

EASTERN SHORE COMMUNITY SERVICES BOARD

ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

**EASTERN SHORE
COMMUNITY SERVICES BOARD**

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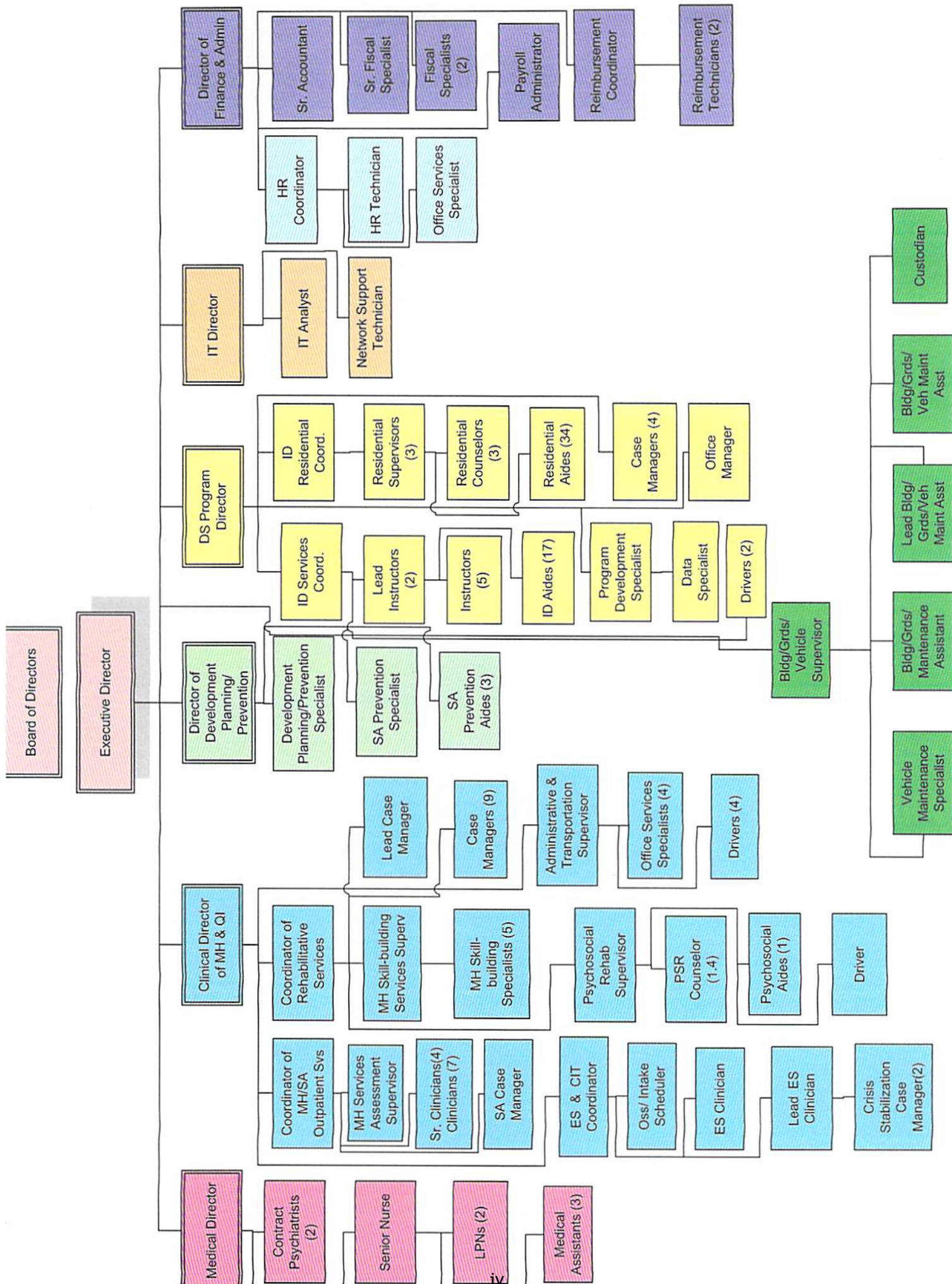
EASTERN SHORE COMMUNITY SERVICES BOARD

BOARD OF DIRECTORS

Mr. Robert J. Bloxom- Chairperson	Ms. Marva L. Annis
Mr. Richard L. Hubbard - Vice Chairperson	Mrs. Gina Crockett
Ms. Joan Wilson - Secretary	Dr. John D. Ogram
Mr. Andre Elliot- Treasurer	Ms. Sandy Taylor
	Ms. Gina Bowden Williams

LEADERSHIP TEAM

Lisa B. Sedjat	Executive Director
Thomas Dix	Director of Finance & Administration
Dr. Nick McClean-Rice	Medical Director
Kathleen O’Keefe	Developmental Services Program Director
Damien Greene	IT Director
Kelly Hill Bulin	Director of Program Development, Planning, and Prevention



ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY CORPORATION

Independent Auditors' Report

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

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities of Eastern Shore Community Services Board, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the 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 Eastern Shore Community Services Board, as of June 30, 2018, 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.

Change in Accounting Principles

As described in Note 14 to the financial statements, in 2018, the Board adopted new accounting guidance, GASB Statement Nos. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and 85 *Omnibus 2017*. Our opinion is not modified with respect to this matter.

Restatement of Beginning Balances

As described in Note 14 to the financial statements, in 2018, the Board restated beginning balances to reflect the requirements of GASB Statement No. 75. Our opinion is not modified with respect to this matter.

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 71-77 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 and Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Eastern Shore Community Services Board's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) 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 introductory section and combining statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Supplementary and Other Information (Continued)

The combining statements are the responsibility of management and were derived from and relate 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 combining statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2018, on our consideration of Eastern Shore Community Services Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Eastern Shore Community Services Board's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Eastern Shore Community Services Board's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "D. F. Clark", followed by a long horizontal line extending to the right.

Richmond, Virginia
November 21, 2018

EASTERN SHORE COMMUNITY SERVICES BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2018

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

Summary of Organization and Business

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

Operations of the Board are funded by state, federal and local funds, as well as client fees. For the year ended June 30, 2018, the Board received state, federal, and local funds in the amounts of \$2,774,728, \$933,347, and \$247,524, respectively.

HIGHLIGHTS

Financial Highlights for FY 2018

- Cash and investments decreased \$240 thousand.
- Net position decreased \$107 thousand.
- Operating revenues increased \$94 thousand.
- Operating expenses increased \$565 thousand.

OVERVIEW OF ANNUAL FINANCIAL REPORT

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

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

The Statement of Net Position presents the financial position of the Board on an accrual basis, including information about the type and amount of resources and obligations, at June 30, 2018. The Statement of Revenues, Expenses, and Changes in Net Position presents the results of the Board's operating and non-operating activities and provides information about changes in net position during the year. The Statement of Cash Flows presents changes in cash and cash equivalents, as a result of operational and financing activities.

The Notes to the Financial Statements provide required disclosures and other pertinent information necessary to provide a reader of the financial statements a complete understanding of the data being presented. The notes are comprised of information about the Board's accounting policies, significant account balances, obligations, commitments, contingencies, and subsequent events. It is important to note that the FY2018 Financial Statements are combined with MENDISADD, Inc.

CONDENSED FINANCIAL INFORMATION

The following schedule reflects the condensed Statement of Net Position.

Current Assets	\$ 2,902,513
Property and Equipment, less Accumulated Depreciation	<u>3,229,649</u>
 TOTAL ASSETS	 <u>\$ 6,132,162</u>
 DEFERRED OUTFLOWS OF RESOURCES	 <u>\$ 355,538</u>
Current Liabilities	\$ 1,181,326
Long-Term Liabilities	1,231,077
Net Pension Liability	1,100,130
Net OPEB Liability	<u>397,000</u>
 TOTAL LIABILITIES	 <u>\$ 3,909,533</u>
 DEFERRED INFLOWS OF RESOURCES	 <u>\$ 590,211</u>
Net Position:	
Net Investment in Capital Assets	\$ 2,677,294
Unrestricted	<u>(689,338)</u>
 TOTAL NET POSITION	 <u><u>\$ 1,987,956</u></u>

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

Operating Revenues	\$ 6,836,483
Operating Expenses	<u>11,286,984</u>
Operating Income (Loss)	\$ (4,450,501)
Non-operating Income	<u>4,342,963</u>
Change in Net Position	<u><u>\$ (107,538)</u></u>

OVERALL FINANCIAL ANALYSIS

In general, the financial condition of the Board remains strong. The Statement of Net Position also shows 144% more total assets and deferred outflows of resources than total liabilities and deferred inflows of resources, an increase of 7% over the prior year.

The Board continues to monitor ways in which new revenues can be generated and expenses can be scaled back. Upgrading and investing in information technology equipment is one step the Board has taken in order to enhance employee productivity and free up time for revenue-generating activities. The Finance Department has continued to heighten its collections procedures; including the use of clinical staff in the collection of amounts due from clients in order to increase the Board's collection percentage.

