NORTHWESTERN COMMUNITY SERVICES BOARD

FRONT ROYAL, VIRGINIA

FINANCIAL STATEMENTS

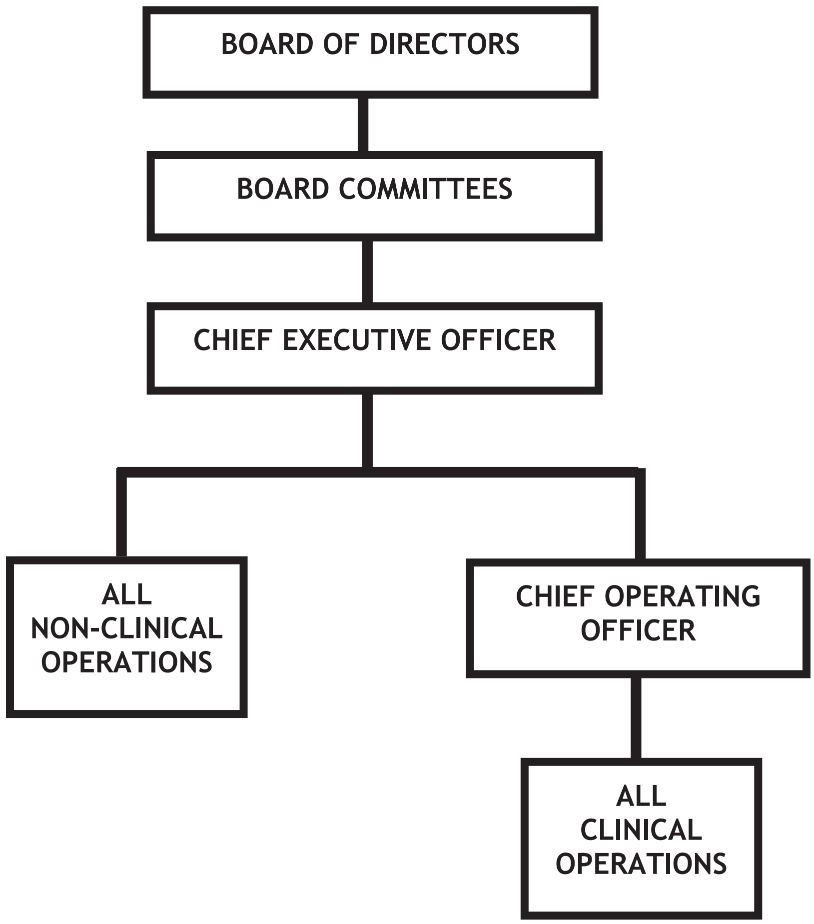
YEAR ENDED JUNE 30, 2020

Table of Contents

NORTHWESTERN COMMUNITY SERVICES BOARD

NORTHWESTERN COMMUNITY SERVICES BOARD

ORGANIZATIONAL CHART



ROBINSON, FARMER, COX ASSOCIATES, PLLC

Certified Public Accountants

CPAs | CONSULTANTS

Independent Auditors' Report

To the Board of Directors
Northwestern Community Services Board
Front Royal, Virginia

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards 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 auditors' 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.

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules related to pension and OPEB funding on pages 4-6 and 45-52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Northwestern Community Services Board's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis 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 not a required part of the basic financial statements.

The schedule of expenditures of federal awards 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. Such 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.

Report on Summarized Comparative Information

We have previously audited Northwestern Community Services Board's 2019 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 19, 2019. In our opinion, the summarized comparative information presented herein as and for the year ended June 30, 2019, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2020 on our consideration of Northwestern 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 Northwestern 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 Northwestern Community Services Board's internal control over financial reporting and compliance.

Robinson Farmer Cox Associates

Charlottesville, Virginia
November 16, 2020

Management's Discussion and Analysis
Year Ended June 30, 2020

The following Management's Discussion and Analysis (MD&A) of Northwestern Community Services Board's (NWCSB) financial performance provides the reader with an overview to the financial statements of the NWCSB for the fiscal year ended June 30, 2020.

Northwestern Community Services Board presents three basic financial statements for the purpose of analyzing the financial position of the NWCSB as of June 30, 2020. These are: (1) Statement of Net Position; (2) Statement of Revenues, Expenses and Changes in Net Position; and (3) Statement of Cash Flows.

NWCSB's financial position is measured in terms of resources (assets) owned and obligations (liabilities) owed as of June 30, 2020. This information is reflected on the Statement of Net Position. The excess of assets and deferred outflows of resources over liabilities and deferred inflows of resources is the net position.

Information reflecting the results of operations during the fiscal year 2020 is reported in the Statement of Revenues, Expenses and Changes in Net Position. This statement reflects total revenue and total expenses for the fiscal year ended June 30, 2020 and excess or deficiency of revenue over expenses for the year.

The flow of cash resources into and out of NWCSB during the fiscal year is reflected on the Statement of Cash Flows. This statement also reflects the net increase or decrease in cash and cash equivalents for the year and the ending cash and cash equivalents as of June 30, 2020.

Financial Position: A summary of NWCSB's Statement of Net Position for fiscal years 2020 and 2019 is presented below.

Summary Statement of Net Position

	2020	2019
Current assets	$ 5,838,602	$ 5,091,313
Restricted assets	198,673	198,653
Other assets	-	898,715
Capital assets	2,140,828	2,331,740
Total assets	$ 8,178,103	$ 8,520,421
Deferred outflows of resources	$ 1,546,616	$ 468,787
Current liabilities	$ 1,306,225	$ 1,288,059
Long-term liabilities	2,350,314	1,948,139
Total liabilities	$ 3,656,539	$ 3,236,198
Deferred inflows of resources	$ 306,183	$ 426,834
Net position:		
Net investment in capital assets	$ 1,101,145	$ 1,094,385
Restricted	431,707	799,825
Unrestricted	4,229,145	3,431,966
Total net position	$ 5,761,997	$ 5,326,176

The financial position of Northwestern Community Services Board is strong with net position of $5,761,997 as of June 30, 2020.

Financial Position: (continued)

A summary of NWCSB's Statement of Revenues, Expenses and Changes in Net Position for fiscal years 2020 and 2019 is presented below.

Summary Statement of Revenues, Expenses and Changes in Net Position

	2020	2019
Operating revenues:		
Net patient service revenue	$ 9,093,075	$ 7,833,274
Operating expenses	21,293,140	19,177,629
Operating income (loss)	$ (12,200,065)	$ (11,344,355)
Nonoperating income, net	12,588,344	12,587,929
Capital contributions	47,542	-
Change in net position	$ 435,821	$ 1,243,574

Operating income is generated from providing patient services with the majority of this income generated from Medicaid. Medicaid income represented approximately 88% of our operating income for 2020 and 87% for 2019. Non-operating income showed a slight increase due to increased state funding, which was largely offset by decreased state and local funding. The increase in operating expenses is a result of increased pay rates, leading to higher salaries and benefits costs. Actuarial valuations resulted in reporting a net pension liability whereas a net pension asset was reported in prior years. The OPEB liabilities also increased over prior years. Another factor in increased expenses was program expansion as a result of increased state funding.

Cash Flow: A summary of NWCSB's Statement of Cash Flows for fiscal years 2020 and 2019 is presented below.

Condensed Statement of Cash Flows

	2020	2019
Cash flows provided (used) by operating activities	$ (11,390,438)	$ (11,647,370)
Cash flows provided (used) by noncapital and related financing activities	12,413,383	12,634,954
Cash flows provided (used) by capital and related financing activities	(69,211)	(327,162)
Cash flows provided (used) by investing activities	24,262	26,794
Net increase (decrease) in cash and cash equivalents	$ 977,996	$ 687,216
Cash and cash equivalents, beginning of year	3,268,988	2,581,772
Cash and cash equivalents, end of year	$ 4,246,984	$ 3,268,988

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 transaction (depreciation) and adjusted for changes in operating assets, liabilities, and pension and OPEB related deferred outflows and inflows of resources.

Cash flows from non-capital and related financing activities consist of income received primarily as government grants.

Cash flows from capital and related financing activities represent the acquisition of capital assets. Also reflected are principal and interest payments on mortgages and loans payable, which were used for capital asset acquisitions.

Cash flows from investing activities are comprised of interest income.

