

# EASTERN SHORE COMMUNITY SERVICES BOARD

ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2021



## *INTRODUCTORY SECTION*

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**EASTERN SHORE  
COMMUNITY SERVICES BOARD**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR  
ENDED JUNE 30, 2021**

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## **EASTERN SHORE COMMUNITY SERVICES BOARD**

### **BOARD OFFICIALS**

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#### **BOARD OF DIRECTORS**

Mr. Robert J. Bloxom - Chairperson  
Mrs. Eve Belote - Vice Chairperson  
Ms. Kim Wilkerson - Secretary  
Mr. Andre Elliot - Treasurer  
Mr. Richard L. Hubbard

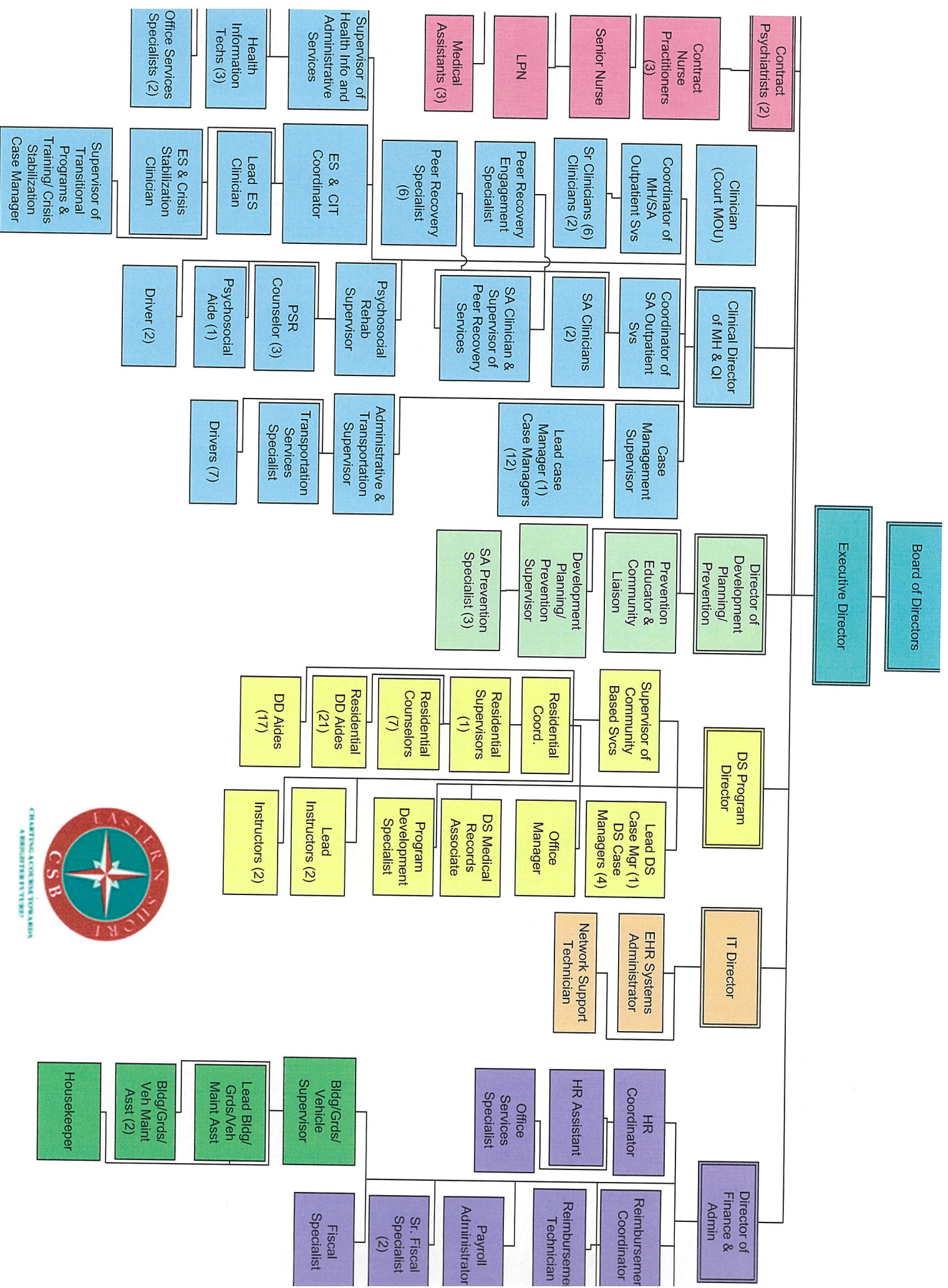
Mr. Richard Freeman  
Ms. Janice Langley  
Ms. Peggy Shaeffer  
Ms. Gina Bowden Williams

