HIGHLANDS COMMUNITY SERVICES BOARD

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2024

HIGHLANDS COMMUNTIY SERVICES BOARD
FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2024

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ROBINSON, FARMER, COX ASSOCIATES, PLLC

Certified Public Accountants

CPAs | CONSULTANTS

Independent Auditors' Report

To the Honorable Members of
Highlands Community Services Board
Abingdon, Virginia

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of the Highlands Community Services Board, as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Highlands Community Services Board's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Highlands Community Services Board, as of June 30, 2024, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Highlands Community Services Board, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibility of Management for the Financial Statements

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

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 the Highlands Community Services Board's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Highlands Community Services Board's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Highlands Community Services Board's ability to continue as a going concern for a reasonable period of time.

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

Report on Summarized Comparative Information

We have previously audited Highlands Community Services Board's 2023 financial statements, and we have expressed an unmodified audit opinion on those audited financial statements in our report dated, September 6, 2023. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information

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

Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 6, 2024, on our consideration of the Highlands Community Services Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Highlands Community Services Board's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Highlands Community Services Board's internal control over financial reporting and compliance.

Robinson, Farmer, Cox, Associates

Blacksburg, Virginia
September 6, 2024

Highlands Community Services Board

Management's Discussion and Analysis

Fiscal Year Ending June 30, 2024

Introduction and Overview

This discussion and analysis of the financial operations of Highlands Community Services Board (hereinafter referred to as HCS) for the year ending June 30, 2024 is intended to be read in conjunction with the audited financial statements. HCS presents three basic financial statements:

1. Statement of Net Position,
2. Statement of Revenues, Expenses and Changes in Net Position, and
3. Statement of Cash Flows

HCS's financial position is measured in terms of resources owned and obligations owed on a given date. This information is reported on the Statement of Net Position which reflects HCS's assets in relation to its debts to its suppliers, employees and other creditors. The excess of assets over liabilities equals the organization's net position.

Information regarding the results of operations during the year is reported in the Statement of Revenues, Expenses and Changes in Net Position. The statement shows how much net position increased or decreased during the year as a result of HCS operations, activities and events outside of HCS control.

The Statement of Cash Flows discloses the flow of cash resources into (from operations, contributions and other sources) and out of (for operating expenses, purchases of capital items, etc.) HCS during the year.

Financial Summary

A condensed version of HCS's Statement of Net Position for FY2024 and FY2023 is presented below:

Condensed Statement of Net Position

	2024	2023
Current Assets	$ 10,348,165	$ 11,740,839
Noncurrent Assets	16,977,395	17,827,655
TOTAL ASSETS	$ 27,325,560	$ 29,568,494
Current Liabilities	$ 2,863,495	$ 3,213,588
Noncurrent Liabilities	13,232,933	14,205,490
TOTAL LIABILITIES	$ 16,096,428	$ 17,419,078
Net Position		
Net Invesment in Capital Assets	$ 4,787,757	$ 4,363,853
Restricted	3,948,640	1,563,586
Unrestricted	2,492,735	6,221,977
TOTAL NET POSITION	$ 11,229,132	$ 12,149,416
TOTAL LIABILITIES AND NET POSITION	$ 27,325,560	$ 29,568,494

The financial position of HCS is strong, as evidenced by our strong liquidity. The Quick Ratio (Current Assets/Current Liabilities) of HCS was 3.61:1 as of June 30, 2024.

A summary of HCS's Statement of Revenues, Expenses and Changes in Net Position for FY2024 and FY2023 is presented below:

Condensed Statement of Revenues, Expenses, and Changes in Net Position

	2024	2023
Operating Revenues	$ 19,202,054	$ 18,217,938
Operating Expenses	34,976,648	31,064,793
Operating Income (Loss)	$ (15,774,594)	$ (12,846,855)
Nonoperating Revenue (Expense)	14,854,310	13,573,769
Change in Net Position	$ (920,284)	$ 726,914

Operating income is comprised of the revenues received for providing consumer services, the majority of which was received from Medicaid. During FY2024 operating revenue increased by 5.4% largely related to HCS being able to hire and retain qualified staff. HCS had a significantly lower vacancy rate in FY24 than in FY23.

Operating expenses are comprised of employee wages and fringe benefits, staff development and travel, occupancy, supplies, purchase of contractual services and depreciation. During FY2024 operating expenses increased by 12.6%. Employee wages and fringe benefits, which equal 73% of all operating expenses, were the primary factor in this increase. For FY24 HCS had multiple salary scale adjustments and a significantly lower vacancy rate.