Financial Position: (continued)

During 2020, there was an increase of $977,996 in cash and cash equivalents compared to an increase of $687,216 in 2019. This increase in cash was due to NWCSB's continued work with the Managed Care Organizations. Measures that were put in place in previous years to ensure Medicaid billings are accurate and timely continue to be reviewed and monitored. These measures continue to result in NWCSB receiving Medicaid revenue in a timely manner. NWCSB has also seen an increase in staff positions that bill Medicaid which has resulted in higher Medicaid billings. NWCSB will continue to address issues that arise in order to ensure timely payments are received.

Capital Assets and Debt Administration

Capital Assets:

On June 30, 2020, NWCSB had $2,140,828 in net capital assets. These were comprised primarily of land, buildings and improvements, and equipment and vehicles. This is a net decrease of $190,912 from 2019, which resulted from depreciation expense exceeding the new asset additions. New additions included a new van purchased through a grant and two ac units for the Sunshine House. The Chapin House land, building, and improvements were sold during the year. The structures were fully depreciated, resulting in a gain of $211,000 on the sale.

For additional information, reference Note 5 Capital Assets in notes to financial statements.

Long-term Debt:

Long-term debt as of June 30, 2020 is $1,039,683. This debt is for two facilities. The first is Sunshine House in New Market, which is financed by two notes with Rural Economic Development Administration (FmHA) with a total balance of $121,938. The second facility is the Center for Health and Development in Front Royal and is financed by two notes; one with FmHA with a balance of $551,180 and the second note is with BB&T Bank with a balance of $366,565. Long-term debt may increase in fiscal year 2021 as NWCSB looks at the possibility of purchasing a new clinic in the Winchester area.

For additional information, reference Note 7 Long-term Obligations in notes to financial statements.

Other Significant Activities in Fiscal Year 2020

During fiscal year 2020, NWCSB continued to review and adjust its operations. Work with the Managed Care Organizations and getting Medicaid billing in timely and accurately was a main focus along with the COVID19 pandemic. NWCSB continuously reviewed regulatory changes related to COVID19 to ensure operations were running effectively. Fiscal Year 2021 will continue to be a year of change that will impact operations for NWCSB. With the continuation of COVID19, NWCSB will work diligently to carefully plan and implement needed changes in order to operate at a high level.

Requests for Information:

This financial report is designed to provide a general overview of Northwestern Community Services Board's finances for all those with an interest in the Board's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, 209 W. Criser Rd. Suite 300, Front Royal, Virginia 22630.

- Basic Financial Statements -

NORTHWESTERN COMMUNITY SERVICES BOARD

Statement of Net Position
As of June 30, 2020
(With Comparative Totals for 2019)

		2020		2019
Assets				
Current Assets:				
Cash and cash equivalents	$	4,048,311	$	3,070,335
Accounts receivable, less allowance for uncollectibles		1,341,554		1,652,531
Due from other governments		1,850		3,200
Prepaid items		446,887		365,247
Total current assets	$	5,838,602	$	5,091,313
Restricted Assets:				
Cash and cash equivalents - debt reserve accounts	$	198,673	$	198,653
Other Assets:				
Net pension asset	$	-	$	898,715
Capital Assets:				
Property and equipment, less accumulated depreciation	$	2,140,828	$	2,331,740
Total assets	$	8,178,103	$	8,520,421
Deferred Outflows of Resources				
Pension related items	$	1,023,832	$	296,849
OPEB related items		522,784		171,938
Total deferred outflows of resources	$	1,546,616	$	468,787
Liabilities				
Current Liabilities:				
Accounts payable and accrued expenses	$	349,210	$	485,152
Accrued interest		2,159		3,395
Compensated absences		748,928		603,377
Loans payable, current portion		205,928		196,135
Total current liabilities	$	1,306,225	$	1,288,059
Long-term Liabilities:				
Loans payable, less current portion	$	833,755	$	1,041,220
Net OPEB liabilities		1,317,710		906,919
Net pension liability		198,849		-
Total long-term liabilities	$	2,350,314	$	1,948,139
Total liabilities	$	3,656,539	$	3,236,198
Deferred Inflows of Resources				
Pension related items	$	250,648	$	362,970
OPEB related items		55,535		63,864
Total deferred inflows of resources	$	306,183	$	426,834
Net Position				
Net investment in capital assets	$	1,101,145	$	1,094,385
Restricted for debt service		198,673		198,633
Restricted for unexpended grant funds		233,034		601,172
Unrestricted		4,229,145		3,431,986
Total net position	$	5,761,997	$	5,326,176

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

NORTHWESTERN COMMUNITY SERVICES BOARD

Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2020
(With Comparative Totals for 2019)

		2020		2019
Operating revenues:				
Net patient service revenue	$	9,093,075	$	7,833,274
Operating expenses:				
Salaries and benefits	$	14,364,590	$	12,291,054
Staff development		91,641		114,660
Facility		1,802,670		2,380,437
Supplies		983,976		613,863
Travel		248,143		259,212
Contractual and consulting		3,107,138		2,737,234
Depreciation		260,806		249,711
Other		434,176		531,458
Total operating expenses	$	21,293,140	$	19,177,629
Operating income (loss)	$	(12,200,065)	$	(11,344,355)
Nonoperating income (expense):				
Grants:				
Commonwealth of Virginia	$	8,502,741	$	8,153,622
Federal government		1,993,944		2,659,606
Local governments		1,417,349		1,358,281
Interest income		24,262		26,794
Other		497,999		460,812
Gain on asset disposal		211,000		500
Interest expense		(58,951)		(71,686)
Net nonoperating income (expense)	$	12,588,344	$	12,587,929
Income before capital contributions	$	388,279	$	1,243,574
Capital contributions:				
Vehicle grant - federal government	$	47,542	$	-
Change in net position	$	435,821	$	1,243,574
Net position, beginning of year		5,326,176		4,082,602
Net position, end of year	$	5,761,997	$	5,326,176

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

NORTHWESTERN COMMUNITY SERVICES BOARD

Statement of Cash Flows
Year Ended June 30, 2020
(With Comparative Totals for 2019)

		2020		2019
Cash flows from operating activities:				
Receipts from customers	$	9,404,052	$	7,717,279
Payments to suppliers		(6,805,119)		(6,548,116)
Payments to and for employees		(13,989,371)		(12,816,533)
Total cash flows provided by (used for) operating activities	$	(11,390,438)	$	(11,647,370)
Cash flows from noncapital and related financing activities:				
Government grants	$	11,915,384	$	12,174,142
Other		497,999		460,812
Total cash flows provided by (used for) noncapital and related financing activities	$	12,413,383	$	12,634,954
Cash flows from capital and related financing activities:				
Purchase of capital assets	$	(33,552)	$	(79,573)
Sale of capital assets		222,200		-
Interest on long-term debt		(60,187)		(71,982)
Principal payments on mortgages and loans payable		(197,672)		(175,607)
Total cash flows provided by (used for) capital and related financing activities	$	(69,211)	$	(327,162)
Cash flows from investing activities:				
Interest income	$	24,262	$	26,794
Net increase (decrease) in cash and cash equivalents	$	977,996	$	687,216
Cash and cash equivalents, beginning of year		3,268,988		2,581,772
Cash and cash equivalents, end of year	$	4,246,984	$	3,268,988
Summary of cash and cash equivalents:				
Unrestricted	$	4,048,311	$	3,070,335
Restricted		198,673		198,653
Total cash and cash equivalents	$	4,246,984	$	3,268,988
Cash flows from operating activities:				
Operating income (loss)	$	(12,200,065)	$	(11,344,355)
Adjustments to reconcile operating income (loss) to cash provided by (used for) operating activities:				
Depreciation		260,806		249,711
Changes in assets, liabilities, and deferred inflows/outflows of resources:				
Accounts receivable		310,977		(115,995)
Prepaid items		(81,640)		(62,183)
Net pension asset		898,715		(465,083)
Deferred outflows - pension related		(726,983)		82,754
Deferred outflows - OPEB related		(350,846)		(104,014)
Accounts payable and accrued expenses		(135,942)		35,654
Compensated absences		145,551		33,271
Net pension liability		198,849		-
Net OPEB liabilities		410,791		90,623
Deferred inflows - pension related		(112,322)		(42,079)
Deferred inflows - OPEB related		(8,329)		(5,674)
Net cash provided by (used for) operating activities	$	(11,390,438)	$	(11,647,370)
Noncash capital activities:				
Trade-in of vehicles	$	-	$	500
Grant funded purchase of vehicle (direct payment by grantor)		47,544		-

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

Note 1 – Summary of Significant Accounting Policies:

A. Description and Purpose of Agency:

The Board operates as an agent for the Counties of Clarke, Frederick, Page, Shenandoah and Warren and the City of Winchester in the establishment and operation of community mental health, intellectual disability and substance abuse programs as provided for in Chapter 10 of Title 37.1 of the Code of Virginia (1950), relating to the Virginia Department of Behavioral Health and Developmental Services. In addition, the Board provides a system of community mental health and intellectual disability and substance abuse services which relate to and are integrated with existing and planned programs.

