

CARDINAL CRIMINAL JUSTICE ACADEMY

**ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2020**



**CITY OF SALEM
DEPARTMENT OF FINANCE**

**CARDINAL CRIMINAL JUSTICE ACADEMY
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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the Governing Council
Cardinal Criminal Justice Academy
Salem, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Cardinal Criminal Justice Academy (the "Academy") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Report on the Financial Statements (Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and the major fund of the Cardinal Criminal Justice Academy, as of June 30, 2020, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

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 this matter.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2020 on our consideration of the Academy'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 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 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 Academy's internal control over financial reporting and compliance.

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

CERTIFIED PUBLIC ACCOUNTANTS

Roanoke, Virginia
September 9, 2020

BASIC FINANCIAL STATEMENTS

**CARDINAL CRIMINAL JUSTICE ACADEMY
STATEMENT OF NET POSITION
JUNE 30, 2020**

ASSETS

| | |
|---------------------------|----------------|
| Cash and cash equivalents | \$ 586,623 |
| Accounts receivable | 71 |
| <i>Capital assets:</i> | |
| Depreciable, net | 235,536 |
| Total assets | <u>822,230</u> |

DEFERRED OUTFLOWS OF RESOURCES

| | |
|--------------------------------------|----------------|
| Deferred outflows related to pension | 119,710 |
| Deferred outflows related to OPEB | 8,298 |
| Total deferred outflows of resources | <u>128,008</u> |

LIABILITIES

| | |
|---|------------------|
| Accounts payable and accrued liabilities | 13,175 |
| Accrued payroll and related liabilities | 19,129 |
| Due to City of Salem | 6,785 |
| Unearned revenues | 106,352 |
| <i>Long-term liabilities due in less than one year:</i> | |
| Capital lease obligation | 14,500 |
| Compensated absences | 34,817 |
| <i>Long-term liabilities due in more than one year:</i> | |
| Capital lease obligation | 43,500 |
| Compensated absences | 35,507 |
| Net pension liability | 613,804 |
| Net OPEB liability | 190,261 |
| Total liabilities | <u>1,077,830</u> |

DEFERRED INFLOWS OF RESOURCES

| | |
|-------------------------------------|---------------|
| Deferred inflows related to pension | 20,337 |
| Deferred inflows related to OPEB | 33,262 |
| Total deferred inflows of resources | <u>53,599</u> |

NET POSITION (DEFICIT)

| | |
|----------------------------------|---------------------|
| Net investment in capital assets | 177,536 |
| Unrestricted (deficit) | (358,727) |
| Total net position (deficit) | <u>\$ (181,191)</u> |

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

**CARDINAL CRIMINAL JUSTICE ACADEMY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020**

| Functions/Programs | Expenses | Program Revenues | | Net (Expense) Revenue and Changes in Net Position |
|---|-------------------|-------------------------|--|--|
| | | Charges for Services | Operating Grants and Contributions | Governmental Activities |
| Governmental activities: | | | | |
| Cardinal academy | \$ 693,496 | \$ 516,765 | \$ 190,187 | \$ 13,456 |
| Total governmental activities | <u>\$ 693,496</u> | <u>\$ 516,765</u> | <u>\$ 190,187</u> | <u>13,456</u> |
| General revenues: | | | | |
| Revenue from the use of money or property | | | | 3,980 |
| Other | | | | <u>948</u> |
| Total general revenues | | | | <u>4,928</u> |
| Change in net position | | | | 18,384 |
| Net position (deficit), beginning | | | | (199,575) |
| Net position (deficit), ending | | | | <u>\$ (181,191)</u> |

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

**CARDINAL CRIMINAL JUSTICE ACADEMY
BALANCE SHEET
GOVERNMENTAL FUND
JUNE 30, 2020**

ASSETS

| | |
|---------------------------|-------------------|
| Cash and cash equivalents | \$ 586,623 |
| Accounts receivable | 71 |
| Total assets | <u>\$ 586,694</u> |

LIABILITIES

| | |
|--|----------------|
| Accounts payable and accrued liabilities | \$ 13,175 |
| Accrued payroll and related liabilities | 19,129 |
| Due to City of Salem | 6,785 |
| Unearned revenues | 106,352 |
| Total liabilities | <u>145,441</u> |

