# EASTERN SHORE
# COMMUNITY SERVICES BOARD

ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2023

*INTRODUCTORY SECTION*

THIS PAGE LEFT BLANK INTENTIONALLY

# EASTERN SHORE
# COMMUNITY SERVICES BOARD

## ANNUAL FINANCIAL REPORT

## FOR THE YEAR
## ENDED JUNE 30, 2023

THIS PAGE LEFT BLANK INTENTIONALLY

# Table of Contents

THIS PAGE LEFT BLANK INTENTIONALLY

**EASTERN SHORE COMMUNITY SERVICES BOARD**

**BOARD OFFICIALS**

---

**BOARD OF DIRECTORS**

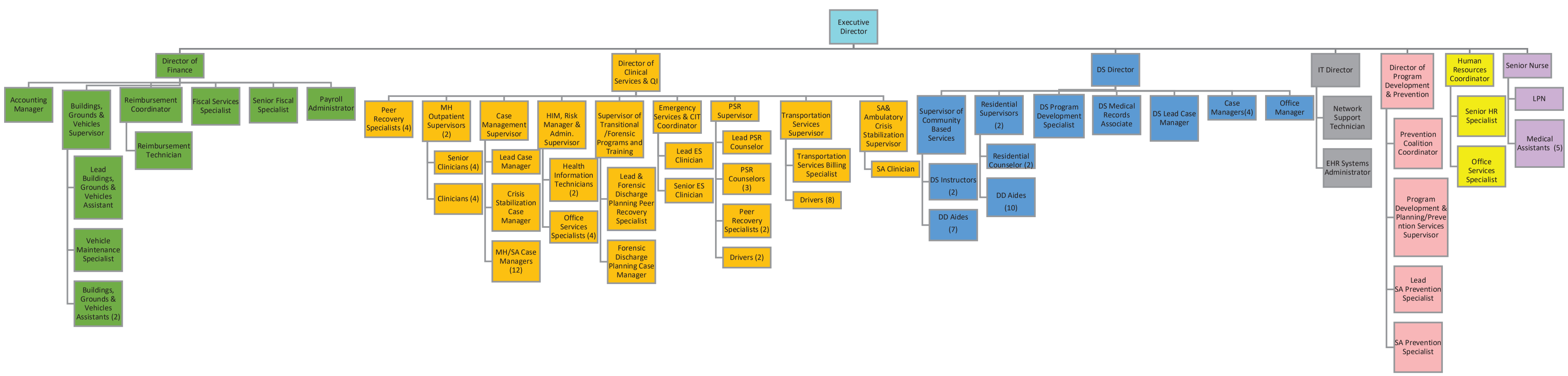
Mr. Eve Belote – Chairperson
Mr. Andre Elliot – Vice Chairperson
Mr. Richard Freeman
Mr. Richard L. Hubbard
Ms. Peggy Shaeffer
Ms. Pam Thomes
Ms. Janet Turner
Ms. Roxanne R. Ward
Ms. Cynthia Wilder

**LEADERSHIP TEAM**

| | |
|---|---|
| Lisa B. Sedjat | Executive Director |
| Sharon S. Jones | Director of Finance & Administration |
| Kathleen O'Keefe | Developmental Services Program Director |
| Damien Greene | IT Director |
| Kelly Hill Bulin | Director of Program Development, Planning and Prevention |
| Molly Walker | Clinical Director of Mental Health and Quality Improvement |

THIS PAGE LEFT BLANK INTENTIONALLY

# Eastern Shore Community Services Board



THIS PAGE LEFT BLANK INTENTIONALLY

# *FINANCIAL SECTION*

THIS PAGE LEFT BLANK INTENTIONALLY

ROBINSON, FARMER, COX ASSOCIATES, PLLC
Certified Public Accountants

CPAs | CONSULTANTS

## Independent Auditors' Report

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

### Report on the Audit of the Financial Statements

***Opinion***

We have audited the accompanying financial statements of the business-type activities of Eastern Shore Community Services Board, as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Board's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Eastern Shore Community Services Board, as of June 30, 2023, 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.

***Basis for Opinion***

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Eastern Shore Community Services Board, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Change in Accounting Principle***

As described in Note 12 to the financial statements, in 2023, the Board adopted new accounting guidance, GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*. Our opinions are not modified with respect to this matter.

***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

*Responsibilities of Management for the Financial Statements (Continued)*

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Eastern Shore Community Services Board's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

*Auditors' Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the *Specifications for Audits of Authorities, Boards, and Commissions* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the *Specifications for Audits of Authorities, Boards, and Commissions*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit 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 Eastern Shore Community Services Board's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Eastern Shore Community Services Board's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules related to pension and OPEB funding as listed in the table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Supplementary Information*

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Eastern Shore Community Services Board's basic financial statements. The accompanying combining financial statements and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

*Other Information*

Management is responsible for the other information included in the annual report. The other information comprises the introductory section but does not include the basic financial statements and our auditors' report thereon. Our opinion on the basic financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2023, on our consideration of Eastern Shore Community Services Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 Eastern Shore Community Services Board's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Eastern Shore Community Services Board's internal control over financial reporting and compliance.

Robinson, Farmer, Cox Associates

Richmond, Virginia
November 16, 2023

# EASTERN SHORE COMMUNITY SERVICES BOARD

## MANAGEMENT'S DISCUSSION AND ANALYSIS

## FOR THE YEAR ENDED JUNE 30, 2023

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

### Summary of Organization and Business

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

Operations of the Board are funded by state, federal and local funds, as well as client fees. For the year ended June 30, 2023, the Board received state, federal, and local funds in the amounts of $3,966,262, $1,682,313, and $283,163, respectively. As of June 30, 2023, the Board had approximately 130 employees providing mental health, developmental services, substance use disorder (SUD), prevention, residential and administration support services in 7 facilities. During 2023, total consumers served included 1,759 in Mental Health, 385 in SUD and 166 in Developmental Services and 1,456 in Limited Services which includes but is not limited to Emergency Services. Our Prevention efforts served 697 individuals through its various initiatives.

## HIGHLIGHTS

### Financial Highlights for FY 2023

- Cash and investments increased $472 thousand.
- Net position increased $980 thousand.
- Operating revenues decreased $247 thousand.
- Operating expenses increased $76 thousand.

## OVERVIEW OF ANNUAL FINANCIAL REPORT

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

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

The Statement of Net Position presents the financial position of the Board on an accrual basis, including information about the type and amount of resources and obligations, at June 30, 2023. The Statement of Revenues, Expenses, and Changes in Net Position presents the results of the Board's operating and non-operating activities and provides information about changes in net position during the year. The Statement of Cash Flows presents changes in cash and cash equivalents, as a result of operational and financing activities.

The Notes to the Financial Statements provide required disclosures and other pertinent information necessary to provide a reader of the financial statements a complete understanding of the data being presented. The notes are comprised of information about the Board's accounting policies, significant account balances, obligations, commitments, contingencies, and subsequent events. It is important to note that the FY2023 Financial Statements are combined with MENDISADD, Inc.

## CONDENSED FINANCIAL INFORMATION

The following schedule reflects the condensed Statement of Net Position for the current and prior year.

| | 2023 | 2022 |
|---|---|---|
| Current Assets | $ 7,712,757 | $ 6,877,583 |
| Noncurrent Assets | 83,123 | 871,829 |
| Capital assets, less | | |
| Accumulated Depreciation | 3,088,006 | 2,874,627 |
| TOTAL ASSETS | $ 10,883,886 | $ 10,624,039 |
| DEFERRED OUTFLOWS OF RESOURCES | $ 482,670 | $ 803,486 |
| Current Liabilities | $ 2,779,184 | $ 2,350,818 |
| Net OPEB Liability | 261,048 | 281,055 |
| Long-Term Liabilities | 836,507 | 850,771 |
| Net Pension Liability | 408,314 | - |
| TOTAL LIABILITIES | $ 4,285,053 | $ 3,482,644 |
| DEFERRED INFLOWS OF RESOURCES | $ 1,010,376 | $ 2,853,924 |
| Net Position: | | |
| Net Investment in Capital Assets | $ 2,616,398 | $ 2,478,979 |
| Unrestricted | 3,454,729 | 2,611,978 |
| TOTAL NET POSITION | $ 6,071,127 | $ 5,090,957 |

The following schedule reflects the revenues and expenses for the current and prior year.

| | 2023 | 2022 |
|---|---|---|
| Operating Revenues | $ 5,594,166 | $ 5,840,948 |
| Operating Expenses | (11,273,905) | (11,197,489) |
| Operating Income (Loss) | (5,679,739) | (5,356,541) |
| Nonoperating Income | 6,659,909 | 6,008,499 |
| Change in Net Position | 980,170 | 651,958 |

## OVERALL FINANCIAL ANALYSIS

In general, the financial condition of the Board remains strong. The Statement of Net Position also shows 215% more total assets and deferred outflows of resources than total liabilities and deferred inflows of resources, an increase of 35% over the prior year.

The Board continues to monitor ways in which new revenues can be generated while prudently managing expenses. Several new funding sources have provided opportunities to provide additional services. Programs facilitated in group settings have been recovering due to the decline in COVID-19 related issues. Other services are currently being conducted in person, but telehealth continues to be a viable option to in person treatment. Recruitment and retention of qualified individuals continues to present significant issues due to managed care and other private care organizations. Staffing issues have caused the number of our facilities providing services to decrease from last year. The Board remains responsive to this issue as well as other evolving conditions and is exploring options to mitigate staffing concerns.

## CONTACTING THE BOARD

This financial report is designed to provide an overview of the financial results of the Board's activities, and to demonstrate the Board's accountability for its revenues. If there are any questions about this report or any financial issue regarding the Board, please contact the Director of Finance and Administration, P.O. Box 318, Tasley, VA 23441.