B. Financial Reporting Entity:

For financial reporting purposes, the Board includes all organizations for which it is considered financially accountable.

Based on the above criteria, no other organizations or entities have been included as part of the reporting entity.

The Board is reported as a jointly governed entity by the participant localities in their financial reports.

C. Financial Statement Presentation:

Northwestern Community Services Board is a governmental health care entity required to follow the accounting and reporting practices of the Governmental Accounting Standards Board. The accompanying financial statements are prepared in accordance with pronouncements issued by the GASB. The principles prescribed by GASB represent generally accepted accounting principles applicable to governmental units.

D. Basis of Accounting:

The Board is funded by federal, state and local funds. Its accounting policies are governed by applicable provisions of these grants and applicable pronouncements and publications of the grantors. The Board utilizes the accrual basis of accounting where revenues are recorded when earned and expenses recorded when due. Substantially all revenues and expenses are subject to accrual.

E. 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

F. Cash and Cash Equivalents:

The Board maintains cash accounts with financial institutions in accordance with the Virginia Security for Public Deposits Act of the Code of Virginia. The Act requires financial institutions to meet specific collateralization requirements. Cash and cash equivalents include cash on hand, amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the Board.

Note 1 - Summary of Significant Accounting Policies: (continued)

F. Cash and Cash Equivalents: (continued)

For purposes of the statement of cash flows, the Board considers their demand deposits and all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

G. Restricted Assets:

The Board segregates funds reserved for debt service as required by loan agreements with Rural Development. The restricted debt service accounts were $198,673 and $198,653 for 2020 and 2019, respectively.

H. Investments:

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

I. Prepaids:

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. The costs of prepaid items are recorded as expenses when consumed rather than when purchased.

J. Client Fees and Allowance for Uncollectible Accounts:

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

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

A significant majority of fees billed and collected result from Medicaid billings. Account balances in arrears for greater than 150 days are deemed uncollectible. An allowance for doubtful client accounts has been estimated by management to approximate $1,749,601 at June 30, 2020 and $2,247,035 at June 30, 2019.

Note 1 – Summary of Significant Accounting Policies: (continued)

K. Capital Assets:

Capital asset acquisitions that cost $5,000 or more with a useful life of more than 2 years are capitalized and recorded at cost. Donated capital assets are recorded at acquisition value at the time of the gift. Depreciation is provided over the estimated useful life of each of the depreciable assets using the straight-line method.

Estimated useful lives of capital assets are as follows:

Buildings	20 to 40 years
Improvements to buildings	10 to 20 years
Leasehold improvements	20 years
Furniture, fixtures, equipment and vehicles	5 to 10 years

L. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Board's deferred outflows of resources are comprised of certain items related to the measurement of the net pension liability and net OPEB liabilities and contributions to the pension and OPEB plans made during the current year and subsequent to the net pension liability and net OPEB liabilities measurement dates. For more detailed information on these items, reference the related notes.

In addition to liabilities, the statement of financial position may report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Board's deferred inflows of resources are comprised of certain items related to the measurement of the net pension liability and net OPEB liabilities. For more detailed information on these items, reference the related notes.

M. Pensions:

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Board's Retirement Plan and the additions to/deductions from the Board's Retirement Plan's net fiduciary position have been determined on the same basis as they were reported by the Virginia Retirement System (VRS). For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

N. Other Postemployment Benefits (OPEB):

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

Note 1 – Summary of Significant Accounting Policies: (continued)

O. Compensated Absences:

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

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

P. 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.

The Board may fund outlays for a particular purpose from both restricted 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 or used before unrestricted net position is applied.

Q. Operating and Nonoperating Revenues and Expenses:

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

R. Budgetary Accounting:

The Board follows these procedures in establishing its budgets:

1. In response to Letters of Notification received from the Department of Behavioral Health and Developmental Services (the Department), the Board submits a Performance Contract to the Department. This application contains complete budgets for all Core Services.

Note 1 – Summary of Significant Accounting Policies: (continued)

R. Budgetary Accounting: (continued)

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

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

S. Comparative Amounts:

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

Note 2 – Fiscal Agent:

The County of Frederick, Virginia acts as fiscal agent for the Board pursuant to the requirements of Section 37.1-195 of the Code of Virginia (1950), as amended.

Note 3 - Deposits and Investments:

Cash and Cash Equivalents: The Board considers all highly liquid cash investments and certificates of deposit, regardless of maturity, to be cash and cash equivalents. A summary of cash and cash equivalents is as follows:

	2020	2019
Cash in bank - operating	$ 1,887,086	$ 1,933,352
Cash in bank - restricted - debt reserves	198,673	198,653
Cash on hand and petty cash accounts	5,325	5,325
Investments	2,155,900	1,131,658
Total	$ 4,246,984	$ 3,268,988

Deposits:

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

Note 3 - Deposits and Investments: (continued)

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 investment policies are the same as the state statutes.

Custodial Credit Risk (Investments):

To protect the Board against potential fraud, the Board requires the investment assets of the Board to be secured through third-party custody and safekeeping procedures. Collateralized securities, such as repurchase agreements, shall be purchased using the delivery versus payment procedure.

Credit Risk of Debt Securities:

The Board's rated debt investments as of June 30, 2020 were rated by Standard and Poor's and the ratings are presented below using the Standard and Poor's rating scale.

Rated Debt Investments Value

Rated Debt Investments	Fair Quality Ratings
	AAAm
Virginia Local Government Investment Pool	$ 2,155,900

Concentration of Credit Risk:

The Board does not have an investment policy regarding the concentration of credit risk.

Interest Rate Risk:

The Board’s investment policy prohibits investing in instruments with a maturity date of greater than one year from the date of purchase.

Investment Type	Value	Investment Maturity Less Than One Year
Virginia Local Government Investment Pool	$ 2,155,900	$ 2,155,900

Note 3 - Deposits and Investments: (continued)

External Investment Pool:

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

Note 4 - Client Fees and Receivables:

Client fee revenues were from the following sources:

	2020	2019
Medicaid	$ 7,981,315	$ 6,797,103
Direct client	166,383	216,972
Third-party and other	945,377	819,199
Total	$ 9,093,075	$ 7,833,274

Net client fee and other receivables at June 30, 2020 and 2019 were due from the following sources:

	2020	2019
Direct and other client	$ 1,284,909	$ 1,016,246
Medicaid	1,157,726	1,928,268
Third party and other	648,520	955,052
Total	$ 3,091,155	$ 3,899,566
Allowance for uncollectibles	(1,749,601)	(2,247,035)
Net fees receivable	$ 1,341,554	$ 1,652,531

Other than Medicaid fees receivable, there are no individually significant receivables.

Note 5 - Capital Assets:

Capital assets consist of the following:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	$ 129,881	$ -	$ 11,200	$ 118,681
Capital assets being depreciated:				
Building and improvements	$ 4,630,289	$ 21,664	$ 100,724	$ 4,551,229
Equipment and vehicles	2,017,732	59,430	-	2,077,162
Leasehold improvements	11,895	-	11,895	-
Total capital assets being depreciated	$ 6,659,916	$ 81,094	$ 112,619	$ 6,628,391
Accumulated depreciation				
Building and improvements	$ 2,683,528	$ 132,270	$ 100,724	$ 2,715,074
Equipment and vehicles	1,762,634	128,536	-	1,891,170
Leasehold improvements	11,895	-	11,895	-
Total accumulated depreciation	$ 4,458,057	$ 260,806	$ 112,619	$ 4,606,244
Net capital assets being depreciated	$ 2,201,859	$ (179,712)	$ -	$ 2,022,147
Net capital assets	$ 2,331,740	$ (179,712)	$ 11,200	$ 2,140,828

Total depreciation expense was $260,806 for 2020 and $249,711 for 2019.