CONTACTING THE BOARD

This financial report is designed to provide an overview of the financial results of the Board's activities, and to demonstrate the Board's accountability for its revenues. If there are any questions about this report or any financial issue regarding the Board, please contact the Director of Financial Operations, P.O. Box 453, Nassawadox, VA 23413.

EASTERN SHORE COMMUNITY SERVICES BOARD

Statement of Net Position

As of June 30, 2018

	<u>2018</u>
Current Assets:	
Cash and cash equivalents	\$ 1,606,409
Client receivables (net of allowance for uncollectible accounts)	857,590
Due from HUD	97,461
Prepaid items	341,053
Total current assets	<u>\$ 2,902,513</u>
Capital Assets:	
Land	\$ 606,853
Construction in progress	27,823
Property and equipment, less accumulated depreciation	2,594,973
Total capital assets	<u>\$ 3,229,649</u>
Total assets	<u>\$ 6,132,162</u>
Deferred Outflows of Resources:	
Pension related items	\$ 329,339
OPEB related items	26,199
Total deferred outflows of resources	<u>\$ 355,538</u>
Current Liabilities:	
Accounts payable	\$ 269,453
Accrued expenses	188,951
Unearned revenues	280,084
Line of credit	299,176
Current portion of compensated absences	82,238
Current portion of notes payable	36,108
Current portion of capital lease payable	25,316
Total current liabilities	<u>\$ 1,181,326</u>
Long-Term Liabilities:	
Compensated absences, less current portion	\$ 740,146
Long-term notes payable, less current portion	464,439
Capital lease payable, less current portion	26,492
Net pension liability	1,100,130
Net OPEB liability	397,000
Total long-term liabilities	<u>\$ 2,728,207</u>
Total liabilities	<u>\$ 3,909,533</u>
Deferred Inflows of Resources:	
Pension related items	\$ 560,211
OPEB related items	30,000
Total deferred inflows of resources	<u>\$ 590,211</u>
Net Position	
Net investment in capital assets	\$ 2,677,294
Unrestricted	(689,338)
Total net position	<u>\$ 1,987,956</u>

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

EASTERN SHORE COMMUNITY SERVICES BOARD

Statement of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2018

	<u>2018</u>
Operating revenues:	
Patient service fees	\$ <u>6,836,483</u>
Operating expenses:	
Personnel	\$ 8,169,706
Staff development	73,144
Facility charges	943,940
Travel	66,873
Consultants and other professional services	804,468
Other charges	902,051
Depreciation	326,802
Total operating expenses	\$ <u>11,286,984</u>
Operating income (loss)	\$ <u>(4,450,501)</u>
Nonoperating revenues (expenses):	
Commonwealth of Virginia, including pass-through grants of \$933,347 from the federal government	\$ 3,708,075
Local governments	247,524
Other agencies	390,957
Rental income	23,186
Interest income	16,583
Interest expense	<u>(43,362)</u>
Total nonoperating revenues (expenses)	\$ <u>4,342,963</u>
Change in net position	\$ (107,538)
Net position at beginning of year, as restated	<u>2,095,494</u>
Net position at end of year	\$ <u><u>1,987,956</u></u>

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

EASTERN SHORE COMMUNITY SERVICES BOARD

Statement of Cash Flows
Year Ended June 30, 2018

	<u>2018</u>
Cash flows from operating activities:	
Receipts from clients' fees and other providers	\$ 7,345,026
Payments to suppliers and employees	<u>(11,356,624)</u>
Net cash provided by (used for) operating activities	\$ <u>(4,011,598)</u>
Cash flows from noncapital and related financing activities:	
Government and other agencies	\$ 4,346,556
Rental properties	<u>23,186</u>
Net cash provided by (used for) noncapital and related financing activities	\$ <u>4,369,742</u>
Cash flows from capital and related financing activities:	
Purchase of capital assets	\$ (438,551)
Principal payments on notes payable	(34,561)
Principal payments on capital leases payable	(97,783)
Interest paid on capital leases and notes payable	<u>(44,273)</u>
Net cash provided by (used for) capital and related financing activities	\$ <u>(615,168)</u>
Cash flows from investing activities:	
Interest received	\$ <u>16,583</u>
Net increase (decrease) in cash and cash equivalents	\$ (240,441)
Cash and cash equivalents, beginning of year	<u>1,846,850</u>
Cash and cash equivalents, end of year	\$ <u><u>1,606,409</u></u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	\$ (4,450,501)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	326,802
Changes in assets, liabilities, and deferred inflows/outflows of resources:	
Accounts receivable	278,398
Prepaid items	(291,946)
Deferred outflows of resources	427,920
Compensated absences	41,076
Accounts payable	105,144
Unearned revenues	230,145
Net pension liability	(1,064,033)
Net OPEB liability	(48,000)
Deferred inflows of resources	417,418
Other accrued expenses	<u>15,979</u>
Net cash provided by (used for) operating activities	\$ <u><u>(4,011,598)</u></u>

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

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements As of June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description and Purpose of Agency

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

B. Financial Reporting Entity

For financial reporting purposes, in conformance with GASB Statement 14, The Reporting Entity, as amended by GASB Statement 39, Determining Whether Certain Organizations are Component Units and GASB Statement 61, The Financial Reporting Entity, the Board includes all organizations for which it is considered financially accountable. The component unit included in these financial statements has a year end of June 30.

C. Individual Component Unit Disclosures

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

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

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

D. 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 incurred, regardless of when the related cash flow takes place.

E. Financial Statement Presentation

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

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)

As of June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Enterprise Fund Accounting

Eastern Shore Community Services Board is a governmental health care entity and is required to follow the accounting and reporting practices of the Governmental Accounting Standards Board. For financial reporting purposes, the Board utilizes the enterprise fund method of accounting whereby revenues and expenses are recognized on the accrual basis. Substantially all revenues and expenses are subject to accrual.

G. 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. Accordingly, actual results could differ from those estimates.

H. 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 investments in highly liquid debt instruments with an original maturity of three months or less at the date of acquisition.

I. Investments

Money market investments, participating interest-earning investment contracts (repurchase agreements) that have a remaining maturity at time of purchase of one year or less, nonparticipating interest-earning investment contracts (nonnegotiable certificates of deposit (CDs)) and external investment pools are measured at amortized cost. All other investments are reported at fair value.

J. Net Client Service Revenue

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

The Board bills and collects fees for services from its clients. At June 30, 2018, the Board was due \$1,195,300 in client receivables which was made up primarily of Medicaid funds. When applicable, the Board calculates its allowance for uncollectible accounts using specific account analysis. The allowance at June 30, 2018 was \$337,710.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)

As of June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Financial Assistance

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

L. Capital Assets

Capital assets acquired are recorded at cost. The Board capitalizes all expenditures for property or equipment in excess of \$5,000 with an expected life greater than one year. Depreciation is provided over the estimated useful life of each class of depreciable assets ranging from 5 to 39 years and is computed using the straight-line method. Donated capital assets are recorded at acquisition value at the time of the gift. No capitalized interest is included in reported historical costs.

M. Operating and Nonoperating Revenues and Expenses

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

N. Compensated Absences

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

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

The liabilities for annual and sick leave have been recorded in accordance with the provisions of GASB No. 16, *Accounting for Compensated Absences*. Accordingly, the amount of annual and sick leave recognized as expense is the amount earned during the year. The balance at June 30, 2018 was \$822,384.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)

As of June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. 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.

P. Budgetary Accounting

The Board follows these procedures in establishing its budgets:

1. In response to Letters of Notification received from the Department of Mental Health, Mental Retardation and Substance Abuse Services (the Department), the Board submits a Performance Contract to the Department. This application contains budgets for core services.
2. The Board's Performance Reports are filed with the Department during the fiscal year, 45 working days after the end of the second quarter. The final quarterly report is due by September 15 (unless extended), following the end of the fiscal year.
3. If any changes are made during the fiscal year in state or federal block grants, or local match funds, the Board submits Performance Contract revisions that reflect these changes in time to be received by required deadlines.

Q. 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, presents 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 has one item that qualifies for reporting in this category. It is comprised of contributions to the pension and OPEB plans made during the current year and subsequent to the net pension liability and net OPEB liability measurement date, which will be recognized as an increase to or a reduction of the net pension and net OPEB liability next fiscal year. For more detailed information on these items, reference the related notes.

In addition to liabilities, the statement of financial position will sometimes 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 has one type of item that qualifies for reporting in this category. Certain items related to the measurement of the net pension and Net OPEB

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)

As of June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Deferred Outflows/Inflows of Resources (Continued)

liabilities are reported as deferred inflows of resources. These include the differences between projected and actual experience, change in assumptions, and the net difference between projected and actual earnings on pension and OPEB plans investments. For more detailed information on this item, reference the related notes.

