%	5.27%	0.74%
Private Equity	14.00%	8.77%	1.23%
MAPS - Multi-Asset Public Strategies	6.00%	3.52%	0.21%
PIP - Private Investment Partnership	3.00%	6.29%	0.19%
Total	100.00%		5.13%
	Inflation		2.50%
	* Expected arithmetic nominal return		7.63%

* The above allocation provides a one-year return of 7.63%. 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 7.11%, including expected inflation of 2.50%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation.

G. Discount Rate

The discount rate used to measure the total GLI OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the participating employers for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly which was 100% of the actuarially determined contribution rate. From July 1, 2019 on, employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

Note 8. Other Postemployment Benefits – Group Life Insurance Program (Continued)

H. Sensitivity of the Participating Employers' Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the Board's proportionate share of the net GLI OPEB liability using the discount rate of 6.75%, as well as what the participating employers' proportionate share of the net GLI OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	1% Decrease (5.75%)	Current Discount Rate (6.75%)	1% Increase (7.75%)
Board's proportionate share of the GLI net OPEB liability	$ 1,158,248	$ 881,653	$ 657,342

I. GLI Fiduciary Net Position

Detailed information about the GLI's fiduciary net position is available in the separately issued VRS 2019 Comprehensive Annual Financial Report (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at varetire.org/Pdf/Publications/2019-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, Virginia, 23218-2500.

Note 9. Participating Localities' Contributions

Contributions from localities for the year ended June 30, 2020 were as follows:

County of Augusta	$ 197,000
County of Highland	9,566
City of Staunton	184,139
City of Waynesboro	157,833
	$ 548,538

Note 10. Operating Leases

The Board leases offices, clinics, facilities, vehicles, and equipment for residential services under various lease agreements. Lease expense for the year ended June 30, 2020 amounted to $404,669.

At June 30, 2020, the approximate future minimum annual operating lease commitments (exclusive of projected increases for Consumer Price Index amounts) are as follows:

Year Ending June 30,	Amount
2021	$ 204,878
2022	147,718
2023	78,241
2024	44,341
2025	12,614
	$ 487,792

Note 11. Risk Management

Liability Insurance

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

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

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

Health Insurance

Board employees, retirees and employee dependents are eligible for medical benefits from a health self-insurance fund. Funding is provided by charges to Board employees and retirees. The program is supplemented by a stop loss protection, which limits the Board's annual liability.

Based on the requirements of GASB Statement No. 10, the Board records an estimated liability for indemnity healthcare claims. The liability is included in accrued payroll and benefits .The following represents the change in the fund's claims liability for 2020.

Fiscal Year Ended	Beginning Liability	Claims and Changes in Estimates	Claim Payments	Ending Liability
June 30, 2020	$ 483,579	$ 2,126,636	$ 2,071,756	$ 538,459

Note 12. Deferred Compensation Plan

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

Note 13. Contingencies

Federal and State-Assisted Programs

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

In 2018, VCSB partnered with the Department of Housing and Community Development to have a 3rd party build housing for persons with serious mental issues. There is a $250,000 penalty if the property is not maintained in this manner for 20 years. VCSB recorded a $250,000 mortgage receivable in 2020 which is offset with a $250,000 allowance. Each year, 1/20 of the balance for both accounts is written down. The balance on the mortgage receivable and allowance is now $225,000.

Note 14. Pending GASB Statements

At June 30, 2020, the Governmental Accounting Standards Board (GASB) had issued statements not yet implemented by the Board. The statements which might impact the Board are as follows:

GASB Statement No. 84, *Fiduciary Activities*, will improve the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Statement No. 84 will be effective for fiscal years beginning after December 15, 2019.

GASB Statement No. 87, *Leases*, will increase the usefulness of the Town's financial statements by requiring reporting of certain lease assets and liabilities and deferred inflows of resources for leases that previously were classified as operating leases. Statement No. 87 will be effective for fiscal years beginning after June 15, 2021.

Note 14. Pending GASB Statements (Continued)

GASB Statement No. 92, *Omnibus 2020,* will improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics, including intra-entity transfers, the effective date of No. 87, *Leases*, the applicability of Statements No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans, as amended, to reporting assets accumulated for postemployment benefits, the applicability of certain requirements of Statement No. 84, Fiduciary Activities, to postemployment benefit arrangements, measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition, reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers, reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature, terminology used to refer to derivative instruments. Statement No. 92 will be effective for fiscal years beginning after June 15, 2021.