Non-operating revenue (expense) is comprised of income received as appropriations or grants as well as interest income and interest expense. Appropriations from the Commonwealth of Virginia constitute 62.4% of the non-operating income, grants from the Federal Government constitute 29.0% and appropriations from Washington County, the City of Bristol Virginia, and other local sources constitute 8.4%. The remaining net non-operating income constitute 0.3% and consists of interest income less interest expense and gain on disposal of assets. Non-operating income increased 9.4% in FY2024, due to increases in state allocations.

Net position decreased $920,284 in FY2024, representing 2.7% of total income.

A summary of HCS's Statement of Cash Flows for FY2024 and FY2023 is presented below:

Condensed Statement of Cash Flows

	2024	2023
Cash Flows from Operating Activities	$ (15,626,373)	$ (10,696,288)
Cash Flows from Noncapital Financing Activities	13,815,285	12,248,709
Cash Flows from Capital and Related Financing Activities	(1,983,696)	(1,968,489)
Cash Flows from Investing Activities	(198,457)	(2,589,018)
Net Increase (Decrease) in Cash and Cash Equivalents	$ (3,993,241)	$ (3,005,086)
Cash and Cash Equivalents, Beginning of Year	5,576,191	8,581,277
Cash and Cash Equivalents, End of Year	$ 1,582,950	$ 5,576,191

Cash flows from operating activities reconcile the operating loss recorded on the Statement of Revenues, Expenses and Changes in Net Position to cash provided by operating activities. In this process, the operating loss is decreased by the amount of any non-cash transactions and adjusted for changes in assets and liabilities. (See full Statement of Cash Flows for a full listing of these transactions.) Of the adjustments, accounts receivable increased $1,439,598 as HCS was able to hire and retain qualified staff, which in turn increased service provision; accounts payable decreased $8,112, and depreciation/amortization expense totaled $1,173,194.

Cash flows from noncapital financing activities are comprised of income received as appropriations or grants. Cash flows from capital related financing activities are comprised of all the capital assets purchased and sold by HCS in FY2024 as well as debt proceeds received and paid. (See Note 8). Cash flows from investing activities are comprised of interest income.

During FY2024 there was a decrease of $3,993,241 in cash and cash equivalents. HCS purchased treasury bonds in FY24 in order to capitalize on higher interest rates.

Capital Assets

At the end of FY2024 HCS had $16,977,395 in net property and equipment, comprised of $24,807,341 less $7,829,946 in accumulated depreciation and amortization. Capital assets purchased or placed in service in FY2024 totaled $779,980 and capital assets removed from service totaled $726,130. (See Note 4)

The percentage of asset values by category is as follows:

Land	8.86%	2,198,159
Buildings	78.13%	19,382,302
Right-to-Use Lease Buildings	0.33%	82,064
Vehicles	2.09%	519,648
Right-to-Use Lease Vehicles	2.23%	554,072
Leasehold Improvement	0.16%	38,550
IT Equipment	2.65%	658,019
Right-to-Use Lease IT Equipment	1.07%	265,777
Furniture and Fixtures	2.34%	581,281
Right-to-use subscription asset	2.14%	527,469
	100.00%	24,807,341

Debt

There was no additional debt acquired in FY2024 for capital projects nor did HCS borrow any funds from its line of credit with First Bank & Trust Company.

Summary

During FY2024, HCS's total income increased by $2,264,657 (7.12%) over FY2023 and expenses increased by $3,911,855 (12.59%) over FY2023. Net position decreased from $12,149,416 at the end of FY2023 to $11,229,132 at the end of FY2024 (a decrease of $920,284).

Financial Statements

Exhibit 1

Highlands Community Services Board
Statement of Net Position
As of June 30, 2024
(With Comparative Totals As of June 30, 2023)