Note 6 – Operating Lease Agreements:

The Board leases office space and other facilities from various lessors. The lease terms range from monthly to ten years. Future minimum lease requirements for the long-term rental of office space under non-cancelable leases are as follows:

Year Ending June 30,	
2021	$ 247,494
2022	146,609
2023	77,445
2024	77,445
2025	77,445
2026-2030	374,317
Total	$ 1,000,755

Total rental expense amounted to $1,185,721 in 2020 and $1,574,418 in 2019.

Note 7 - Long-term Obligations:

Compensated Absences:

The Board has accrued the liability arising from outstanding claims and judgments and compensated absences.

Board employees earn leave based on length of service. No benefits or pay is received for unused sick leave upon termination by general government employees. The Board has outstanding accrued leave pay totaling $748,928 at June 30, 2020 and $603,377 at June 30, 2019, an increase of $145,551. All of the leave liability is reported as current because any amounts deemed to be long-term cannot be estimated.

Long-term Obligations:

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

	Direct Borrowings and Placements			
	Loans Payable	**Net Pension Liability**	**Net OPEB Liabilities**	**Total**
Balance, July 1, 2019	$ 1,237,355	$ (898,715)	$ 906,919	$ 1,245,559
Issuances/additions	-	3,408,048	652,229	4,060,277
Retirement/decreases	(197,672)	(2,310,484)	(241,438)	(2,749,594)
Balance, June 30, 2020	$ 1,039,683	$ 198,849	$ 1,317,710	$ 2,556,242

Annual requirements to amortize long-term debt are as follows:

Fiscal Year	Direct Borrowings and Placements Principal	Direct Borrowings and Placements Interest
2021	$ 205,928	$ 44,507
2022	215,588	34,847
2023	225,704	24,731
2024	121,181	15,813
2025	78,908	11,476
2026-2028	192,374	11,139
Total	$ 1,039,683	$ 142,513

Note 7 - Long-term Obligations: (continued)

Details of Long-term Debt:

Loans payable:

	Balance Due	Current Portion
Direct borrowings and placements:		
Rural Economic Development Administration (FmHA):		
Secured by real estate located in New Market, Virginia:		
Original amount of $79,900, interest at 5%, payments of $436 per month, including principal and interest, matures in 2024	$ 17,622	$ 4,452
Original amount of $466,000, interest at 5.25%, payments of $2,615 per month, including principal and interest, matures in 2024	104,316	26,536
Secured by real estate located in Front Royal, Virginia:		
Original amount of $1,400,000, payments of $7,532 per month, including principal and interest, interest at 4.875%, matures in 2027	551,180	64,954
BB&T Bank:		
Secured by real estate located in Front Royal, Virginia:		
Original amount of $1,787,000, modified on 1/28/19 to monthly payments of $11,042 including principal and interest for 54 months, interest at the Bank's Prime Rate plus 1.00% per annum to be adjusted daily, with one final payment due 8/5/23.	366,565	109,986
Total loans payable (direct borrowings and placements)	$ 1,039,683	$ 205,928

Default Provisions:

Upon default, the Bank may declare the outstanding balance(s) of the Note(s) to be immediately due and payable, both as to principal and interest, late fees, and all other amounts/expenditures without further notice. And such balance(s) shall accrue interest at the Default Rate until paid in full. Furthermore, the Bank may require any Borrower or any Guarantor to pledge additional collateral to the Bank from such Borrower's or Guarantor's assets and properties to secure the Loan(s). The Bank may take immediate possession of and/or foreclose upon any or all Collateral which may be granted to Bank as security for the indebtedness and obligations of any Borrower or any Guarantor under the Loan Documents.

The Board is in compliance with federal arbitrage regulations.

Note 8 – Unsecured Line of Credit:

The Board has an available unsecured line of credit with BB&T Bank of Winchester in the amount of $500,000. There is no outstanding balance at June 30, 2020 and there was no activity on the line of credit during the year.

Note 9 - Funding from Participant Localities:

The Board received appropriations from the participant localities as follows:

	2020	2019
County of Clarke	$ 94,087	$ 92,000
County of Frederick	416,507	396,673
County of Page	90,538	86,227
County of Shenandoah	252,662	246,662
County of Warren	318,463	303,298
City of Winchester	245,092	233,421
Total	$ 1,417,349	$ 1,358,281

Note 10 - Risk Management:

The Board has contracted with insurance carriers for property damage and liability, workers compensation, directors and officer liability and professional liability coverage. Coverage is $7,200,000 for directors and officers and professional liability policies. Workers compensation coverage is for statutory amounts. There is no surety bond coverage required or purchased for members of the Board of Directors. The Board also has crime coverage packages totaling $2,027,000. There have been no settlements which exceeded insurance coverage in the past three years. The Board retains the risk of deductibles on each policy plus any settlements over insurance coverage limits.

Note 11 - Commitments and Contingencies:

The Board participates in federal assistance programs which are subject to audit by the grantor agencies. The Board believes that it is in compliance with applicable grant requirements, and any disallowances of costs by the grantor agencies would not be material.

Note 12 - Deferred Compensation Plan:

The Board offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The plan is administered by a third-party administrator through an accounting firm.

Note 13 – Pension Plan:

Plan Description

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

Benefit Structures

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

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

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

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

Note 13 – Pension Plan: (continued)

Average Final Compensation and Service Retirement Multiplier

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

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

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

Employees Covered by Benefit Terms

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

	Number
Inactive members or their beneficiaries currently receiving benefits	90
Inactive members:	
Vested inactive members	62
Non-vested inactive members	93
Inactive members active elsewhere in VRS	68
Total inactive members	223
Active members	159
Total covered employees	472

Note 13 – Pension Plan: (continued)

Contributions

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

The Board's contractually required employer contribution rate for the year ended June 30, 2020 was 4.18% 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 Board were $301,533 and $296,849 for the years ended June 30, 2020 and June 30, 2019, respectively.

Net Pension Liability (Asset)

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

Actuarial Assumptions – General Employees

The total pension liability for General Employees in the Board's Retirement Plan was based on an actuarial valuation as of June 30, 2018, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2019.

Inflation	2.50%
Salary increases, including inflation	3.50% – 5.35%
Investment rate of return	6.75%, net of pension plan investment expenses, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 6.75% to simplify preparation of pension liabilities.

Note 13 – Pension Plan: (continued)

Actuarial Assumptions – General Employees: (continued)

Mortality rates:

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

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males 95% of rates; females 105% of rates.

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

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

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

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14.00% to 15.00%
Discount Rate	Decreased rate from 7.00% to 6.75%

Note 13 – Pension Plan: (continued)

Long-term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return*
Public Equity	34.00%	5.61%	1.91%
Fixed Income	15.00%	0.88%	0.13%
Credit Strategies	14.00%	5.13%	0.72%
Real Assets	14.00%	5.27%	0.74%
Private Equity	14.00%	8.77%	1.23%
MAPS - Multi-Asset Public Strategies	6.00%	3.52%	0.21%
PIP - Private Investment Partnership	3.00%	6.29%	0.19%
Total	100.00%		5.13%
		Inflation	2.50%
		*Expected arithmetic nominal return	7.63%

* The above allocation provides a one-year return of 7.63%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation.