GASB Statement No. 93, *Replacement of Interbank Offered Rates*, will address accounting and financial reporting implications that result from the replacement of an interbank offered rate-most notably, the London Interbank Offered Rate (LIBOR), which is expected to cease to exist in its current form at the end of 2021, prompting governments to amend or replace financial instruments for the purpose of replacing LIBOR with other reference rates, by either changing the reference rate or adding or changing fallback provisions related to the reference rate. Portions of Statement No. 93 will be effective for fiscal years beginning after June 15, 2020, June 15, 2021, and December 31, 2021.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements,* will improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. Statement No. 94 will be effective for fiscal years beginning after June 15, 2022.

GASB Statement No. 96, *Subscription-Based information Technology Arrangements*, will provide guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). Statement No. 96 will be effective for fiscal years beginning after June 15, 2022.

GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32,* will (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. Statement No. 97 will be effective for fiscal years beginning after June 15, 2021.

Management has not determined the effect these new GASB Statements may have on prospective financial statements.

Note 15. Risks and Uncertainties

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, and quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets of many countries, including the geographical area in which the Board operates. While it is unknown how long these conditions will last, many Board activities were and continue to be affected.

REQUIRED SUPPLEMENTARY INFORMATION

VALLEY COMMUNITY SERVICES BOARD

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

	Fiscal Year June 30,					
	2014	2015	2016	2017	2018	2019
Total Pension Liability						
Service cost	$ 1,043,507	$ 998,145	$ 988,866	$ 972,724	$ 876,687	$ 871,081
Interest	1,476,016	1,589,609	1,674,708	1,748,785	1,790,977	1,866,485
Changes of assumptions	-	-	-	(289,886)	-	925,151
Differences between expected and actual experience	-	(386,702)	(563,294)	(764,266)	(415,946)	100,590
Benefit payments, including refunds of employee contributions	(825,486)	(968,032)	(1,002,695)	(1,081,356)	(1,047,889)	(1,298,173)
Net change in pension liability	1,694,037	1,233,020	1,097,585	586,001	1,203,829	2,465,134
Total pension liability - beginning	21,498,685	23,192,722	24,425,742	25,523,327	26,109,328	27,313,157
Total pension liability - ending (a)	$ 23,192,722	$ 24,425,742	$ 25,523,327	$ 26,109,328	$ 27,313,157	$ 29,778,291
Plan Fiduciary Net Position						
Contributions - employer	$ 716,594	$ 520,327	$ 533,013	$ 359,948	$ 354,005	$ 160,734
Contributions - employee	483,856	474,302	490,446	519,536	491,370	488,291
Net investment income	3,405,789	1,156,321	466,852	3,259,525	2,201,403	2,099,893
Benefit payments, including refunds of employee contributions	(825,486)	(968,032)	(1,002,695)	(1,081,356)	(1,047,889)	(1,298,173)
Administrative expense	(17,823)	(15,567)	(16,165)	(18,667)	(18,819)	(20,960)
Other	179	(247)	(195)	(2,903)	(1,967)	(1,322)
Net change in plan fiduciary net position	3,763,109	1,167,104	471,256	3,036,083	1,978,103	1,428,463
Plan fiduciary net position - beginning	21,270,527	25,033,636	26,200,740	26,671,996	29,708,079	31,686,182
Plan fiduciary net position - ending (b)	$ 25,033,636	$ 26,200,740	$ 26,671,996	$ 29,708,079	$ 31,686,182	$ 33,114,645
The Board's net pension asset - ending (a) - (b)	$ (1,840,914)	$ (1,774,998)	$ (1,148,669)	$ (3,598,751)	$ (4,373,025)	$ (3,336,354)
Plan fiduciary net position as a percentage of the total pension asset	107.94%	107.27%	104.50%	113.78%	116.01%	111.20%
Covered payroll	$ 9,598,646	$ 9,392,184	$ 9,621,173	$ 9,253,162	$ 9,100,360	$ 7,727,596
The Board's net pension asset as a percentage of covered payroll	19.18%	18.90%	11.94%	38.89%	48.05%	43.17%

Note to Schedule:

(1) This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Board will present information for those years for which information is available.