#### **LEADERSHIP TEAM**

Lisa B. Sedjat  
Vacant  
Kathleen O'Keefe  
Damien Greene  
Kelly Hill Bulin  
  
Molly Walker

Executive Director  
Director of Finance & Administration  
Developmental Services Program Director  
IT Director  
Director of Program Development,  
Planning and Prevention  
Clinical Director of Mental Health and  
Quality Improvement

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## *FINANCIAL SECTION*

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**Independent Auditors' Report**

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**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, 2021, 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, 2021, 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 Principle***

As described in Note 13 to the financial statements, in 2021, the Board early implemented, GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. 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 37-43 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 introductory section and combining financial statements are presented for purposes of additional analysis and are not part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining financial statements and the schedule of expenditures of federal awards 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 financial statements and schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

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.



### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2021, 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. Frick", followed by a long horizontal line extending to the right.

Richmond, Virginia  
November 5, 2021

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## EASTERN SHORE COMMUNITY SERVICES BOARD

### MANAGEMENT'S DISCUSSION AND ANALYSIS

#### FOR THE YEAR ENDED JUNE 30, 2021

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, 2021, the Board received state, federal, and local funds in the amounts of \$3,640,143, \$1,587,441, and \$275,671, respectively. As of June 30, 2021, the Board had approximately 150 employees providing mental health, developmental services, substance use disorder (SUD), prevention, residential and administrative support services in 12 facilities. During 2021, total consumers served included 1,934 in Mental Health, 284 in SUD and 179 in Developmental Services. Our Prevention efforts served 687 individuals through its various initiatives.

### HIGHLIGHTS

#### Financial Highlights for FY 2021

- Cash and investments increased \$1.1 million.
- Net position increased \$1.0 million.
- Operating revenues increased \$896 thousand.
- Operating expenses increased \$658 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, 2021. 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 FY2021 Financial Statements are combined with MENDISADD, Inc.

#### CONDENSED FINANCIAL INFORMATION

The following schedule reflects the condensed Statement of Net Position.

|  |                                |
|--|--------------------------------|
| Current Assets   | \$ 5,126,973                   |
| Property and Equipment, less<br>Accumulated Depreciation | <u>3,007,645</u>               |
| <br>TOTAL ASSETS   | <br><u>\$ 8,134,618</u>        |
| <br>DEFERRED OUTFLOWS OF RESOURCES                       | <br><u>\$ 1,162,874</u>        |
| Current Liabilities                                      | \$ 1,037,566                   |
| Long-Term Liabilities                                    | 875,089                        |
| Net Pension Liability                                    | 2,399,927                      |
| Net OPEB Liability                                       | <u>431,728</u>                 |
| <br>TOTAL LIABILITIES                                    | <br><u>\$ 4,744,310</u>        |
| <br>DEFERRED INFLOWS OF RESOURCES                        | <br><u>\$ 114,183</u>          |
| Net Position:  |                                |
| Net Investment in Capital Assets                         | \$ 2,632,218                   |
| Unrestricted   | <u>1,806,781</u>               |
| <br>TOTAL NET POSITION                                   | <br><u><u>\$ 4,438,999</u></u> |

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

|                         |                     |
|-------------------------|---------------------|
| Operating Revenues      | \$ 5,929,497        |
| Operating Expenses      | <u>11,150,425</u>   |
| Operating Income (Loss) | \$ (5,220,928)      |
| Non-operating Income    | <u>6,248,084</u>    |
| Change in Net Position  | \$ <u>1,027,156</u> |

#### OVERALL FINANCIAL ANALYSIS

In general, the financial condition of the Board remains strong. The Statement of Net Position also shows 191% more total assets and deferred outflows of resources than total liabilities and deferred inflows of resources, an increase of 2.85% over the prior year.