	2024	2023
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,582,950	$ 5,576,191
Investments	4,600,000	4,000,000
Accounts receivable (net of allowance for doubtful accounts)	3,093,248	1,653,650
Due from other governments	1,071,967	510,998
Total current assets	$ 10,348,165	$ 11,740,839
Noncurrent assets:		
Capital assets, not being depreciated	2,198,159	2,198,159
Capital assets, net of accumulated depreciation/amortization	14,779,236	15,629,496
Total noncurrent assets	$ 16,977,395	$ 17,827,655
Total assets	$ 27,325,560	$ 29,568,494
LIABILITIES		
Current liabilities:		
Accounts payable and accrued expenses	$ 500,427	$ 508,539
Accrued wages	1,202,803	1,052,218
Accrued interest	14,043	14,617
Unearned revenue	105,676	541,263
Compensated absences, current portion	416,768	367,728
Notes payable, current portion	489,430	471,631
Lease liabilities, current portion	134,348	193,174
Subscription liabilities, current portion	-	64,418
Total current liabilities	$ 2,863,495	$ 3,213,588
Noncurrent liabilities:		
Compensated absences, net of current portion	$ 1,667,073	1,470,911
Notes payable, net of current portion	11,244,090	11,928,435
Lease liabilities, net of current portion	321,770	428,838
Subscription liabilities, net of current portion	-	377,306
Total noncurrent liabilities	$ 13,232,933	$ 14,205,490
Total liabilities	$ 16,096,428	$ 17,419,078
NET POSITION		
Net investment in capital assets	$ 4,787,757	$ 4,363,853
Restricted:		
State carryover funds	3,948,640	1,563,586
Unrestricted	2,492,735	6,221,977
Total net position	$ 11,229,132	$ 12,149,416
Total liabilities and net position	$ 27,325,560	$ 29,568,494

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

Exhibit 2

Highlands Community Services Board
Statement of Revenues, Expenses, and Changes in Net Position
For the Year Ended June 30, 2024
(With Comparative Totals For the Year Ended June 30, 2023)

	2024	2023
Operating revenues:		
Net patient services revenue	$ 18,977,646	$ 17,967,258
Other	224,408	250,680
Total operating revenues	$ 19,202,054	$ 18,217,938
Operating expenses:		
Salaries and benefits	$ 25,452,352	$ 22,219,487
Staff development	317,472	335,482
Occupancy	1,258,065	1,263,308
Supplies	373,082	593,430
Program operations	942,925	782,802
Contractual and consulting	5,384,014	4,670,746
Depreciation and amortization	1,173,194	1,166,117
Other	75,544	33,421
Total operating expenses	$ 34,976,648	$ 31,064,793
Operating income (loss)	$ (15,774,594)	$ (12,846,855)
Nonoperating revenue (expense):		
Interest income	$ 401,543	$ 286,396
Interest expense	(379,173)	(379,318)
Gain (loss) on disposal of assets	(14,275)	120,110
Contributed lease space	34,374	34,374
Appropriations:		
Appropriations from state agencies	9,266,124	7,915,369
Appropriations from federal agencies	4,300,333	4,262,007
Appropriations from local governments	1,245,384	1,334,831
Total nonoperating revenue (expense)	$ 14,854,310	$ 13,573,769
Change in net position	$ (920,284)	$ 726,914
Net position, beginning of year	12,149,416	11,422,502
Net position, end of year	$ 11,229,132	$ 12,149,416

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

Exhibit 3

Highlands Community Services Board
Statement of Cash Flows
For the Year Ended June 30, 2024
(With Comparative Totals For the Year Ended June 30, 2023)

	2024	2023
Cash flows from operating activities:		
Receipts for client services	$ 17,538,048	$ 18,425,144
Receipts for miscellaneous operation activities	224,408	250,680
Payments to employees	(25,056,565)	(21,813,830)
Payments to vendors	(8,332,264)	(7,558,282)
Net cash provided by (used for) operating activities	$ (15,626,373)	$ (10,696,288)
Cash flows from noncapital financing activities:		
State and federal appropriations	$ 12,568,178	$ 10,816,974
Local government appropriations	1,247,107	1,431,735
Net cash provided by (used for) noncapital financing activities	$ 13,815,285	$ 12,248,709
Cash flows from capital and related financing activities:		
Payments for interest	$ (379,747)	$ (379,392)
Principal payments on debt	(666,546)	(773,164)
Principal payments on lease liabilities	(195,031)	-
Principal payments on subscription liabilities	(527,469)	-
Proceeds from sale of capital assets	8,471	120,110
Purchase of capital assets	(223,374)	(936,043)
Net cash provided by (used for) capital and related financing activities	$ (1,983,696)	$ (1,968,489)
Cash flows from investing activities:		
Interest income	$ 401,543	$ 286,396
Cash purchases of treasury bonds	(402,988)	(7,000,000)
Fees paid from investment account	10,609	3,000,000
Proceeds from treasury bond sales reinvested	(217,361)	-
Interest on treasury bonds reinvested	(4,137)	-
Withdrawal from investments	13,877	-
Redemption of certificates of deposit	-	1,124,586
Net cash provided by (used for) investing activities	$ (198,457)	$ (2,589,018)
Net increase (decrease) in cash and cash equivalents	$ (3,993,241)	$ (3,005,086)
Cash and cash equivalents, beginning of year	5,576,191	8,581,277
Cash and cash equivalents, end of year	$ 1,582,950	$ 5,576,191
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	$ (15,774,594)	$ (12,846,855)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation and amortization	1,173,194	1,166,117
Contributed lease space	34,374	34,374
SBITA liability removed due to restructing	(441,724)	-
SBITA asset, net of accumulated amortization, due to restructing	434,300	-
Changes in:		
(Increase) decrease in accounts receivable	(1,439,598)	457,886
Increase (decrease) in accounts payable and accrued expenses	(8,112)	86,533
Increase (decrease) in accrued wages	150,585	(170,611)
Increase (decrease) in compensated absences	245,202	576,268
Subscription liabilities, current portion		-
Net cash provided by (used for) operating activities	$ (15,626,373)	$ (10,696,288)
Non-cash capital and related financing activities:		
Contribution of lease space	$ 34,374	$ 34,374
Issuance of lease liabilities	29,137	511,518
Lease asset additions	29,137	511,518
Issuance of subscription liability	527,469	-
Subscription asset additions	527,469	-
Decrease in SBITA liability due to restructed agreement during the year	(441,724)	-
Decrease in SBITA asset, net of amortization, due to restructed agreement	434,300	-