THIS PAGE LEFT BLANK INTENTIONALLY

**EASTERN SHORE COMMUNITY SERVICES BOARD**

**Statement of Net Position**
**As of June 30, 2023**

| | | |
|---|---|---|
| Current Assets: | | |
| Cash and cash equivalents | $ | 6,313,295 |
| Client receivables (net of allowance for uncollectible accounts) | | 675,810 |
| Due from other governmental unit | | 306,254 |
| Grant receivable | | 137,809 |
| Notes receivable | | 58,889 |
| Leases receivable, current portion | | 18,352 |
| Prepaid items | | 202,348 |
| Total current assets | $ | 7,712,757 |
| Noncurrent Assets: | | |
| Leases receivable, less current portion | $ | 83,123 |
| Capital Assets: | | |
| Land | $ | 588,853 |
| Construction in progress | | 93,040 |
| Other capital assets, less accumulated depreciation | | 2,406,113 |
| Total capital assets | $ | 3,088,006 |
| Total assets | $ | 10,883,886 |
| Deferred Outflows of Resources: | | |
| Pension related items | $ | 423,821 |
| OPEB related items | | 58,849 |
| Total deferred outflows of resources | $ | 482,670 |
| Current Liabilities: | | |
| Accounts payable | $ | 125,787 |
| Accrued expenses | | 248,574 |
| Unearned revenues | | 2,194,756 |
| Accrued interest | | 276 |
| Current portion of compensated absences | | 57,469 |
| Current portion of note payable | | 45,845 |
| Current portion of subscription liabilities | | 73,904 |
| Current portion of lease liabilities | | 32,573 |
| Total current liabilities | $ | 2,779,184 |
| Long-Term Liabilities: | | |
| Compensated absences, less current portion | $ | 517,221 |
| Notes payable, less current portion | | 239,240 |
| Subscription liabilities, less current portion | | 21,271 |
| Lease liabilities, less current portion | | 58,775 |
| Net pension liability | | 408,314 |
| Net OPEB liability | | 261,048 |
| Total long-term liabilities | $ | 1,505,869 |
| Total liabilities | $ | 4,285,053 |
| Deferred Inflows of Resources: | | |
| Pension related items | $ | 807,803 |
| OPEB related items | | 102,262 |
| Lease related items | | 100,311 |
| Total deferred inflows of resources | $ | 1,010,376 |
| Net Position: | | |
| Net investment in capital assets | $ | 2,616,398 |
| Unrestricted | | 3,454,729 |
| Total net position | $ | 6,071,127 |

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

**EASTERN SHORE COMMUNITY SERVICES BOARD**

**Statement of Revenues, Expenses and Changes in Net Position**
**Year Ended June 30, 2023**

| | | |
|---|---|---|
| Operating revenues: | | |
| Patient service fees | $ | 5,594,166 |
| Operating expenses: | | |
| Personnel | $ | 7,259,817 |
| Staff development | | 65,777 |
| Facility charges | | 795,672 |
| Travel | | 8,256 |
| Consultants and other professional services | | 1,833,656 |
| Other charges | | 938,979 |
| Depreciation | | 371,748 |
| Total operating expenses | $ | 11,273,905 |
| Operating income (loss) | $ | (5,679,739) |
| Nonoperating revenues (expenses): | | |
| Commonwealth of Virginia, including pass-through grants of $1,682,313 from the federal government | $ | 5,648,575 |
| Local governments | | 283,163 |
| Other agencies | | 479,297 |
| Rental income | | 45,075 |
| Interest income | | 92,066 |
| Gain (loss) on disposition of property | | 91,457 |
| Insurance proceeds | | 37,245 |
| Interest expense | | (16,969) |
| Total nonoperating revenues (expenses) | $ | 6,659,909 |
| Change in net position | $ | 980,170 |
| Net position at beginning of year | | 5,090,957 |
| Net position at end of year | $ | 6,071,127 |

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

**EASTERN SHORE COMMUNITY SERVICES BOARD**

**Statement of Cash Flows**
**Year Ended June 30, 2023**

| | | |
|---|---|---|
| Cash flows from operating activities: | | |
| Receipts from clients' fees and other providers | $ | 6,431,094 |
| Payments to suppliers | | (3,875,263) |
| Payments to and for employees | | (7,689,807) |
| Net cash provided by (used for) operating activities | $ | (5,133,976) |
| Cash flows from noncapital and related financing activities: | | |
| Government and other agencies | $ | 6,104,635 |
| Rent of property | | 26,140 |
| Net cash provided by (used for) noncapital and related financing activities | $ | 6,130,775 |
| Cash flows from capital and related financing activities: | | |
| Purchase of capital assets | $ | (713,669) |
| Proceeds from sale of capital assets | | 220,000 |
| Principal payments on long-term obligations | | (93,823) |
| Proceeds from long-term payable | | 218,363 |
| Principal payments on notes payable | | (48,580) |
| Insurance proceeds | | 37,245 |
| Interest paid on leases and notes payable | | (16,721) |
| Net cash provided by (used for) capital and related financing activities | $ | (397,185) |
| Cash flows from investing activities: | | |
| Interest received | $ | 92,218 |
| Issuance of note receivable | | (62,000) |
| Principal re-paid on notes receivable | | 3,111 |
| Total cash flows provided by (used for) investing activities | $ | 33,329 |
| Net increase (decrease) in cash and cash equivalents | $ | 632,943 |
| Cash and cash equivalents, beginning of year | | 5,680,352 |
| Cash and cash equivalents, end of year | $ | 6,313,295 |
| Reconciliation of operating income (loss) to net cash provided by (used for) operating activities: | | |
| Operating income (loss) | $ | (5,679,739) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | | |
| Depreciation | | 371,748 |
| Changes in assets, liabilities, and deferred inflows/outflows of resources: | | |
| (Increase)/decrease in accounts receivable | | 195,917 |
| (Increase)/decrease in prepaid items | | (32,627) |
| (Increase)/decrease in deferred outflows of resources | | 320,816 |
| (Increase)/decrease in net pension asset | | 408,314 |
| Increase/(decrease) in compensated absences | | (28,788) |
| Increase/(decrease) in accounts payable | | 3,874 |
| Increase/(decrease) in unearned revenues | | 641,011 |
| Increase/(decrease) in net pension liability | | 770,354 |
| Increase/(decrease) in net OPEB liability | | (20,007) |
| Increase/(decrease) in deferred inflows of resources | | (1,806,646) |
| Increase/(decrease) in other accrued expenses | | (278,203) |
| Net cash provided by (used for) operating activities | $ | (5,133,976) |

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

THIS PAGE LEFT BLANK INTENTIONALLY

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description and Purpose of Agency

The Board operates as an agent for the Counties of Accomack and Northampton in the establishment and operation of community mental health, intellectual and developmental disabilities, and substance abuse programs as provided for in Chapter 5, Title 37.2-500-512 of the Code of Virginia (1950), as amended, relating to the Virginia Department of Behavioral Health and Developmental Services. The Board provides a system of community mental health, intellectual and development disabilities, and substance abuse services which are developed in and meet the needs of the participating localities.

B. Financial Reporting Entity

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

C. Individual Component Unit Disclosures

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

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

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

D. Measurement Focus and Basis of Accounting

The Board is funded by Federal, State and local funds. Its accounting policies are governed by applicable provisions of these grants and applicable pronouncements and publications of the grantors. The Board's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses recorded when incurred, regardless of when the related cash flow takes place.

E. Financial Statement Presentation

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

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of recognition in the financial statements of various kinds of transactions or events.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and dislcosures. Accordingly, actual results could differ from those estimates.

G. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. For purposes of this statement of cash flows, the Board's proprietary funds consider their demand deposits and all highly liquid investments with an original maturity date of three months or less when purchased to be cash equivalents.

H. Investments

Investments with a maturity of less than one year when purchased, non-negotiable certificates of deposit, other nonparticipating investments and external investment pools are stated at cost or amortized cost. Investments with a maturity greater than one year when purchased are stated at fair value. Fair value is the price that would be received to sell an investment in an orderly transaction at year end.

I. Net Client Service Revenue

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

The Board bills and collects fees for services from its clients. At June 30, 2023, the Board was due $1,069,659 in client receivables which was made up primarily of Medicaid funds. When applicable, the Board calculates its allowance for uncollectible accounts using specific account analysis. The allowance at June 30, 2023 was $413,241.

J. Financial Assistance

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

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Capital Assets

Capital assets are tangible and intangible assets, which include property, plant, equipment, lease, subscription and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), and are reported in the financial statements. Capital assets, except for infrastructure assets, are defined by the Board as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of two years.

As the Board constructs or acquires capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost (except for intangible right-to-use lease and subscription assets, the measurement of which is discussed in more detail below). The reported value excludes normal maintenance and repairs, which are amounts spent in relation to capital assets that do not increase the asset's capacity or efficiency or increases its estimated useful life. Donated capital assets are recorded at acquisition value at the date of donation. Acquisition value is the price that would be paid to acquire an asset with equivalent service potential on the date of the donation. Intangible assets follow the same capitalization policies as tangible capital assets and are reported with tangible assets in the appropriate capital asset class.

Land and construction in progress are not depreciated. The other tangible and intangible property, plant equipment, lease assets, subscription assets, and infrastructure of the Board, as well as the component unit, are depreciated/amortized using the straight-line method over the following estimated useful lives:

| Assets | Years |
|---|---|
| Buildings and Improvements | 10-25 |
| Leasehold Improvements | 7-29 |
| Office Furniture and Equipment | 5-15 |
| Computer Equipment | 5 |
| Software | 3-7 |
| Vehicles | 3-10 |
| Subscription assets | 2-3 |
| Lease Equipment | 2-5 |
| Lease Vehicles | 3 |

L. Leases and Subscription-Based IT Arrangements

The Board has various lease assets and subscription-based IT arrangements (SBITAs) requiring recognition. A lease is a contract that conveys control of the right to use another entity's nonfinancial asset. Lease recognition does not apply to short-term leases, contracts that transfer ownership, leases of assets that are investments, or certain regulated leases. A SBITA is defined as a contract that conveys control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Leases and Subscription-Based IT Arrangements (Continued)

*Lessee*

The Board recognizes lease liabilities and intangible right-to-use lease assets (lease assets) with an initial value of $5,000, individually or in the aggregate, in the government-wide financial statements. At the commencement of the lease, the lease liability is measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease liability is reduced by the principal portion of payments made. The lease asset is measured at the initial amount of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. The lease asset is amortized over the shorter of the lease term or the useful life of the underlying asset.

*Lessor*

The Board recognizes leases receivable and deferred inflows of resources in the government-wide and governmental fund financial statements. At commencement of the lease, the lease receivable is measured at the present value of lease payments expected to be received during the lease term, reduced by any provision for estimated uncollectible amounts. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is measured at the initial amount of the lease receivable, less lease payments received from the lessee at or before the commencement of the lease term (less any lease incentives).