The Board continues to monitor ways in which new revenues can be generated while prudently managing expenses. The COVID-19 pandemic has continued to create new and unique challenges to the Board; the impacts of which have been unevenly distributed throughout our functional areas. Programs facilitated in a group setting and in our congregate residential settings have been disrupted more significantly than those conducted on a per person basis or those that could be conducted through telehealth. The Board was able to leverage certain investments in technology while also increasing capital allocation to support telehealth and other virtual modalities to minimize disruption to our consumers. Purchases of PPE and expenses associated with cleaning and disinfecting our facilities have increased as a response to the pandemic. Adjustments to headcount and overtime expenses to coincide with shifting demand for services occurred throughout the year. The Board remains responsive to these evolving conditions.

#### 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 Finance and Administration, P.O. Box 318, Tasley, VA 23441.

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**EASTERN SHORE COMMUNITY SERVICES BOARD**

**Statement of Net Position**

**As of June 30, 2021**

|  |              |
|--|--------------|
| Current Assets:  |              |
| Cash and cash equivalents  | \$ 4,181,622 |
| Client receivables (net of allowance for uncollectible accounts) | 795,495      |
| Due from Accomack County   | 100,018      |
| Due from Northampton County                                      | 245          |
| Prepaid items  | 49,593       |
| Total current assets   | \$ 5,126,973 |
| Capital Assets:  |              |
| Land   | \$ 606,853   |
| Construction in progress   | 28,425       |
| Property and equipment, less accumulated depreciation            | 2,372,367    |
| Total capital assets   | \$ 3,007,645 |
| Total assets   | \$ 8,134,618 |
| Deferred Outflows of Resources:                                  |              |
| Pension related items  | \$ 1,066,883 |
| OPEB related items   | 95,991       |
| Total deferred outflows of resources                             | \$ 1,162,874 |
| Current Liabilities:   |              |
| Accounts payable   | \$ 279,860   |
| Accrued expenses   | 227,412      |
| Unearned revenues  | 397,103      |
| Due to HUD   | 30,994       |
| Current portion of compensated absences                          | 60,186       |
| Current portion of notes payable                                 | 42,011       |
| Total current liabilities  | \$ 1,037,566 |
| Long-Term Liabilities:   |              |
| Compensated absences, less current portion                       | \$ 541,673   |
| Notes payable, less current portion                              | 333,416      |
| Net pension liability  | 2,399,927    |
| Net OPEB liability   | 431,728      |
| Total long-term liabilities                                      | \$ 3,706,744 |
| Total liabilities  | \$ 4,744,310 |
| Deferred Inflows of Resources:                                   |              |
| Pension related items  | \$ 93,813    |
| OPEB related items   | 20,370       |
| Total deferred inflows of resources                              | \$ 114,183   |
| Net Position:  |              |
| Net investment in capital assets                                 | \$ 2,632,218 |
| Unrestricted   | 1,806,781    |
| Total net position   | \$ 4,438,999 |

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, 2021**

|  |                            |
|--|----------------------------|
| Operating revenues:  |                            |
| Patient service fees   | \$ <u>5,929,497</u>        |
| Operating expenses:  |                            |
| Personnel  | \$ 8,175,577               |
| Staff development  | 14,379                     |
| Facility charges   | 734,593                    |
| Travel   | 7,675                      |
| Consultants and other professional services  | 1,306,341                  |
| Other charges  | 644,691                    |
| Depreciation   | 267,169                    |
| Total operating expenses   | \$ <u>11,150,425</u>       |
| Operating income (loss)  | \$ <u>(5,220,928)</u>      |
| Nonoperating revenues (expenses):  |                            |
| Commonwealth of Virginia, including pass-through grants of \$1,223,842 from the federal government | \$ 4,863,985               |
| Direct federal   | 363,599                    |
| Local governments  | 275,671                    |
| Other agencies   | 708,110                    |
| Rental income  | 26,000                     |
| Interest income  | 28,395                     |
| Interest expense   | <u>(17,676)</u>            |
| Total nonoperating revenues (expenses)   | \$ <u>6,248,084</u>        |
| Change in net position   | \$ 1,027,156               |
| Net position at beginning of year  | <u>3,411,843</u>           |
| Net position at end of year  | \$ <u><u>4,438,999</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, 2021**

Cash flows from operating activities:

|  |                |
|--|----------------|
| Receipts from clients' fees and other providers      | \$ 5,729,963   |
| Payments to suppliers                                | (2,628,711)    |
| Payments to and for employees                        | (8,009,823)    |
| Net cash provided by (used for) operating activities | \$ (4,908,571) |