R. Other Postemployment Benefits (OPEB)

The Virginia Retirement System (VRS) Group Life Insurance (GLI) Program provides coverage to state employees, teachers, and employees of participating political subdivisions. The GLI Program 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. The GLI Program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers. For purposes of measuring the net GLI Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the GLI OPEB, and GLI OPEB expense, information about the fiduciary net position of the VRS GLI Program OPEB and the additions to/deductions from the VRS GLI OPEB's 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.

S. Net Position

Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related 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 also included in this component of net position.

T. Net Position Flow Assumption

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

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)

As of June 30, 2018

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits

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

Investments

Statutes authorize local governments and other public bodies to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP).

Credit Risk of Debt Securities

The Board's rated debt investments as of June 30, 2018 were rated by Standard and Poor's and the ratings are presented below using Standard and Poor's rating scale. The Board and its blended component unit have no investment policies that would further limit their investment choices.

<u>Locality's Rated Debt Investment's Values</u>	
<u>Related Debt Investments</u>	<u>Fair Quality Rating</u>
	<u>AAAm</u>
Local Government Investment Pool	\$ <u>27,392</u>
Total	\$ <u><u>27,392</u></u>

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)
As of June 30, 2018

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk

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

Investment Maturities (in years)		
Investment Type	Fair Value	Less Than 1 Year
Local Government Investment Pool	\$ 27,392	\$ 27,392
Total	\$ 27,392	\$ 27,392

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 under the provisions of GASB Statement No. 79. There are no withdrawal limitations or restrictions imposed on participants.

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EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued) As of June 30, 2018

NOTE 3 - PENSION PLAN

Plan Description

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

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

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</p>	<p>About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</p>	<p>About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan.</p> <ul style="list-style-type: none">• The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.• The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)
As of June 30, 2018

NOTE 3 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
About Plan 1 (Cont.)	About Plan 2 (Cont.)	About the Hybrid Retirement Plan (Cont.) <ul style="list-style-type: none">• In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.
<p>Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013, and they have not taken a refund.</p> <p>Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p>Eligible Members Employees are in Plan 2 if their membership date is 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.</p> <p>Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014.</p> <p>The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014.</p> <p>If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan.</p>	<p>Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes:</p> <ul style="list-style-type: none">• Political subdivision employees*• Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014. <p>*Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include:</p> <ul style="list-style-type: none">• Political subdivision employees who are covered by enhanced benefits for hazardous duty employees.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)
As of June 30, 2018

NOTE 3 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	*Non-Eligible Members (Cont.) Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.
Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.	Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)
As of June 30, 2018

NOTE 3 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p>	<p>Creditable Service Same as Plan 1.</p>	<p>Creditable Service <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.</p> <p><u>Defined Contribution Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.</p>

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)
As of June 30, 2018

NOTE 3 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund.</p> <p>Members are always 100% vested in the contributions that they make.</p>	<p>Vesting Same as Plan 1.</p>	<p>Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.</p> <p><u>Defined Contribution Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)
As of June 30, 2018

NOTE 3 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Vesting (Cont.)	Vesting (Cont.)	<p>Vesting (Cont.) <u>Defined Contribution Component: (Cont.)</u></p> <ul style="list-style-type: none"> • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p>
<p>Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>	<p>Calculating the Benefit See definition under Plan 1.</p>	<p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1.</p> <p><u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>
<p>Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)
As of June 30, 2018

NOTE 3 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Service Retirement Multiplier VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.</p> <p>Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%.</p> <p>Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.</p>	<p>Service Retirement Multiplier VRS: Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p> <p>Sheriffs and regional jail superintendents: Same as Plan 1.</p> <p>Political subdivision hazardous duty employees: Same as Plan 1.</p>	<p>Service Retirement Multiplier <u>Defined Benefit Component:</u> VRS: The retirement multiplier for the defined benefit component is 1.00%.</p> <p>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.</p> <p>Sheriffs and regional jail superintendents: Not applicable.</p> <p>Political subdivision hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p>
<p>Normal Retirement Age VRS: Age 65.</p> <p>Political subdivisions hazardous duty employees: Age 60.</p>	<p>Normal Retirement Age VRS: Normal Social Security retirement age.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Normal Retirement Age <u>Defined Benefit Component:</u> VRS: Same as Plan 2.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)
As of June 30, 2018

NOTE 3 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Earliest Unreduced Retirement Eligibility VRS: Age 65 with at least five years (60 months) of creditable service or at age 50 with at least 30 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: Age 60 with at least five years of creditable service or age 50 with at least 25 years of creditable service.</p>	<p>Earliest Unreduced Retirement Eligibility VRS: Normal Social Security retirement age with at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Unreduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Normal Social Security retirement age and have at least five years (60 months) of creditable service or when their age and service equal 90.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>Earliest Reduced Retirement Eligibility VRS: Age 55 with at least five years (60 months) of creditable service or age 50 with at least 10 years of creditable service.</p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility VRS: Age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Reduced Retirement Eligibility <u>Defined Benefit Component:</u> VRS: Age 60 with at least five years (60 months) of creditable service.</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)
As of June 30, 2018

NOTE 3 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%.</p> <p><u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date.</p> <p>For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date.</p> <p><u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances:</p> <ul style="list-style-type: none"> • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability. 	<p>Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%.</p> <p><u>Eligibility:</u> Same as Plan 1.</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)
As of June 30, 2018

NOTE 3 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates: (Cont.)</u></p> <ul style="list-style-type: none"> • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. 	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p>
<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.</p>	<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.</p>	<p>Disability Coverage Employees of political subdivisions (including Plan 1 and Plan 2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local governing body provides an employer-paid comparable program for its members.</p>

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)
As of June 30, 2018

NOTE 3 - PENSION PLAN (CONTINUED)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Disability Coverage (Cont.)	Disability Coverage (Cont.)	Disability Coverage (Cont.) Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. Members also may be eligible to purchase periods of leave without pay.	Purchase of Prior Service Same as Plan 1.	Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions: Hybrid Retirement Plan members are ineligible for ported service. <u>Defined Contribution Component:</u> Not applicable.

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)
As of June 30, 2018

NOTE 3 - PENSION PLAN (CONTINUED)

Employees Covered by Benefit Terms

As of the June 30, 2016 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	69
Inactive members:	
Vested inactive members	13
Non-vested inactive members	31
Inactive members active elsewhere in VRS	<u>22</u>
Total inactive members	66
Active members	<u>132</u>
Total covered employees	<u><u>267</u></u>

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. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The Board's contractually required employer contribution rate for the year ended June 30, 2018 was 7.22% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

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 \$329,339 and \$351,452 for the years ended June 30, 2018 and June 30, 2017, respectively.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued) As of June 30, 2018

NOTE 3 - PENSION PLAN (CONTINUED)

Net Pension Liability

The Board's net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2016, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

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, 2016, 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, 2017.

Inflation	2.5%
Salary increases, including inflation	3.5% - 5.35%
Investment rate of return	7.0%, 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 7.0%. However, since the difference was minimal, and a more conservative 7.0% 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 7.0% to simplify preparation of pension liabilities.

Mortality rates:

Largest 10 - Non-Hazardous Duty: 20% 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.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued) As of June 30, 2018

NOTE 3 - PENSION PLAN (CONTINUED)

Actuarial Assumptions - General Employees (Continued)

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, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - 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% to 20%

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% to 15%

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued) As of June 30, 2018

NOTE 3 - PENSION PLAN (CONTINUED)

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-term Expected Rate of Return	Weighted Average Long-term Expected Rate of Return
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	100.00%		4.80%
		Inflation	2.50%
		*Expected arithmetic nominal return	7.30%

* The above allocation provides a one-year return of 7.30%. 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 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. 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. Through the fiscal year ending June 30, 2019, the rate contributed by the employer for the Board Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, participating employers are assumed 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.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)
As of June 30, 2018

NOTE 3 - PENSION PLAN (CONTINUED)

Changes in Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2016	\$ 17,604,411	\$ 15,440,248	\$ 2,164,163
Changes for the year:			
Service cost	\$ 462,023	\$ -	\$ 462,023
Interest	1,202,747	-	1,202,747
Differences between expected and actual experience	(230,377)	-	(230,377)
Assumption changes	(85,193)	-	(85,193)
Contributions - employer	-	328,079	(328,079)
Contributions - employee	-	227,912	(227,912)
Net investment income	-	1,869,763	(1,869,763)
Benefit payments, including refunds			
Refunds of employee contributions	(844,618)	(844,618)	-
Administrative expenses	-	(10,859)	10,859
Other changes	-	(1,662)	1,662
Net changes	\$ 504,582	\$ 1,568,615	\$ (1,064,033)
Balances at June 30, 2017	\$ 18,108,993	\$ 17,008,863	\$ 1,100,130

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

The following presents the net pension liability of the Board using the discount rate of 7.00%, as well as what the Board's net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	Rate		
	1% Decrease (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
Net Pension Liability (Asset)	\$ 3,469,089	\$ 1,100,130	\$ (870,468)

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)
As of June 30, 2018

NOTE 3 - PENSION PLAN (CONTINUED)

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

For the year ended June 30, 2018, the Board recognized pension expense of \$58,470. At June 30, 2018, 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 \$	-	\$ 258,467
Change in assumptions	-	60,990
Net difference between projected and actual earnings on pension plan investments	-	240,754
Employer contributions subsequent to the measurement date	<u>329,339</u>	<u>-</u>
Total	<u>\$ 329,339</u>	<u>\$ 560,211</u>

\$329,339 reported as deferred outflows of resources related to pensions resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year ended June 30</u>	
2019	\$ (318,135)
2020	(35,636)
2021	(46,542)
2022	(159,898)
2023	-
Thereafter	-

EASTER SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued) As of June 30, 2018

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

Plan Description

All full-time, salaried permanent employees of the state agencies, teachers, and employees of participating political subdivisions are automatically covered by the VRS Group Life Insurance Program 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 Group Life Insurance benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the Group Life Insurance Program OPEB.