*Subscriptions*

The Board recognizes intangible right-to-use subscription assets (subscription assets) with an initial value of $5,000 and corresponding subscription liabilities with an initial value of $5,000, in individually or in the aggregate, in the financial statements. At the commencement of the subscription, the subscription liability is measured at the present value of payments expected to be made during the subscription liability term (less any contract incentives). The subscription liability is reduced by the principal portion of payments made. The subscription asset is measured at the initial amount of the subscription liability payments made to the SBITA vendor before commencement of the subscription term, and capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term. The subscription asset is amortized over the shorter of the subscription term or the useful life of the underlying IT asset.

*Key Estimates and Judgments*

Lease and subscription-based IT arrangement accounting includes estimates and judgments for determining the (1) rate used to discount the expected lease and subscription payments to present value, (2) lease and subscription term, and (3) lease and subscription payments.

- The Board uses the interest rate stated in lease or subscription contracts. When the interest rate is not provided or the implicit rate cannot be readily determined, the Board uses its estimated incremental borrowing rate as the discount rate for leases and subscriptions.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Leases and Subscription-Based IT Arrangements (Continued)

*Key Estimates and Judgments (Continued)*

- The lease and subscription terms include the noncancellable period of the lease or subscription and certain periods covered by options to extend to reflect how long the lease or subscription is expected to be in effect, with terms and conditions varying by the type of underlying asset.

- Fixed and certain variable payments as well as lease or subscription incentives and certain other payments are included in the measurement of the lease receivable (lessor), lease liability (lessee) or subscription liability.

The Board monitors changes in circumstances that would require a remeasurement or modification of its leases and subscriptions. Board will remeasure the lease receivable and deferred inflows of resources (lessor), the lease asset and liability (lessee) or the subscription asset and liability if certain changes occur that are expected to significantly affect the amount of the lease receivable, lease liability or subscription liability.

M. 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.

N. Compensated Absences

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

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

The amount of annual and sick leave recognized as expense is the amount earned during the year. The balance at June 30, 2023 was $574,690.

O. Budgetary Accounting

The Board follows these procedures in establishing its budgets:

1. In response to Letters of Notification received from the Department of Mental Health, Mental Retardation and Substance Abuse Services (the Department), the Board submits a Performance Contract to the Department. This application contains budgets for core services.

2. The Board’s Performance Reports are filed with the Department during the fiscal year, 45 working days after the end of the second quarter. The final quarterly report is due by August 31 (unless extended), following the end of the fiscal year.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Budgetary Accounting (Continued)

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

P. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Board has one item that qualifies for reporting in this category. It is comprised of certain items related to pension and OPEB. For more detailed information on these items, reference the related notes.

In addition to liabilities, the statement of financial position includes a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Board has one type of item that qualifies for reporting in this category. Certain items related to pension, OPEB, and lease are reported as deferred inflows of resources. For more detailed information on these items, reference the related notes.

Q. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Board's Retirement Plan and the additions to/deductions from the Board's Retirement Plan's fiduciary net 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.

R. Other Postemployment Benefits (OPEB)

For purposes of measuring the net GLI related OPEB liability, deferred outflows of resources and deferred inflows of resources related to the OPEB, and OPEB expense, information about the fiduciary net position of the VRS GLI OPEB Plan and the additions to/deductions from the VRS OPEB Plan's fiduciary net 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.

S. Net Position

For the Board, the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called net position. Net position is comprised of three components: net investment in capital assets, restricted, and unrestricted.

- Net investment in capital assets consists of capital assets, net of accumulated depreciation and amortization and reduced by outstanding balances of bonds, notes, and other debt that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

S. Net Position (Continued)

- Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets are reported as restricted when constraints are placed on asset use either by external parties or by law through constitutional provision or enabling legislation.

- Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that does not meet the definition of the two preceding categories.

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

## NOTE 2 – DEPOSITS AND INVESTMENTS

### Deposits

When an Organization has over $250,000 in any one bank, the deposits in excess of $250,000 are not covered by the Federal Deposit Insurance Corporation (FDIC) and, accordingly, are exposed to custodial credit risk because they are uncollateralized.

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are (1) uncollateralized, (2) collateralized with securities held by the pledging financial institution, or (3) collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor government's name. At June 30, 2023, the Board had $570,761 in deposits that were uncollateralized and exposed to custodial credit risk.

All other 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.

### Investments

Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper that has received at least two of the following ratings: P-1 by Moody's Investors Service, Inc.; A-1 by Standard & Poor's; or F1 by Fitch Ratings, Inc. (Section 2.2-4502), banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP).

## NOTE 2 – DEPOSITS AND INVESTMENTS (CONTINUED)

### Credit Risk of Debt Securities

The Board's rated debt investments as of June 30, 2023 were rated by Standard & Poor's and the ratings are presented below using Standard & Poor's rating scale. The Board and its blended component unit have no investment policies that would further limit their investment choices.

| Locality's Rated Debt Investment's Values | | |
|---|---|---|
| Related Debt Investments | | Fair Quality Rating |
| | | AAAm |
| Local Government Investment Pool | $ | 29,769 |
| Total | $ | 29,769 |

### Interest Rate Risk

According to the Board's investment policy, safety of principal is the foremost objective, thus the Board invests primarily in shorter term securities, money market mutual funds, and similar investment pools.

| Investment Maturities (in years) | | | | |
|---|---|---|---|---|
| Investment Type | | Fair Value | | Less Than 1 Year |
| Local Government Investment Pool | $ | 29,769 | $ | 29,769 |
| Total | $ | 29,769 | $ | 29,769 |

### External Investment Pool

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

## NOTE 3 – PENSION PLAN

### *Plan Description*

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

## NOTE 3 – PENSION PLAN (CONTINUED)

### *Benefit Structures*

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

a. Employees with a membership date before July 1, 2010, vested as of January 1, 2013, and have not taken a refund, are covered under Plan 1, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced retirement benefit beginning at age 65 with at least 5 years of service credit or age 50 with at least 30 years of service credit. Non-hazardous duty employees may retire with a reduced benefit as early as age 55 with at least 5 years of service credit or age 50 with at least 10 years of service credit.

b. Employees with a membership date from July 1, 2010 to December 31, 2013, that have not taken a refund or employees with a membership date prior to July 1, 2010 and not vested before January 1, 2013, are covered under Plan 2, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of service credit or when the sum of their age plus service equals 90. Non-hazardous duty employees may retire with a reduced benefit as early as age 60 with at least 5 years of service credit.

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

### *Average Final Compensation and Service Retirement Multiplier*

The VRS defined benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the employee's average final compensation multiplied by the employee's total service credit. Under Plan 1, average final compensation is the average of the employee's 36 consecutive months of highest compensation and the multiplier is 1.70% for non-hazardous duty employees and 1.85% for sheriffs and regional jail superintendents. Under Plan 2, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the retirement multiplier is 1.65% for non-hazardous duty employees and 1.85% for sheriffs and regional jail superintendents. Under the Hybrid Plan, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the multiplier is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

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

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

## NOTE 3 – PENSION PLAN (CONTINUED)

### *Employees Covered by Benefit Terms*

As of the June 30, 2021 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

| | Number |
|---|---|
| Inactive members or their beneficiaries currently receiving benefits | 92 |
| Inactive members: | |
| Vested inactive members | 24 |
| Non-vested inactive members | 86 |
| Inactive members active elsewhere in VRS | 28 |
| Total inactive members | 138 |
| Active members | 123 |
| Total covered employees | 353 |

### *Contributions*

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

The Board's contractually required employer contribution rate for the year ended June 30, 2023 was 6.30% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Board were $256,922 and $276,876 for the years ended June 30, 2023 and June 30, 2022, respectively.

### *Net Pension Liability*

The net pension liability (NPL) is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. For the Board, the net pension liability was measured as of June 30, 2022. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2021, rolled forward to the measurement date of June 30, 2022.

## NOTE 3 – PENSION PLAN (CONTINUED)

### *Actuarial Assumptions – General Employees*

The total pension liability for General Employees in the Board's Retirement Plan was based on an actuarial valuation as of June 30, 2021, 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, 2022.

| | |
|---|---|
| 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 |

Mortality rates:

All Others (Non-10 Largest) – Non-Hazardous Duty: 15% of deaths are assumed to be service-related

Pre-Retirement:
Pub-2010 Amount Weighted Safety Employee Rates projected generationally; 95% of rates for males; 105% of rates for females set forward 2 years

Post-Retirement:
Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 110% of rates for males; 105% of rates for females set forward 3 years

Post-Disablement:
Pub-2010 Amount Weighted General Disabled Rates projected generationally; 95% of rates for males set back 3 years; 90% of rates for females set back 3 years

Beneficiaries and Survivors:
Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally; 110% of rates for males and females set forward 2 years

Mortality Improvement:
Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

*The remainder of this page left blank intentionally.*

## NOTE 3 – PENSION PLAN (CONTINUED)

*Actuarial Assumptions – General Employees (Continued)*

Mortality rates: (Continued)

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, 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:

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

| | |
|---|---|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020 |
| Retirement Rates | Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age |
| Withdrawal Rates | Adjusted rates to better fit experience at each age and service decrement through 9 years of service |
| Disability Rates | No change |
| Salary Scale | No change |
| Line of Duty Disability | No change |
| Discount Rate | No change |

*The remainder of this page left blank intentionally.*

## NOTE 3 – PENSION PLAN (CONTINUED)

### *Long-Term Expected Rate of Return*

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

| Asset Class (Strategy) | Long-Term Target Asset Allocation | Arithmetic Long-term Expected Rate of Return | Weighted Average Long-term Expected Rate of Return* |
|---|---|---|---|
| Public Equity | 34.00% | 5.71% | 1.94% |
| Fixed Income | 15.00% | 2.04% | 0.31% |
| Credit Strategies | 14.00% | 4.78% | 0.67% |
| Real Assets | 14.00% | 4.47% | 0.63% |
| Private Equity | 14.00% | 9.73% | 1.36% |
| MAPS - Multi-Asset Public Strategies | 6.00% | 3.73% | 0.22% |
| PIP - Private Investment Partnership | 3.00% | 6.55% | 0.20% |
| Total | 100.00% | | 5.33% |
| | | Inflation | 2.50% |
| | | Expected arithmetic nominal return** | 7.83% |

* The above allocation provides a one-year expected return of 7.83%. 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. These results provide a range of returns over various time periods that ultimately provide a median return of 6.72%, including expected inflation of 2.50%.