FUND BALANCE

| | |
|--|-----------------------|
| Assigned for program activities | <u>441,253</u> |
| Total fund balance | <u>441,253</u> |
| Total liabilities and fund balance | <u>\$ 586,694</u> |

RECONCILIATION TO THE STATEMENT OF NET POSITION

| | |
|--|---------------------|
| Total fund balance of governmental fund | 441,253 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental fund. | 235,536 |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund: | |
| Compensated absences | (70,324) |
| Capital lease obligation | (58,000) |
| Financial statement elements related to pensions are applicable to future periods and, therefore, are not reported in the governmental fund: | |
| Deferred outflows of resources related to pension | 119,710 |
| Deferred inflows of resources related to pension | (20,337) |
| Net pension liability | (613,804) |
| Financial statement elements related to OPEB are applicable to future periods and, therefore, are not reported in the governmental fund: | |
| Deferred outflows of resources related to OPEB | 8,298 |
| Deferred inflows of resources related to OPEB | (33,262) |
| Net OPEB liability | (190,261) |
| Net position (deficit) | <u>\$ (181,191)</u> |

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

CARDINAL CRIMINAL JUSTICE ACADEMY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
YEAR ENDED JUNE 30, 2020

REVENUES

| | |
|--|----------------|
| Member agency fees | \$ 503,700 |
| Special academy programs | 13,065 |
| Intergovernmental | 190,187 |
| Revenue from use of money and property | 3,980 |
| Other | 948 |
| Total revenues | <u>711,880</u> |

EXPENDITURES

| | |
|--------------------------------------|----------------|
| Salaries | 391,117 |
| Fringe benefits | 141,793 |
| Rent and utilities | 30,269 |
| Maintenance | 10,323 |
| Insurance | 5,755 |
| Custodial supplies | 1,785 |
| Office supplies | 944 |
| Telephone | 4,387 |
| Postage | 50 |
| Printing | 3,390 |
| Dues and memberships | 400 |
| Travel and training | 13,666 |
| Instructional supplies | 10,800 |
| Educational supplies | 23,071 |
| Uniforms | 4,564 |
| Commencement costs | 1,147 |
| Special academy programs | 2,225 |
| Fiscal agent fees | 9,000 |
| Technology charges | 3,124 |
| Other costs | 2,212 |
| Capital outlay | 22,025 |
| Total expenditures | <u>682,047</u> |
| Excess of revenues over expenditures | 29,833 |

| | |
|-------------------------|--------------------------|
| Fund balance, beginning | 411,420 |
| Fund balance, ending | <u><u>\$ 441,253</u></u> |

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

**CARDINAL CRIMINAL JUSTICE ACADEMY
RECONCILIATION OF THE GOVERNMENTAL FUND'S STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2020**

| | |
|--|------------------|
| Net change in fund balance - Governmental Fund | \$ 29,833 |
| 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 | 22,025 |
| Depreciation expense | (10,357) |
| Expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund. | |
| Compensated absences | (6,401) |
| Capital lease obligation | 14,500 |
| 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 | 60,673 |
| Pension expense | (104,719) |
| 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 | 19,057 |
| OPEB expense | (6,227) |
| Change in net position - Statement of Activities | <u>\$ 18,384</u> |

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

**CARDINAL CRIMINAL JUSTICE ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

1. Summary of Significant Accounting Policies

The Financial Reporting Entity

The Cardinal Criminal Justice Academy (Academy) was established in 1988 to provide criminal justice training programs for participating jurisdictions through the development and operation of programs mandated by the Commonwealth of Virginia and as authorized by the Governing Council of the Academy.

The City of Salem, Virginia (City) serves as fiscal agent for the Academy, with the Director of Finance of the City serving as the Treasurer of the Academy's Governing Council.

Government-Wide Financial Statements

The government-wide financial statements report information on all activities of the Academy. *Governmental activities* are supported by intergovernmental revenues.

The **Statement of Net Position** presents governmental activities on the accrual basis of accounting, which incorporates long-term assets and receivables, as well as 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 funds. The Academy reports only one major governmental fund in the fund financial statements. The operation of the fund is accounted for by providing a single set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues, and expenditures.

Measurement Focus and Basis of Accounting

Government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, wherein revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility 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. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Academy considers 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. General capital asset acquisitions are reported as expenditures and acquisitions under capital leases are reported as other financing sources.