Discount Rate

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for

Note 13 – Pension Plan: (continued)

Discount Rate: (continued)

state and teacher employer contributions; the Board was also provided with an opportunity to use an alternative employer contribution rate. For the year ended June 30, 2019, the alternate rate was the employer contribution rate used in FY 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2017 actuarial valuations, whichever was greater. From July 1, 2019 on, participating employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2018	$ 22,725,150	$ 23,623,865	$ (898,715)
Changes for the year:			
Service cost	$ 657,986	$ -	$ 657,986
Interest	1,551,142	-	1,551,142
Changes of assumptions	732,594	-	732,594
Differences between expected and actual experience	449,768	-	449,768
Contributions - employer	-	295,471	(295,471)
Contributions - employee	-	444,990	(444,990)
Net investment income	-	1,570,023	(1,570,023)
Benefit payments, including refunds of employee contributions	(1,131,946)	(1,131,946)	-
Administrative expenses	-	(15,569)	15,569
Other changes	-	(989)	989
Net changes	$ 2,259,544	$ 1,161,980	$ 1,097,564
Balances at June 30, 2019	$ 24,984,694	$ 24,785,845	$ 198,849

Note 13 – Pension Plan: (continued)

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

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

		Rate	
	1% Decrease (5.75%)	Current Discount (6.75%)	1% Increase (7.75%)
Board's Net Pension Liability (Asset)	$ 3,461,021	$ 198,849	$ (2,380,482)

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

For the year ended June 30, 2020, the Board recognized pension expense of $558,414. At June 30, 2020, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 274,761	$ 38,437
Change in assumptions	447,538	-
Net difference between projected and actual earnings on pension plan investments	-	212,211
Employer contributions subsequent to the measurement date	301,533	-
Total	$ 1,023,832	$ 250,648

$301,533 reported as deferred outflows of resources related to pensions resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction to the Net Pension Liability in the fiscal year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30	
2021	$ 415,717
2022	47,036
2023	(4,976)
2024	13,874

Note 13 – Pension Plan: (continued)

Pension Plan Data

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

Note 14 – VRS Cost-Sharing Other Postemployment Benefits (OPEB) Plans:

Group Life Insurance (GLI) Plan (OPEB Plan)

Plan Description

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

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

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

Eligible Employees

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

Benefit Amounts

The GLI Plan is a defined benefit plan with several components. The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. The accidental death benefit is double the natural death benefit. In addition to basic natural and accidental death benefits, the plan provides additional benefits provided under specific circumstances that include the following: accidental dismemberment benefit, safety belt benefit, repatriation benefit, felonious assault benefit, and accelerated death benefit option. The benefit amounts are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces

Note 14 – VRS Cost-Sharing Other Postemployment Benefits (OPEB) Plans: (continued)

Group Life Insurance (GLI) Plan (OPEB Plan) (continued)

Benefit Amounts: (Continued)

by an additional 25% on each subsequent January 1 until it reaches 25% of its original value. For covered members with at least 30 years of service credit, the minimum benefit payable was set at $8,000 by statute in 2015. This will be increased annually based on the VRS Plan 2 cost-of-living calculation. The minimum benefit adjusted for the COLA was $8,463 as of June 30, 2020.

Contributions

The contribution requirements for the GLI Plan are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the GLI Plan was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% x 60%) and the employer component was 0.52% (1.31% x 40%). Employers may elect to pay all or part of the employee contribution; however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2020 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 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 to the GLI Plan from the entity were $47,816 and $44,527 for the years ended June 30, 2020 and June 30, 2019, respectively.

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

At June 30, 2020, the entity reported a liability of $705,420 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2019 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation performed as of June 30, 2018, and rolled forward to the measurement date of June 30, 2019. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the GLI Plan for the year ended June 30, 2019 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2019, the participating employer's proportion was .04335% as compared to .03928% at June 30, 2018.

For the year ended June 30, 2020, the participating employer recognized GLI OPEB expense of $38,697. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

Note 14 – VRS Cost-Sharing Other Postemployment Benefits (OPEB) Plans: (continued)

Group Life Insurance (GLI) Plan (OPEB Plan) (continued)

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 46,915	$ 9,150
Net difference between projected and actual earnings on GLI OPEB plan investments	-	14,490
Change of assumptions	44,536	21,272
Changes in proportion	105,122	-
Employer contributions subsequent to the measurement date	47,816	-
Total	$ 244,389	$ 44,912

$47,816 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the fiscal year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year Ended June 30	
2021	$ 24,891
2022	24,892
2023	31,029
2024	35,145
2025	28,302
Thereafter	7,402

Note 14 – VRS Cost-Sharing Other Postemployment Benefits (OPEB) Plans: (continued)

Group Life Insurance (GLI) Plan (OPEB Plan) (continued)

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2018, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2019. The assumptions include several employer groups as noted below. Salary increases and mortality rates included herein are for relevant employer groups. Information for other groups can be referenced in the VRS CAFR.

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

*Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 6.75% to simplify preparation of OPEB liabilities.

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

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

Post-Retirement:
RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 3 years; females 1.0% increase compounded from ages 70 to 90.

Post-Disablement:
RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years, 110% of rates; females 125% of rates.

Note 14 – VRS Cost-Sharing Other Postemployment Benefits (OPEB) Plans: (continued)

Group Life Insurance (GLI) Plan (OPEB Plan) (continued)

Actuarial Assumptions (continued)

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

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14.00% to 15.00%
Discount Rate	Decreased rate from 7.00% to 6.75%

NET GLI OPEB Liability

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

		GLI OPEB Plan
Total GLI OPEB Liability	$	3,390,238
Plan Fiduciary Net Position		1,762,972
GLI Net OPEB Liability (Asset)	$	1,627,266
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability		52.00%

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

Note 14 – VRS Cost-Sharing Other Postemployment Benefits (OPEB) Plans: (continued)

Group Life Insurance (GLI) Plan (OPEB Plan) (continued)

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return*
Public Equity	34.00%	5.61%	1.91%
Fixed Income	15.00%	0.88%	0.13%
Credit Strategies	14.00%	5.13%	0.72%
Real Assets	14.00%	5.27%	0.74%
Private Equity	14.00%	8.77%	1.23%
MAPS - Multi-Asset Public Strategies	6.00%	3.52%	0.21%
PIP - Private Investment Partnership	3.00%	6.29%	0.19%
Total	100.00%		5.13%
		Inflation	2.50%
		*Expected arithmetic nominal return	7.63%

*The above allocation provides a one-year return of 7.63%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation.

Discount Rate

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

Note 14 – VRS Cost-Sharing Other Postemployment Benefits (OPEB) Plans: (continued)

Group Life Insurance (GLI) Plan (OPEB Plan) (continued)

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

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

	Rate		
	1% Decrease (5.75%)	Current Discount (6.75%)	1% Increase (7.75%)
Board's proportionate share of the GLI Net OPEB Liability	$ 926,727	$ 705,420	$ 525,947

GLI Plan Fiduciary Net Position

Detailed information about the GLI Plan's Fiduciary Net Position is available in the separately issued VRS 2019 Comprehensive Annual Financial Report (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/pdf/publications/2019-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Virginia Local Disability Program (VLDP)

Plan Description

Political subdivisions are required by Title 51.1 of the Code of Virginia, as amended, to provide short-term and long-term disability benefits for their hybrid plan employees either through a local plan or through the Virginia Local Disability Program (VLDP). This is a multiple-employer, cost-sharing plan administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for eligible public employer groups in the Commonwealth of Virginia.

The specific information for the VLDP OPEB, including eligibility, coverage, and benefits is described below:

Eligible Employees

The Political Subdivision VLDP was implemented January 1, 2014 to provide disability benefits for non-work-related and work-related disabilities for employees with hybrid plan retirement benefits. All full-time, salaried general employees; including local law enforcement officers, firefighters, or emergency medical technicians of political subdivisions who do not provide enhanced hazardous duty benefits; who are in the VRS Hybrid Retirement Plan benefit structure and whose employer has not elected to opt out of the VRS-sponsored program are automatically covered by the VRS Political Subdivision VLDP.

Note 14 – VRS Cost-Sharing Other Postemployment Benefits (OPEB) Plans: (continued)

Virginia Local Disability Program (VLDP) (continued)

Benefit Amounts

The VLDP provides a short-term disability benefit beginning after a seven-calendar-day waiting period from the first day of disability. Employees become eligible for non-work-related short-term disability coverage after one year of continuous participation in VLDP with their current employer. During the first five years of continuous participation in VLDP with their current employer, employees are eligible for 60% of their pre-disability income if they go out on non-work-related or work-related disability. Once the eligibility period is satisfied, employees are eligible for higher income replacement levels.

The VLDP provides a long-term disability benefit beginning after 125 workdays of short-term disability. Members are eligible if they are unable to work at all or are working fewer than 20 hours per week. Members approved for long-term disability will receive 60% of their pre-disability income. If approved for work-related long-term disability, the VLDP benefit will be offset by the workers' compensation benefit. Members will not receive a VLDP benefit if their workers' compensation benefit is greater than the VLDP benefit.