VALLEY COMMUNITY SERVICES BOARD

SCHEDULE OF BOARD CONTRIBUTIONS – VIRGINIA RETIREMENT SYSTEM

	Fiscal Year June 30,						
	2014	2015	2016	2017	2018	2019	2020
Contractually required contribution (CRC)	$ 535,462	$ 520,327	$ 533,013	$ 359,948	$ 354,005	$ 160,734	$ 159,804
Contributions in relation to the CRC	535,462	520,327	533,013	359,948	354,005	160,734	159,804
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Employer's covered payroll	$ 9,753,406	$ 9,392,184	$ 9,621,173	$ 9,253,162	$ 9,100,360	$ 7,727,596	$ 7,682,885
Contributions as a percentage of covered payroll	5.49%	5.54%	5.54%	3.89%	3.89%	2.08%	2.08%

Note to Schedule:

(1) This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Board will present information for those years for which information is available.

VALLEY COMMUNITY SERVICES BOARD

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – VIRGINIA RETIREMENT SYSTEM
June 30, 2020

Note 1. Changes of Benefit Terms

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

Note 2. Changes of Assumptions

The actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

Mortality Rates (Pre-retirement, post-retirement healthy, and disabled:	Update 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 nine years of service
Disability Rates:	Lowered rates
Salary Scale:	No change
Discount Rate:	Decrease rate from 7.00% to 6.75%

VALLEY COMMUNITY SERVICES BOARD

SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY – GROUP LIFE INSURANCE PROGRAM

	Fiscal Year June 30, 2017	Fiscal Year June 30, 2018	Fiscal Year June 30, 2019
Employer's proportion of the net GLI OPEB liability	0.05421%	0.05399%	0.05418%
Employer's proportionate share of the net GLI OPEB liability	$ 816,000	$ 820,000	$ 881,653
Employer's covered payroll	$ 9,999,278	$ 10,265,209	$ 10,621,255
Employer's proportionate share of the net GLI OPEB liability as a percentage of its covered payroll	8.16%	7.99%	8.30%
Plan fiduciary net position as a percentage of the total GLI OPEB liability	48.86%	51.22%	52.00%

Note to Schedule:

(1) This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the Board will present information for those years for which information is available.

VALLEY COMMUNITY SERVICES BOARD

SCHEDULE OF EMPLOYER CONTRIBUTIONS – OPEB – GROUP LIFE INSURANCE PROGRAM

	Fiscal Year June 30,									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Contractually required contribution (CRC)	$ 26,617	$ 25,656	$ 47,032	$ 46,125	$ 45,658	$ 47,435	$ 51,996	$ 53,790	$ 55,231	$ 56,852
Contributions in relation to the CRC	26,617	25,656	47,032	46,125	45,658	47,435	51,996	53,790	55,231	56,852
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Employer's covered payroll	$ 9,506,165	$ 9,162,752	$ 9,798,299	$ 9,609,388	$ 9,512,081	$ 9,882,211	$ 9,999,278	$ 10,265,209	$ 10,621,255	$ 10,848,838
Contributions as a percentage of covered payroll	0.28%	0.28%	0.48%	0.48%	0.48%	0.48%	0.52%	0.52%	0.52%	0.52%

See Notes to Required Supplementary Information – Other Postemployment Benefits.

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – OTHER POSTEMPLOYMENT BENEFITS
Year Ended June 30, 2020

Note 1. Group Life Insurance Program

A. Changes of Benefit Terms

There have been no actuarially material changes to the Virginia Retirement System benefit provisions since the prior actuarial valuation.

B. Changes of Assumptions

The actuarial assumptions used in the June 30, 2018, valuation were based on the results of an actuarial experience study for the period from July 1, 2012, through June 30, 2016, except the change in the discount rate, which was based on VRS Board action effective as of July 1, 2019. Changes to the actuarial assumptions as a result of the experience study and VRS Board action are as follows:

General Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table – RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Discount Rate	Decrease rate from 7.00% to 6.75%