As a result of the different measurement focus and basis of accounting used in preparing the government-wide statements versus the governmental fund financial statements, a reconciliation between the government-wide and fund financial statements is necessary. The reconciliations are presented on pages 7 and 9.

CARDINAL CRIMINAL JUSTICE ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020

1. Summary of Significant Accounting Policies (Continued)

Capital Assets

Capital assets, which include leasehold improvements and automotive, office, and training equipment, are reported in the government-wide financial statements. Capital assets are defined as assets with an initial individual cost of \$5,000 or more for equipment and \$10,000 or more for buildings and improvements and an estimated useful life of at least five 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. Major outlays for capital assets and improvements are capitalized as projects are completed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

| | |
|-------------------------------|------------|
| Automotive equipment | 8 years |
| Office and training equipment | 5-10 years |

Leasehold improvements are depreciated over the shorter of the useful life of the asset, which is fifty years, or the remaining term of the lease. The lease term includes all reasonably assured renewals of the lease.

Deferred Outflows/Inflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until then. The government-wide Statement of Net Position defers amounts related to pension and OPEB in this category. Deferred outflows for pension result from differences between expected and actual experience of the pension plan, changes in actuarial assumptions, and pension contributions made subsequent to the measurement date. Deferred outflows for OPEB result from differences between expected and actual experience of the OPEB plan, the net difference between projected and actual earnings on OPEB plan investments, changes in actuarial assumptions, changes in proportion, and OPEB contributions made subsequent to the measurement date. Experience differences and changes in assumptions and proportion are deferred and amortized over the remaining service life of all participants. Earnings differences are deferred and amortized over a closed five-year period. Contributions made subsequent to the measurement date are applied to the net pension liability or net OPEB liability in the next fiscal year.

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. The government-wide Statement of Net Position defers amounts related to pension and OPEB in this category. Deferred inflows for pension result from the net difference between projected and actual earnings on pension plan investments. Deferred inflows for OPEB result from differences between expected and actual experience of the OPEB plan, the net difference between projected and actual earnings on OPEB plan investments, changes in actuarial assumptions, and changes in proportion. Experience differences and changes in assumptions and proportion are deferred and amortized over the remaining service life of all participants. Earnings differences are deferred and amortized over a closed five-year period.

Unearned Revenues

Unearned revenues arise when assets are received before revenue recognition criteria is satisfied and consist of prepaid tuition.

Compensated Absences

The Academy has policies which 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 financial statements. A liability for these amounts is reported in governmental funds when the amounts are due for payment.

**CARDINAL CRIMINAL JUSTICE ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

1. Summary of Significant Accounting Policies (Continued)

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 Academy participates 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 Board or through external restrictions imposed by creditors, grantors, laws or regulations of other governments.
- **Unrestricted** – all other net position is reported in this category.

Fund Balance

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

- **Nonspendable** - Amounts that cannot be spent because they are not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes 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.

**CARDINAL CRIMINAL JUSTICE ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

1. Summary of Significant Accounting Policies (Continued)

Fund Balance (Continued)

- **Committed** - Amounts constrained to specific purposes by the Executive Board of the Academy, 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 Academy intends to use for a specified purpose; intent can be expressed by the governing body or by the Executive Board of the Academy which has been designated this authority.
- **Unassigned** - Amounts that are available for any purpose.

The Executive Board of the Academy establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. This is typically done through adoption and amendment of the budget. Assigned fund balance is established by the Academy as amounts intended for a specific purpose (such as the purchase of capital assets, construction, or for other purposes).

The Academy applies 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, liabilities, deferred flows 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.

3. Capital Assets

Capital asset activity for the year is as follows:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|----------------------------|----------------------|------------------|-------------|-------------------|
| Buildings and improvements | \$ 212,812 | \$ - | \$ - | \$ 212,812 |
| Automotive equipment | 57,524 | - | - | 57,524 |
| Office equipment | 20,799 | - | - | 20,799 |
| Training equipment | 44,950 | 22,025 | - | 66,975 |
| Total capital assets | 336,085 | 22,025 | - | 358,110 |
| Accumulated depreciation | (112,217) | (10,357) | - | (122,574) |
| Capital assets, net | <u>\$ 223,868</u> | <u>\$ 11,668</u> | <u>\$ -</u> | <u>\$ 235,536</u> |

**CARDINAL CRIMINAL JUSTICE ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

4. Due to City of Salem

As of June 30, 2020, the Academy has a balance due to the City in the amount of \$6,785 consisting of charges for OPEB trust fund contributions, fleet services, utilities, technology charges, pest control, and credit card payments.

5. Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2020:

| | Beginning Balance | Increases | Decreases | Ending Balance | Due Within One Year |
|--------------------------|----------------------|-------------------|---------------------|-------------------|------------------------|
| Capital lease obligation | \$ 72,500 | \$ - | \$ (14,500) | \$ 58,000 | \$ 14,500 |
| Compensated absences | 63,923 | 41,218 | (34,817) | 70,324 | 34,817 |
| Net pension liability | 509,118 | 186,323 | (81,637) | 613,804 | - |
| Net OPEB liability | 192,323 | 51,853 | (53,915) | 190,261 | - |
| | <u>\$ 837,864</u> | <u>\$ 279,394</u> | <u>\$ (184,869)</u> | <u>\$ 932,389</u> | <u>\$ 49,317</u> |

6. Capital Lease

During fiscal year 2014, the Academy entered into a five-year lease agreement with the City of Salem for the acquisition of property at 912 Central Avenue. Upon completion of the five-year term, the lease shall continue on a month-to-month basis. Upon completion of a ten-year lease term, the Academy will purchase the property for the sum of \$1. Capital lease accounting is required due to a bargain purchase option. Amortization of the leased property is included as part of depreciation expense over 50 years. At June 30, 2020, the asset and accumulated depreciation recorded in connection with the capital lease is as follows:

| | |
|----------------------------|-----------|
| Buildings and improvements | \$145,000 |
| Accumulated depreciation | 17,883 |

The future minimum lease payments under the capital lease as of June 30, 2020, are as follows:

| | |
|----------------------------------|------------------|
| For the Year Ended June 30, 2021 | 14,500 |
| For the Year Ended June 30, 2022 | 14,500 |
| For the Year Ended June 30, 2023 | 14,500 |
| For the Year Ended June 30, 2024 | 14,500 |
| | <u>\$ 58,000</u> |

7. Risk Management

The risk management programs of the Academy are as follows:

Workers' Compensation

Workers' compensation insurance is provided through the Virginia Risk Sharing Association (VRSA) for the Academy through association with the City. Benefits are those afforded through the Commonwealth of Virginia as outlined in §65.2-100 et. seq. of the *Code of Virginia*; premiums are based upon covered payroll, job rates, and claims experience.

General Liability and Other

The Academy provides general liability and other insurance through policies with VRSA. General liability and business automobile have a \$1,000,000 limit. Property insurance is covered per statement of values.

**CARDINAL CRIMINAL JUSTICE ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

7. Risk Management (Continued)

Healthcare

The Academy's 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 employees pay a premium equivalent for participation. The premium equivalent represents a minimum of 5% active or retired employee 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 \$200,000 per covered individual and approximately \$9,795,000 in the aggregate.

8. Pension Plan

Plan Description

All full-time, salaried permanent employees of the Academy 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 Academy participates in VRS through the City. The Academy accounts for and reports its 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 different eligibility criteria. The specific information for each plan and the eligibility for covered groups within each plan, as well as additional plan description information, can be found in the City's Comprehensive Annual Financial Report, which may be obtained from the City's Director of Finance at 114 North Broad Street, Salem, Virginia 24153.

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 City's, and thus the Academy's, contractually required contribution rate for the year ended June 30, 2020 was 16.26% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Academy were \$60,673 and \$57,169 for the years ended June 30, 2020 and June 30, 2019, respectively. Contributions for the year ended June 30, 2019 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.

**CARDINAL CRIMINAL JUSTICE ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

8. Pension Plan (Continued)

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, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2018 rolled forward to the measurement date of June 30, 2019.

At June 30, 2019, the Academy reported a liability of \$613,804 for its proportionate share of the net pension liability of the City plan. The Academy's proportion of the net pension liability was based on the Academy's salary expense for the year ended June 30, 2020 relative to the total salary expense of the City Plan's participants. The Academy's proportion of the net pension liability was 1.48% and 1.44% at June 30, 2019 and June 30, 2018, 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 Academy's net pension liability. The specific information related to these matters can be found in the City's Comprehensive Annual Financial Report.