** On October 10, 2019, the VRS Board elected a long-term rate of return of 6.75%, which was roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, including expected inflation of 2.50%.

*The remainder of this page left blank intentionally.*

## NOTE 3 – PENSION PLAN (CONTINUED)

### *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; the Board was also provided with an opportunity to use an alternative employer contribution rate. For the year ended June 30, 2023, 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, 2017 actuarial valuations, whichever was greater. From July 1, 2022 on, participating employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

### *Changes in Net Pension Liability*

| | Increase (Decrease) | | |
|---|---|---|---|
| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Asset (a) - (b) |
| Balances at June 30, 2021 | $ 22,317,229 | $ 23,087,583 | $ (770,354) |
| Changes for the year: | | | |
| Service cost | $ 337,310 | $ - | $ 337,310 |
| Interest | 1,488,604 | - | 1,488,604 |
| Differences between expected and actual experience | (191,616) | - | (191,616) |
| Contributions - employer | - | 276,902 | (276,902) |
| Contributions - employee | - | 207,287 | (207,287) |
| Net investment income | - | (14,579) | 14,579 |
| Benefit payments, including refunds Refunds of employee contributions | (1,202,280) | (1,202,280) | - |
| Administrative expenses | - | (14,505) | 14,505 |
| Other changes | - | 525 | (525) |
| Net changes | $ 432,018 | $ (746,650) | $ 1,178,668 |
| Balances at June 30, 2022 | $ 22,749,247 | $ 22,340,933 | $ 408,314 |

## NOTE 3 – PENSION PLAN (CONTINUED)

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

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

| | Rate | | |
|---|---|---|---|
| | 1% Decrease (5.75%) | Current Discount (6.75%) | 1% Increase (7.75%) |
| Board's Net Pension Liability (Asset) | $ 3,252,339 | $ 408,314 | $ (1,931,091) |

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

For the year ended June 30, 2023, the Board recognized pension expense of ($36,112). At June 30, 2023, 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 | $ - | $ 131,696 |
| Change in assumptions | 166,899 | - |
| Net difference between projected and actual earnings on pension plan investments | - | 676,107 |
| Employer contributions subsequent to the measurement date | 256,922 | - |
| Total | $ 423,821 | $ 807,803 |

$256,922 reported as deferred outflows of resources related to pensions resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

| Year ended June 30 | |
|---|---|
| 2024 | $ (195,897) |
| 2025 | (303,624) |
| 2026 | (451,039) |
| 2027 | 309,656 |
| 2028 | - |
| Thereafter | - |

## NOTE 3 – PENSION PLAN (CONTINUED)

***Pension Plan Data***

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2022 Annual Comprehensive Financial Report (Annual Report). A copy of the 2022 VRS Annual Report may be downloaded from the VRS website at http://www.varetire.org/pdf/publications/2022-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

## NOTE 4—GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN)

***Plan Description***

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

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

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

***Eligible Employees***

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

***Benefit Amounts***

The GLI Plan is a defined benefit plan with several components. The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. The accidental death benefit is double the natural death benefit. In addition to basic natural and accidental death benefits, the plan provides additional benefits provided under specific circumstances that include the following: accidental dismemberment benefit, seatbelt benefit, repatriation benefit, felonious assault benefit, and accelerated death benefit option. The benefit amounts are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value. For covered members with at least 30 years of service credit, the minimum benefit payable 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 $8,984 as of June 30, 2023.

## NOTE 4—GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN) (CONTINUED)

### *Contributions*

The contribution requirements for the GLI Plan are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the GLI Plan was 1.34% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.80% (1.34% x 60%) and the employer component was 0.54% (1.34 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, 2023 was 0.54% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2021. 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 Plan from the entity were $26,855 and $25,462 for the years ended June 30, 2023 and June 30, 2022, respectively.

In June 2022, the Commonwealth made a special contribution of approximately $30.4 million to the Group Life Insurance Plan. This special payment was authorized by a Budget Amendment included in Chapter 1 of the 2022 Appropriation Act, and is classified as non-employer contribution.

### *GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the GLI Plan OPEB*

At June 30, 2023, the entity reported a liability of $261,048 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2022 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, 2021, and rolled forward to the measurement date of June 30, 2022. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the GLI Plan for the year ended June 30, 2022 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2022, the participating employer's proportion was .02170% as compared to .02410% at June 30, 2021.

For the year ended June 30, 2023, the participating employer recognized GLI OPEB expense of ($655). Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

*The remainder of this page left blank intentionally.*

## NOTE 4—GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN) (CONTINUED)

### *GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the GLI Plan OPEB (Continued)*

At June 30, 2023, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual experience | $ 20,672 | $ 10,473 |
| Net difference between projected and actual earnings on GLI OPEB plan investments | - | 16,312 |
| Change in assumptions | 9,737 | 25,427 |
| Changes in proportionate share | 1,585 | 50,050 |
| Employer contributions subsequent to the measurement date | 26,855 | - |
| Total | $ 58,849 | $ 102,262 |

$26,855 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, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

| Year Ended June 30 | |
|---|---|
| 2024 | $ (14,927) |
| 2025 | (15,914) |
| 2026 | (23,665) |
| 2027 | (8,112) |
| 2028 | (7,650) |
| Thereafter | - |

## NOTE 4—GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN) (CONTINUED)

### *Actuarial Assumptions*

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2021, 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, 2022. The assumptions include several employer groups as noted below. Salary increases and mortality rates included herein are for relevant employer groups. Information for other groups can be referenced in the VRS Annual Report.

| | |
|---|---|
| Inflation | 2.50% |
| Salary increases, including inflation: | |
| Locality - General employees | 3.50%-5.35% |
| Investment rate of return | 6.75%, net of investment expenses, including inflation |

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

Pre-Retirement:
Pub-2010 Amount Weighted Safety Employee Rates projected generationally; males set forward 2 years; 105% of rates for females set forward 3 years

Post-Retirement:
Pub-2010 Amount Weighted Safety Healthy Retiree Rates projected generationally; 95% of rates for males set forward 2 years; 95% of rates for females set forward 1 year

Post-Disablement:
Pub-2010 Amount Weighted General Disabled Rates projected generationally; 110% of rates for males set forward 3 years; 110% of rates for females set forward 2 years

Beneficiaries and Survivors:
Pub-2010 Amount Weighted Safety Contingent Annuitant Rates projected generationally

Mortality Improvement Scale:
Rates projected generationally with Modified MP-2020 Improvement Scale that is 75% of the MP-2020 rates

*The remainder of this page left blank intentionally.*

## NOTE 4—GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN) (CONTINUED)

### *Actuarial Assumptions (Continued)*

The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, 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 Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020 |
| Retirement Rates | Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all |
| Withdrawal Rates | Adjusted rates to better fit experience at each age and service decrement through 9 years of service |
| Disability Rates | No change |
| Salary Scale | No change |
| Line of Duty Disability | No change |
| Discount Rate | No change |

### *NET GLI OPEB Liability*

The net OPEB liability (NOL) for the GLI Plan represents the plan'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, 2022, NOL amounts for the GLI Plan are as follows (amounts expressed in thousands):

| | | GLI OPEB Plan |
|---|---|---|
| Total GLI OPEB Liability | $ | 3,672,085 |
| Plan Fiduciary Net Position | | 2,467,989 |
| GLI Net OPEB Liability (Asset) | $ | 1,204,096 |
| Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability | | 67.21% |

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 4—GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN) (CONTINUED)

### *Long-Term Expected Rate of Return*

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

| Asset Class (Strategy) | Long-Term Target Asset Allocation | Arithmetic Long-term Expected Rate of Return | Weighted Average Long-term Expected Rate of Return* |
|---|---|---|---|
| Public Equity | 34.00% | 5.71% | 1.94% |
| Fixed Income | 15.00% | 2.04% | 0.31% |
| Credit Strategies | 14.00% | 4.78% | 0.67% |
| Real Assets | 14.00% | 4.47% | 0.63% |
| Private Equity | 14.00% | 9.73% | 1.36% |
| MAPS - Multi-Asset Public Strategies | 6.00% | 3.73% | 0.22% |
| PIP - Private Investment Partnership | 3.00% | 6.55% | 0.20% |
| Total | 100.00% | | 5.33% |
| | | Inflation | 2.50% |
| | | Expected arithmetic nominal return** | 7.83% |

*The above allocation provides a one-year return of 7.83%. 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. These results provide a range of returns over various time periods that ultimately provide a median return of 6.72%, including expected inflation of 2.50%.

** On October 10, 2019, the VRS Board elected a long-term rate of return of 6.75%, which was roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation at that time, providing a median return of 7.11%, including expected inflation of 2.50%.

*The remainder of this page left blank intentionally.*

## NOTE 4—GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN) (CONTINUED)

### *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 employer contributions will be made in accordance with the VRS funding policy and at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ended June 30, 2022, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly which was 100% of the actuarially determined contribution rate. From July 1, 2022 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.

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

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

| | Rate | | |
|---|---|---|---|
| | 1% Decrease (5.75%) | Current Discount (6.75%) | 1% Increase (7.75%) |
| Board's proportionate share of the GLI Plan Net OPEB Liability | $ 379,856 | $ 261,048 | $ 165,035 |

### *GLI Plan Fiduciary Net Position*

Detailed information about the GLI Plan's Fiduciary Net Position is available in the separately issued VRS 2022 Annual Comprehensive Financial Report (Annual Report). A copy of the 2022 VRS Annual Report may be downloaded from the VRS website at http://www.varetire.org/pdf/publications/2022-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

## NOTE 5 - CONTINGENT LIABILITIES

The Board operates programs which are funded by grants received from federal, state or local sources. Expenditures financed by grants are subject to audit by the grantor. If expenditures are disallowed due to noncompliance with grant program regulations, the Board may be required to reimburse the grantor. The Board believes that the likelihood of disallowance of expenditures and subsequent reimbursements is remote and would not have a material effect on the overall financial position of the Board.

At June 30, 2023, there were no matters of litigation involving the Board which would materially affect the Board's financial position should any court decision or pending matter not be favorable to the Board.