SUPPLEMENTARY INFORMATION

VALLEY COMMUNITY SERVICES BOARD
STANDARD SCHEDULE OF CURRENT PROPERTY & CASUALTY INSURANCE

Year Ended June 30, 2020

Insurance Coverage	Insurance Co./ Agent/Policy #	Policy Period	Limits of Liability		Deduction	Annual Premium
Automobile Liability Physical Damange	Co: Virginia Risk Sharing Assoc.	7/1/19 -	Auto Liability	$ 1,000,000		$ 30,445
	Ag: Lisa Schenk	6/30/20	Uninsured Motorist	$ 25/50/20,000		
	Pol. #: P-2019-2020-VRSA-0603-1		Medical Payments	$ 10,000		
			ACV-Comprehensive		$ 500	
			ACV-Collision			
Boiler & Machinery	Co: Virginia Risk Sharing Assoc.	7/1/19 -	Direct Damage	$ 1,000,000	$ 1,000	$ 349
	Ag: Lisa Schenk	6/30/20	Business Income			
	Pol. #: P-2019-2020-VRSA-0603-1		Extra Expense			
Crime	Co: Virginia Risk Sharing Assoc.	7/1/19 -	Employee Dishonesty	$ 500,000	$ 2,500	$ 2,229
	Ag: Lisa Schenk	6/30/20	Forgery or Alteration	$ 500,000	$ 2,500	
	Pol. #: P-2019-2020-VRSA-0603-1		Computer Fraud	$ 25,000	$ 2,500	
			Theft	$ 500,000	$ 2,500	
			Counterfeit	$ 500,000	$ 2,500	
Electronic Data Processing	Co: Virginia Risk Sharing Assoc.	7/1/19 -	Hardware	$ 660,000	$ 250	Included in Property Premium
	Ag: Lisa Schenk	6/30/20	Software	Included		
	Pol. #: P-2019-2020-VRSA-0603-1		Extra Expense	$ 1,275,000		
General Liability	Co.: VARISK2	7/1/19 -	Aggregate	N/A		
	Ag: Ray Harris	6/30/20	Occurrence	$ 1,000,000	$ 1,000	$ 8,415
	Pol. #: G99D28		Medical	$ -		
			Employee Benefits	$ -		
Medical Malpractice	Co.: VARISK2	7/1/19 -	Occurrence	$ 2,100,000	$ 1,000	$ 37,546
	Ag: Ray Harris	6/30/20	Aggregate	unlimited		
	Pol. #: G99D28					
Public Officials' Liability	Co.: VARISK2	7/1/19 -	Occurrence	$ 1,000,000	$ 1,000	Included in General Liability
	Ag: Ray Harris	6/30/20	Aggregate	$ -		
	Pol. #: G99D28					
Property	Co: Virginia Risk Sharing Assoc.	7/1/19 -	Real Property	$ 9,310,425	$ 1,000	$ 16,626
	Ag: Lisa Schenk	6/30/20	Personal Property	$ -		
	Pol. #: P-2019-2020-VRSA-0603-1		Business Income	$ -		
Excess Auto Liability	Co: Virginia Risk Sharing Assoc.	7/1/19 -	Automobile Liability	$ 5,000,000	$ 500	$ 4,065
	Ag: Lisa Schenk	6/30/20	Employer's Liability	$ 1,000,000		
	Pol. #: P-2019-2020-VRSA-0603-1					
Workers' Compensation	Co: Virginia Risk Sharing Assoc.	7/1/19 -	Each Accident	$ 1,000,000	N/A	$ 37,870
	Ag: Lisa Schenk	6/30/20	Disease Each Employee	$ 1,000,000		
	Pol. #: P-2019-2020-VRSA-0603-1		Disease Policy Limit	$ 1,000,000		
Surety Bonds & Blanket Accidental Health	Co: BB&T Ins	7/1/19 -	Accident/Health	$ 250,000		$ 4,084
	C/O McGriff	6/30/20	Aggregate Limited			
	Pol. #: LPM809337022					
	Pol. #: LPM809337022					
Cyber Liability Coverages	Co: Virginia Risk Sharing Assoc.	7/1/19 -	Limit	$ 1,000,000		$ 3,066
	Ag: Lisa Schenk	6/30/20	Data Breach Fund Sublimit	$ 500,000		
	Pol. #: P-2019-2020-VRSA-0603-1		Annual Mem. Aggregate/	$ 1,000,000/5,000,000		
			Shared Pool Aggregate			
						Total
						$ 144,695

VALLEY COMMUNITY SERVICES BOARD
CLIENT STATISTICS

Year Ended June 30, 2020

	Fiscal Year June 30,									
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Clients served by program:										
Mental health	2,534	2,357	2,387	2,505	3,072	3,262	2,957	2,939	3,790	2,820
Intellectual disabilities	447	428	424	546	544	551	465	652	608	541
Substance abuse	1,092	1,047	921	519	400	528	526	443	632	632
Services outside of program area	1,506	1,902	1,904	885	957	1,272	2,551	1,800	1,986	1,943
	5,579	5,734	5,636	4,455	4,973	5,613	6,499	5,834	7,016	5,936
Total unduplicated clients served	4,174	4,217	4,217	3,628	4,019	4,310	4,619	4,545	6,208	4,530
Intellectual disabilities residential client days	9,516	9,486	8,472	10,928	9,258	7,056	6,562	5,868	5,511	5,275

