

COURT-COMMUNITY CORRECTIONS PROGRAM

**ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2023**

**COURT-COMMUNITY CORRECTIONS PROGRAM
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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the Regional ASAP Policy Board
and Regional Community Criminal Justice Board
Court-Community Corrections Program
Salem, Virginia

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Court-Community Corrections Program (the "Program") as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Program'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 governmental activities, business-type activities, and each major fund of the Court-Community Corrections Program, 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 Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and *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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Program 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 opinions.

Report on the Audit of the Financial Statements (Continued)

Responsibilities of Management for the Financial Statements

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

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 Program'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.

Auditor's 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 auditor's report that includes our opinions. 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 and *Government Auditing Standards* 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 and *Government Auditing Standards*, 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 the Program'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 the Program'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.

Report on the Audit of the Financial Statements (Continued)

Required Supplementary Information

Management has omitted management's discussion and analysis, the defined benefit pension plan schedules required by GASB 68, and the other postemployment benefit schedules required by GASB 75 that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not modified with respect to these matters.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2023 on our consideration of the Program's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Program's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Program's internal control over financial reporting and compliance.

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
December 4, 2023

BASIC FINANCIAL STATEMENTS

COURT-COMMUNITY CORRECTIONS PROGRAM
STATEMENT OF NET POSITION
JUNE 30, 2023

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 872,611	\$ 951,312	\$ 1,823,923
Receivables	40	724	764
Due from other governmental units	46,042	-	46,042
<i>Capital assets:</i>			
Depreciable, net	9,004	-	9,004
Intangible right-to-use, net	23,008	19,418	42,426
Total assets	<u>950,705</u>	<u>971,454</u>	<u>1,922,159</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pension	107,468	46,851	154,319
Deferred outflows related to OPEB	83,907	53,223	137,130
Total deferred outflows of resources	<u>191,375</u>	<u>100,074</u>	<u>291,449</u>
LIABILITIES			
Accounts payable and accrued liabilities	201,721	6,955	208,676
Accrued payroll and related liabilities	11,112	4,787	15,899
Due to City of Salem	36,752	16,443	53,195
<i>Long-term liabilities due in less than one year:</i>			
Lease liability	9,665	5,976	15,641
Compensated absences	30,760	14,961	45,721
<i>Long-term liabilities due in more than one year:</i>			
Lease liability	13,606	13,605	27,211
Compensated absences	10,338	8,897	19,235
Net pension liability	605,343	520,509	1,125,852
Net OPEB liability	409,446	260,067	669,513
Total liabilities	<u>1,328,743</u>	<u>852,200</u>	<u>2,180,943</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pension	93,881	41,725	135,606
Deferred inflows related to OPEB	38,904	24,105	63,009
Total deferred inflows of resources	<u>132,785</u>	<u>65,830</u>	<u>198,615</u>
NET POSITION			
Net investment in capital assets	8,741	(163)	8,578
Restricted for program activities	669,108	-	669,108
Unrestricted (deficit)	(997,297)	153,661	(843,636)
Total net position	<u>\$ (319,448)</u>	<u>\$ 153,498</u>	<u>\$ (165,950)</u>

The Notes to Financial Statements are an integral part of this statement.

COURT-COMMUNITY CORRECTIONS PROGRAM
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2023

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:						
Community Corrections Program	\$ 600,948	\$ 14,778	\$ 513,994	\$ (72,176)	\$	\$ (72,176)
Pre-Trial Services Program	346,307	-	323,180	(23,127)		(23,127)
Drug Court	153,816	7,230	190,305	43,719		43,719
Total governmental activities	<u>1,101,071</u>	<u>22,008</u>	<u>1,027,479</u>	<u>(51,584)</u>		<u>(51,584)</u>
Business-type activities:						
Roanoke Valley Alcohol Safety Action Program	444,992	451,220	-		\$ 6,228	6,228
Total business-type activities	<u>444,992</u>	<u>451,220</u>	<u>-</u>		<u>6,228</u>	<u>6,228</u>
Total	<u>\$ 1,546,063</u>	<u>\$ 473,228</u>	<u>\$ 1,027,479</u>	<u>\$ (51,584)</u>	<u>\$ 6,228</u>	<u>\$ (45,356)</u>
General revenues:						
Unrestricted investment earnings				-	4,277	4,277
Other				-	1,605	1,605
Total general revenues				-	5,882	5,882
Change in net position				(51,584)	12,110	(39,474)
Net position (deficit), beginning				(267,864)	141,388	(126,476)
Net position (deficit), ending				<u>\$ (319,448)</u>	<u>\$ 153,498</u>	<u>\$ (165,950)</u>

The Notes to Financial Statements are an integral part of this statement.

**COURT-COMMUNITY CORRECTIONS PROGRAM
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2023**

	Community Corrections Program	Pre-Trial Services Program	Drug Court	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 586,305	\$ 127,149	\$ 159,157	\$ 872,611
Receivables	-	-	40	40
Due from other governmental units	-	-	46,042	46,042
Total assets	<u>\$ 586,305</u>	<u>\$ 127,149</u>	<u>\$ 205,239</u>	<u>\$ 918,693</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ 126,103	\$ 61,630	\$ 13,988	\$ 201,721
Accrued payroll and related liabilities	6,162	4,415	535	11,112
Due to City of Salem	19,893	15,595	1,264	36,752
Total liabilities	<u>152,158</u>	<u>81,640</u>	<u>15,787</u>	<u>249,585</u>
FUND BALANCES				
Restricted for program activities	434,147	45,509	189,452	669,108
Total fund balances	<u>434,147</u>	<u>45,509</u>	<u>189,452</u>	<u>669,108</u>
Total liabilities and fund balances	<u>\$ 586,305</u>	<u>\$ 127,149</u>	<u>\$ 205,239</u>	<u>\$ 918,693</u>