The specific information for Group Life Insurance Program OPEB, including eligibility, coverage and benefits is set out in the table below:

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS
Eligible Employees The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement: <ul style="list-style-type: none">• City of Richmond• City of Portsmouth• City of Roanoke• City of Norfolk• Roanoke City School Board Basic group life insurance coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued) As of June 30, 2018

NOTE 4—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN) (Continued)

Plan Description (Continued)

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS (CONTINUED)
<p>Benefit Amounts</p> <p>The benefits payable under the Group Life Insurance Program have several components.</p> <ul style="list-style-type: none">• <u>Natural Death Benefit</u> - The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled.• <u>Accidental Death Benefit</u> - The accidental death benefit is double the natural death benefit.• <u>Other Benefit Provisions</u> - In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include:<ul style="list-style-type: none">○ Accidental dismemberment benefit○ Safety belt benefit○ Repatriation benefit○ Felonious assault benefit○ Accelerated death benefit option
<p>Reduction in Benefit Amounts</p> <p>The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.</p>
<p>Minimum Benefit Amount and Cost-of-Living Adjustment (COLA)</p> <p>For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute. The amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently \$8,111.</p>

Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% 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, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. 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 Group Life Insurance Program from the entity were \$26,199 and \$25,320 for the years ended June 30, 2018 and June 30, 2017, respectively.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)
As of June 30, 2018

NOTE 4—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN) (Continued)

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB

At June 30, 2018, the entity reported a liability of \$397,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2017 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the participating employer's proportion was .02640% as compared to .02543% at June 30, 2016.

For the year ended June 30, 2018, the participating employer recognized GLI OPEB expense of \$7,000. 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.

At June 30, 2018, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 9,000
Net difference between projected and actual earnings on GLI OPEB program investment	-	1,000
Change in assumptions	-	20,000
Employer contributions subsequent to the measurement date	<u>26,199</u>	<u>-</u>
Total	<u>\$ 26,199</u>	<u>\$ 30,000</u>

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued) As of June 30, 2018

NOTE 4—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN) (Continued)

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB (Continued)

\$26,199 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, 2019. 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:

<u>Year Ended June 30</u>	
2019	\$ (6,000)
2020	(6,000)
2021	(6,000)
2022	(6,000)
2023	(3,000)
Thereafter	(3,000)

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2016, 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, 2017.

Inflation	2.5%
Salary increases, including inflation:	
General state employees	3.5% - 5.35%
Teachers	3.5%-5.95%
SPORS employees	3.5%-4.75%
VaLORS employees	3.5%-4.75%
JRS employees	4.5%
Locality - General employees	3.5%-5.35%
Locality - Hazardous Duty employees	3.5%-4.75%
Investment rate of return	7.0%, 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 7.0%. However, since the difference was minimal, and a more conservative 7.0% 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 7.0% to simplify preparation of OPEB liabilities.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued) As of June 30, 2018

NOTE 4—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN) (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - General State Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males set back 1 year, 85% of rates; females set back 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; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study 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 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	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued) As of June 30, 2018

NOTE 4—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN) (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Teachers

Pre-Retirement:

RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

Post-Retirement:

RP-2014 White Collar Employee Rates to age 49, White Collar Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; 115% of rates for males and females.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study 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 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	Adjusted rates to better match experience
Salary Scale	No change

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued) As of June 30, 2018

NOTE 4—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN) (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - SPORS 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 Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued) As of June 30, 2018

NOTE 4—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN) (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - VaLORS 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 Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued) As of June 30, 2018

NOTE 4—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN) (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - JRS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males set back 1 year, 85% of rates; females set back 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; females set back 1 year with 1.5% compounding increase from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study 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	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued) As of June 30, 2018

NOTE 4—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN) (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - 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.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study 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% to 20%

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued) As of June 30, 2018

NOTE 4—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN) (Continued)

Actuarial Assumptions: (Continued)

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.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study 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% to 15%

Mortality Rates - Largest Ten Locality Employers - 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 Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued) As of June 30, 2018

NOTE 4—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN) (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Largest Ten Locality Employers - Hazardous Duty Employees: (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study 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
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

Mortality Rates - Non-Largest Ten Locality Employers - 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 Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued) As of June 30, 2018

NOTE 4—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN) (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Non-Largest Ten Locality Employers - Hazardous Duty Employees: (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and Retirement Rates	Updated to a more current mortality table - RP-2014 projected to 2020
Withdrawal Rates	Increased age 50 rates and lowered rates at older ages
Disability Rates	Adjusted termination rates to better fit experience at each age and service year
Salary Scale	Adjusted rates to better match experience
Line of Duty Disability	No change
	Decreased rate from 60% to 45%

NET GLI OPEB Liability

The net OPEB liability (NOL) for the Group Life Insurance Program 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, 2017, NOL amounts for the Group Life Insurance Program is as follows (amounts expressed in thousands):

		Group Life Insurance OPEB Program
Total GLI OPEB Liability	\$	2,942,426
Plan Fiduciary Net Position		1,437,586
Employers' Net GLI OPEB Liability (Asset)	\$	<u>1,504,840</u>
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability		48.86%

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.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued) As of June 30, 2018

NOTE 4—GROUP LIFE INSURANCE (GLI) PROGRAM (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:

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-term Expected Rate of Return</u>	<u>Weighted Average Long-term Expected Rate of Return</u>
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	<u>100.00%</u>		<u>4.80%</u>
		Inflation	<u>2.50%</u>
		*Expected arithmetic nominal return	<u>7.30%</u>

*The above allocation provides a one-year return of 7.30%. 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 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 7.00%. 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 ending 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. From July 1, 2019 on, employers are assumed 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.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued) As of June 30, 2018

NOTE 4—GROUP LIFE INSURANCE (GLI) PROGRAM (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 7.00%, 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 (6.00%) or one percentage point higher (8.00%) than the current rate:

	Rate		
	Current		
	1% Decrease	Discount	1% Increase
	(6.00%)	(7.00%)	(8.00%)
Board's proportionate share of the Group Life Insurance Program			
Net OPEB Liability	\$ 513,000	\$ 397,000	\$ 302,000

Group Life Insurance Program Fiduciary Net Position

Detailed information about the Group Life Insurance Program's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

EASTER SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued) As of June 30, 2018

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

Plan Description

All full-time, salaried permanent employees of the state agencies, teachers, and employees of participating political subdivisions are automatically covered by the VRS Group Life Insurance Program 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 Group Life Insurance benefit, members are also eligible to elect additional coverage for themselves as well as a spouse or dependent children through the Optional Group Life Insurance Program. For members who elect the optional group life insurance coverage, the insurer bills employers directly for the premiums. Employers deduct these premiums from members' paychecks and pay the premiums to the insurer. Since this is a separate and fully insured program, it is not included as part of the Group Life Insurance Program OPEB.

The specific information for Group Life Insurance Program OPEB, including eligibility, coverage and benefits is set out in the table below:

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS
Eligible Employees The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement: <ul style="list-style-type: none">• City of Richmond• City of Portsmouth• City of Roanoke• City of Norfolk• Roanoke City School Board Basic group life insurance coverage is automatic upon employment. Coverage ends for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued) As of June 30, 2018

NOTE 4—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN) (Continued)

Plan Description (Continued)

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS (CONTINUED)
<p>Benefit Amounts</p> <p>The benefits payable under the Group Life Insurance Program have several components.</p> <ul style="list-style-type: none">• <u>Natural Death Benefit</u> - The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled.• <u>Accidental Death Benefit</u> - The accidental death benefit is double the natural death benefit.• <u>Other Benefit Provisions</u> - In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include:<ul style="list-style-type: none">○ Accidental dismemberment benefit○ Safety belt benefit○ Repatriation benefit○ Felonious assault benefit○ Accelerated death benefit option
<p>Reduction in Benefit Amounts</p> <p>The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.</p>
<p>Minimum Benefit Amount and Cost-of-Living Adjustment (COLA)</p> <p>For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at \$8,000 by statute. The amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently \$8,111.</p>

Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% 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, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. 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 Group Life Insurance Program from the entity were \$26,199 and \$25,320 for the years ended June 30, 2018 and June 30, 2017, respectively.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)
As of June 30, 2018

NOTE 4—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN) (Continued)

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB

At June 30, 2018, the entity reported a liability of \$397,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2017 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the participating employer's proportion was .02640% as compared to .02543% at June 30, 2016.