Cash flows from noncapital and related financing activities:

|   |              |
|---|--------------|
| Government and other agencies   | \$ 6,211,365 |
| Rent of property  | 26,000       |
| Net cash provided by (used for) noncapital and related financing activities | \$ 6,237,365 |

Cash flows from capital and related financing activities:

|  |              |
|--|--------------|
| Purchase of capital assets   | \$ (217,338) |
| Principal payments on notes payable                                      | (39,959)     |
| Principal payments on capital leases payable                             | (3,920)      |
| Interest paid on capital leases and notes payable                        | (17,676)     |
| Net cash provided by (used for) capital and related financing activities | \$ (278,893) |

Cash flows from investing activities:

|                   |           |
|-------------------|-----------|
| Interest received | \$ 28,395 |
|-------------------|-----------|

Net increase (decrease) in cash and cash equivalents \$ 1,078,296

Cash and cash equivalents, beginning of year 3,103,326

Cash and cash equivalents, end of year \$ 4,181,622

Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:

Operating income (loss) \$ (5,220,928)

Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:

Depreciation 267,169

Changes in assets, liabilities, and deferred inflows/outflows of resources:

Accounts receivable (119,061)

Prepaid items (9,857)

Due to (from) HUD 53,818

Due from local government (100,263)

Deferred outflows of resources (348,062)

Compensated absences (102,020)

Accounts payable 28,622

Unearned revenues (3,034)

Net pension liability 835,424

Net OPEB liability 11,730

Deferred inflows of resources (209,264)

Other accrued expenses 7,155

Net cash provided by (used for) operating activities \$ (4,908,571)

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

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## EASTERN SHORE COMMUNITY SERVICES BOARD

### **Notes to Financial Statements As of June 30, 2021**

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#### **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, 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. Measurement Focus and 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's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. 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.

##### **F. 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.

## EASTERN SHORE COMMUNITY SERVICES BOARD

### Notes to Financial Statements (Continued) As of June 30, 2021

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#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### G. Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. For purposes of this statement of cash flows, the Board's proprietary funds consider their demand deposits and all highly liquid investments with an original maturity date of three months or less when purchased to be cash equivalents.

##### H. Investments

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

##### I. 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, 2021, the Board was due \$1,201,804 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, 2021 was \$406,309.

##### J. 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.

##### K. 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. Donated capital assets are recorded at acquisition value at the time of the gift. Depreciation is provided over the estimated useful life of each class of depreciable assets using the straight-line method over the following estimated useful lives:

## EASTERN SHORE COMMUNITY SERVICES BOARD

### Notes to Financial Statements (Continued) As of June 30, 2021

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#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

##### K. Capital Assets (Continued)

| <u>Assets</u>                  | <u>Years</u> |
|--------------------------------|--------------|
| Buildings and Improvements     | 10-25        |
| Leasehold Improvements         | 7-29         |
| Office Furniture and Equipment | 5-15         |
| Computer Equipment             | 5            |
| Software                       | 3-7          |
| Vehicles                       | 3-10         |

##### L. 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.

##### M. 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 amount of annual and sick leave recognized as expense is the amount earned during the year. The balance at June 30, 2021 was \$601,859.

##### N. 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 August 31 (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.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**O. 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 certain items related to the measurement of the net pension liability and net OPEB liability and 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. 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 liability and Net OPEB liability are reported as deferred inflows of resources. For more detailed information on these items, reference the related notes.

**P. 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 fiduciary net 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.

**Q. Other Postemployment Benefits (OPEB)**

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

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## **EASTERN SHORE COMMUNITY SERVICES BOARD**

### **Notes to Financial Statements (Continued)** **As of June 30, 2021**

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#### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

##### **R. Net Position**

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

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

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

#### **NOTE 2 - DEPOSITS AND INVESTMENTS**

##### **Deposits**

When an Organization has over \$250,000 in any one bank, the deposits in excess of \$250,000 are not covered by the Federal Deposit Insurance Corporation (FDIC) and, accordingly, are exposed to custodial credit risk because they are uncollateralized.

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are (1) uncollateralized, (2) collateralized with securities held by the pledging financial institution, or (3) collateralized with securities held by the pledging financial institution's trust department or agent but not in the depositor government's name. At June 30, 2021, the Board had \$140,896 in deposits that were uncollateralized and exposed to custodial credit risk.