RECONCILIATION TO THE STATEMENT OF NET POSITION

Total fund balance of governmental funds	\$ 669,108
Capital assets used in governmental activities are not financial resources and, therefore, are not in the governmental funds.	32,012
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:	
Compensated absences	(41,098)
Lease liability	(23,271)
Financial statement elements related to pensions are applicable to future periods and, therefore, are not reported in the governmental funds:	
Deferred outflows of resources related to pension	107,468
Deferred inflows of resources related to pension	(93,881)
Net pension liability	(605,343)
Financial statement elements related to OPEB are applicable to future periods and, therefore, are not reported in the governmental funds:	
Deferred outflows of resources related to OPEB	83,907
Deferred inflows of resources related to OPEB	(38,904)
Net OPEB liability	(409,446)
Net position of governmental activities	<u>\$ (319,448)</u>

The Notes to Financial Statements are an integral part of this statement.

COURT-COMMUNITY CORRECTIONS PROGRAM
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2023

	Community Corrections Program	Pre-Trial Services Program	Drug Court	Total Governmental Funds
REVENUES				
Charges for services	\$ 14,778	\$ -	\$ 7,230	\$ 22,008
Intergovernmental	513,994	323,180	190,305	1,027,479
Total revenues	<u>528,772</u>	<u>323,180</u>	<u>197,535</u>	<u>1,049,487</u>
EXPENDITURES				
Salaries	269,131	182,273	36,491	487,895
Fringe benefits	159,079	98,061	3,783	260,923
Rent	377	238	-	615
Utilities	5,193	5,077	-	10,270
Equipment	7,515	8,195	-	15,710
Supplies	66,707	778	186	67,671
Telephone	3,994	2,345	-	6,339
Postage	511	1,500	-	2,011
Printing	590	961	-	1,551
Travel and training	8,646	3,907	6	12,559
Vehicle maintenance	85	-	-	85
Dues and subscriptions	390	180	-	570
Meetings	799	-	2,713	3,512
Drug testing	13,264	6,000	545	19,809
Treatment services	500	-	148,532	149,032
Insurance	4,201	-	1,779	5,980
Fiscal agent fees	4,201	4,239	130	8,570
Other costs	3,683	696	-	4,379
Capital outlay	11,803	13,769	-	25,572
<i>Debt service:</i>				
Principal retirement	53,100	25,954	-	79,054
Interest	1,076	543	-	1,619
Total expenditures	<u>614,845</u>	<u>354,716</u>	<u>194,165</u>	<u>1,163,726</u>
Excess (deficiency) of revenues over expenditures	<u>(86,073)</u>	<u>(31,536)</u>	<u>3,370</u>	<u>(114,239)</u>
OTHER FINANCING SOURCES (USES)				
Inception of leases	8,803	8,802	-	17,605
Transfers in	-	22,734	-	22,734
Transfers out	<u>(22,734)</u>	<u>-</u>	<u>-</u>	<u>(22,734)</u>
Total other financing sources (uses), net	<u>(13,931)</u>	<u>31,536</u>	<u>-</u>	<u>17,605</u>
Net change in fund balances	<u>(100,004)</u>	<u>-</u>	<u>3,370</u>	<u>(96,634)</u>
Fund balances, beginning	534,151	45,509	186,082	765,742
Fund balances, ending	<u>\$ 434,147</u>	<u>\$ 45,509</u>	<u>\$ 189,452</u>	<u>\$ 669,108</u>

The Notes to Financial Statements are an integral part of this statement.

COURT-COMMUNITY CORRECTIONS PROGRAM
RECONCILIATION OF THE GOVERNMENTAL FUNDS' STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2023

Net changes in fund balances of governmental funds	\$ (96,634)
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate the cost of those assets over the life of the assets.	
Capital outlay	25,572
Depreciation expense	(1,036)
Amortization expense	(78,334)
Issuance of lease obligations provides current financial resources to governmental funds but increases long-term liabilities in the Statement of Net Position. Payment of lease principal is an expenditure in the governmental funds, but payment reduces long-term liabilities in the Statement of Activities.	
Inception of leases	(17,605)
Principal payments	79,054
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Compensated absences	(6,752)
Governmental funds report employer pension contributions as expenditures. However, in the Statement of Activities, the cost of pension benefits earned net of employee contributions is reported as pension expense.	
Employer pension contributions	83,092
Pension expense	(65,737)
Governmental funds report employer OPEB contributions as expenditures. However, in the Statement of Activities, the cost of OPEB benefits earned is reported as OPEB expense.	
Employer OPEB contributions	55,212
OPEB expense	(28,416)
Change in net position of governmental activities	<u><u>\$ (51,584)</u></u>

The Notes to Financial Statements are an integral part of this statement.