For the year ended June 30, 2018, the participating employer recognized GLI OPEB expense of \$7,000. 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.

At June 30, 2018, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 9,000
Net difference between projected and actual earnings on GLI OPEB program investment	-	1,000
Change in assumptions	-	20,000
Employer contributions subsequent to the measurement date	<u>26,199</u>	<u>-</u>
Total	<u>\$ 26,199</u>	<u>\$ 30,000</u>

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued) As of June 30, 2018

NOTE 4—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN) (Continued)

GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Group Life Insurance Program OPEB (Continued)

\$26,199 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, 2019. 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:

<u>Year Ended June 30</u>	
2019	\$ (6,000)
2020	(6,000)
2021	(6,000)
2022	(6,000)
2023	(3,000)
Thereafter	(3,000)

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2016, 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, 2017.

Inflation	2.5%
Salary increases, including inflation:	
General state employees	3.5% - 5.35%
Teachers	3.5%-5.95%
SPORS employees	3.5%-4.75%
VaLORS employees	3.5%-4.75%
JRS employees	4.5%
Locality - General employees	3.5%-5.35%
Locality - Hazardous Duty employees	3.5%-4.75%
Investment rate of return	7.0%, 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 7.0%. However, since the difference was minimal, and a more conservative 7.0% 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 7.0% to simplify preparation of OPEB liabilities.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued) As of June 30, 2018

NOTE 4—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN) (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - General State Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males set back 1 year, 85% of rates; females set back 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; females set back 1 year with 1.5% increase compounded from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study 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 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	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued) As of June 30, 2018

NOTE 4—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN) (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Teachers

Pre-Retirement:

RP-2014 White Collar Employee Rates to age 80, White Collar Healthy Annuitant Rates at ages 81 and older projected with scale BB to 2020.

Post-Retirement:

RP-2014 White Collar Employee Rates to age 49, White Collar Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males 1% increase compounded from ages 70 to 90; females set back 3 years with 1.5% increase compounded from ages 65 to 70 and 2.0% increase compounded from ages 75 to 90.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; 115% of rates for males and females.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study 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 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	Adjusted rates to better match experience
Salary Scale	No change

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued) As of June 30, 2018

NOTE 4—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN) (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - SPORS 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 Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued) As of June 30, 2018

NOTE 4—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN) (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - VaLORS 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 Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued) As of June 30, 2018

NOTE 4—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN) (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - JRS Employees

Pre-Retirement:

RP-2014 Employee Rates to age 80, Healthy Annuitant Rates to 81 and older projected with scale BB to 2020; males set back 1 year, 85% of rates; females set back 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; females set back 1 year with 1.5% compounding increase from ages 70 to 85.

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males 115% of rates; females 130% of rates.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study 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	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued) As of June 30, 2018

NOTE 4—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN) (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - 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.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study 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% to 20%

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued) As of June 30, 2018

NOTE 4—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN) (Continued)

Actuarial Assumptions: (Continued)

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.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study 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% to 15%

Mortality Rates - Largest Ten Locality Employers - 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 Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued) As of June 30, 2018

NOTE 4—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN) (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Largest Ten Locality Employers - Hazardous Duty Employees: (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study 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
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

Mortality Rates - Non-Largest Ten Locality Employers - 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 Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued) As of June 30, 2018

NOTE 4—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN) (Continued)

Actuarial Assumptions: (Continued)

Mortality Rates - Non-Largest Ten Locality Employers - Hazardous Duty Employees: (Continued)

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and Retirement Rates	Updated to a more current mortality table - RP-2014 projected to 2020
Withdrawal Rates	Increased age 50 rates and lowered rates at older ages
Disability Rates	Adjusted termination rates to better fit experience at each age and service year
Salary Scale	Adjusted rates to better match experience
Line of Duty Disability	No change
	Decreased rate from 60% to 45%

NET GLI OPEB Liability

The net OPEB liability (NOL) for the Group Life Insurance Program 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, 2017, NOL amounts for the Group Life Insurance Program is as follows (amounts expressed in thousands):

		Group Life Insurance OPEB Program
Total GLI OPEB Liability	\$	2,942,426
Plan Fiduciary Net Position		1,437,586
Employers' Net GLI OPEB Liability (Asset)	\$	<u>1,504,840</u>
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability		48.86%

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.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued) As of June 30, 2018

NOTE 4—GROUP LIFE INSURANCE (GLI) PROGRAM (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:

<u>Asset Class (Strategy)</u>	<u>Target Allocation</u>	<u>Arithmetic Long-term Expected Rate of Return</u>	<u>Weighted Average Long-term Expected Rate of Return</u>
Public Equity	40.00%	4.54%	1.82%
Fixed Income	15.00%	0.69%	0.10%
Credit Strategies	15.00%	3.96%	0.59%
Real Assets	15.00%	5.76%	0.86%
Private Equity	15.00%	9.53%	1.43%
Total	<u>100.00%</u>		<u>4.80%</u>
		Inflation	<u>2.50%</u>
		*Expected arithmetic nominal return	<u>7.30%</u>

*The above allocation provides a one-year return of 7.30%. 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 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 7.00%. 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 ending 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. From July 1, 2019 on, employers are assumed 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.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued) As of June 30, 2018

NOTE 4—GROUP LIFE INSURANCE (GLI) PROGRAM (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 7.00%, 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 (6.00%) or one percentage point higher (8.00%) than the current rate:

	Rate		
	Current		
	1% Decrease	Discount	1% Increase
	(6.00%)	(7.00%)	(8.00%)
Board's proportionate share of the Group Life Insurance Program			
Net OPEB Liability	\$ 513,000	\$ 397,000	\$ 302,000

Group Life Insurance Program Fiduciary Net Position

Detailed information about the Group Life Insurance Program's Fiduciary Net Position is available in the separately issued VRS 2017 Comprehensive Annual Financial Report (CAFR). A copy of the 2017 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2017-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)
As of June 30, 2018

NOTE 5 - CONTINGENT LIABILITIES

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

At June 30, 2018, there were no matters of litigation involving the Board which would materially affect the Board's financial position should any court decision or pending matter not be favorable to the Board.

NOTE 6 - RISK MANAGEMENT

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

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EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued) As of June 30, 2018

NOTE 7 - CHANGES IN CAPITAL ASSETS

A summary of changes in capital assets for the year ended June 30, 2018 is presented below:

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
<i>Eastern Shore Community Services Board:</i>				
Capital assets subject to depreciation:				
Computer Equipment	\$ 654,427	\$ -	\$ -	\$ 654,427
Leasehold Improvements	42,234	-	-	42,234
Office Furniture and Equipment	219,845	7,202	-	227,047
Software	932,887	10,000	-	942,887
Vehicles	796,590	-	-	796,590
Total capital assets subject to depreciation	<u>\$ 2,645,983</u>	<u>\$ 17,202</u>	<u>\$ -</u>	<u>\$ 2,663,185</u>
Less accumulated depreciation for:				
Computer Equipment	\$ 447,014	\$ 87,670	\$ -	\$ 534,684
Leasehold Improvements	21,068	948	-	22,016
Office Furniture and Equipment	161,704	8,104	-	169,808
Software	851,676	42,096	-	893,772
Vehicles	787,359	4,129	-	791,488
Total accumulated depreciation	<u>\$ 2,268,821</u>	<u>\$ 142,947</u>	<u>\$ -</u>	<u>\$ 2,411,768</u>
Total capital assets subject to depreciation, net	<u>\$ 377,162</u>	<u>\$ (125,745)</u>	<u>\$ -</u>	<u>\$ 251,417</u>
ESCSB capital assets, net	<u>\$ 377,162</u>	<u>\$ (125,745)</u>	<u>\$ -</u>	<u>\$ 251,417</u>
<i>Component Unit- Mendisadd, Inc.:</i>				
Capital assets not subject to depreciation:				
Land	\$ 568,867	\$ 37,986	\$ -	\$ 606,853
Construction in Progress	27,823	-	-	27,823
Total capital assets not subject to depreciation	<u>\$ 596,689</u>	<u>\$ 37,986</u>	<u>\$ -</u>	<u>\$ 634,676</u>
Capital assets subject to depreciation:				
Equipment	\$ 224,829	\$ -	\$ -	\$ 224,829
Buildings and Improvements	4,085,480	383,362	-	4,468,842
Total capital assets subject to depreciation	<u>\$ 4,310,309</u>	<u>\$ 383,362</u>	<u>\$ -</u>	<u>\$ 4,693,671</u>
Less accumulated depreciation for:				
Equipment	\$ 281,800	\$ 14,255	\$ -	\$ 296,055
Buildings and Improvements	1,884,460	169,600	-	2,054,060
Total accumulated depreciation	<u>\$ 2,166,260</u>	<u>\$ 183,855</u>	<u>\$ -</u>	<u>\$ 2,350,115</u>
Total capital assets subject to depreciation, net	<u>\$ 2,144,049</u>	<u>\$ 199,507</u>	<u>\$ -</u>	<u>\$ 2,343,556</u>
Mendisadd, Inc. capital assets, net	<u>\$ 2,740,738</u>	<u>\$ 237,493</u>	<u>\$ -</u>	<u>\$ 2,978,232</u>
Total reporting entity capital assets, net	<u>\$ 2,992,155</u>	<u>\$ 111,748</u>	<u>\$ -</u>	<u>\$ 3,229,649</u>