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

The following presents the net pension liability of the Academy 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:

| | 1% Decrease (5.75%) | Current Discount (6.75%) | 1% Increase (7.75%) |
|--|------------------------------------|---|------------------------------------|
| Academy's proportionate share of City's net pension liability | \$ 977,833 | \$ 613,804 | \$ 322,566 |

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

For the year ended June 30, 2020, the Academy recognized pension expense of \$104,719 under the VRS retirement plan. At June 30, 2020, the Academy 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 | \$ 9,342 | \$ - |
| Changes in assumptions | 49,695 | - |
| Net difference between projected and actual earnings on pension plan investments | - | 20,337 |
| Employer contributions subsequent to the measurement date | 60,673 | - |
| Total | <u>\$ 119,710</u> | <u>\$ 20,337</u> |

**CARDINAL CRIMINAL JUSTICE ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

8. Pension Plan (Continued)

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

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, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year ended June 30, | | |
|--------------------------------|----|---------------|
| 2021 | \$ | 41,307 |
| 2022 | | (4,068) |
| 2023 | | (277) |
| 2024 | | 1,738 |
| | \$ | <u>38,700</u> |

Pension Plan Data

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

9. Other Postemployment Benefits – Retiree Health Plan

Plan Description

The Academy participates in a defined benefit healthcare plan (Retiree Health Plan) administered and sponsored by the City. Full-time employees retiring directly from the Academy 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.

The Academy participates in the Retiree Health Plan through the City. The Academy accounts for and reports its participation in the City's Retiree Health Plan by applying the requirements for a cost-sharing multiple employer plan. As of June 30, 2020, six active Academy employees and one retired Academy employee were covered by the benefits terms of the Retiree Health Plan.

Additional plan description information can be found in the City's Comprehensive Annual 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 Academy receiving benefits contribute a minimum of 4% to 27%, 18% to 36%, 43% to 60%, 43% to 60%, and 43% to 60% 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 Academy members contributed \$988 of the total premiums through their required monthly contributions of between \$63.81 and \$98.01, depending on the type of coverage and years of service.

The Academy contributed \$13,610 in pay-as-you-go contributions to the Retiree Health Plan for the year ended June 30, 2020. In addition, the Academy contributed \$3,500 to the City OPEB Trust Fund. It is the intent of the City, and thus the Academy, to fully fund the Actuarially Determined Contributions each year.

**CARDINAL CRIMINAL JUSTICE ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

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

Net OPEB Liability

Under the Retiree Health Plan, the City's, and thus the Academy's, net OPEB liability was measured as of June 30, 2020. The total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation performed as of June 30, 2019. At June 30, 2020, the Academy reported a liability of \$160,568 for its proportionate share of the net OPEB liability of the Retiree Health Plan. The Academy's proportion of the net OPEB liability was based on the Academy's number of plan participants at June 30, 2020 relative to the total number of participants in the Retiree Health Plan. The Academy's proportion of the net OPEB liability was 0.87% and 0.87% at June 30, 2020 and June 30, 2019, 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 Academy's net OPEB liability. The specific information related to these matters can be found in the City's Comprehensive Annual Financial Report.

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

The following presents the net OPEB liability of the Academy 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:

| | <u>1% Decrease (5.50%)</u> | <u>Current Discount (6.50%)</u> | <u>1% Increase (7.50%)</u> |
|---|---|--|---------------------------------------|
| Academy's proportionate share of City's net OPEB liability | \$ 184,176 | \$ 160,568 | \$ 140,015 |

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

The following presents the net OPEB liability of the Academy calculated using the current healthcare cost trend rate, as can be found in the City's Comprehensive Annual 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> |
|---|---------------------------|--------------------------------------|---------------------------|
| Academy's proportionate share of City's net OPEB liability | \$ 146,880 | \$ 160,568 | \$ 176,284 |

**CARDINAL CRIMINAL JUSTICE ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

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

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

For the year ended June 30, 2020, the Academy recognized OPEB expense of \$5,760. At June 30, 2020, the Academy 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 | \$ - | \$ 14,097 |
| Changes in assumptions | - | 16,142 |
| Net difference between projected and actual earnings on plan investments | 2,149 | - |
| Total | <u>\$ 2,149</u> | <u>\$ 30,239</u> |