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

Note 1 - Summary of Significant Accounting Policies

A. Organization
The Highlands Community Services Board (the Board) operates as an agency for Washington County, Virginia and the City of Bristol, Virginia in the establishment and operation of community mental health, intellectual disability and substance abuse programs as provided for in section 37.2-500 through 37.2-511 of the Code of Virginia, relating to the Virginia Department of Behavioral Health and Developmental Services. In addition, the Board provides a system of community mental health, intellectual disability and substance abuse services which relate to and are integrated with existing and planned programs.

B. Basis of Accounting and Financial Statement Presentation
The Board is a governmental health care entity and is required to follow the accounting and reporting practices of the Governmental Accounting Standards Board. For financial reporting purposes, the Board utilizes the enterprise fund method of accounting using the accrual basis. On the accrual basis of accounting revenues are recorded when earned and expenses are recorded when incurred, regardless of when the related cash flows take place.

C. Cash and Cash Equivalents
For purposes of the statement of cash flows, cash and cash equivalents are defined as short-term highly liquid investments that are both readily convertible to known amounts of cash and investments with maturities of 90 days or less.

D. Investments
Investments with a maturity of less than one year when purchased are stated at cost or amortized cost. Investments with a maturity greater than one year when purchased are stated at fair value. Fair value is the price that would be received to sell an investment in an orderly transaction at year end.

E. Capital Assets
The Board capitalizes and depreciates capital assets and right-to-use lease assets in excess of $25,000 or $50,000, respectively, individually with an estimated useful life of greater than two years. Capital assets purchased are stated at cost, except for intangible right-to-use assets, the measurement of which is discussed in Note 1K. Donated property is recorded at acquisition value at date of donation.

Capital assets and the right-to-use lease assets are depreciated using the straight-line method over the following estimated useful lives:

	Years
Buildings	40
Vehicles	5
Computer equipment	5
Furniture and fixtures	5
Leasehold improvement	7
Right-to-use lease buildings	40
Right-to-use lease vehicles	5
Right-to-use lease equipment	5
Right-to-use subscription asset	10

Note 1 - Summary of Significant Accounting Policies (Continued)

F. Net Patient Service Revenue
Net patient service revenue is reported at the net realizable amounts from clients, third-party payors and others for services rendered. Revenue under third-party payor agreements is subject to audit and retroactive adjustment. Retroactive adjustments are reported in operations in the year of settlement. Net patient service revenue is considered to be operating revenue. All expenses are related to patient services and therefore considered to be operating expenses. Other income related to patient services may be considered operating revenue.

G. Allowance for Doubtful Accounts
The Board records a provision for uncollectible accounts during the period in which collections are considered doubtful. Management reviews self-pay accounts receivable at the end of each month. Self-pay accounts deemed uncollectible are written off. Management reviews third-party payor accounts receivable at year end. Management estimates contractual adjustments which will not be paid based on past experience with the payors. At June 30, 2024 and June 30, 2023, the value of allowance for doubtful accounts was $907,980 and $613,872, respectively.

H. Compensated Absences
Board employees are entitled to certain compensated absences based upon length of employment. Upon termination, employees may be paid up to a maximum of 100% based on years of service, as per policy. At June 30, 2024 and June 30, 2023, the value of accrued leave was $2,083,841 and $1,838,639, respectively.

I. Use of Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

- Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by outstanding balances of bonds, notes, and other debt that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.
- Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets are reported as restricted when constraints are placed on asset use either by external parties or by law through constitutional provision or enabling legislation.
- Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that does not meet the definition of the two preceding categories.