COURT-COMMUNITY CORRECTIONS PROGRAM
STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2023

	Roanoke Valley Alcohol Safety Action Program
ASSETS	
Cash and cash equivalents	\$ 951,312
Receivables	724
<i>Capital assets:</i>	
Intangible right-to-use, net	19,418
Total assets	<u>971,454</u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows related to pension	46,851
Deferred outflows related to OPEB	53,223
Total deferred outflows of resources	<u>100,074</u>
LIABILITIES	
Accounts payable and accrued liabilities	6,955
Accrued payroll and related liabilities	4,787
Due to City of Salem	16,443
<i>Long-term liabilities due in less than one year:</i>	
Lease liability	5,976
Compensated absences	14,961
<i>Long-term liabilities due in more than one year:</i>	
Lease liability	13,605
Compensated absences	8,897
Net pension liability	520,509
Net OPEB liability	260,067
Total liabilities	<u>852,200</u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows related to pension	41,725
Deferred inflows related to OPEB	24,105
Total deferred inflows of resources	<u>65,830</u>
NET POSITION	
Net investment in capital assets	(163)
Unrestricted	153,661
Total net position	<u>\$ 153,498</u>

The Notes to Financial Statements are an integral part of this statement.

COURT-COMMUNITY CORRECTIONS PROGRAM
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2023

	Roanoke Valley Alcohol Safety Action Program
OPERATING REVENUES	
Charges for services	\$ 451,220
Other	1,605
Total operating revenues	<u>452,825</u>
OPERATING EXPENSES	
Salaries	234,963
Fringe benefits	104,517
Rent	3,463
Utilities	4,063
Equipment	4,120
Supplies	2,592
Telephone	4,849
Postage	58
Printing	1,536
Travel and training	2,303
Vehicle maintenance	36
Dues and subscriptions	125
Meetings	710
Drug testing	2,853
Educational programs	27,514
Insurance	4,725
Fiscal agent fees	8,601
Other costs	1,741
Amortization	35,455
Total operating expenses	<u>444,224</u>
Operating income	<u>8,601</u>
NONOPERATING REVENUES (EXPENSES)	
Interest income	4,277
Interest expense	(768)
Total nonoperating revenues (expenses)	<u>3,509</u>
Change in net position	<u>12,110</u>
Net position, beginning	<u>141,388</u>
Net position, ending	<u><u>\$ 153,498</u></u>

The Notes to Financial Statements are an integral part of this statement.

**COURT-COMMUNITY CORRECTIONS PROGRAM
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
YEAR ENDED JUNE 30, 2023**

	Roanoke Valley Alcohol Safety Action Program
OPERATING ACTIVITIES	
Receipts from offenders	\$ 451,143
Payments to suppliers	(60,128)
Payments to employees	(367,584)
Payments from City of Salem	6,153
Other receipts	1,605
Net cash provided by operating activities	<u>31,189</u>
CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal paid on capital debt	(35,734)
Interest paid on capital debt	(766)
Net cash used in noncapital financing activities	<u>(36,500)</u>
INVESTING ACTIVITIES	
Interest received	4,277
Net cash provided by investing activities	<u>4,277</u>
Cash and cash equivalents, beginning	952,346
Cash and cash equivalents, ending	<u><u>\$ 951,312</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating income	\$ 8,601
<i>Adjustments to reconcile operating income to net cash provided by operating activities</i>	
Amortization	35,455
Pension expense, net of employer contributions	(6,801)
OPEB expense, net of employer contributions	(14,282)
<i>Increase in assets:</i>	
Receivables	(77)
<i>Increase (decrease) in liabilities:</i>	
Accounts payable and accrued liabilities	560
Accrued payroll and related liabilities	(8,180)
Due to City of Salem	14,754
Compensated absences	1,159
Net cash provided by operating activities	<u><u>\$ 31,189</u></u>

The Notes to Financial Statements are an integral part of this statement.

**COURT-COMMUNITY CORRECTIONS PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

1. Summary of Significant Accounting Policies

The Financial Reporting Entity

The Court-Community Corrections Program provides offender-based services to the 23rd and 25th Judicial Circuit and District Courts. The Executive Director of the Court-Community Corrections Program administers the following programs and reports to the identified governing Regional Board.

The **Regional Alcohol Safety Action Program Policy Board** governs the following program:

- The *Roanoke Valley Alcohol Safety Action Program*, which is supported primarily by revenue from driving under the influence offenders for alcohol education and treatment.

The **Community Criminal Justice Board** provides oversight for the following programs:

- The *Community Corrections Program*, which is supported primarily by revenue from the Commonwealth of Virginia to provide community corrections programs to nonviolent offenders pursuant to the guidelines of the Department of Criminal Justice Services.
- The *Pre-Trial Services Program*, which is supported primarily by revenue from the Commonwealth of Virginia to provide pre-trial alternatives for the 23rd Judicial Circuit Court.
- The *Drug Court*, which is supported primarily by revenue from the Commonwealth of Virginia to provide pre-trial alternatives for the 23rd Judicial Circuit Court.

The City of Salem, Virginia (City) serves as fiscal agent for the Regional Boards, and the Director of Finance of the City serves as the Treasurer of the Regional Boards.

Government-wide Financial Statements

The government-wide financial statements report information on all activities of the Regional Boards. *Governmental activities*, which are supported by fees and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The **Statement of Net Position** presents both governmental and business-type activities on the accrual basis of accounting, which incorporates long-term assets and long-term obligations.

The **Statement of Activities** demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments that are clearly identifiable with a specific function. Other items not reported among program revenues are reported instead as *general revenues*.

Fund Financial Statements

These statements are organized on the basis of funds, each of which is considered to be a separate accounting entity. The emphasis is on major governmental and proprietary funds. The operation of each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balances/net position, revenues, and expenditures/expenses, as appropriate.

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the basic financial statements into two broad fund categories as follows:

**COURT-COMMUNITY CORRECTIONS PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

1. Summary of Significant Accounting Policies (Continued)

Fund Financial Statements (Continued)

Governmental Funds account for expendable financial resources, other than proprietary fund types. The following are major governmental funds: Community Corrections Program, Pre-Trial Services Program, and Drug Court.