## NOTE 6 - RISK MANAGEMENT

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

*The remainder of this page left blank intentionally.*

## NOTE 7 - CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2023 is presented below:

| | Balance July 1, 2022 | GASB 96 Adjustments | Adjusted Balance July 1, 2022 | Increases | Decreases | Balance June 30, 2023 |
|---|---|---|---|---|---|---|
| *Eastern Shore Community Services Board:* | | | | | | |
| Capital assets subject to depreciation: | | | | | | |
| Computer Equipment | $ 630,379 | $ - | $ 630,379 | $ - | $ - | $ 630,379 |
| Leasehold Improvements | 42,234 | - | 42,234 | - | - | 42,234 |
| Office Furniture and Equipment | 165,931 | - | 165,931 | - | - | 165,931 |
| Software | 989,415 | (17,000) | 972,415 | - | - | 972,415 |
| Vehicles | 816,058 | - | 816,058 | 363,265 | - | 1,179,323 |
| Lease subscriptions | - | 100,122 | 100,122 | 57,968 | - | 158,090 |
| Lease vehicles | 82,150 | - | 82,150 | - | - | 82,150 |
| Lease equipment | 34,999 | - | 34,999 | 77,274 | 34,998 | 77,275 |
| Total capital assets subject to depreciation | $ 2,761,166 | $ 83,122 | $ 2,844,288 | $ 498,507 | $ 34,998 | $ 3,307,797 |
| Less accumulated depreciation for: | | | | | | |
| Computer Equipment | $ 493,603 | $ - | $ 493,603 | $ 42,617 | $ - | $ 536,220 |
| Leasehold Improvements | 25,806 | - | 25,806 | 948 | - | 26,754 |
| Office Furniture and Equipment | 143,989 | - | 143,989 | 8,104 | - | 152,093 |
| Software | 950,061 | - | 950,061 | 6,476 | - | 956,537 |
| Vehicles | 632,191 | - | 632,191 | 41,564 | - | 673,755 |
| Lease subscriptions | - | - | - | 52,694 | - | 52,694 |
| Lease vehicles | 31,931 | - | 31,931 | 31,931 | - | 63,862 |
| Lease equipment | 22,496 | - | 22,496 | 16,366 | 34,998 | 3,864 |
| Total accumulated depreciation | $ 2,300,077 | $ - | $ 2,300,077 | $ 200,700 | $ 34,998 | $ 2,465,779 |
| Total capital assets subject to depreciation, net | $ 461,089 | $ 83,122 | $ 544,211 | $ 297,807 | $ - | $ 842,018 |
| ESCSB capital assets, net | $ 461,089 | $ 83,122 | $ 544,211 | $ 297,807 | $ - | $ 842,018 |
| *Component Unit- Mendisadd, Inc.:* | | | | | | |
| Capital assets not subject to depreciation: | | | | | | |
| Land | $ 606,853 | $ - | $ 606,853 | $ - | $ 18,000 | $ 588,853 |
| Construction in Progress | - | - | - | 93,040 | - | 93,040 |
| Total capital assets not subject to depreciation | $ 606,853 | $ - | $ 606,853 | $ 93,040 | $ 18,000 | $ 681,893 |
| Capital assets subject to depreciation: | | | | | | |
| Equipment | $ 277,524 | $ - | $ 277,524 | $ - | $ 10,100 | $ 267,424 |
| Buildings and Improvements | 4,645,195 | - | 4,645,195 | 39,000 | 138,245 | 4,545,950 |
| Total capital assets subject to depreciation | $ 4,922,719 | $ - | $ 4,922,719 | $ 39,000 | $ 148,345 | $ 4,813,374 |
| Less accumulated depreciation for: | | | | | | |
| Equipment | $ 231,820 | $ - | $ 231,820 | $ 11,034 | $ 4,569 | $ 238,285 |
| Buildings and Improvements | 2,884,214 | - | 2,884,214 | 160,014 | 33,234 | 3,010,994 |
| Total accumulated depreciation | $ 3,116,034 | $ - | $ 3,116,034 | $ 171,048 | $ 37,803 | $ 3,249,279 |
| Total capital assets subject to depreciation, net | $ 1,806,685 | $ - | $ 1,806,685 | $ (132,048) | $ 110,542 | $ 1,564,095 |
| Mendisadd, Inc. capital assets, net | $ 2,413,538 | $ - | $ 2,413,538 | $ (39,008) | $ 128,542 | $ 2,245,988 |
| Total reporting entity capital assets, net | $ 2,874,627 | $ 83,122 | $ 2,957,749 | $ 258,799 | $ 128,542 | $ 3,088,006 |

## NOTE 8 - LEASES RECEIVABLE

The Board leases land and rights-of-way for communication towers under lease contracts. In fiscal year 2023, the Board recognized principal and interest revenue in the amount of $17,771 and $2,019, respectively. A description of the leases is as follows:

| Lease Description | Start Date | End Date | Installment Amounts | Payment Frequency | Discount Rate | Receivable Balance |
|---|---|---|---|---|---|---|
| Neubeam Tower Lease | 7/1/2021 | 8/31/2024 | $ 955 | Quarterly | 0.8453% | $ 4,031 |
| Delmarva Two Way Radio Tower Lease | 7/1/2021 | 12/31/2029 | $ 1,318 | Monthly | 1.6460% | 97,444 |
| Total | | | | | | $ 101,475 |

Expected future payments to be received are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2024 | $ 18,352 | $ 1,518 | $ 19,870 |
| 2025 | 14,559 | 1,259 | 15,818 |
| 2026 | 14,801 | 1,017 | 15,818 |
| 2027 | 15,046 | 772 | 15,818 |
| 2028 | 15,296 | 522 | 15,818 |
| 2029 - 2030 | 23,421 | 306 | 23,727 |
| Total | $ 101,475 | $ 5,394 | $ 106,869 |

## NOTE 9 - LOCAL GOVERNMENT CONTRIBUTIONS BY PARTICIPANT

The participating localities contributed the following for the fiscal year ended June 30, 2023:

| | |
|---|---|
| County of Accomack | $ 204,037 |
| County of Northampton | 79,126 |
| Total | $ 283,163 |

*The remainder of this page left blank intentionally.*

## NOTE 10 - LONG-TERM OBLIGATIONS

A summary of long-term obligation transactions of the Board for the year ended June 30, 2023 is as follows:

| | Amounts payable at July 1, 2022 | GASB 96 Adjustments | Adjusted Amounts payable at July 1, 2022 | Increases | Decreases | Amounts payable at June 30, 2023 | Amounts due within one year |
|---|---|---|---|---|---|---|---|
| Compensated Absences | $ 603,478 | $ - | $ 603,478 | $ 31,722 | $ 60,510 | $ 574,690 | $ 57,469 |
| Note Payable from Direct Borrowing | 333,665 | - | 333,665 | - | 48,580 | 285,085 | 45,845 |
| Net Pension (Asset) Liability | (770,354) | - | (770,354) | 1,854,998 | 676,330 | 408,314 | - |
| Net OPEB Liability | 281,055 | - | 281,055 | 166,068 | 186,075 | 261,048 | - |
| Subscription Liabilities | - | 83,122 | 83,122 | 57,967 | 45,914 | 95,175 | 73,904 |
| Lease Liabilities | 61,983 | - | 61,983 | 77,274 | 47,909 | 91,348 | 32,573 |
| Total | $ 509,827 | $ 83,122 | $ 592,949 | $ 2,188,029 | $ 1,065,318 | $ 1,715,660 | $ 209,791 |

*The remainder of this page left blank intentionally.*

## NOTE 10 - LONG-TERM OBLIGATIONS (CONTINUED)

Details of long-term obligations are as follows:

| | | Amount Outstanding |
|---|---|---|
| Note Payable from Direct Borrowing: | | |
| Mendisadd, Inc. note payable to BB&T to refinance debt on Parksley property. Payable in monthly installments of $4,779 through June 16, 2029, including an interest rate of 4.375%. Secured by real estate property at 19056 Greenbush Road, Parskley, Virgnia 23421. | $ | 285,085 |
| Total Notes Payable | $ | 285,085 |
| Subscription Liabilities: | | |
| $83,122 software subscription, due in monthly installments of $2,683 through February 2025, interest at 2.354% | $ | 42,615 |
| $57,968 software subscription, due in monthly installments of $3,933 through May 2024, interest at 2.354% | | 52,560 |
| Total Subscription Liabilities | $ | 95,175 |
| Lease Liabilities: | | |
| $12,334 vehicle lease, due in monthly installments of $536 through October 2023, interest at 0.5925% | $ | 1,378 |
| $11,786 vehicle lease, due in monthly installments of $521 through October 2023, interest at 0.5925% | | 1,317 |
| $17,053 vehicle lease, due in monthly installments of $539 through March 2024, interest at 0.8453% | | 4,297 |
| $11,905 vehicle lease, due in monthly installments of $365 through April 2024, interest at 0.8453% | | 3,272 |
| $17,169 vehicle lease, due in monthly installments of $542 through March 2024, interest at 0.8453% | | 4,326 |
| $11,905 vehicle lease, due in monthly installments of $365 through April 2024, interest at 0.8453% | | 3,272 |
| $9,328 copier lease, due in monthly installments of $166 through March 2028, interest at 2.654% | | 8,870 |
| $5,597 copier lease, due in monthly installments of $100 through March 2028, interest at 2.654% | | 5,323 |

## NOTE 10 - LONG-TERM OBLIGATIONS (CONTINUED)

Details of long-term obligations are as follows (Continued):

| | | |
|---|---|---|
| $9,328 copier lease, due in monthly installments of $166 through March 2028, interest at 2.654% | | 8,870 |
| $2,067 copier lease, due in monthly installments of $37 through March 2028, interest at 2.654% | | 1,966 |
| $9,328 copier lease, due in monthly installments of $166 through March 2028, interest at 2.654% | | 8,871 |
| $2,434 copier lease, due in monthly installments of $43 through March 2028, interest at 2.654% | | 2,314 |
| $20,519 copier lease, due in monthly installments of $365 through March 2028, interest at 2.654% | | 19,513 |
| $18,674 copier lease, due in monthly installments of $332 through March 2028, interest at 2.654% | | 17,759 |
| Total Lease Liabilities | $ | 91,348 |
| Net Pension Liability | $ | 408,314 |
| Net OPEB Liability | $ | 261,048 |
| Compensated Absences | $ | 574,690 |
| Total Long-Term Obligations | $ | 1,715,660 |

The Board has a $250,000 revolving line of credit. At June 30, 2023, the Board's outstanding balance against the line of credit was $0 and there were no draws during the year.