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

| <u>Year Ended June 30,</u> | |
|---------------------------------------|---------------------------|
| 2021 | \$ (5,442) |
| 2022 | (5,442) |
| 2023 | (5,196) |
| 2024 | (5,488) |
| 2025 | (5,929) |
| Thereafter | (593) |
| | <u>\$ (28,090)</u> |

Retiree Health Plan Data

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

10. Other Postemployment Benefits – Group Life Insurance

Plan Description

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

**CARDINAL CRIMINAL JUSTICE ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

10. Other Postemployment Benefits – Group Life Insurance

Plan Description (Continued)

The Academy participates in the VRS Group Life Insurance Program through the City. The Academy accounts for and reports its 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 Comprehensive Annual 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 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% ($1.31\% \times 60\%$) and the employer component was 0.52% ($1.31\% \times 40\%$). Employers may elect to pay all or part of the employee contribution, however the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2020 was 0.52% of covered employee compensation. The rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the Academy were \$1,947 and \$1,833 for the years ended June 30, 2020 and June 30, 2019, respectively.

Net OPEB Liability

Under the Group Life Insurance Program, the Academy reported a liability of \$29,693 for its proportionate share of the Group Life Insurance Program net OPEB liability. The net OPEB liability was measured as of June 30, 2019 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation performed as of June 30, 2018, and rolled forward to the measurement date of June 30, 2019. The covered 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, 2018 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2019, the City's proportion was 0.12131% compared to 0.11921% at June 30, 2018. The Academy's proportion of the net OPEB liability was based on the Academy's salary expense for the year ended June 30, 2020 relative to the total salary expense of the City Plan's participants. The Academy's proportion of the net OPEB liability was 1.48% and 1.44% at June 30, 2019 and June 30, 2018, 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 Academy's net OPEB liability. The specific information related to these matters can be found in the City's Comprehensive Annual Financial Report.

**CARDINAL CRIMINAL JUSTICE ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

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

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

The following presents the Academy's 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%) |
|---|--------------------------------|---|--------------------------------|
| Academy's proportionate share of City's net OPEB liability | \$ 39,008 | \$ 29,693 | \$ 22,138 |

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

For the year ended June 30, 2020, the Academy recognized Group Life Insurance OPEB expense of \$467. 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, 2020, the Academy 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 | \$ 1,942 | \$ 379 |
| Net difference between projected and actual earnings on plan investments | - | 600 |
| Changes in assumptions | 1,845 | 881 |
| Changes in proportion | 415 | 1,163 |
| Employer contributions subsequent to the measurement date | 1,947 | - |
| Total | <u>\$ 6,149</u> | <u>\$ 3,023</u> |

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, 2021. 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, | |
|--------------------------------|-----------------|
| 2021 | \$ (105) |
| 2022 | (105) |
| 2023 | 149 |
| 2024 | 438 |
| 2025 | 609 |
| Thereafter | 193 |
| | <u>\$ 1,179</u> |

**CARDINAL CRIMINAL JUSTICE ACADEMY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2020**

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

Group Life Insurance Plan Data

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

11. Commitments and Contingencies

The Academy leased the building located at 917 Central Avenue on a month-to-month basis from the City at an amount based on the appraised value of the building. Total rent expense for the year ended June 30, 2020 was \$12. This lease ended June 30, 2020.

The Academy pays fiscal agent fees to the City for accounting, technology and other related services under a contract that has been renewed through June 30, 2020. Total fees paid for the year ended June 30, 2020 were \$12,124.

COMPLIANCE SECTION

**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**

Independent Auditor's Report

To the Honorable Members of the Governing Council
Cardinal Criminal Justice Academy
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 *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 and the major fund of the Cardinal Criminal Justice Academy (the "Academy"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Academy's basic financial statements, and have issued our report thereon dated September 9, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Academy's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Academy's internal control. Accordingly, we do not express an opinion on the effectiveness of the Academy'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 preceding paragraph 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 were not 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 may exist that have not been identified.**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Academy'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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance 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 Academy'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 Academy'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
September 9, 2020

**CARDINAL CRIMINAL JUSTICE ACADEMY
SUMMARY OF COMPLIANCE MATTERS
June 30, 2020**

As more fully described in the 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 Academy'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