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

Note 1 - Summary of Significant Accounting Policies (Continued)

K. Comparative Totals
The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Board's financial statements for the year ended June 30, 2023, from which the summarized information was derived.

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

Lessee
The Board recognizes lease liabilities and intangible right-to-use lease assets (lease assets) with an initial value of $50,000, individually or in the aggregate. At the commencement of the lease, the lease liability is measured at the present value of payments expected to be made during the lease term (less any lease incentives). The lease liability is reduced by the principal portion of payments made. The lease asset is measured at the initial amount of the lease liability, plus any payments made to the lessor at or before the commencement of the lease term and certain direct costs. The lease asset is amortized over the shorter of the lease term or the useful life of the underlying asset.

Subscriptions
The Board recognizes intangible right-to-use subscription assets (subscription assets) and corresponding subscription liabilities with an initial value of $50,000, in individually or in the aggregate. At the commencement of the subscription, the subscription liability is measured at the present value of payments expected to be made during the subscription liability term (less any contract incentives). The subscription liability is reduced by the principal portion of payments made. The subscription asset is measured at the initial amount of the subscription liability payments made to the SBITA vendor before commencement of the subscription term, and capitalizable implementation costs, less any incentives received from the SBITA vendor at or before the commencement of the subscription term. The subscription asset is amortized over the shorter of the subscription term or the useful life of the underlying IT asset.

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

- The Board uses the interest rate stated in lease or subscription contracts. When the interest rate is not provided or the implicit rate cannot be readily determined, the Board uses its estimated incremental borrowing rate as the discount rate for leases or subscriptions.
- The lease and subscription terms include the noncancellable period of the lease or subscription and certain periods covered by options to extend to reflect how long the lease or subscription is expected to be in effect, with terms and conditions varying by the type of underlying asset.
- Fixed and certain variable payments as well as lease or subscription incentives and certain other payments are included in the measurement of the lease liability or subscription liability.

The Board monitors changes in circumstances that would require a remeasurement or modification of its leases and subscriptions. The Board will remeasure the lease asset and liability or the subscription asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability or subscription liability.

Note 2 - Deposits and Investments

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

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

The Board's rated debt investments as of June 30, 2024 were rated by Standard & Poor's and he ratings are presented below using the Standard & Poor's rating scale.

Board's Rated Debt Investments' Values	
Rated Debt Investments	Fair Quality Ratings
	AA+
Treasury Bonds	$ 4,600,000

Interest Rate Risk

Rated Debt Investments	Investment Maturities	
	Cost	< 1 year
Treasury Bonds	$ 4,600,000	$ 4,600,000

Custodial Credit Risk
Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Board will not be able to recover the value of its investments or collateral securities that are not in the possession of an outside party. As required by the *Code of Virginia*, all security holdings with maturities over 30 days may not be held in safekeeping with the counterparty to the investment transaction. As of June 30, all of the Board's investments are held in a bank's trust department in the Board's name.

Note 3 – Due from Other Governmental Units:

The following amounts represent receivables from other governments at year-end:

	Amount
Local	$ 13,177
State	13,623
Federal	1,045,167
Total	$ 1,071,967

Note 4 – Capital Assets

A summary of changes in capital assets for the year ended June 30, 2024 is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Non-depreciable assets:				
Land	$ 2,198,159	$ -	$ -	$ 2,198,159
Depreciable assets:				
Buildings	$ 19,382,302	$ -	$ -	$ 19,382,302
Right-to-use lease buildings	82,064	-	-	82,064
Vehicles	329,924	189,724	-	519,648
Right-to-use lease vehicles	546,111	29,137	(21,176)	554,072
Leasehold improvement	100,215	-	(61,665)	38,550
IT equipment	658,019	-	-	658,019
Right-to-use lease IT equipment	265,777	-	-	265,777
Furniture and fixtures	688,145	33,650	(140,514)	581,281
Right-to-use subscription asset	502,775	527,469	(502,775)	527,469
Total depreciable assets	$ 22,555,332	$ 779,980	$ (726,130)	$ 22,609,182
Accumulated depreciation/amortization	$ (6,925,836)	$ (1,173,194)	$ 269,084	$ (7,829,946)
Net capital assets being depreciated	$ 15,629,496	$ (393,214)	$ (457,046)	$ 14,779,236
Net capital assets	$ 17,827,655	$ (393,214)	$ (457,046)	$ 16,977,395

Note 5 – Defined Contribution Plan

The Board contributes to a defined contribution plan. A defined contribution plan provides pension benefits in return for services rendered, an individual account for each participant, and specifies how contributions to the individual's account are to be determined instead of specifying the amount of benefits the individual is to receive. Under a defined contribution pension plan, the benefits a participant will receive will depend solely on the amount contributed to the participant's account, and their returns earned on investments of those contributions.