Proprietary Funds account for operations that are financed and operated in a manner similar to private business enterprises. Enterprise funds account for the financing of services to the public where all or most of the operating expenses involved are recovered in the form of charges to users of such services. The following is a major enterprise fund: Roanoke Valley Alcohol Safety Action Program.

Measurement Focus and Basis of Accounting

Government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues, except for revenues from charges for services, are recorded when earned and expenses are recorded when a liability is incurred. Revenues from charges for services are recorded when collected. Grants and similar items are recognized as revenue as soon as all eligibility and time requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Grant revenues are considered measurable when the legal and contractual requirements have been met and available if collected within one year of the end of the current fiscal period. Revenues from charges for services are considered to be measurable and available only when cash is received. Any other revenues are considered to be available when they are collectible in the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Regional Boards consider other revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, compensated absences, pension and other postemployment benefit expenditures as well as expenditures related to claims and judgments are recorded only when payment is due.

As a result of the different measurement focus and basis of accounting used in preparing the government-wide statements versus the governmental funds' financial statements, a reconciliation between the government-wide and fund financial statements is necessary. The reconciliations are presented following the governmental funds' financial statements.

Proprietary fund financial statements are reported using the *economic financial resources measurement focus* and the *accrual basis of accounting*. These statements distinguish *operating* and *nonoperating* revenues and expenses. Operating revenues and expenses generally result from providing goods and services in connection with a fund's principal ongoing operations. Operating revenues include charges to offenders for services. Operating expenses include the cost of services and administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Leases

The Regional Boards as Lessee: The Regional Boards recognize a lease liability and an intangible right-to-use lease asset (lease asset) in the applicable governmental or business-type activities column in the government-wide financial statements. Proprietary fund lease liabilities and intangible right-to-use lease assets are reported in the applicable fund financial statements. The Regional Boards recognize lease liabilities with an initial, individual value of \$5,000 or more, individually or in aggregate.

COURT-COMMUNITY CORRECTIONS PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

1. Summary of Significant Accounting Policies (Continued)

Leases (Continued)

At the commencement of a lease, the Regional Boards initially measure the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is measured initially as the amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset, but if the lease contains a purchase option the Regional Boards are reasonably certain to exercise, the lease asset is amortized over the useful life of the underlying asset. If the underlying asset is nondepreciable, the lease asset is not amortized.

Key estimates and judgments related to leases include how the Regional Boards determine (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The Regional Boards use the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the Regional Boards generally use the City's estimated incremental borrowing rate as the discount rate for equipment leases and prime for building and infrastructure leases.
- The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and purchase option price that the Regional Boards is reasonably certain to exercise.

The Regional Boards monitor changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease assets are reported with other capital assets and lease liabilities are reported with long-term debt on the statement of net position.

Capital Assets

Capital assets reported in the government-wide financial statements consist of items of office equipment and leased assets with initial individual costs in excess of \$5,000 for equipment and \$10,000 for buildings and improvements with estimated useful lives of five or more years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value on the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset are not capitalized. Office equipment is depreciated using the straight-line method over an estimated useful life of five years. Leased assets are amortized over the useful life of the asset or the remaining term of the lease. The lease term includes all reasonably assured renewals of the lease.

Deferred Outflows/Inflows of Resources

In addition to assets, the statements that present net position report a separate section for deferred outflows of resources. These items represent a consumption of net assets that applies to future periods and will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statements that present net position report a separate section for deferred inflows of resources. These items represent an acquisition of net assets that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time.

**COURT-COMMUNITY CORRECTIONS PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

1. Summary of Significant Accounting Policies (Continued)

Compensated Absences

The Regional Boards have policies that allow for the accumulation and vesting of limited amounts of paid leave and extended illness leave until termination or retirement. Amounts of such absences are accrued when incurred in the government-wide and proprietary fund financial statements. An expenditure and liability for these amounts is reported in governmental funds when the amounts are due for payment.

Pensions

The Virginia Retirement System (VRS) Retirement Plan is a multi-employer, agent plan. 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 plan and the additions to/deductions from the plan's fiduciary net position have been determined on the same basis as they were reported by 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.

Other Postemployment Benefits – Retiree Health Plan

The Regional Boards participate in a defined benefit healthcare plan (Retiree Health Plan) administered and sponsored by the City. In connection with the City's funding of other postemployment benefits (OPEB) obligations, the City participates in the Virginia Pooled OPEB Trust (OPEB Trust Fund). The City's policy is to fully fund actuarially determined OPEB costs, which include both normal costs and amortization of unfunded accrued liability. The OPEB Trust Fund assets and investments are recorded at fair value. The OPEB Trust Fund's Board of Trustees establishes investment objectives and risk tolerance and asset allocation policies based on the investment policy, market and economic conditions and generally prevailing prudent investment practices.

Other Postemployment Benefits – Group Life Insurance

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

Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position may be divided into three components:

- **Net investment in capital assets** - consists of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding, which was used to finance those assets.
- **Restricted** - consists of assets where there are limitations imposed on their use through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- **Unrestricted** - all other net position is reported in this category.