COMPLIANCE SECTION

PBMares

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

Board of Directors
Valley Community Services Board

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the Valley Community Services Board (the Board), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements, and have issued our report thereon dated December 14, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Board's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. Accordingly, we do not express an opinion on the effectiveness of the Board's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did identify a deficiency in internal control, described in the accompanying Schedule of Findings and Responses as item 2020-001, that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards*, and which is described in the accompanying Schedule of Findings and Responses as item 2020-002.

Purpose of this Report

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

PBMares, LLP

Harrisonburg, Virginia
December 14, 2020

VALLEY COMMUNITY SERVICES BOARD

SCHEDULE OF FINDINGS AND RESPONSES
Year Ended June 30, 2020

I. FINANCIAL STATEMENT FINDINGS

A. Material Weaknesses in Internal Control

2020-001: Material Weakness Due to Material Audit Adjustments

Criteria and Condition: In order to prepare financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), accurate and complete general and subsidiary ledgers, along with supporting records, must be maintained to support the existence, completeness, accuracy, and valuation of all assets and liabilities, revenues, and expenditures/expenses to ensure an accurate presentation of the financial position and activity of the Valley Community Services Board (Board) for the fiscal year just ended. The efficient, effective, and timely preparation of the financial statements depends heavily on personnel from the Board and includes closing the general ledger, performing appropriate financial analyses and reconciliations of yearly activity, and accumulating the required data for reporting. In order to verify that the transactions are fairly presented, procedures must be in place and functioning effectively to ensure the financial information is complete, accurate, and in accordance with GAAP. The year-end financial statements should be final and free of significant misstatements.

Context: During the fiscal year 2020 audit and financial reporting processes, the complete and accurate recording of financial transactions within the general ledger did not occur for the following areas:

- Net pension liability and related deferred inflows and outflows of resources were not reconciled to the actuarial valuation and employer contributions, resulting in a material adjustment to these accounts.

Cause: During fiscal year 2020, there was significant turnover in multiple key accounting and management positions.

Repeat Finding: This is a repeat finding, as prior year finding was identified as 2019-001.

Effect: The necessary entry above was significant to the financial statements and was included as and adjustment in order to more accurately represent the financial position of the above.

Recommendation: We recommend formal year-end close procedures are documented and followed to support the existence, completeness, accuracy and valuation of all assets and liabilities, revenues, and expenditures/expenses reported in the Board's financial statements.

Views of Responsible Officials: VCSB does not disagree with the findings that the net pension liability with its related inflows and outflows were not recorded properly at year-end resulting in a significant audit adjustment. Staff will review the fiscal year 2020 adjustments and related documentation utilizing and establishing procedures to record future adjustments in a similar manner.

I. FINANCIAL STATEMENT FINDINGS (Continued)

B. Compliance Findings

2020-002: Performance Contract

Criteria: The Department of Behavioral Health and Human Services (Department) established a new performance contract effective for fiscal year 2019. As part of this contract, the Department requires the Board to maintain an operating reserve of funds sufficient to cover at least two months of personnel and operating expenses in order to insure the Board's financial position is sound. An operating reserve consists of available cash, investments, and prepaid assets.

Condition: The Board does not have an operating reserve sufficient to cover at least two months of personnel and operating expenses, as required.

Context: Based on inquiries, the Department is removing this requirement in fiscal year 2021, however the requirement still existed for fiscal year 2020.

Cause: The Board has not established an adequate level of reserves over time through the annual budgeting process.

Repeat Finding: This is a repeat finding, as prior year finding was identified as 2019-003.

Effect: Noncompliance with the reserve requirement may result in a less than desirable financial position.

Recommendation: We recommend the Board continue to monitor operating reserves and implement a plan to meet the Department's requirement.

Views of Responsible Officials: VCSB will continue to work with the Department to increase reserves. As part of the fiscal year 2021 budget update, VCSB will review these requirements and determine what adjustments can be made in this and subsequent fiscal years.