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

| | CSB | | | | | | | | Mendisadd, Inc. | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Year Ending June 30 | Lease Liabilities | | | | Subscription Liabilities | | | | Note Payable from Direct Borrowing | | |
| | | Principal | | Interest | Principal | | Interest | | Principal | | Interest |
| 2024 | $ | 32,573 | $ | 1,825 | 73,904 | $ | 1,544 | $ | 45,845 | $ | 11,755 |
| 2025 | | 15,107 | | 1,377 | 21,271 | | 188 | | 47,891 | | 9,709 |
| 2026 | | 15,512 | | 971 | - | | - | | 50,029 | | 7,571 |
| 2027 | | 15,929 | | 554 | - | | - | | 52,262 | | 5,338 |
| 2028 | | 12,227 | | 136 | - | | - | | 53,963 | | 3,661 |
| 2029 | | - | | - | - | | - | | 35,095 | | 543 |
| Total | $ | 91,348 | $ | 4,863 | 95,175 | $ | 1,732 | $ | 285,085 | $ | 38,577 |

## NOTE 11 – UNEARNED REVENUE

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

Unearned revenue consisted of the following:

| | |
|---|---|
| Local Revenue: | |
| Pre-pays | $ 2,060 |
| State Revenue: | |
| MH grants | 1,490,615 |
| DS grants | 17,268 |
| SUD grants | 453,733 |
| Federal Revenue: | |
| ARPA grants | 23,750 |
| MH grants | 32,426 |
| SUD grants | 174,904 |
| | $ 2,194,756 |

## NOTE 12 – ADOPTION OF ACCOUNTING PRINCIPLES

The Board implemented provisions of Governmental Accounting Standards Board Statement No. 96, *Subscription-Based IT Arrangements (SBITAs)* during the fiscal year ended June 30, 2023. Statement No. 96, *SBITAs* requires recognition of certain subscription assets and liabilities for certain contracts that convey control of the right to use another party's (a SBITA vendor's) information technology (IT) software, alone or in combination with tangible capital assets (the underlying IT assets), as specified in the contract for a period of time in an exchange or exchange-like transaction. No restatement of beginning net position was required as a result of this implementation. Using the facts and circumstances that existed at the beginning of the year of implementation, the following balances were recognized as of July 1, 2022 related to the subscriptions:

| | CSB | Mendisadd, Inc. |
|---|---|---|
| Subscription assets | $ 83,122 | $ - |
| Subscription liabilities | $ 83,122 | $ - |

## NOTE 13 – UPCOMING PRONOUNCEMENTS

Statement No. 99, *Omnibus 2022*, enhances the comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The effective dates differ based on the requirements of the Statement, ranging from April 2022 to reporting periods beginning after June 15, 2023.

## NOTE 13 – UPCOMING PRONOUNCEMENTS (Continued)

Statement No. 100, *Accounting Changes and Error Corrections* – an amendment of GASB Statement No. 62, enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. The requirements of this Statement are effective for reporting periods beginning after June 15, 2023.

Statement No. 101, *Compensated Absences*, updates the recognition and measurement guidance for compensated absences. It aligns the recognition and measurement guidance under a unified model and amends certain previously required disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2023.

Implementation Guide No. 2021-1, *Implementation Guidance Update—2021,* with dates ranging from reporting periods beginning after June 15, 2022 to reporting periods beginning after June 15, 2023.

Implementation Guide No. 2023-1, *Implementation Guidance Update—2023,* effective for fiscal years beginning after June 15, 2023.

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

## NOTE 14 – LOCAL CONTRIBUTIONS

The Board receives local contributions from Northampton County and Accomack County, with budgeted contributions of $79,126 and $204,037, respectively.

*REQUIRED SUPPLEMENTARY INFORMATION*

**EASTERN SHORE COMMUNITY SERVICES BOARD**

**Schedule of Changes in Net Pension Liability (Asset) and Related Ratios - Pension Plan**
**For the Measurement Dates June 30, 2014 through June 30, 2022**

| | 2022 | 2021 | 2020 |
|---|---|---|---|
| **Total pension liability** | | | |
| Service cost | $ 337,310 | $ 391,400 | $ 456,516 |
| Interest | 1,488,604 | 1,381,485 | 1,333,711 |
| Differences between expected and actual experience | (191,616) | (84,935) | (76,725) |
| Changes of assumptions | - | 688,461 | - |
| Benefit payments | (1,202,280) | (1,051,251) | (960,226) |
| **Net change in total pension liability** | $ 432,018 | $ 1,325,160 | $ 753,276 |
| **Total pension liability - beginning** | 22,317,229 | 20,992,069 | 20,238,793 |
| **Total pension liability - ending (a)** | $ 22,749,247 | $ 22,317,229 | $ 20,992,069 |
| | | | |
| **Plan fiduciary net position** | | | |
| Contributions - employer | $ 276,902 | $ 297,818 | $ 296,704 |
| Contributions - employee | 207,287 | 221,039 | 238,332 |
| Net investment income | (14,579) | 5,040,077 | 355,675 |
| Benefit payments | (1,202,280) | (1,051,251) | (960,226) |
| Administrator charges | (14,505) | (12,716) | (12,214) |
| Other | 525 | 474 | (419) |
| **Net change in plan fiduciary net position** | $ (746,650) | $ 4,495,441 | $ (82,148) |
| **Plan fiduciary net position - beginning** | 23,087,583 | 18,592,142 | 18,674,290 |
| **Plan fiduciary net position - ending (b)** | $ 22,340,933 | $ 23,087,583 | $ 18,592,142 |
| | | | |
| **Board's net pension liability/(asset) - ending (a) - (b)** | $ 408,314 | $ (770,354) | $ 2,399,927 |
| | | | |
| **Plan fiduciary net position as a percentage of the total pension liability** | 98.21% | 103.45% | 88.57% |
| | | | |
| **Covered payroll** | $ 4,695,234 | $ 4,968,316 | $ 5,301,671 |
| | | | |
| **Board's net pension liability/(asset) as a percentage of covered payroll** | 8.70% | -15.51% | 45.27% |

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

| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|---|
| | $ 443,631 | $ 443,060 | $ 462,023 | $ 487,979 | $ 496,973 | $ 498,592 |
| | 1,296,671 | 1,236,376 | 1,202,747 | 1,148,526 | 1,104,668 | 1,041,588 |
| | (121,303) | 97,089 | (230,377) | (67,126) | (247,395) | - |
| | 564,617 | - | (85,193) | - | - | - |
| | (937,388) | (892,953) | (844,618) | (744,969) | (710,434) | (567,640) |
| | $ 1,246,228 | $ 883,572 | $ 504,582 | $ 824,410 | $ 643,812 | $ 972,540 |
| | 18,992,565 | 18,108,993 | 17,604,411 | 16,780,001 | 16,136,189 | 15,163,649 |
| | $ 20,238,793 | $ 18,992,565 | $ 18,108,993 | $ 17,604,411 | $ 16,780,001 | $ 16,136,189 |
| | | | | | | |
| | $ 294,505 | $ 328,849 | $ 328,079 | $ 417,369 | $ 421,399 | $ 468,572 |
| | 231,450 | 231,102 | 227,912 | 218,246 | 263,147 | 236,859 |
| | 1,182,582 | 1,251,849 | 1,869,763 | 266,474 | 671,135 | 1,994,489 |
| | (937,388) | (892,953) | (844,618) | (744,969) | (710,434) | (567,640) |
| | (11,842) | (10,870) | (10,859) | (9,443) | (9,077) | (10,531) |
| | (745) | (1,112) | (1,662) | (113) | (142) | 105 |
| | $ 758,562 | $ 906,865 | $ 1,568,615 | $ 147,564 | $ 636,028 | $ 2,121,854 |
| | 17,915,728 | 17,008,863 | 15,440,248 | 15,292,684 | 14,656,656 | 12,534,802 |
| | $ 18,674,290 | $ 17,915,728 | $ 17,008,863 | $ 15,440,248 | $ 15,292,684 | $ 14,656,656 |
| | | | | | | |
| | $ 1,564,503 | $ 1,076,837 | $ 1,100,130 | $ 2,164,163 | $ 1,487,317 | $ 1,479,533 |
| | | | | | | |
| | 92.27% | 94.33% | 93.92% | 87.71% | 91.14% | 90.83% |
| | | | | | | |
| | $ 5,053,249 | $ 5,020,238 | $ 4,867,751 | $ 4,550,610 | $ 4,519,527 | $ 4,640,238 |
| | | | | | | |
| | 30.96% | 21.45% | 22.60% | 47.56% | 32.91% | 31.88% |

**EASTERN SHORE COMMUNITY SERVICES BOARD**

**Schedule of Employer Contributions - Pension Plan**
**For the Years Ended June 30, 2014 through June 30, 2023**

| Date | Contractually Required Contribution (1)* | Contributions in Relation to Contractually Required Contribution (2)* | Contribution Deficiency (Excess) (3) | Employer's Covered Payroll (4) | Contributions as a % of Covered Payroll (5) |
|---|---|---|---|---|---|
| 2023 | $ 256,922 | $ 256,922 | $ - | $ 4,964,121 | 5.18% |
| 2022 | 276,876 | 276,876 | - | 4,695,234 | 5.90% |
| 2021 | 298,005 | 298,005 | - | 4,968,316 | 6.00% |
| 2020 | 301,901 | 301,901 | - | 5,301,671 | 5.69% |
| 2019 | 294,651 | 294,651 | - | 5,053,249 | 5.83% |
| 2018 | 329,339 | 329,339 | - | 5,020,238 | 6.56% |
| 2017 | 351,452 | 351,452 | - | 4,867,751 | 7.22% |
| 2016 | 427,757 | 427,757 | - | 4,550,610 | 9.40% |
| 2015 | 424,836 | 424,836 | - | 4,519,527 | 9.40% |
| 2014 | 468,664 | 468,664 | - | 4,640,238 | 10.10% |

* Excludes contributions (mandatory and match on voluntary) to the defined contribution portion of the Hybrid plan.