COURT-COMMUNITY CORRECTIONS PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

1. Summary of Significant Accounting Policies (Continued)

Fund Balance

Fund balance is potentially divided into five classifications based primarily on the extent to which the Regional Boards are bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

- **Nonspendable** - Amounts that cannot be spent because they are not in spendable form or are legally or contractually required to be maintained intact. The “not in spendable form” criterion includes prepaid items and items that are not expected to be converted to cash.
- **Restricted** - Amounts constrained to specific purposes by their providers (such as grantors and higher levels of government), through constitutional provisions or by enabling legislation.
- **Committed** - Amounts constrained to specific purposes by the Regional Boards, using its highest level of decision making authority; to be reported as committed, amounts cannot be used for any other purposes unless the same highest level of action is taken to remove or change the constraint.
- **Assigned** - Amounts the Regional Boards intend to use for a specified purpose; intent can be expressed by the governing body or by the Regional Boards, which have been designated this authority.
- **Unassigned** - Amounts that are available for any purpose.

The Regional Boards establish and remove fund balance commitments by passage of a resolution. Assigned fund balance is established by the Regional Boards through adoption or amendment of the budget as intended for specific purposes (such as the purchase of capital assets, construction or for other purposes).

The Regional Boards apply restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned, and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

Estimates

Management uses estimates and assumptions in preparing its financial statements. Those estimates and assumptions affect the reported amounts of assets and deferred outflows of resources, and liabilities and deferred inflows of resources, the disclosure of contingent liabilities, and reported revenues, expenditures, and expenses. Actual results could differ from those estimates.

2. Cash and Cash Equivalents

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

COURT-COMMUNITY CORRECTIONS PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

3. Capital Assets

Capital asset activity for the year is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Community Corrections Program				
Depreciable capital assets:				
Office equipment	\$ 5,182	\$ 3,000	\$ -	\$ 8,182
Accumulated depreciation	(3,109)	(1,036)	-	(4,145)
Depreciable capital assets, net	2,073	1,964	-	4,037
Intangible right-to-use assets:				
Leased building and improvements	102,275	-	-	102,275
Leased office equipment	2,560	8,803	(2,560)	8,803
Accumulated amortization	(48,412)	(52,602)	2,560	(98,454)
Total intangible right-to-use assets, net	56,423	(43,799)	-	12,624
Pre-Trial Services Program				
Depreciable capital assets:				
Office equipment	-	4,967	-	4,967
Accumulated depreciation	-	-	-	-
Depreciable capital assets, net	-	4,967	-	4,967
Intangible right-to-use assets:				
Leased building and improvements	48,537	-	-	48,537
Leased office equipment	2,559	8,802	(2,559)	8,802
Accumulated amortization	(23,782)	(25,732)	2,559	(46,955)
Total intangible right-to-use assets, net	27,314	(16,930)	-	10,384
Drug Court				
Depreciable capital assets:				
Office equipment	1,195	-	-	1,195
Accumulated depreciation	(1,195)	-	-	(1,195)
Depreciable capital assets, net	-	-	-	-
Grand total capital assets, net	\$ 85,810	\$ (58,765)	\$ -	\$ 32,012
Business-type Activities				
Roanoke Valley Alcohol Safety Action Program				
Intangible right-to-use assets:				
Leased building and improvements	\$ 64,634	\$ -	\$ -	\$ 64,634
Leased office equipment	5,645	17,605	(5,645)	17,605
Accumulated amortization	(33,009)	(35,457)	5,645	(62,821)
Total intangible right-to-use assets, net	37,270	(17,852)	-	19,418
Grand total capital assets, net	\$ 37,270	\$ (17,852)	\$ -	\$ 19,418

COURT-COMMUNITY CORRECTIONS PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023

3. Capital Assets (Continued)

Intangible Right-to Use Assets

As of June 30, 2023, the Regional Boards recognized right-to-use assets for the value of copiers and a building leased under long-term contracts as part of capital assets. The intangible right-to-use assets are being amortized over the lease terms for each lease. Terms of this lease are described in Note 5.

4. Due to City of Salem, Virginia

As of June 30, 2023, the Community Criminal Justice Board has a balance due to the City in the amount of \$36,752 and the Regional Alcohol Safety Action Program Policy Board has a balance due to the City in the amount of \$16,443. These balances consist of charges for credit card payments, payroll, employee insurance and OPEB trust fund contributions.

5. Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2023:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
Governmental Activities					
Lease liability	\$ 84,720	\$ 17,605	\$ (79,054)	\$ 23,271	\$ 9,665
Compensated absences	34,346	43,960	(37,208)	41,098	30,760
Net pension liability	386,166	464,841	(245,664)	605,343	-
Net OPEB liability	366,839	168,987	(126,380)	409,446	-
	<u>\$ 872,071</u>	<u>\$ 695,393</u>	<u>\$ (488,306)</u>	<u>\$ 1,079,158</u>	<u>\$ 40,425</u>
Business-type Activities					
Lease liability	\$ 37,710	\$ 17,605	\$ (35,734)	\$ 19,581	\$ 5,976
Compensated absences	22,699	16,121	(14,962)	23,858	14,961
Net pension liability	436,518	184,518	(100,527)	520,509	-
Net OPEB liability	229,414	108,532	(77,879)	260,067	-
	<u>\$ 726,341</u>	<u>\$ 326,776</u>	<u>\$ (229,102)</u>	<u>\$ 824,015</u>	<u>\$ 20,937</u>

Copier Lease

During fiscal year 2023, the Regional Boards leased two copiers from De Lage Landen Financial Services, each for the City's term of 63 months. For purposes of discounting future payments, the Regional Boards used the City's incremental borrowing rate at lease inception. The leased equipment and accumulated amortization of the right-to-use assets are outlined in Note 3. Minimum lease payments over the next five years include:

Fiscal Year	Governmental Activities	
	Principal	Interest
2024	\$ 3,209	\$ 355
2025	3,284	280
2026	3,362	203
2027	3,440	124
2028	3,520	44
	<u>\$ 16,815</u>	<u>\$ 1,006</u>

**COURT-COMMUNITY CORRECTIONS PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

5. Long-Term Liabilities (Continued)

Copier Lease (Continued)

<u>Fiscal Year</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2024	\$ 3,209	\$ 355
2025	3,284	280
2026	3,361	203
2027	3,440	124
2028	3,520	44
	<u>\$ 16,814</u>	<u>\$ 1,006</u>

Building Lease

During fiscal year 2022, the Regional Boards entered into a five-year lease agreement with Peters Creek Square Development Group LLC. The current monthly lease payment is \$9,248. The leased building and accumulated amortization of the right-to-use asset is outlined in Note 3. Remaining lease payments on this building lease include:

<u>Fiscal Year</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2024	6,456	16
	<u>\$ 6,456</u>	<u>\$ 16</u>

<u>Fiscal Year</u>	<u>Business-type Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2024	2,767	7
	<u>\$ 2,767</u>	<u>\$ 7</u>

6. Risk Management

The risk management programs of the Regional Boards are as follows:

Workers' Compensation

Workers' compensation insurance is provided through the Virginia Risk Sharing Association (VRSA) for the Regional Boards through association with the City. Benefits are those afforded through the Commonwealth of Virginia as outlined in *Code of Virginia* §65.2-100. Premiums are based on covered payroll, job rates, and claims experience. Total premiums for the current year were \$16,436.

General Liability and Other

The Regional Boards provide property and general liability insurance through VRSA. General liability and automotive liability have a \$1,000,000 limit per occurrence. Property is covered per statement of values. Coverage for public officials' liability insurance is through VaRISK 2 and volunteer accident medical insurance is provided by Special Markets Insurance Consultants. Total premiums for the current year were \$10,705.

**COURT-COMMUNITY CORRECTIONS PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

6. Risk Management (Continued)

Healthcare

The Regional Boards' employees receive health coverage through their association with the City. The City's professionally administered self-insurance program provides health coverage for employees on a cost-reimbursement basis. All active and retired employees pay a premium equivalent for participation. The City is obligated for claims payments under the program. A stop loss insurance contract executed with an insurance carrier covers claims in excess of \$250,000 per covered individual.

Dental

The Regional Boards' employees receive dental coverage through their association with the City. The City's professionally administered self-insurance program provides dental coverage for employees on a cost-reimbursement basis. All active and retired employees pay a premium equivalent for participation. The City is obligated for claims payments under the program.

7. Pension Plan

Plan Description

All full-time, salaried permanent employees of the Regional Boards are automatically covered by the VRS Retirement Plan upon employment. This plan is administered by the Virginia Retirement System (VRS or 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 are paying contributions to VRS. Members are eligible to purchase prior service, based on specific criteria as defined in the *Code of Virginia*, as amended. Eligible prior service that may be purchased includes prior public service, active military service, certain periods of leave, and previously refunded service.

The Regional Boards participate in VRS through the City. The Regional Boards account for and report their participation in the City's VRS plan by applying the requirements for a cost-sharing multiple employer plan.

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

- <https://www.varetire.org/members/benefits/defined-benefit/plan1.asp>
- <https://www.varetire.org/members/benefits/defined-benefit/plan2.asp>
- <https://www.varetirement.org/hybrid.html>

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.

**COURT-COMMUNITY CORRECTIONS PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

7. Pension Plan (Continued)

Contributions (Continued)

The City's, and thus the Regional Boards', contractually required contribution rate for the year ended June 30, 2023 was 20.33% 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 political subdivision were \$119,238 and \$101,943 for the years ended June 30, 2023 and June 30, 2022, respectively. Contributions for the year ended June 30, 2022 were adjusted to reflect actual amounts as shown on the VRS actuarial report rather than estimated amounts used in the prior year's annual financial report.

Net Pension Liability

The net pension liability 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 political subdivisions, 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.

At June 30, 2023, the Regional Boards reported a liability of \$1,125,852 for their proportionate share of the net pension liability of the City plan. The Regional Boards' proportion of the net pension liability was based on the Regional Boards' salary expense for the year ended June 30, 2023 relative to the total salary expense of the City Plan's participants. The Regional Boards' proportion of the net pension liability was 2.21% and 2.30% at measurement dates June 30, 2022 and June 30, 2021, respectively.

Actuarial Assumptions, Long-Term Expected Rate of Return, Discount Rate, and Changes in Net Pension Liability

Certain matters, such as actuarial assumptions, long-term expected rate of return on pension plan investments, discount rate applied to the actuarially determined liabilities, and changes in net pension liability are integral to understand the basis for the Regional Boards' net pension liability. The specific information related to these matters can be found in the City's Annual Comprehensive Financial Report.