VLDP Notes

Members approved for short-term or long-term disability at age 60 or older will be eligible for a benefit, provided they remain medically eligible. VLDP Long-Term Care Plan is a self-funded program that assists with the cost of covered long-term care services.

Contributions

The contribution requirements for active hybrid plan employees is governed by §51.1-1178(C) of the Code of Virginia, as amended, but may be impacted as a result of funding provided to political subdivisions by the Virginia General Assembly. Each political subdivision's contractually required employer contribution rate for the year ended June 30, 2020 was 0.72% of covered employee compensation for employees in the VRS Political Subdivision VDLP. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate 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 from the Board to the VRS Political Subdivision VDLP were $32,516 and $26,890 for the years ended June 30, 2020 and June 30, 2019, respectively.

VLDP OPEB Liabilities, VLDP OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to VLDP OPEB

At June 30, 2020, the Board reported a liability of $24,484 for its proportionate share of the VLDP Net OPEB Liability. The Net VLDP OPEB Liability was measured as of June 30, 2019 and the total VLDP OPEB liability used to calculate the Net VLDP OPEB Liability was determined by an actuarial valuation as of June 30, 2018, and rolled forward to the measurement date of June 30, 2019. The Board's proportion of the Net VLDP OPEB Liability was based on the Board's actuarially determined employer contributions to the VLDP OPEB plan for the year ended June 30, 2019 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2019, the Board's proportion of the VLDP was 1.20857% as compared to 1.03522% at June 30, 2018.

Note 14 – VRS Cost-Sharing Other Postemployment Benefits (OPEB) Plans: (continued)

Virginia Local Disability Program (VLDP) (continued)

VLDP OPEB Liabilities, VLDP OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to VLDP OPEB (continued)

For the year ended June 30, 2020, the Board recognized VLDP OPEB expense of $29,049. Since there was a change in proportionate share between measurement dates a portion of the VLDP Net OPEB expense was related to deferred amounts from changes in proportion.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 12,280	$ 753
Net difference between projected and actual earnings on VLDP OPEB program investments	84	-
Change of assumptions	702	937
Changes in proportion	1,335	-
Employer contributions subsequent to the measurement date	32,516	-
Total	$ 46,917	$ 1,690

$32,516 reported as deferred outflows of resources related to the VLDP OPEB resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the Net VLDP OPEB Liability in the fiscal year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the VLDP OPEB will be recognized in the VLDP OPEB expense in future reporting periods as follows:

Year Ended June 30	
2021	$ 2,636
2022	2,620
2023	2,607
2024	2,633
2025	2,497
Thereafter	(282)

Note 14 – VRS Cost-Sharing Other Postemployment Benefits (OPEB) Plans: (continued)

Virginia Local Disability Program (VLDP) (continued)

Actuarial Assumptions

The total VLDP OPEB liability for the VLDP was based on an actuarial valuation as of June 30, 2018, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2019.

Inflation	2.50%
Salary increases, including inflation:	
Political Subdivision Employees	3.50%-5.95%
Investment rate of return	6.75%, net of program investment expenses, including inflation*

*Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 6.75%. However, since the difference was minimal, and a more conservative 6.75% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 6.75% to simplify preparation of OPEB liabilities.

Mortality Rates – Non-Largest Ten Locality Employers – General and Non-Hazardous Duty Employees

Pre-Retirement:
RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males 90% of rates; females set forward 1 year.

Post-Retirement:
RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year with 1.0% increase compounded from ages 70 to 90; females set forward 3 years.

Post-Disablement:
RP-2014 Disability Life Mortality Table projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

Note 14 – VRS Cost-Sharing Other Postemployment Benefits (OPEB) Plans: (continued)

Virginia Local Disability Program (VLDP) (continued)

Actuarial Assumptions: (Continued)

Mortality Rates – Non-Largest Ten Locality Employers – General and Non-Hazardous Duty Employees: (continued)

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

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each year age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14.00% to 15.00%
Discount Rate	Decreased rate from 7.00% to 6.75%

Net VLDP OPEB Liability

The net OPEB liability (NOL) for the Political Subdivision VLDP represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2019, NOL amounts for the VRS Political Subdivision VLDP is as follows (amounts expressed in thousands):

	Political Subdivision VLDP OPEB Plan
Total Political Subdivision VLDP OPEB Liability	$ 3,989
Plan Fiduciary Net Position	1,962
Political Subdivision net VLDP OPEB Liability (Asset)	$ 2,027
Plan Fiduciary Net Position as a Percentage of the Total Political Subdivision VLDP OPEB Liability	49.19%

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

Note 14 – VRS Cost-Sharing Other Postemployment Benefits (OPEB) Plans: (continued)

Virginia Local Disability Program (VLDP) (continued)

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return*
Public Equity	34.00%	5.61%	1.91%
Fixed Income	15.00%	0.88%	0.13%
Credit Strategies	14.00%	5.13%	0.72%
Real Assets	14.00%	5.27%	0.74%
Private Equity	14.00%	8.77%	1.23%
MAPS - Multi-Asset Public Strategies	6.00%	3.52%	0.21%
PIP - Private Investment Partnership	3.00%	6.29%	0.19%
Total	100.00%		5.13%
		Inflation	2.50%
		*Expected arithmetic nominal return	7.63%

*The above allocation provides a one-year return of 7.63%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. The VRS Board elected a long-term rate of 6.75% which is roughly at the 40th percentile of expected long-term results of the VRS fund asset allocation.

Discount Rate

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

Note 14 – VRS Cost-Sharing Other Postemployment Benefits (OPEB) Plans: (continued)

Virginia Local Disability Program (VLDP) (continued)

Sensitivity of the Board's Proportionate Share of the VLDP Net OPEB Liability to Changes in the Discount Rate

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

	Rate		
	1% Decrease (5.75%)	Current Discount (6.75%)	1% Increase (7.75%)
Board's proportionate share of the VLDP Net OPEB Liability	$ 28,156	$ 24,484	$ 21,272

VLDP OPEB Fiduciary Net Position

Detailed information about the VRS Political Subdivision VLDP's Fiduciary Net Position is available in the separately issued VRS 2019 Comprehensive Annual Financial Report (CAFR). A copy of the 2019 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org /pdf/publications/2019-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Note 15 – Retiree Health Plan Other Postemployment Benefits (OPEB):

A. **Plan Description**:

In addition to the pension benefits described in Note 13 and the VRS OPEB benefits described in Note 14, the Board administers a single employer defined benefit healthcare plan, the Health Plan. The Board pays a portion of the cost of health-related insurance benefits to all employees who retire from the Board and have worked for the Board for at least 15 years and retire under the Virginia Retirement system. The benefits are comprised of health-related group insurance policies through which retirees and their spouses can obtain coverage. Once the retirees reach age 65 or are eligible for Medicare they are not entitled to these benefits. The plan does not issue a publicly available financial report.

B. **Plan Membership**:

At June 30, 2020 (measurement date), the following employees were covered by the benefit terms:

Total active employees with coverage	210
Total retirees with coverage	1
Total	211

Note 15 – Retiree Health Plan Other Postemployment Benefits (OPEB): (continued)

C. Funding Policy:

The board does not pre-fund benefits; therefore, no assets are accumulated in a trust fund. The current funding policy is to pay benefits directly from general assets on a pay-as-you-go basis. The Board establishes the employer contribution rates and how the plan will be funded as part of the annual budget process. The plan specifies that the Board will make explicit contributions of 50% of the retiree-only premium for all eligible retirees. Various amounts are paid by the Board depending on the status of each plan participant. The amount paid by the Board for OPEB as the benefits came due during the year ended June 30, 2020 was $3,492.

D. Total OPEB Liability:

The Board's total OPEB liability was measured as of June 30, 2020. The total OPEB liability was determined by an actuarial valuation performed as of July 1, 2019, using updated actuarial assumptions, applied to all periods included in the measurement and projected forward to the measurement date of June 30, 2020.

E. Actuarial Assumptions:

The total OPEB liability in the July 1, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50% per year
Salary Increases	5.35% for 1 year gradually declining to 3.50% for 20 or more years of service
Discount Rate	3.50% as of June 30, 2019 2.21% as of June 30, 2020

Mortality rates:

Pre-Retirement:
RP-2014 Employee Rates to age 80, Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020; males setback 1 year, 85% of rates; females setback 1 year. 25% of deaths are assumed to be service related.