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued) As of June 30, 2018

NOTE 8 - LEASE AGREEMENTS

The Board leases office space and other facilities from Mendisadd, Inc., a blended component unit. The leases are year to year. Rent expense paid by the Board to Mendisadd, Inc. totaled \$253,060 for the fiscal year ended June 30, 2018.

NOTE 9 - CAPITAL LEASE

The Board entered into leases classified as capital leases of \$397,897. The economic substance of the lease is that the Board is financing the acquisition of the asset through the lease, and accordingly it is recorded in the Board's assets and liabilities. During 2018, amortization under the aforementioned leases was \$97,783.

Future minimum payments required under the lease together with their present value follows:

2019	\$	28,034
2020		23,727
2021		3,954
	\$	<u>55,715</u>
Less - amount representing interest		(3,907)
	\$	<u><u>51,808</u></u>

The Board has capitalized costs net of depreciation totaling \$187,089 under capital lease at June 30, 2018.

NOTE 10 - LOCAL GOVERNMENT CONTRIBUTIONS BY PARTICIPANT

The participating localities contributed the following for the fiscal year ended June 30, 2018:

County of Accomack	\$	178,286
County of Northampton		69,238
Total	\$	<u><u>247,524</u></u>

NOTE 11 - RELATED PARTY TRANSACTIONS

The owner of Mid Atlantic Residential Solutions (MARS) is the husband of the Finance Director for ESCSB. Mendisadd, Inc had contracted MARS to complete renovation work. During the year ended June 30, 2018, Mendisadd, Inc paid MARS \$137,571.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued) As of June 30, 2018

NOTE 12 - LONG-TERM OBLIGATIONS

A summary of long-term obligations transactions of the Board for the year ended June 30, 2018 is as follows:

	Amounts payable at July 1, 2017	Increases	Decreases	Amounts payable at June 30, 2018	Amounts due within one year
Compensated Absences	\$ 781,308	\$ 119,207	\$ 78,131	\$ 822,384	\$ 82,238
Note Payable	535,108	-	34,561	500,547	36,108
Net Pension Liability	2,164,163	1,677,291	2,741,324	1,100,130	-
Net OPEB Liability	445,000	21,000	69,000	397,000	-
Capital Leases Payable	149,591	-	97,783	51,808	25,316
Total	<u>\$ 4,075,170</u>	<u>\$ 1,817,498</u>	<u>\$ 3,020,799</u>	<u>\$ 2,871,869</u>	<u>\$ 143,662</u>

Details of long-term obligations are as follows:

	Amount Outstanding
Note Payable:	
Mendisadd, Inc. note payable to BB&T to refinance debt on Parksley property. Payable in monthly installments of \$4,779 through June 16, 2029, including an interest rate of 4.375%.	\$ <u>500,547</u>
Capital Leases Payable:	
Capital lease issued by Dell Financial Services, Inc. to Eastern Shore Community Services Board on August 20, 2014 for computer equipment payable over 48 months in equal installments of \$717, interest at 5.59%.	\$ 1,425
Capital lease issued by Dell Financial Services, Inc. to Eastern Shore Community Services Board on July 20, 2014 for computer equipment payable over 48 months in equal installments of \$2,872, interest at 5.59%.	2,859
Capital lease issued by Dell Financial Services, Inc. to Eastern Shore Community Services Board on August 31, 2016 for computer equipment payable over 48 months in equal installments of \$1,977 at 7.09%.	<u>47,524</u>
Total Capital Leases Payable	\$ <u>51,808</u>
Net Pension Liability	\$ <u>1,100,130</u>
Net OPEB Liability	\$ <u>397,000</u>
Compensated Absences	\$ <u>822,384</u>
Total Long-Term Obligations	\$ <u><u>2,871,869</u></u>

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued) As of June 30, 2018

NOTE 12 - LONG-TERM OBLIGATIONS (CONTINUED)

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

Ending June 30	Note Payable	
	Principal	Interest
2019	\$ 36,108	\$ 21,491
2020	37,744	19,855
2021	39,454	18,145
2022	41,242	16,358
2023	43,110	14,490
2024-2028	246,678	41,320
2029	56,211	1,361
Total	\$ <u>500,547</u>	\$ <u>133,020</u>

NOTE 13- LINE OF CREDIT

The Board has a working capital line of credit of \$500,000 with BB&T. Advances on the line-of-credit are collateralized by a general blanket assignment of all accounts, contracts or other receivables and proceeds. At June 30, 2018, the Board's outstanding balance against this line of credit was \$299,176 and the interest rate was 4.75%.

NOTE 14 - ADOPTION OF ACCOUNTING PRINCIPLES AND RESTATEMENT OF BEGINNING NET POSITION

The Board implemented the financial reporting provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* during the fiscal year ended June 30, 2018. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures related to postemployment benefits other than pensions (other postemployment benefits or OPEB). Note disclosure and required supplementary information requirements about OPEB are also addressed. The requirements of this Statement will improve accounting and financial reporting by state and local governments for OPEB. In addition, the Board implemented Governmental Accounting Standards Board Statement No. 85, *Omnibus 2017* during the fiscal year ended June 30, 2018. This Statement addresses practice issues identified during implementation and application of certain GASB statements for a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits (OPEB)).

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued) As of June 30, 2018

NOTE 14 - ADOPTION OF ACCOUNTING PRINCIPLES AND RESTATEMENT OF BEGINNING NET POSITION (Continued)

The implementation of these Statements resulted in the following restatement of net position:

Net position, July 1, 2017, as previously stated	\$	2,515,494
Implementation of GASB 75:		
Deferred outflows of resources related to OPEB GLI liability		25,000
Net OPEB GLI liability		<u>(445,000)</u>
Net position, July 1, 2017, as restated	\$	<u><u>2,095,494</u></u>

NOTE 15 - UPCOMING PRONOUNCEMENTS

Statement No. 83, *Certain Asset Retirement Obligations*, addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

Statement No. 88, *Certain Disclosures Related to Debt*, Including Direct Borrowings and Direct Placements, clarifies which liabilities governments should include when disclosing information related to debt. It defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. The Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, it requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of this Statement are effective for reporting periods beginning after June 15, 2018.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued) As of June 30, 2018

NOTE 15 - UPCOMING PRONOUNCEMENTS (Continued)

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

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

EASTERN SHORE COMMUNITY SERVICES BOARD

Schedule of Changes in Net Pension Liability and Related Ratios
For the Year's Ended June 30, 2015 through June 30, 2018

	2017	2016	2015	2014
Total pension liability				
Service cost	\$ 462,023	\$ 487,979	\$ 496,973	\$ 498,592
Interest	1,202,747	1,148,526	1,104,668	1,041,588
Differences between expected and actual experience	(230,377)	(67,126)	(247,395)	-
Changes in assumptions	(85,193)	-	-	-
Benefit payments, including refunds of employee contributions	(844,618)	(744,969)	(710,434)	(567,640)
Net change in total pension liability	\$ 504,582	\$ 824,410	\$ 643,812	\$ 972,540
Total pension liability - beginning	17,604,411	16,780,001	16,136,189	15,163,649
Total pension liability - ending (a)	<u>\$ 18,108,993</u>	<u>\$ 17,604,411</u>	<u>\$ 16,780,001</u>	<u>\$ 16,136,189</u>
Plan fiduciary net position				
Contributions - employer	\$ 328,079	\$ 417,369	\$ 421,399	\$ 468,572
Contributions - employee	227,912	218,246	263,147	236,859
Net investment income	1,869,763	266,474	671,135	1,994,489
Benefit payments, including refunds of employee contributions	(844,618)	(744,969)	(710,434)	(567,640)
Administrative expense	(10,859)	(9,443)	(9,077)	(10,531)
Other	(1,662)	(113)	(142)	105
Net change in plan fiduciary net position	\$ 1,568,615	\$ 147,564	\$ 636,028	\$ 2,121,854
Plan fiduciary net position - beginning	15,440,248	15,292,684	14,656,656	12,534,802
Plan fiduciary net position - ending (b)	<u>\$ 17,008,863</u>	<u>\$ 15,440,248</u>	<u>\$ 15,292,684</u>	<u>\$ 14,656,656</u>
Board's net pension liability - ending (a) - (b)	\$ 1,100,130	\$ 2,164,163	\$ 1,487,317	\$ 1,479,533
Plan fiduciary net position as a percentage of the total pension liability	93.92%	87.71%	91.14%	90.83%
Covered payroll	\$ 4,867,751	\$ 4,550,610	\$ 4,519,527	\$ 4,640,238
Board's net pension liability as a percentage of covered payroll	22.60%	47.56%	32.91%	31.88%

Schedule is intended to show information for 10 years. Since 2014 is the first year for this presentation, only 4 years are available. However, additional years will be included as they become available.