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

The following presents the net pension liability of the Regional Boards using the discount rate of 6.75%, as well as what the net pension 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:

	<u>1% Decrease (5.75%)</u>	<u>Current Discount (6.75%)</u>	<u>1% Increase (7.75%)</u>
Regional Boards' proportionate share of City's net pension liability	\$ 1,930,503	\$ 1,125,852	\$ 462,801

**COURT-COMMUNITY CORRECTIONS PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

7. Pension Plan (Continued)

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

For the year ended June 30, 2023, the Regional Boards recognized pension expense of \$94,954 under the VRS retirement plan. At June 30, 2023, the Regional Boards 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	\$ 11,519	\$ 5,857
Changes in assumptions	23,562	-
Net difference between projected and actual earnings on pension plan investments	-	129,749
Employer contributions subsequent to the measurement date	119,238	-
Total	<u>\$ 154,319</u>	<u>\$ 135,606</u>

Deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended 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:

<u>Year Ended June 30,</u>	
2024	\$ (22,707)
2025	(49,486)
2026	(86,749)
2027	58,417
	<u>\$ (100,525)</u>

Pension Plan Data

Additional information about the VRS plan may be found in the City's Annual Comprehensive Financial Report, which may be obtained from the Director of Finance, City of Salem, 114 North Broad Street, Salem, Virginia 24153.

8. Other Postemployment Benefits – Retiree Health Plan

Plan Description

The Regional Boards participate in a defined benefit healthcare plan (Retiree Health Plan) administered and sponsored by the City. Full-time employees retiring directly from the Regional Boards must have at least 15 years of service, unless approved for VRS disability, to participate in the Retiree Health Plan. In addition, they must be eligible for retirement under VRS.

**COURT-COMMUNITY CORRECTIONS PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

8. Other Postemployment Benefits – Retiree Health Plan (Continued)

Plan Description (Continued)

The Regional Boards participate in the Retiree Health Plan through the City. The Regional Boards account for and report their participation in the City's Retiree Health Plan by applying the requirements for a cost-sharing multiple employer plan. As of June 30, 2023, 15 active and 13 retired employees of the Regional Boards were covered by the benefits terms of the Retiree Health Plan.

Additional plan description information can be found in the City's Annual Comprehensive Financial Report, which may be obtained from the City's Director of Finance at 114 North Broad Street, Salem, Virginia 24153.

Contributions

The Retiree Health Plan is funded through member and employer contributions on a pay-as-you-go basis. Retirees of the Regional Boards receiving benefits contribute a minimum of 3% to 13%, 15% to 24%, 35% to 43%, 42% to 51%, and 39% to 47% of the health insurance premium rate for retiree only, retiree + one minor child, retiree & spouse, retiree + children, and family coverage, respectively. The actual contribution within each range depends on the health plan selected by the retiree. During the current year, retired members of the Regional Boards contributed \$44,207 of the total premiums through their required monthly contributions of between \$27 and \$434, depending on the type of coverage and years of service.

The Regional Boards contributed \$65,783 in pay-as-you-go contributions to the Retiree Health Plan for the year ended June 30, 2023. In addition, the Regional Boards contributed \$17,906 to the City OPEB Trust Fund. It is the intent of the City, and thus the Regional Boards, to fully fund the Actuarially Determined Contributions each year.

Net OPEB Liability

Under the Retiree Health Plan, the City's, and thus the Regional Boards', net OPEB liability was measured as of June 30, 2023. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation performed as of June 30, 2023. At June 30, 2023, the Regional Boards reported a liability of \$621,119 for their proportionate share of the net OPEB liability of the Retiree Health Plan. The Regional Boards' proportion of the net OPEB liability was based on the Regional Boards' number of plan participants at June 30, 2023 relative to the total number of participants in the Retiree Health Plan. The Regional Boards' proportion of the net OPEB liability was 3.69% and 3.77% at June 30, 2023 and June 30, 2022, respectively.

Actuarial Assumptions, Plan Investments, Rate of Return, Discount Rate, and Changes in Net OPEB Liability

Certain matters, such as actuarial assumptions, plan investments, annual money-weighted rate of return on plan investments, discount rate applied to the actuarially determined liabilities, and changes in net OPEB liability are integral to understand the basis for the Regional Boards' net OPEB liability. The specific information related to these matters can be found in the City's Annual Comprehensive Financial Report.

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

The following presents the net OPEB liability of the Regional Boards using the discount rate of 6.50%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (5.50%) or one percentage point higher (7.50%) than the current rate:

	1% Decrease (5.50%)	Current Discount (6.50%)	1% Increase (7.50%)
Regional Boards' proportionate share of City's net OPEB liability	\$ 721,192	\$ 621,119	\$ 534,850

**COURT-COMMUNITY CORRECTIONS PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

8. Other Postemployment Benefits – Retiree Health Plan (Continued)

Sensitivity of the Net OPEB Liability to Changes in Healthcare Cost Trend Rates

The following presents the net OPEB liability of the Regional Boards calculated using the current healthcare cost trend rate, as can be found in the City's Annual Comprehensive Financial Report, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current rate:

	<u>1% Decrease</u>	<u>Current Trend Rate</u>	<u>1% Increase</u>
Regional Boards' proportionate share of City's net OPEB liability	\$ 561,415	\$ 621,119	\$ 690,456

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2023, the Regional Boards recognized OPEB expense of \$46,219. At June 30, 2023, the Regional Boards reported deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 70,102	\$ 27,142
Changes in assumptions	51,599	28,192
Net difference between projected and actual earnings on plan investments	7,859	-
Total	<u>\$ 129,560</u>	<u>\$ 55,334</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended June 30,</u>	
2024	\$ (2,516)
2025	(4,388)
2026	31,471
2027	22,126
2028	17,436
Thereafter	10,097
	<u>\$ 74,226</u>

Retiree Health Plan Data

Additional information about the Retiree Health Plan may be found in the City's Annual Comprehensive Financial Report, which may be obtained from the Director of Finance, City of Salem, 114 North Broad Street, Salem, Virginia 24153.