Post-Retirement:
RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with Scale BB to 2020; males set forward 1 year; females setback 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement:
RP-2014 Disabled Mortality Rates projected with Scale BB to 2020; males 115% of rates; females 130% of rates.

In setting the assumed rates of retirement, mortality, withdrawal, and disability, the most recent experience study performed for VRS was relied on. This study examined actual VRS experience over the four-year period ending June 30, 2016. The demographic assumptions recommended as a result of this study were adopted by the VRS Board of Trustees.

Note 15 – Retiree Health Plan Other Postemployment Benefits (OPEB): (continued)

E. Actuarial Assumptions: (continued)

The rationale for relying on assumptions based on this experience study is that the volume of data included in the study makes the resulting rates more credible than a study based solely on this plan's population.

The assumption of the percentage of active employees who are married at retirement was made to be consistent with the VRS assumption.

Finally, the retiree and spousal election assumptions were based on actual election experience between July 1, 2012 and June 30, 2017. Both of these assumptions were changed for the July 1, 2019 valuation.

F. Discount Rate:

The discount rates are based on the Bond Buyer 20-Year Bond GO Index as of their respective measurement dates.

G. Changes in Total OPEB Liability:

		Total OPEB Liability
Balances at June 30, 2019	$	301,919
Changes for the year:		
Service cost	$	21,509
Interest		11,092
Difference between expected and actual experience		(4,507)
Changes of assumptions		270,961
Benefit payments		(13,168)
Net changes	$	285,887
Balances at June 30, 2020	$	587,806

H. Sensitivity of the Total OPEB Liability to Changes in the Discount Rate:

The following amounts present the total OPEB liability of the Board, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (1.21%) or one percentage point higher (3.21%) than the current discount rate:

Rate		
1% Decrease (1.21%)	Current Discount Rate (2.21%)	1% Increase (3.21%)
$ 640,739	$ 587,806	$ 537,571

Note 15 – Retiree Health Plan Other Postemployment Benefits (OPEB): (continued)

I. Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates:

The following presents the total OPEB liability of the Board, as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.30% decreasing to an ultimate rate of 3.00%) or one percentage point higher (7.30% decreasing to an ultimate rate of 5.00%) than the current healthcare cost trend rates:

	Rates	
1% Decrease (5.30% decreasing to 3.00%)	Healthcare Cost Trend (6.30% decreasing to 4.00%)	1% Increase (7.30% decreasing to 5.00%)
$ 502,176	$ 587,806	$ 691,045

J. OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources:

For the year ended June 30, 2020, the Board recognized OPEB expense in the amount of $78,167. At June 30, 2020, the Board 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	$ -	$ 3,743
Changes of assumptions	231,478	5,190
Total	$ 231,478	$ 8,933

Amounts reported as deferred outflows of resources and deferred inflows of resources will be recognized in OPEB expense in future reporting periods as follows:

Year Ended June 30	
2021	$ 45,566
2022	45,566
2023	45,566
2024	45,203
2025	40,644
Thereafter	-

Additional disclosures on changes in total OPEB liability and related ratios can be found in the required supplementary information following the notes to the financial statements.

Note 15 – Retiree Health Plan Other Postemployment Benefits (OPEB): (continued)

K. Aggregate Totals:

	DOR	Net OPEB Liabilities	DIR	OPEB Expense
GLI	$ 244,389	$ 705,420	$ 44,912	$ 38,697
VLDP	46,917	24,484	1,690	29,049
Retiree Health	231,478	587,806	8,933	78,167
Totals	$ 522,784	$ 1,317,710	$ 55,535	$ 145,913

Note 16 – Upcoming Pronouncements:

Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Statement No. 87, *Leases*, requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

Statement No. 92, *Omnibus 2020*, addresses practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics such as leases, assets related to pension and postemployment benefits, and reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature. The effective dates differ by topic, ranging from January 2020 to periods beginning after June 15, 2021.

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

Note 17 – COVID-19 Pandemic:

On March 11, 2020, the World Health Organization declared COVID-19 a pandemic, which has caused an economic downturn on a global scale, disrupted global supply chains, and created significant uncertainty, volatility, and disruption across economies and financial markets. The full impact of the COVID-19 outbreak continues to evolve as of the release date of this report. Management is monitoring the situation and impact that it may have on its financial condition, liquidity, operations, suppliers, industry, and workforce. Given the daily evolution of the COVID-19 outbreak and global responses to curb its spread, the Board is not able to estimate the effects of the COVID-19 outbreak on its results of operations, financial condition, or liquidity for fiscal year 2021.

- Required Supplementary Information -

NORTHWESTERN COMMUNITY SERVICES BOARD

Schedule of Changes in Net Pension Liability (Asset) and Related Ratios
VRS Pension Plan
Measurement Dates of June 30, 2014 through June 30, 2019

	2019	2018	2017	2016	2015	2014
Total pension liability						
Service cost	$ 657,986	$ 572,018	$ 608,297	$ 599,614	$ 657,547	$ 702,987
Interest	1,551,142	1,496,950	1,431,194	1,340,736	1,282,594	1,192,464
Differences between expected and actual experience	449,768	(235,553)	(6,295)	244,543	(358,226)	-
Changes of assumptions	732,594	-	(135,359)	-	-	-
Benefit payments	(1,131,946)	(986,527)	(930,409)	(854,871)	(647,749)	(568,024)
Net change in total pension liability	$ 2,259,544	$ 846,888	$ 967,428	$ 1,330,022	$ 934,166	$ 1,327,427
Total pension liability - beginning	22,725,150	21,878,262	20,910,834	19,580,812	18,646,646	17,319,219
Total pension liability - ending (a)	$ 24,984,694	$ 22,725,150	$ 21,878,262	$ 20,910,834	$ 19,580,812	$ 18,646,646
Plan fiduciary net position						
Contributions - employer	$ 295,471	$ 312,266	$ 283,117	$ 385,244	$ 396,000	$ 464,928
Contributions - employee	444,990	357,424	314,162	301,469	321,755	373,185
Net investment income	1,570,023	1,644,449	2,453,436	349,931	880,885	2,593,479
Benefit payments	(1,131,946)	(986,527)	(930,409)	(854,871)	(647,749)	(568,024)
Administrator charges	(15,569)	(14,175)	(14,211)	(12,347)	(11,794)	(13,607)
Other	(989)	(1,466)	(2,180)	(148)	(187)	136
Net change in plan fiduciary net position	$ 1,161,980	$ 1,311,971	$ 2,103,915	$ 169,278	$ 938,910	$ 2,850,097
Plan fiduciary net position - beginning	23,623,865	22,311,894	20,207,979	20,038,701	19,099,791	16,249,694
Plan fiduciary net position - ending (b)	$ 24,785,845	$ 23,623,865	$ 22,311,894	$ 20,207,979	$ 20,038,701	$ 19,099,791
Board's net pension liability (asset) - ending **(a) - (b)**	$ 198,849	$ (898,715)	$ (433,632)	$ 702,855	$ (457,889)	$ (453,145)
Plan fiduciary net position as a percentage of the total pension liability	99.20%	103.95%	101.98%	96.64%	102.34%	102.43%
Covered payroll	$ 8,497,714	$ 7,464,636	$ 6,556,103	$ 6,223,354	$ 6,133,171	$ 6,684,098
Board's net pension liability (asset) as a percentage of covered payroll	2.34%	-12.04%	-6.61%	11.29%	-7.47%	-6.78%

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

NORTHWESTERN COMMUNITY SERVICES BOARD

Schedule of Employer Contributions
VRS Pension Plan
Years Ended June 30, 2011 through June 30, 2020

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2020	$ 301,533	$ 301,533	$ -	$ 9,113,107	3.31%
2019	296,849	296,849	-	8,497,714	3.49%
2018	312,266	312,266	-	7,464,636	4.18%
2017	284,870	284,870	-	6,556,103	4.35%
2016	397,672	397,672	-	6,223,354	6.39%
2015	391,910	391,910	-	6,133,171	6.39%
2014	465,882	465,882	-	6,684,098	6.97%
2013	453,951	453,951	-	6,512,921	6.97%
2012	223,324	223,324	-	5,987,240	3.73%
2011	204,177	204,177	-	5,473,917	3.73%