EASTERN SHORE COMMUNITY SERVICES BOARD

Schedule of Employer Contributions - Pension Plan

For the Years Ended June 30, 2009 through June 30, 2018

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)
2018	\$ 329,339	\$ 329,339	\$ -	\$ 5,020,238	6.56%
2017	351,452	351,452	-	4,867,751	7.22%
2016	427,757	427,757	-	4,550,610	9.40%
2015	424,836	424,836	-	4,519,527	9.40%
2014	468,664	468,664	-	4,640,238	10.10%
2013	454,568	454,568	-	4,500,675	10.10%
2012	331,620	331,620	-	4,403,983	7.53%
2011	326,525	326,525	-	4,336,321	7.53%
2010	292,507	292,507	-	4,339,860	6.74%
2009	294,587	294,587	-	4,370,733	6.74%

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Required Supplementary Information - Pension Plan
Year Ended June 30, 2018

Changes of benefit terms - There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this is a fairly new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2017 is not material.

Changes of assumptions - The following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

Largest 10 - 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% to 20%

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% to 15%

EASTERN SHORE COMMUNITY SERVICES BOARD

Schedule of Board's Share of Net OPEB Liability
Group Life Insurance Program
For the Year Ended June 30, 2018

Date	Employer's Proportion of the Net GLI OPEB Liability (Asset)	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset)	Employer's Covered Payroll	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4)	Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability
(1)	(2)	(3)	(4)	(5)	(6)
2017	0.02640% \$	397,000 \$	4,869,309	8.15%	48.86%

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

EASTERN SHORE COMMUNITY SERVICES BOARD

Schedule of Employer Contributions

Group Life Insurance Program

For the Years Ended June 30, 2009 through June 30, 2018

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)
2018	\$ 26,199	\$ 26,199	- \$	5,038,227	0.52%
2017	25,320	25,320	-	4,869,309	0.52%
2016	21,936	21,936	-	4,569,900	0.48%
2015	21,720	21,720	-	4,525,011	0.48%
2014	22,320	22,320	-	4,650,096	0.48%
2013	21,607	21,607	-	4,501,539	0.48%
2012	12,339	12,339	-	4,406,799	0.28%
2011	12,162	12,162	-	4,343,549	0.28%
2010	8,773	8,773	-	3,249,247	0.27%
2009	11,817	11,817	-	4,376,549	0.27%

Notes to Required Supplementary InformationGroup Life Insurance ProgramFor the Year Ended June 30, 2018

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 following changes in actuarial assumptions were made effective June 30, 2016 based on the most recent experience study of the System for the four-year period ending June 30, 2016:

General State 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 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	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

Teachers

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	Adjusted rates to better match experience
Salary Scale	No change

SPORS Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 85%

VaLORS Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020 and reduced margin for future improvement in accordance with experience
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better fit experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 50% to 35%

Notes to Required Supplementary Information
Group Life Insurance Program
For the Year Ended June 30, 2018 (Continued)

JRS Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Decreased rates at first retirement eligibility
Withdrawal Rates	No change
Disability Rates	Removed disability rates
Salary Scale	No change

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% to 20%

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% to 15%

Largest Ten Locality Employers - Hazardous Duty 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
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

Non-Largest Ten Locality Employers - Hazardous Duty Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Increased age 50 rates and lowered rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Decreased rate from 60% to 45%

EASTERN SHORE COMMUNITY SERVICES BOARD

Combining Statement of Net Position

As of June 30, 2018

	ESCSB Operating Fund	Mendisadd, Inc. Fund	Inter- Company Eliminations	Total
Current Assets:				
Cash and cash equivalents	\$ 1,553,756	\$ 52,653	\$ -	\$ 1,606,409
Client receivables (net of allowance for uncollectible accounts)	857,590	-	-	857,590
Due from affiliates	-	23,388	(23,388)	-
Due from HUD	97,461	-	-	97,461
Notes receivable	126,282	-	(126,282)	-
Prepaid items	339,753	1,300	-	341,053
Total current assets	\$ 2,974,842	\$ 77,341	\$ (149,670)	\$ 2,902,513
Capital Assets:				
Land	\$ -	\$ 606,853	\$ -	\$ 606,853
Construction in progress	-	27,823	-	27,823
Property and equipment, less accumulated depreciation	251,417	2,343,556	-	2,594,973
Total capital assets	\$ 251,417	\$ 2,978,232	\$ -	\$ 3,229,649
Total assets	\$ 3,226,259	\$ 3,055,573	\$ (149,670)	\$ 6,132,162
Deferred Outflows of Resources:				
Pension related items	\$ 329,339	\$ -	\$ -	\$ 329,339
OPEB related items	26,199	-	-	26,199
Total deferred outflows of resources	\$ 355,538	\$ -	\$ -	\$ 355,538
Current Liabilities:				
Accounts payable	\$ 269,453	\$ -	\$ -	\$ 269,453
Accrued expenses	188,951	-	-	188,951
Unearned revenues	280,084	-	-	280,084
Due to affiliates	23,388	-	(23,388)	-
Line of credit	299,176	-	-	299,176
Current portion of compensated absences	82,238	-	-	82,238
Current portion of note payable	-	36,108	-	36,108
Current portion of capital lease payable	25,316	-	-	25,316
Total current liabilities	\$ 1,168,606	\$ 36,108	\$ (23,388)	\$ 1,181,326
Long-Term Liabilities:				
Compensated absences, less current portion	\$ 740,146	\$ -	\$ -	\$ 740,146
Long-term notes payable, less current portion	-	590,721	(126,282)	464,439
Capital lease payable, less current portion	26,492	-	-	26,492
Net pension liability	1,100,130	-	-	1,100,130
Net OPEB liability	397,000	-	-	397,000
Total long-term liabilities	\$ 2,263,768	\$ 590,721	\$ (126,282)	\$ 2,728,207
Total liabilities	\$ 3,432,374	\$ 626,829	\$ (149,670)	\$ 3,909,533
Deferred Inflows of Resources:				
Pension related items	\$ 560,211	\$ -	\$ -	\$ 560,211
OPEB related items	30,000	-	-	30,000
Total deferred inflows of resources	\$ 590,211	\$ -	\$ -	\$ 590,211
Net Position				
Net investment in capital assets	\$ 199,609	\$ 2,351,403	\$ 126,282	\$ 2,677,294
Unrestricted	(640,397)	77,341	(126,282)	(689,338)
Total net position	\$ (440,788)	\$ 2,428,744	\$ -	\$ 1,987,956

EASTERN SHORE COMMUNITY SERVICES BOARD

Combining Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2018

	ESCSB Operating Fund	Mendisadd Inc. Fund	Inter- Company Eliminations	Total
Operating revenues:				
Patient service and other fees	\$ 6,836,483	\$ -	\$ -	\$ 6,836,483
Operating expenses:				
Personnel	\$ 8,169,706	\$ -	\$ -	\$ 8,169,706
Staff development	73,144	-	-	73,144
Facility charges	1,051,693	145,307	(253,060)	943,940
Travel	66,873	-	-	66,873
Consultants and other professional services	804,468	-	-	804,468
Other charges	902,051	-	-	902,051
Depreciation	142,947	183,855	-	326,802
Total operating expenses	\$ 11,210,882	\$ 329,162	\$ (253,060)	\$ 11,286,984
Operating income (loss)	\$ (4,374,399)	\$ (329,162)	\$ 253,060	\$ (4,450,501)
Nonoperating revenues (expenses):				
Commonwealth of Virginia, including pass-through grants of \$933,347 from the federal government	\$ 3,708,075	\$ -	\$ -	\$ 3,708,075
Local governments	247,524	-	-	247,524
Other agencies	390,957	-	-	390,957
Rental income	-	276,246	(253,060)	23,186
Interest income	23,356	-	(6,773)	16,583
Interest expense	(21,234)	(28,901)	6,773	(43,362)
Total nonoperating revenues (expenses)	\$ 4,348,678	\$ 247,345	\$ (253,060)	\$ 4,342,963
Change in net position	\$ (25,721)	\$ (81,817)	\$ -	\$ (107,538)
Net position at beginning of year, as restated	(415,067)	2,510,561	-	2,095,494
Net position at end of year	\$ (440,788)	\$ 2,428,744	\$ -	\$ 1,987,956