## Notes to Required Supplementary Information - Pension Plan
## For the Year Ended June 30, 2023

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

**Changes of assumptions** – The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, 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:

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

| | |
|---|---|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020 |
| Retirement Rates | Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age |
| Withdrawal Rates | Adjusted rates to better fit experience at each age and service decrement through 9 years of service |
| Disability Rates | No change |
| Salary Scale | No change |
| Line of Duty Disability | No change |
| Discount Rate | No change |

**EASTERN SHORE COMMUNITY SERVICES BOARD**

**Schedule of Board's Share of Net OPEB Liability**
**Group Life Insurance (GLI) Plan**
**For the Measurement Dates of June 30, 2017 through June 30, 2022**

| Date (1) | Employer's Proportion of the Net GLI OPEB Liability (2) | Employer's Proportionate Share of the Net GLI OPEB Liability (3) | Employer's Covered Payroll (4) | Employer's Proportionate Share of the Net GLI OPEB Liability as a Percentage of Covered Payroll (3)/(4) (5) | Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability (6) |
|---|---|---|---|---|---|
| 2022 | 0.02170% | $ 261,048 | $ 4,715,274 | 5.54% | 67.21% |
| 2021 | 0.02410% | $ 281,055 | $ 4,984,979 | 5.64% | 67.45% |
| 2020 | 0.02590% | 431,728 | 5,323,828 | 8.11% | 52.64% |
| 2019 | 0.02581% | 419,998 | 5,060,345 | 8.30% | 52.00% |
| 2018 | 0.02650% | 402,000 | 5,038,227 | 7.98% | 51.22% |
| 2017 | 0.02640% | 397,000 | 4,869,309 | 8.15% | 48.86% |

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

**EASTERN SHORE COMMUNITY SERVICES BOARD**

**Schedule of Employer Contributions**
**Group Life Insurance (GLI) Plan**
**For the Years Ended June 30, 2014 through June 30, 2023**

| Date | Contractually Required Contribution (1) | Contributions in Relation to Contractually Required Contribution (2) | Contribution Deficiency (Excess) (3) | Employer's Covered Payroll (4) | Contributions as a % of Covered Payroll (5) |
|---|---|---|---|---|---|
| 2023 | $ 26,855 | $ 26,855 | $ - | $ 4,973,197 | 0.54% |
| 2022 | 25,462 | 25,462 | - | 4,715,274 | 0.54% |
| 2021 | 26,919 | 26,919 | - | 4,984,979 | 0.54% |
| 2020 | 27,684 | 27,684 | - | 5,323,828 | 0.52% |
| 2019 | 26,314 | 26,314 | - | 5,060,345 | 0.52% |
| 2018 | 26,199 | 26,199 | - | 5,038,227 | 0.52% |
| 2017 | 25,320 | 25,320 | - | 4,869,309 | 0.52% |
| 2016 | 21,936 | 21,936 | - | 4,569,900 | 0.48% |
| 2015 | 21,720 | 21,720 | - | 4,525,011 | 0.48% |
| 2014 | 22,320 | 22,320 | - | 4,650,096 | 0.48% |

**EASTERN SHORE COMMUNITY SERVICES BOARD**

**Notes to Required Supplementary Information**
**Group Life Insurance (GLI) Plan**
**For the Year Ended June 30, 2023**

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

**Changes of assumptions** – The actuarial assumptions used in the June 30, 2021 valuation were based on the results of an actuarial experience study for the period from July 1, 2016 through June 30, 2020, 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:

**Non-Largest Ten Locality Employers - General Employees**

| | |
|---|---|
| Mortality Rates (pre-retirement, post-retirement healthy, and disabled) | Update to Pub-2010 public sector mortality tables. For future mortality improvements, replace load with a modified Mortality Improvement Scale MP-2020 |
| Retirement Rates | Adjusted rates to better fit experience for Plan 1; set separate rates based on experience for Plan 2/Hybrid; changed final retirement age from 75 to 80 for all |
| Withdrawal Rates | Adjusted rates to better fit experience at each age and service decrement through 9 years of service |
| Disability Rates | No change |
| Salary Scale | No change |
| Line of Duty Disability | No change |
| Discount Rate | No change |

*OTHER SUPPLEMENTARY INFORMATION*

THIS PAGE LEFT BLANK INTENTIONALLY

*COMBINING FINANCIAL STATEMENTS*

THIS PAGE LEFT BLANK INTENTIONALLY

**EASTERN SHORE COMMUNITY SERVICES BOARD**

**Combining Statement of Net Position**
**As of June 30, 2023**

| | ESCSB Operating Fund | Mendisadd, Inc. Fund | Inter-Company Eliminations | Total |
|---|---|---|---|---|
| Current Assets: | | | | |
| Cash and cash equivalents | $ 5,890,605 | $ 422,690 | $ - | $ 6,313,295 |
| Client receivables (net of allowance for uncollectible accounts) | 674,828 | 982 | - | 675,810 |
| Due from other governmental unit | 306,254 | - | - | 306,254 |
| Grant receivable | 137,809 | - | - | 137,809 |
| Notes receivable | 100,656 | 38,889 | (80,656) | 58,889 |
| Leases receivable, current portion | - | 18,352 | - | 18,352 |
| Prepaid items | 202,348 | - | - | 202,348 |
| Total current assets | $ 7,312,500 | $ 480,913 | $ (80,656) | $ 7,712,757 |
| Noncurrent Assets: | | | | |
| Leases receivable, less current portion | $ - | $ 83,123 | $ - | $ 83,123 |
| Capital Assets: | | | | |
| Land | $ - | $ 588,853 | $ - | $ 588,853 |
| Construction in progress | - | 93,040 | - | 93,040 |
| Other capital assets, less accumulated depreciation | 842,018 | 1,564,095 | - | 2,406,113 |
| Total capital assets | $ 842,018 | $ 2,245,988 | $ - | $ 3,088,006 |
| Total assets | $ 8,154,518 | $ 2,810,024 | $ (80,656) | $ 10,883,886 |
| Deferred Outflows of Resources: | | | | |
| Pension related items | $ 423,821 | $ - | $ - | $ 423,821 |
| OPEB related items | 58,849 | - | - | 58,849 |
| Total deferred outflows of resources | $ 482,670 | $ - | $ - | $ 482,670 |
| Current Liabilities: | | | | |
| Accounts payable | $ 125,787 | $ - | $ - | $ 125,787 |
| Accrued expenses | 248,574 | - | - | 248,574 |
| Unearned revenues | 2,194,756 | - | - | 2,194,756 |
| Accrued interest | 276 | - | - | 276 |
| Current portion of compensated absences | 57,469 | - | - | 57,469 |
| Current portion of note payable | - | 57,369 | (11,524) | 45,845 |
| Current portion of subscription liabilities | 73,904 | - | - | 73,904 |
| Current portion of lease liabilities | 32,573 | - | - | 32,573 |
| Total current liabilities | $ 2,733,339 | $ 57,369 | $ (11,524) | $ 2,779,184 |
| Long-Term Liabilities: | | | | |
| Compensated absences, less current portion | $ 517,221 | $ - | $ - | $ 517,221 |
| Notes payable, less current portion | - | 308,372 | (69,132) | 239,240 |
| Subscription liabilities, less current portion | 21,271 | - | - | 21,271 |
| Lease liabilities, less current portion | 58,775 | - | - | 58,775 |
| Net pension liability | 408,314 | - | - | 408,314 |
| Net OPEB liability | 261,048 | - | - | 261,048 |
| Total long-term liabilities | $ 1,266,629 | $ 308,372 | $ (69,132) | $ 1,505,869 |
| Total liabilities | $ 3,999,968 | $ 365,741 | $ (80,656) | $ 4,285,053 |
| Deferred Inflows of Resources: | | | | |
| Pension related items | $ 807,803 | $ - | $ - | $ 807,803 |
| OPEB related items | 102,262 | - | - | 102,262 |
| Lease related items | - | 100,311 | - | 100,311 |
| Total deferred inflows of resources | $ 910,065 | $ 100,311 | $ - | $ 1,010,376 |
| Net Position: | | | | |
| Net investment in capital assets | $ 655,495 | $ 1,880,247 | $ 80,656 | $ 2,616,398 |
| Unrestricted | 3,071,660 | 463,725 | (80,656) | 3,454,729 |
| Total net position | $ 3,727,155 | $ 2,343,972 | $ - | $ 6,071,127 |

**EASTERN SHORE COMMUNITY SERVICES BOARD**

**Combining Statement of Revenues, Expenses and Changes in Net Position**
**Year Ended June 30, 2023**

| | ESCSB Operating Fund | Mendisadd Inc. Fund | Inter-Company Eliminations | Total |
|---|---|---|---|---|
| Operating revenues: | | | | |
| Patient service and other fees | $ 5,594,166 | $ - | $ - | $ 5,594,166 |
| Operating expenses: | | | | |
| Personnel | $ 7,259,817 | $ - | $ - | $ 7,259,817 |
| Staff development | 65,777 | - | - | 65,777 |
| Facility charges | 857,525 | 243,255 | (305,108) | 795,672 |
| Travel | 8,256 | - | - | 8,256 |
| Consultants and other professional services | 1,833,656 | - | - | 1,833,656 |
| Other charges | 938,979 | - | - | 938,979 |
| Depreciation | 200,700 | 171,048 | - | 371,748 |
| Total operating expenses | $ 11,164,710 | $ 414,303 | $ (305,108) | $ 11,273,905 |
| Operating income (loss) | $ (5,570,544) | $ (414,303) | $ 305,108 | $ (5,679,739) |
| Nonoperating revenues (expenses): | | | | |
| Commonwealth of Virginia, including pass-through grants of $1,682,313 from the federal government | $ 5,648,575 | $ - | $ - | $ 5,648,575 |
| Local governments | 283,163 | - | - | 283,163 |
| Other agencies | 479,297 | - | - | 479,297 |
| Rental income | - | 350,183 | (305,108) | 45,075 |
| Interest income | 94,659 | 1,525 | (4,118) | 92,066 |
| Gain (loss) on disposition of property | - | 91,457 | - | 91,457 |
| Insurance proceeds | - | 37,245 | - | 37,245 |
| Interest expense | (3,149) | (17,938) | 4,118 | (16,969) |
| Total nonoperating revenues (expenses) | $ 6,502,545 | $ 462,472 | $ (305,108) | $ 6,659,909 |
| Change in net position | $ 932,001 | $ 48,169 | $ - | $ 980,170 |
| Net position at beginning of year | 2,795,154 | 2,295,803 | - | 5,090,957 |
| Net position at end of year | $ 3,727,155 | $ 2,343,972 | $ - | $ 6,071,127 |