The plan is administered by ReliaStar Life Insurance Company which is a member of the VOYA family of companies. The Board has elected to contribute 4% of an employees' pay. Employee contributions are optional and, if made, the Board will match up to an additional 3% for a total maximum Board contribution of 7%. During the year ended June 30, 2024 and June 30, 2023, the Board's contribution amounted to $927,664 and $754,249, respectively.

Note 6 – Commitments and Contingencies

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the state and federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Board expects such amounts, if any, to be immaterial. Medicaid billings comprise one of the main sources of operating revenue for the Board at approximately 92%. Current political and legislative uncertainties relating to Medicaid programs could have a major negative impact on future revenues of the Board if funding and related programs are eliminated or substantially reduced.

The Board also receives a significant amount of revenue from federal, state, and local governments. Due to state and local budget uncertainties regarding levels of funding, the Board conducts ongoing reviews of its budget in an effort to reduce expenses and increase revenue from other sources.

At June 30, 2024, there were no matters of litigation involving the Board that would materially affect the Board's financial position should any court decision or pending matter not be favorable to the Board.

Note 7 – Risk Management

The Board is exposed to various risks of loss related to torts, thefts, damages to and destruction of assets, errors and omissions, and natural disasters. The Board maintains commercial insurance coverage for each of the above risks of loss. Management believes the coverage is adequate to preclude any significant uninsured risk exposure to the Board.

All staff of the Board who are responsible for the handling of cash are covered by a blanket bond in the amount of $500,000.

Note 8 – Long-term Obligations

The following is a summary of long-term obligation transactions for the year ended June 30, 2024:

	Beginning Balance	Increases/ Issuances	Decreases/ Retirements	Ending Balance
Compensated absences	$ 1,838,639	$ 612,930	$ (367,728)	$ 2,083,841
Notes Payable from Direct Borrowings	12,400,066	-	(666,546)	11,733,520
Lease liabilities	622,012	29,137	(195,031)	456,118
Subscription liabilities	441,724	527,469	(969,193)	-
Total	$ 15,302,441	$ 1,169,536	$ (2,198,498)	$ 14,273,479

The subscription liability that was outstanding at the beginning of the year was restructured. The new agreement does not meet reporting requirements to be recognized as a subscription asset and liability. Additionally, a new agreement was entered into and the 5-year total was paid in full at the onset of the agreement. Accordingly, there are no subscription liabilities to report at year-end.

Note 8 – Long-term Obligations (Continued)

Details of the Board's long-term obligations at June 30, 2024 are as follows:

	Interest Rates	Issue Date	Maturity Date	Original Amount	Balance at 6/30/2024	Due Within One Year
Notes Payable from Direct Borrowings:						
First Bank & Trust Company	(A)	10/20/2016	2031	$1,319,742	$ 374,527	$ 105,018
First Community Bank	(B)	8/19/2016	2047	9,711,000	7,825,504	268,197
First Community Bank	2.55-3.909%	2/7/2017	2047	4,300,000	3,533,489	116,215
Total Notes Payable from Direct Borrowings					$ 11,733,520	$ 489,430
Leases Liabilities:						
Great American Leasing - Master 1	0.34%	6/30/2021	2025	$ 131,868	$ 13,821	$ 13,821
Great American Leasing - Master 2	0.34%	6/30/2021	2025	10,175	1,067	1,067
Great American Leasing - Master 3	0.34%	6/30/2021	2025	10,175	1,067	1,067
Great American Leasing - Master 4	0.34%	6/30/2021	2025	10,175	1,067	1,067
Great American Leasing - Master 5	0.34%	6/30/2021	2025	50,876	5,332	5,332
Great American Leasing - Master 6	0.34%	6/30/2021	2025	10,175	1,067	1,067
Great American Leasing - Master 7	0.34%	6/30/2021	2025	10,175	1,067	1,067
Great American Leasing - Master 8	0.34%	6/30/2021	2025	20,351	2,133	2,133
Great American Leasing - Master 9	0.34%	6/30/2021	2025	10,175	1,067	1,067
Great American Leasing - Master 10	0.34%	6/30/2021	2025	20,350	2,133	2,133
Great American Leasing - Jail Discharge	0.34%	10/23/2021	2025	4,008	530	530
Great American Leasing - SUD Copier add-on	0.34%	11/23/2021	2025	9,189	1,247	1,247
Great American Leasing - Crisis Services	0.34%	4/23/2022	2025	9,332	1,463	1,463
Salwa Humsi - Marion CAC Office	2.00%	6/30/2021	2025	130,586	2,285	2,285
111-2019 Nissan Rogue Unit 239RQW	10.00%	6/30/2021	2025	18,629	1,551	1,551
Enterprise - 26CNBX	16.18%	11/30/2022	2028	24,578	18,457	4,540
Enterprise - 26CNC3	16.90%	11/30/2022	2028	24,333	18,358	4,475
Enterprise - 26CNCQ	16.59%	12/31/2022	2028	24,333	18,663	4,422
Enterprise - 26CNFS	16.90%	11/30/2022	2028	24,319	18,347	4,472
Enterprise - 26CNDM	16.18%	11/30/2022	2028	24,578	18,457	4,540
Enterprise - 26CNC6	16.78%	11/30/2022	2028	24,397	18,392	4,490
Enterprise - 26CNC9	16.82%	11/30/2022	2028	24,379	18,382	4,485
Enterprise - 26CNCG	16.82%	11/30/2022	2028	24,379	18,382	4,485
Enterprise - 26CNCL	16.82%	11/30/2022	2028	24,379	18,382	4,485
Enterprise - 26CNCL	16.82%	11/30/2022	2028	24,379	18,382	4,485
Enterprise - 26CNCZ	16.18%	11/30/2022	2028	24,578	18,457	4,540
Enterprise - 26CND9	16.90%	11/30/2022	2028	24,319	18,347	4,472
Enterprise - 26CNDF	16.90%	11/30/2022	2028	24,333	18,358	4,475
Enterprise - 26CNDW	15.54%	3/30/2023	2028	24,699	19,850	4,352
Enterprise - 26CNFJ	16.18%	11/30/2022	2028	24,578	18,457	4,541
Enterprise - 26CNFN	16.14%	11/30/2022	2028	24,251	18,208	4,482
Enterprise - 26CNFW	16.12%	1/31/2023	2028	24,125	18,787	4,342
Enterprise - 26CN9N	16.82%	11/30/2022	2028	24,034	18,123	4,422
Enterprise - 26CN9N	15.06%	4/30/2023	2028	34,898	28,450	6,101
Enterprise - 26NNCD	15.09%	4/30/2023	2028	37,649	30,699	6,580
Enterprise - 27K5WK	18.68%	1/30/2024	2028	29,137	27,283	4,265
Total Lease Liabilities					$ 456,118	$ 134,348
Other long-term obligations:						
Compensated absences	N/A	N/A	N/A	N/A	$ 2,083,841	$ 416,768
Total long-term obligations					$ 14,273,479	$ 1,040,546

(A) 5 year treasury yield plus 2.5% times 66% and adjusted on each 5 year anniversary. (currently 2.75%)

(B) Libor Plus 1.195% as adjusted on the 10 year anniversary and each subsequent 5 year anniversary of the note. (currently 2.45%)

Note 8 – Long-term Obligations (Continued)

At June 30, 2024, each of the above notes payable from direct borrowings are secured by real estate and related fixed assets that were purchased using proceeds of the issuances.

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

The following is a summary of principal and interest payment requirements to amortize long-term debt:

Year Ended	Direct Borrowings - Notes Payable		Lease Liabilities	
June 30,	Principal	Interest	Principal	Interest
2025	489,430	289,464	$ 134,348	$ 61,947
2026	501,250	277,640	114,743	44,607
2027	493,305	317,883	135,105	24,245
2028	426,479	341,389	67,654	4,267
2029	399,316	327,319	4,268	236
2030-2034	2,179,372	1,424,080	-	-
2035-2039	2,580,212	1,025,442	-	-
2040-2044	3,055,717	547,876	-	-
2045-2049	1,608,439	69,193	-	-
Total	$ 11,733,520	$ 4,620,286	$ 456,118	$ 135,302

Note 9 – Line of Credit

The Board has a $1,000,000 revolving line of credit (LOC). The LOC was not utilized during the year and had a zero balance at year end.

Note 10 – Upcoming Pronouncements

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

Statement No. 102, *Certain Risk Disclosures,* provides users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. The requirements of this Statement are effective for fiscal years beginning after June 15, 2024.

Statement No. 103, *Financial Reporting Model Improvements,* improves key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. The requirements of this Statement are effective for fiscal years beginning after June 15, 2025.