EASTERN SHORE COMMUNITY SERVICES BOARD

Combining Statement of Cash Flows

Year Ended June 30, 2018

	ESCSB Operating Fund	Mendisadd, Inc. Fund	Inter- Company Eliminations	Total
Cash flows from operating activities:				
Receipts from clients' fees and other providers	\$ 7,345,026	\$ -	\$ -	\$ 7,345,026
Payments to suppliers and employees	(11,464,377)	(145,307)	253,060	(11,356,624)
Net cash provided by (used for) operating activities	\$ (4,119,351)	\$ (145,307)	\$ 253,060	\$ (4,011,598)
Cash flows from noncapital and related financing activities:				
Government and other agencies	\$ 4,346,556	\$ -	\$ -	\$ 4,346,556
Rent of property	-	276,246	(253,060)	23,186
Net cash provided by (used for) noncapital and related financing activities	\$ 4,346,556	\$ 276,246	\$ (253,060)	\$ 4,369,742
Cash flows from capital and related financing activities:				
Purchase of capital assets	\$ (17,202)	\$ (421,349)	\$ -	\$ (438,551)
Principal payments on note payable	-	(39,550)	4,989	(34,561)
Principal payments on capital leases payable	(97,783)	-	-	(97,783)
Interest paid on capital leases and notes payable	(21,234)	(29,812)	6,773	(44,273)
Net cash provided by (used for) capital and related financing activities	\$ (136,219)	\$ (490,711)	\$ 11,762	\$ (615,168)
Cash flows from investing activities:				
Interest received	\$ 23,356	\$ -	\$ (6,773)	\$ 16,583
Principal received on notes receivable	4,989	-	(4,989)	-
Net cash provided by (used for) investing activities	\$ 28,345	\$ -	\$ (11,762)	\$ 16,583
Net increase (decrease) in cash and cash equivalents	\$ 119,331	\$ (359,772)	\$ -	\$ (240,441)
Cash and cash equivalents, beginning of year	1,434,425	412,425	-	1,846,850
Cash and cash equivalents, end of year	\$ 1,553,756	\$ 52,653	\$ -	\$ 1,606,409
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ (4,374,399)	\$ (329,162)	\$ 253,060	\$ (4,450,501)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	142,947	183,855	-	326,802
Changes in assets, liabilities, and deferred inflows/outflows of resources:				
Accounts receivable	278,398	-	-	278,398
Prepaid items	(291,946)	-	-	(291,946)
Deferred outflows of resources	427,920	-	-	427,920
Compensated absences	41,076	-	-	41,076
Accounts payable	105,144	-	-	105,144
Unearned revenues	230,145	-	-	230,145
Net pension liability	(1,064,033)	-	-	(1,064,033)
Net OPEB liability	(48,000)	-	-	(48,000)
Deferred inflows of resources	417,418	-	-	417,418
Other accrued expenses	15,979	-	-	15,979
Net cash provided by (used for) operating activities	\$ (4,119,351)	\$ (145,307)	\$ 253,060	\$ (4,011,598)

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of the business-type activities of Eastern Shore Community Services Board as of and for the year ended June 30, 2018 and the related notes to the financial statements, which collectively comprise Eastern Shore Community Services Board's basic financial statements and have issued our report thereon dated November 21, 2018.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control that we consider to be material weaknesses, 2018-001.

Compliance and Other Matters

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

Eastern Shore Community Services Board Response to Findings

Eastern Shore Community Services Board's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned cost. Eastern Shore Community Services Board's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

A handwritten signature in black ink, appearing to read "D. F. Clark", followed by a long horizontal line.

Richmond, Virginia
November 21, 2018

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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

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

Report on Compliance for Each Major Federal Program

We have audited Eastern Shore 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 Eastern Shore Community Services Board's major federal programs for the year ended June 30, 2018. Eastern Shore Community Services Board's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the 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 Eastern Shore 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 Eastern Shore 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 Eastern Shore Community Services Board's compliance.

Opinion on Each Major Federal Program

In our opinion, Eastern Shore 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, 2018.

Report on Internal Control over Compliance

Management of Eastern Shore 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 Eastern Shore 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 Eastern Shore 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 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.

A handwritten signature in black ink, appearing to read "R. F. C.", followed by a long horizontal line.

Richmond, Virginia
November 21, 2018

EASTERN SHORE COMMUNITY SERVICES BOARD

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018

Federal Grantor/ State Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
Department of Education			
Pass Through Payments:			
Department of Behavioral Health and Developmental Services:			
		445007-43080 &	
Special Education - Grants for Infants and Families	84.181	445007-43081	\$ 48,561
Total Department of Education			\$ 48,561
Department of Health and Human Services:			
Pass Through Payments:			
Department of Behavioral Health and Developmental Services:			
Block Grants for Community Mental Health Services	93.958	445006-50127	\$ 36,687
		4450100-50167 &	
Block Grants for Prevention and Treatment of Substance Abuse	93.959	4450100-50197	438,089
		455001-51011 &	
Opioid STR	93.788	445001-50197	410,010
Total Department of Health and Human Services			\$ 884,786
Total Expenditures of Federal Awards			\$ 933,347

See accompanying notes to schedule of expenditures of federal awards.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2018

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of Eastern Shore Community Services Board under programs of the federal government for the year ended June 30, 2018. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (Uniform Guidance) Part 200, *Uniform Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the Schedule presents only a selected portion of the operations of Eastern Shore Community Services Board, it is not intended to and does not present the financial position, changes in net position, or cash flows of Eastern Shore Community Services Board.

Note B - Summary of Significant Accounting Policies

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

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

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

Note C - Relationship to Financial Statements

Federal expenditures, revenues and capital contributions are reported in Eastern Shore Community Services Board basic financial statements as follows:

Appropriations from the Commonwealth of Virginia, including pass-through grants	<u>\$ 933,347</u>
Total federal expenditures per basic financial statements	<u>\$ 933,347</u>
Total federal expenditures per the Schedule of Expenditures of Federal Awards	<u><u>\$ 933,347</u></u>

EASTERN SHORE COMMUNITY SERVICES BOARD

Schedule of Findings and Questioned Costs
As of June 30, 2018

Section I-Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

unmodified

Internal control over financial reporting:

Material weakness(es) identified?

✓ yes no

Significant deficiency(ies) identified?

 yes ✓ none reported

Noncompliance material to financial statements noted?

 yes ✓ no

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

 yes ✓ no

Significant deficiency(ies) identified?

 yes ✓ none reported

Type of auditors' report issued on compliance
for major programs:

unmodified

Any audit findings disclosed that are required to be
reported in accordance with section .510(a) of
the Uniform Guidance?

 yes ✓ no

Identification of major programs:

CFDA Number(s)

93.959

Name of Federal Program or Cluster

Block Grants for Prevention and
Treatment of Substance Abuse

Dollar threshold used to distinguish between type A
and type B programs:

\$750,000

Auditee qualified as low-risk auditee?

 yes ✓ no

EASTERN SHORE COMMUNITY SERVICES BOARD

Schedule of Findings and Questioned Costs (Continued) As of June 30, 2018

Section II-Financial Statement Findings

Finding: 2018-001 - Credit Card Receipts

Condition: ESCSB was not able to provide backup documentation in the form of receipts for all purchases made by employees with credit cards.

Criteria: ESCSB employees with credit cards provide receipts of purchases for management review, account classification coding, and posting prior to payment. Backup documentation is to be maintained for these transactions.

Cause: Receipts for purchases made by employees on their credit cards were either not reviewed by management prior to payment or were not maintained for all of the transactions.

Effect: Due to the fact that receipts for all purchases made on employee credit cards were not maintained, documentation does not exist for some of the purchases made through credit cards.

Recommendation: Payments for credit card purchase should not be made until all receipts have been reviewed by management. Evidence of this review includes maintaining backup documentation for all purchases.

Views of Responsible Officials and Planned Corrective Actions: Procedures will be implemented to ensure that payment is not made until receipts are reviewed by management and backup documents are maintained as evidence of purchases made.

Status: Procedures are in the process of being implemented to ensure all backup documentation is retained.

Section III - Federal Award Findings and Question Costs

None

Section IV-Prior Year Findings

Identifying Number:

Finding 2017-001

Finding:

Internal controls were not in place that provided assurance that Eastern Shore Community Services Board financial statements reconcile to the Board's internal documents.

Corrective Action Taken or Planned:

The Board implemented procedures to ensure financial statements reconciled to internal documents.