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

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

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

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14.00% to 15.00%
Discount Rate	Decreased rate from 7.00% to 6.75%

NORTHWESTERN COMMUNITY SERVICES BOARD

Schedule of Board's Share of Net OPEB Liabilities
VRS Cost Sharing OPEB Plans
Measurement Dates of June 30, 2017 through June 30, 2019

Group Life Insurance (GLI) Plan

Date (1)	Employer's Proportion of the Net GLI OPEB Liability (Asset) (2)	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) (3)	Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total VLDP OPEB Liability (6)
2019	0.04335%	$ 705,420	$ 8,497,714	8.30%	52.00%
2018	0.03928%	597,000	7,469,583	7.99%	51.22%
2017	0.03561%	536,000	6,556,103	8.18%	48.86%

Virginia Local Disability Program (VLDP)

Date (1)	Employer's Proportion of the Net GLI OPEB Liability (Asset) (2)	Employer's Proportionate Share of the Net VLDP OPEB Liability (Asset) (3)	Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net VLDP OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total VLDP OPEB Liability (6)
2019	1.20857%	$ 24,484	$ 3,734,704	0.66%	49.19%
2018	1.03522%	8,000	2,513,581	0.32%	51.39%
2017	0.93858%	6,000	1,723,500	0.35%	38.40%

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

NORTHWESTERN COMMUNITY SERVICES BOARD

Schedule of Employer Contributions
VRS Cost Sharing OPEB Plans
Years Ended June 30, 2017 through June 30, 2020

Group Life Insurance (GLI) Plan

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2020	$ 47,816	$ 47,816	$ -	$ 9,125,313	0.52%
2019	44,527	44,527	-	8,497,714	0.52%
2018	38,842	38,842	-	7,469,583	0.52%
2017	34,154	34,154	-	6,556,103	0.52%

Virginia Local Disability Program (VLDP)

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2020	$ 32,516	$ 32,516	$ -	$ 4,516,184	0.72%
2019	26,890	26,890	-	3,734,704	0.72%
2018	15,082	15,082	-	2,513,581	0.60%
2017	10,341	10,341	-	1,723,500	0.60%

Schedule is intended to show information for 10 years. Information prior to 2017 is unavailable.

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

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

Non-Largest Ten Locality Employers - General Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14.00% to 15.00%
Discount Rate	Decreased rate from 7.00% to 6.75%

NORTHWESTERN COMMUNITY SERVICES BOARD

Schedule of Changes in Total OPEB Liability and Related Ratios
Retiree Health Plan
For the Years Ended June 30, 2018 through June 30, 2020

	2020	2019	2018
Total OPEB liability			
Service cost	$ 21,509	$ 15,546	$ 16,033
Interest	11,092	11,034	9,754
Changes of assumptions	270,961	10,599	(10,212)
Differences between expected and actual experience	(4,507)	-	-
Benefit payments	(13,168)	(9,556)	(7,791)
Net change in total OPEB liability	$ 285,887	$ 27,623	$ 7,784
Total OPEB liability - beginning	301,919	274,296	266,512
Total OPEB liability - ending	$ 587,806	$ 301,919	$ 274,296
Covered payroll	$ 9,804,455	$ 7,224,427	$ 7,224,427
Board's total OPEB liability as a percentage of covered payroll	6.00%	4.18%	3.80%

Schedule is intended to show information for 10 years. Additional years will be included as they become available.

Notes to Required Supplementary Information
Retiree Health Plan
For the Year Ended June 30, 2020

Valuation Date: 7/1/2019
Measurement Date: 6/30/2020

No assets are accumulated in a trust that meets the criteria in GASB 75 to pay related benefits.

Methods and assumptions used to determine OPEB liability:

Actuarial Cost Method	Entry age normal, level % of pay
Discount Rate	3.50% as of June 30, 2019; 2.21% as of June 30, 2020
Inflation	2.50% per year
Healthcare Trend Rate	The healthcare trend rate assumption starts at 6.30% in 2019 and gradually declines to 4.00% by the year 2073
Salary Increase Rates	The salary increase rate starts at 5.35% salary increase for 1 year of service and gradually declines to 3.50% salary increase for 20 or more years of service
Retirement Age	The average age at retirement is 62
Disability Rates	25% of disability cases are assumed to be service related
Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Calculated using the RP-2014 projected to 2020

- Compliance -

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

To the Board of Directors
Northwestern Community Services Board
Front Royal, Virginia

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of Northwestern Community Services Board, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Northwestern Community Services Board's basic financial statements and have issued our report thereon dated November 16, 2020.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Northwestern 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 Northwestern Community Services Board's internal control. Accordingly, we do not express an opinion on the effectiveness of Northwestern 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 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 may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northwestern 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 Northwestern Community Services Board's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northwestern Community Services Board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Robinson Farmer Cox Associates

Charlottesville, Virginia
November 16, 2020

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

To the Board of Directors
Northwestern Community Services Board
Front Royal, Virginia

Report on Compliance for Each Major Federal Program

We have audited Northwestern Community Services Board's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Northwestern Community Services Board's major federal programs for the year ended June 30, 2020. Northwestern 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.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Northwestern Community Services Board's major federal programs based on our audit of the types of compliance requirements referred to above. 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). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Northwestern Community Services Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Northwestern Community Services Board's compliance.

Opinion on Each Major Federal Program

In our opinion, Northwestern Community Services Board complied, in all material respects, with the types of 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, 2020.

Report on Internal Control over Compliance

Management of Northwestern Community Services Board is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Northwestern Community Services Board's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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 internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Northwestern Community Services Board's 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 first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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

Charlottesville, Virginia
November 16, 2020

NORTHWESTERN COMMUNITY SERVICES BOARD

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-through Entity Identifying Number	Total Federal Expenditures
Department of Housing and Urban Development			
Direct Payments:			
Shelter Plus Care	14.238	N/A	$ 385,868
Department of Transportation			
Pass-Through Payments:			
Virginia Department of Rail and Public Transportation:			
Transit Services Programs Cluster:			
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	FTA Grant VA-2018-024	$ 47,542
Department of Health and Human Services			
Direct payments:			
COVID-19 - Provider Relief Fund	93.498	N/A	$ 14,155
Pass-through Payments:			
Virginia Department of Behavioral Health and Developmental Services:			
Substance Abuse and Mental Health Services - Projects of Regional and National Significance (Youth Suicide Prevention)	93.243	50875/6H79SM062897	142,271
Opioid STR (VA Opioid Response Grant)	93.788	53002	648,175
Block Grants for Community Mental Health Services	93.958	50129	191,058
Block Grants for Prevention and Treatment of Substance Abuse	93.959	50169	737,262
Total Department of Health and Human Services			$ 1,732,921
Total expenditures of federal awards			$ 2,166,331

Notes to Schedule of Expenditures of Federal Awards

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Northwestern Community Services Board under programs of the federal government for the year ended June 30, 2020. 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 Northwestern Community Services Board, it is not intended to and does not present the financial position, changes in net position, or cash flows of Northwestern Community Services Board.

Notes to Schedule of Expenditures of Federal Awards (Continued)

Note B - Summary of Significant Accounting Policies

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

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

Note C - Subrecipients
No awards were passed through to subrecipients.

Note D - Indirect Cost Recovery
The entity has elected not to use the 10% de minimis indirect cost rate allowed under Uniform Guidance.

Note E - Items Not Included in the Schedule

USDA Rural Development loan balances at June 30, 2020 for which only the payment of debt service is the primary compliance requirement.	$ 673,118

Note F - Reconciliation of the Schedule of Expenditures of Federal Awards to Federal Revenues Reported on the Statement of Revenues, Expenses and Changes in Net Position

Federal revenue reported	$ 2,041,486
Reconciling items:	
Unexpended current year funds	(6,176)
Revenue recognition timing differences	131,021
Total expenditures of federal awards	$ 2,166,331

Schedule of Findings and Questioned Costs
Year Ended June 30, 2020

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:

CFDA #	Name of Federal Program or Cluster
93.959	Block Grants for Prevention and Treatment of Substance Abuse

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

Section II - Financial Statement Findings

There are no financial statement findings to report.

Section III - Federal Award Findings and Questioned Costs

There are no federal award findings and questioned costs to report.

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2020

There were no items reported.