**EASTERN SHORE COMMUNITY SERVICES BOARD**

**Combining Statement of Cash Flows**
**Year Ended June 30, 2023**

| | ESCSB Operating Fund | Mendisadd, Inc. Fund | Inter-Company Eliminations | Total |
|---|---|---|---|---|
| Cash flows from operating activities: | | | | |
| Receipts from clients' fees and other providers | $ 6,432,076 | $ (982) | $ - | $ 6,431,094 |
| Payments to suppliers | (3,930,795) | (249,576) | 305,108 | (3,875,263) |
| Payments to and for employees | (7,689,807) | - | - | (7,689,807) |
| Net cash provided by (used for) operating activities | $ (5,188,526) | $ (250,558) | $ 305,108 | $ (5,133,976) |
| Cash flows from noncapital and related financing activities: | | | | |
| Government and other agencies | $ 6,104,635 | $ - | $ - | $ 6,104,635 |
| Rent of property | - | 331,248 | (305,108) | 26,140 |
| Net cash provided by (used for) noncapital and related financing activities | $ 6,104,635 | $ 331,248 | $ (305,108) | $ 6,130,775 |
| Cash flows from capital and related financing activities: | | | | |
| Purchase of capital assets | $ (581,629) | $ (132,040) | $ - | $ (713,669) |
| Proceeds from sale of capital assets | - | 220,000 | - | 220,000 |
| Principal payments on long-term obligations | (93,823) | - | - | (93,823) |
| Proceeds from long-term obligations issued | 218,363 | - | - | 218,363 |
| Principal payments on note payable | - | (59,580) | 11,000 | (48,580) |
| Insurance proceeds | - | 37,245 | - | 37,245 |
| Interest paid on leases and notes payable | (2,901) | (17,938) | 4,118 | (16,721) |
| Net cash provided by (used for) capital and related financing activities | $ (459,990) | $ 47,687 | $ 15,118 | $ (397,185) |
| Cash flows from investing activities: | | | | |
| Interest received | $ 94,659 | $ 1,677 | $ (4,118) | $ 92,218 |
| Issuance of note receivable | (20,000) | (42,000) | - | (62,000) |
| Principal received on notes receivable | 11,000 | 3,111 | (11,000) | 3,111 |
| Net cash provided by (used for) investing activities | $ 85,659 | $ (37,212) | $ (15,118) | $ 33,329 |
| Net increase (decrease) in cash and cash equivalents | $ 541,778 | $ 91,165 | $ - | $ 632,943 |
| Cash and cash equivalents, beginning of year | 5,348,827 | 331,525 | - | 5,680,352 |
| Cash and cash equivalents, end of year | $ 5,890,605 | $ 422,690 | $ - | $ 6,313,295 |
| Reconciliation of operating income (loss) to net cash provided by (used for) operating activities: | | | | |
| Operating income (loss) | $ (5,570,544) | $ (414,303) | $ 305,108 | $ (5,679,739) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | | | | |
| Depreciation | 200,700 | 171,048 | - | 371,748 |
| Changes in assets, liabilities, and deferred inflows/outflows of resources: | | | | |
| (Increase)/decrease in accounts receivable | 196,899 | (982) | - | 195,917 |
| (Increase)/decrease in prepaid items | (32,627) | - | - | (32,627) |
| (Increase)/decrease in deferred outflows of resources | 320,816 | - | - | 320,816 |
| (Increase)/decrease in net pension asset | 408,314 | - | - | 408,314 |
| Increase/(decrease) in compensated absences | (28,788) | - | - | (28,788) |
| Increase/(decrease) in accounts payable | 10,195 | (6,321) | - | 3,874 |
| Increase/(decrease) in unearned revenues | 641,011 | - | - | 641,011 |
| Increase/(decrease) in net pension liability | 770,354 | - | - | 770,354 |
| Increase/(decrease) in net OPEB liability | (20,007) | - | - | (20,007) |
| Increase/(decrease) in deferred inflows of resources | (1,806,646) | - | - | (1,806,646) |
| Increase/(decrease) in other accrued expenses | (278,203) | - | - | (278,203) |
| Net cash provided by (used for) operating activities | $ (5,188,526) | $ (250,558) | $ 305,108 | $ (5,133,976) |

THIS PAGE LEFT BLANK INTENTIONALLY

*COMPLIANCE*

THIS PAGE LEFT BLANK INTENTIONALLY

Robinson, Farmer, Cox Associates, PLLC

*Certified Public Accountants*

CPAs | Consultants

**Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed In Accordance with *Government Auditing Standards***

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of Eastern Shore Community Services Board as of and for the year ended June 30, 2023 and the related notes to the financial statements, which collectively comprise Eastern Shore Community Services Board's basic financial statements and have issued our report thereon dated November 16, 2023.

**Report on Internal Control over Financial Reporting**

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

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

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

**Report on Compliance and Other Matters**

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

**Purpose of This Report**

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

Robinson, Farmer, Cox Associates

Richmond, Virginia
November 16, 2023

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

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

### Report on Compliance for Each Major Federal Program

***Opinion on Each Major Federal Program***

We have audited Eastern Shore Community Services Board's compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Eastern Shore Community Services Board's major federal programs for the year ended June 30, 2023. Eastern Shore Community Services Board's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Eastern Shore Community Services Board complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2023.

***Basis for Opinion on Each Major Federal Program***

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Eastern Shore Community Services Board and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Eastern Shore Community Services Board's compliance with the compliance requirements referred to above.

***Responsibilities of Management for Compliance***

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to Eastern Shore Community Services Board's federal programs.

### *Auditors' Responsibilities for the Audit of Compliance*

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Eastern Shore Community Services Board's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Eastern Shore Community Services Board's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Eastern Shore Community Services Board's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.

- Obtain an understanding of Eastern Shore Community Services Board's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Eastern Shore Community Services Board's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

### Report on Internal Control over Compliance

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

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

**Report on Internal Control over Compliance (Continued)**

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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

Robinson, Farmer, Cox Associates

Richmond, Virginia
November 16, 2023

THIS PAGE LEFT BLANK INTENTIONALLY

**EASTERN SHORE COMMUNITY SERVICES BOARD**

**Schedule of Expenditures of Federal Awards**
**Year Ended June 30, 2023**

| Federal Grantor/ State Pass-Through Grantor/ Program or Cluster Title | Assistance Listing Number | Pass-Through Entity Identifying Number | | Total Federal Expenditures |
|---|---|---|---|---|
| Department of Treasury: | | | | |
| Pass Through Payments: | | | | |
| Department of Behavioral Health and Developmental Services: | | | | |
| COVID-19 - Coronavirus State and Local Fiscal Recovery Funds | 21.027 | 561000090 | $ | 387,144 |
| Department of Education | | | | |
| Pass Through Payments: | | | | |
| Department of Behavioral Health and Developmental Services: | | | | |
| Special Education - Grants for Infants and Families | 84.181 | 445007-43080 & 445007-43081 | $ | 50,232 |
| Department of Health and Human Services: | | | | |
| Direct Payments: | | | | |
| COVID-19 Provider Relief Fund | 93.498 | N/A | $ | 191,043 |
| Pass Through Payments: | | | | |
| Department of Behavioral Health and Developmental Services: | | | | |
| Block Grants for Community Mental Health Services | 93.958 | 2B09SM010053-19<br>1B09SM082636-01 | | 177,316 |
| Block Grants for Prevention and Treatment of Substance Abuse | 93.959 | 2B08TI010053-19<br>1B08TI083056-01 | | 554,231 |
| Opioid STR | 93.788 | 5H79TI081682-02 | | 513,390 |
| Total Department of Health and Human Services | | | $ | 1,435,980 |
| Total Expenditures of Federal Awards | | | $ | 1,873,356 |

**See accompanying notes to schedule of expenditures of federal awards.**

**EASTERN SHORE COMMUNITY SERVICES BOARD**

**Notes to Schedule of Expenditures of Federal Awards**
**Year Ended June 30, 2023**

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Eastern Shore Community Services Board under programs of the federal government for the year ended June 30, 2023. The information in this Schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance)*. Because the Schedule presents only a selected portion of the operations of Eastern Shore Community Services Board, it is not intended to and does not present the financial position, changes in net position, or cash flows of Eastern Shore Community Services Board.

Note B - Summary of Significant Accounting Policies

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

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

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

Note C - Subrecipients

No awards were passed through to subrecipients.

Note D - Provider Relief Fund

Based on current guidance from the Department of Health and Human Services (HHS), PRF expenditures (including lost revenue) are to be reported on the SEFA based upon PRF reports submitted through the Health Resources and Services Administration (HRSA) reporting portal. Therefore, the amount of PRF expenditures included on the FYE June 30, 2023 SEFA is based upon the PRF reporting portal guidelines for Periods 4 and 5, as specified by HHS.

Note E - Relationship to Financial Statements

| | |
|---|---|
| Total federal expenditures per basic financial statements | $ 1,682,313 |
| COVID-19 Provider Relief Funds - Period 4 (reported FY23) | 191,043 |
| Total federal expenditures per the Schedule of Expenditures of Federal Awards | $ 1,873,356 |

**EASTERN SHORE COMMUNITY SERVICES BOARD**

**Schedule of Findings and Questioned Costs**
**As of June 30, 2023**

## Section I-Summary of Auditors' Results

### Financial Statements

| | |
|---|---|
| Type of auditors' report issued: | *unmodified* |
| Internal control over financial reporting: | |
| Material weakness(es) identified? | ____ yes ✔ no |
| Significant deficiency(ies) identified? | ____ yes ✔ none reported |
| Noncompliance material to financial statements noted? | ____ yes ✔ no |

### Federal Awards

| | |
|---|---|
| Internal control over major programs: | |
| Material weakness(es) identified? | ____ yes ✔ no |
| Significant deficiency(ies) identified? | ____ yes ✔ none reported |
| Type of auditors' report issued on compliance for major programs: | *unmodified* |
| Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a) | ____ yes ✔ no |

Identification of major programs:

| Assistance Listing Number(s) | Name of Federal Program or Cluster |
|---|---|
| 21.027 | COVID-19 - Coronavirus State and Local Fiscal Recovery Funds |
| 93.959 | Block Grants for Prevention and Treatment of Substance Abuse |

| | |
|---|---|
| Dollar threshold used to distinguish between type A and type B programs: | $750,000 |
| Auditee qualified as low-risk auditee? | ____ yes ✔ no |

## Section II – Financial Statement Findings

None

## Section III – Federal Award Findings and Question Costs

None

## Section IV – Prior Year Findings

None