All other 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.

## **EASTERN SHORE COMMUNITY SERVICES BOARD**

### **Notes to Financial Statements (Continued)** **As of June 30, 2021**

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#### **NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)**

##### **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 that has received at least two of the following ratings: P-1 by Moody's Investors Service, Inc.; A-1 by Standard and Poor's; or F1 by Fitch Ratings, Inc. (Section 2.2-4502), banker's acceptances, repurchase agreements, and the State Treasurer's Local Government Investment Pool (LGIP).

##### **Credit Risk of Debt Securities**

The Board's rated debt investments as of June 30, 2021 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.

| Locality's Rated Debt Investment's Values |                            |
|---|----------------------------|
| <u>Related Debt Investments</u>           | <u>Fair Quality Rating</u> |
|   | <u>AAAm</u>                |
| Local Government Investment Pool          | \$ <u>28,557</u>           |
| Total                                     | \$ <u>28,557</u>           |

##### **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) |                   |                         |
|----------------------------------|-------------------|-------------------------|
| <u>Investment Type</u>           | <u>Fair Value</u> | <u>Less Than 1 Year</u> |
| Local Government Investment Pool | \$ <u>28,557</u>  | \$ <u>28,557</u>        |
| Total                            | \$ <u>28,557</u>  | \$ <u>28,557</u>        |

##### **External Investment Pool**

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



## **EASTERN SHORE COMMUNITY SERVICES BOARD**

### **Notes to Financial Statements (Continued)** **As of June 30, 2021**

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#### **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.

##### ***Benefit Structures***

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

- a. Employees with a membership date before July 1, 2010, vested as of January 1, 2013, and have not taken a refund, are covered under Plan 1, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced retirement benefit beginning at age 65 with at least 5 years of service credit or age 50 with at least 30 years of service credit. Non-hazardous duty employees may retire with a reduced benefit as early as age 55 with at least 5 years of service credit or age 50 with at least 10 years of service credit.
- b. Employees with a membership date from July 1, 2010 to December 31, 2013, that have not taken a refund or employees with a membership date prior to July 1, 2010 and not vested before January 1, 2013, are covered under Plan 2, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of service credit or when the sum of their age plus service equals 90. Non-hazardous duty employees may retire with a reduced benefit as early as age 60 with at least 5 years of service credit.
- c. Non-hazardous duty employees with a membership date on or after January 1, 2014 are covered by the Hybrid Plan combining the features of a defined benefit plan and a defined contribution plan. Plan 1 and Plan 2 members also had the option of opting into this plan during the election window held January 1 - April 30, 2014 with an effective date of July 1, 2014. Employees covered by this plan are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of service credit, or when the sum of their age plus service credit equals 90. Employees may retire with a reduced benefit as early as age 60 with at least 5 years of service credit. For the defined contribution component, members are eligible to receive distributions upon leaving employment, subject to restrictions.

##### ***Average Final Compensation and Service Retirement Multiplier***

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

## **EASTERN SHORE COMMUNITY SERVICES BOARD**

### **Notes to Financial Statements (Continued)** **As of June 30, 2021**

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#### **NOTE 3 - PENSION PLAN (CONTINUED)**

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

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

##### ***Employees Covered by Benefit Terms***

As of the June 30, 2019 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

|  | <u>Number</u>     |
|--|-------------------|
| Inactive members or their beneficiaries currently receiving benefits | 82                |
| Inactive members:  |                   |
| Vested inactive members  | 16                |
| Non-vested inactive members  | 66                |
| Inactive members active elsewhere in VRS                             | <u>23</u>         |
| Total inactive members   | 105               |
| Active members   | <u>141</u>        |
| Total covered employees  | <u><u>328</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.

The Board's contractually required employer contribution rate for the year ended June 30, 2021 was 7.10% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019.

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 \$298,005 and \$301,901 for the years ended June 30, 2021 and June 30, 2020, respectively.

## EASTERN SHORE COMMUNITY SERVICES BOARD

### Notes to Financial Statements (Continued) As of June 30, 2021

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#### NOTE 3 - PENSION PLAN (CONTINUED)

##### *Net Pension Liability*

The net pension liability (NPL) is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. For the Board, the net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2019, rolled forward to the measurement date of June 30, 2020.