**COURT-COMMUNITY CORRECTIONS PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

9. Other Postemployment Benefits – Group Life Insurance

Plan Description

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

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

The Regional Boards participate in the VRS Group Life Insurance Program through the City. The Regional Boards account for and report their participation in the City's VRS Group Life Insurance Program plan by applying the requirements for a cost-sharing multiple employer plan.

Specific information for the Group Life Insurance Program plan, including eligibility, coverage and benefits, as well as additional plan description information, can be found in the City's Annual Comprehensive Financial Report, which may be obtained from the City's Director of Finance at 114 North Broad Street, Salem, Virginia 24153.

Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program 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 from the Regional Boards were \$3,334 and \$3,162 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.

Net OPEB Liability

Under the Group Life Insurance Program, the Regional Boards reported a liability of \$48,394 for their proportionate share of the Group Life Insurance Program net OPEB liability. The net OPEB liability was measured as of June 30, 2022 and the total OPEB liability used to calculate the net 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 OPEB liability was based on the covered employer's actuarially determined employer contributions to the plan for the year ended June 30, 2022 relative to the total of the actuarially determined employer contributions for all participating employers.

**COURT-COMMUNITY CORRECTIONS PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

9. Other Postemployment Benefits – Group Life Insurance (Continued)

Net OPEB Liability (Continued)

At June 30, 2022, the City's proportion was 0.11778% compared to 0.11657% at June 30, 2021. The Regional Boards' proportion of the net OPEB liability was based on the Regional Boards' salary expense for the year ended June 30, 2023 relative to the total salary expense of the City Plan's participants. The Regional Boards' proportion of the net OPEB liability was 2.21% and 2.30% at measurement dates June 30, 2022 and June 30, 2021, respectively.

Actuarial Assumptions, Long-Term Expected Rate of Return, Discount Rate, and Changes in Net OPEB Liability

Certain matters, such as actuarial assumptions, long term expected rate of return on plan investments, discount rate applied to the actuarially determined liabilities, and changes in net OPEB liability are integral to understand the basis for the Regional Boards' net OPEB liability. The specific information related to these matters can be found in the City's Annual Comprehensive Financial Report.

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

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

	1% Decrease (5.75%)	Current Discount (6.75%)	1% Increase (7.75%)
Regional Boards' proportionate share of City's net OPEB liability	\$ 67,664	\$ 48,394	\$ 29,070

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2023, the Regional Boards recognized Group Life Insurance OPEB expense of \$518. Since there was a change in proportionate share between measurement dates for the Group Life Insurance Program, a portion of the OPEB expense was related to deferred amounts from changes in proportion. At June 30, 2023, the Regional Boards reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,482	\$ 1,257
Changes in assumptions	1,169	3,053
Net difference between projected and actual earnings on plan investments	-	1,959
Changes in proportion	585	1,406
Employer contributions subsequent to the measurement date	3,334	-
Total	<u>\$ 7,570</u>	<u>\$ 7,675</u>

**COURT-COMMUNITY CORRECTIONS PROGRAM
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2023**

9. Other Postemployment Benefits – Group Life Insurance (Continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)

Deferred outflows of resources resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2024. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in pension expense as follows:

Year Ended June 30,	
2024	\$ (948)
2025	(693)
2026	(1,736)
2027	110
2028	(172)
	<u>\$ (3,439)</u>

Group Life Insurance Plan Data

Additional detailed information concerning the VRS Group Life Insurance plan may be found in the City's Annual Comprehensive Financial Report, which may be obtained from the City of Salem, Director of Finance, 114 North Broad Street, Salem, Virginia 24153.

10. Related Party Transactions

The Regional Boards pay fiscal agent fees to the City for accounting, technology and other related services under a contract that has been renewed through June 30, 2023. Total fees paid are as follows:

Governmental Funds	
Community Corrections Program	\$ 4,201
Pre-Trial Services Program	4,239
Drug Court	130
	<u>\$ 8,570</u>
Proprietary Fund	
Roanoke Valley Alcohol Safety Action Program	\$ 8,601
	<u>\$ 8,601</u>

11. Restricted Net Positions and Fund Balances

The fund balances of the Community Corrections Program, the Pre-Trial Services Program, and the Drug Court represent the cumulative excess of revenues over expenditures. The granting agency may request the return of any unused support. As a result, the Programs' net position and fund balances, net of nonspendable amounts, if applicable, have been restricted.

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COMPLIANCE SECTION

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

To the Honorable Members of the Regional ASAP Policy Board
and Regional Community Criminal Justice Board
Court-Community Corrections Program
Salem, Virginia

We have audited, 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, the financial statements of the governmental activities, the business-type activities, and each major fund of the Court-Community Corrections Program (the "Program"), as of and for the year ended June 30, 2023, and the related notes to the financial statements, which collectively comprise the Program's basic financial statements, and have issued our report thereon dated December 4, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Program'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Program's internal control. Accordingly, we do not express an opinion on the effectiveness of the Program's internal control.

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

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Program's financial statements are free of 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 that are required to be reported under *Government Auditing Standards*.**

Purpose of this Report

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

Brown, Edwards & Company, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
December 4, 2023

**COURT-COMMUNITY CORRECTIONS PROGRAM
SUMMARY OF COMPLIANCE MATTERS
June 30, 2023**

As more fully described in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*, we performed tests of the Program's compliance with certain provisions of the laws, regulations, contracts, and grants shown below.

STATE COMPLIANCE MATTERS

Code of Virginia:

Cash and Investment Laws

Local Retirement Systems

Procurement Laws

Uniform Disposition of Unclaimed Property Act