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

COMPLIANCE SECTION

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

To the Honorable Members of
Highlands Community Services Board
Abingdon, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions,* issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of the Highlands Community Services Board as of and for the year ended June 30, 2024, and the related notes to the financial statements, which collectively comprise the Highlands Community Services Board's basic financial statements and have issued our report thereon dated September 6, 2024.

Report on Internal Control over Financial Reporting

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

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

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

Report on Compliance and Other Matters

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

Purpose of This Report

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

Robinson, Farmer, Cox, Associates

Blacksburg, Virginia
September 6, 2024

ROBINSON, FARMER, COX ASSOCIATES, PLLC
Certified Public Accountants

CPAs | CONSULTANTS

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

To the Honorable Members of
Highlands Community Services Board
Abingdon, Virginia

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Highlands Community Services Board's compliance with the types of compliance identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of Highlands Community Services Board's major federal programs for the year ended June 30, 2024. Highlands Community Services Board's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, Highlands Community Services Board compiled, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2024.

Basis for Opinion on Each Major Federal Program

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

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

Responsibilities of Management for Compliance

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

Auditors' Responsibilities for the Audit of Compliance

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding Highlands Community Services Board's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Highlands Community Services Board's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Highlands Community Services Board's internal control over compliance. Accordingly, no such opinion is expressed.

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

Report on Internal Control over Compliance

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

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

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

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

Robinson, Farmer, Cox, Associates
Blacksburg, Virginia
September 6, 2024

Highlands Community Services Board
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2024

Federal Grantor/State Pass-Through Grantor/ Program or Cluster Title	Federal ALN	Pass-through Entity Identifying Number	Federal Expenditures
Department of Justice:			
Direct Payments:			
Drug Court Discretionary Grant Program	16.585	Not applicable	$ 406,963
Improving the Investigation and Prosecution of Child Abuse and the Regional and Local Children's Advocacy Centers	16.758	Not applicable	63,402
Pass Through Payments:			
VA Department of Social Services:			
Crime Victim Assistance	16.575	Unknown	232,520
Total Department of Justice			$ 702,885
Department of Treasury:			
Pass Through Payments:			
VA Dept of Behavioral Health and Development Services:			
COVID-19 - Coronavirus State and Local Fiscal Recovery Funds	21.027	120646	$ 807,471
Department of Health and Human Services:			
Pass Through Payments:			
VA Department of Social Services:			
Community-Based Child Abuse Prevention Grants	93.590	Unknown	$ 46,150
VA Dept of Behavioral Health and Development Services:			
Opioid STR	93.788	1H79TI085746-01/5H79TI085746-02	869,853
Block Grants for Community Mental Health Services	93.958	1B09SM085998-01/1B09SM087349-01	658,300
Block Grants for Prevention and Treatment of Substance Abuse	93.959	1B08TI083547-01/1B08TI083972-01/1B08TI084676-01/1B08TI085838-01	958,874
Temporary Assistance for Needy Families	93.558	Unknown	124,151
Total Department of Health and Human Services			$ 2,657,328
Department of Education:			
Pass Through Payments:			
VA Dept of Behavioral Health and Development Services:			
Special Education Grants for Infants and Families	84.181	H181A230017	$ 132,649
Total Expenditures of Federal Awards			$ 4,300,333

Note 1 -- Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal award activity of Highlands Community Services Board under programs of the federal government for the year ended June 30, 2024. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Highlands Community Services Board, it is not intended to and does not present the financial position, changes in net position, or cash flows of Highlands Community Services Board.

Note 2 -- Summary of Significant Accounting Policies

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.
(2) Pass-through entity identifying numbers are presented where available.

Note 3 -- Indirect Cost Rate
Highlands Community Services Board has elected not to use the 10% de minimis indirect cost rate allowed under Uniform Guidance.

Note 4 -- Subrecipients
The Board did not have any subrecipients for the year ended June 30, 2024.

Note 5 -- Relationship to the Financial Statements
Federal expenditures, revenues, and capital contributions are reported in the Board's basic financial statements as follows:

Intergovernmental state and federal revenues per the basic financial statements:	
Statement of Revenues, Expenses and Changes in Net Position	$ 4,300,333

Highlands Community Services Board
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2024

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section, 200.516 (a)?	No

Identification of major programs:

Assistance Listing #	Name of Federal Program or Cluster
93.788	Opioid STR
21.027	COVID-19 - Coronavirus State and Local Fiscal Recovery Funds

Dollar threshold used to distinguish between Type A and Type B programs:	$750,000
Auditee qualified as low-risk auditee?	Yes

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Highlands Community Services Board
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2024

There were no prior year audit findings reported.