##### *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, 2019, 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, 2020.

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

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

##### Mortality rates:

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

##### Pre-Retirement:

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

##### Post-Retirement:

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

##### Post-Disablement:

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

## EASTERN SHORE COMMUNITY SERVICES BOARD

### Notes to Financial Statements (Continued) As of June 30, 2021

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#### NOTE 3 - PENSION PLAN (CONTINUED)

##### *Actuarial Assumptions - General Employees (Continued)*

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

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

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

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**EASTERN SHORE COMMUNITY SERVICES BOARD****Notes to Financial Statements (Continued)**  
**As of June 30, 2021****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:

| <b>Asset Class (Strategy)</b>        | <b>Long-Term<br/>Target<br/>Asset<br/>Allocation</b> | <b>Arithmetic<br/>Long-term<br/>Expected<br/>Rate of Return</b> | <b>Weighted<br/>Average<br/>Long-term<br/>Expected<br/>Rate of Return*</b> |
|--------------------------------------|--|---|--|
| Public Equity                        | 34.00%   | 4.65%   | 1.58%  |
| Fixed Income                         | 15.00%   | 0.46%   | 0.07%  |
| Credit Strategies                    | 14.00%   | 5.38%   | 0.75%  |
| Real Assets                          | 14.00%   | 5.01%   | 0.70%  |
| Private Equity                       | 14.00%   | 8.34%   | 1.17%  |
| MAPS - Multi-Asset Public Strategies | 6.00%  | 3.04%   | 0.18%  |
| PIP - Private Investment Partnership | 3.00%  | 6.49%   | 0.19%  |
| Total                                | <u>100.00%</u>                                       |   | <u>4.64%</u>   |
|                                      |  | Inflation   | <u>2.50%</u>   |
|                                      |  | Expected arithmetic nominal return*                             | <u>7.14%</u>   |

\* The above allocation provides a one-year return of 7.14%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. On October 10, 2019, the VRS Board elected a long-term rate of 6.75% which is roughly at the 40<sup>th</sup> percentile of expected long-term results of the VRS fund asset allocation. More recent capital market assumptions compiled for the FY2020 actuarial valuations provide a median return of 6.81%.

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**EASTERN SHORE COMMUNITY SERVICES BOARD****Notes to Financial Statements (Continued)**  
**As of June 30, 2021****NOTE 3 - PENSION PLAN (CONTINUED)*****Discount Rate***

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; the Board was also provided with an opportunity to use an alternative employer contribution rate. For the year ended June 30, 2020, the alternate rate was the employer contribution rate used in FY 2012 or 100% of the actuarially determined employer contribution rate from the June 30, 2017 actuarial valuations, whichever was greater. From July 1, 2020 on, participating employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

***Changes in Net Pension Liability***

|   | <b>Increase (Decrease)</b>                     |  |  |
|---|--|--|--|
|   | <b>Total<br/>Pension<br/>Liability<br/>(a)</b> | <b>Plan<br/>Fiduciary<br/>Net Position<br/>(b)</b> | <b>Net<br/>Pension<br/>Liability<br/>(a) - (b)</b> |
| Balances at June 30, 2019                             | \$ 20,238,793                                  | \$ 18,674,290                                      | \$ 1,564,503                                       |
| Changes for the year:                                 |  |  |  |
| Service cost  | \$ 456,516                                     | \$ -   | \$ 456,516   |
| Interest  | 1,333,711                                      | -  | 1,333,711  |
| Differences between expected<br>and actual experience | (76,725)                                       | -  | (76,725)   |
| Contributions - employer                              | -  | 296,704  | (296,704)  |
| Contributions - employee                              | -  | 238,332  | (238,332)  |
| Net investment income                                 | -  | 355,675  | (355,675)  |
| Benefit payments, including refunds                   |  |  |  |
| Refunds of employee contributions                     | (960,226)                                      | (960,226)  | -  |
| Administrative expenses                               | -  | (12,214)   | 12,214   |
| Other changes   | -  | (419)  | 419  |
| Net changes   | \$ 753,276                                     | \$ (82,148)  | \$ 835,424   |
| Balances at June 30, 2020                             | \$ 20,992,069                                  | \$ 18,592,142                                      | \$ 2,399,927                                       |

**EASTERN SHORE COMMUNITY SERVICES BOARD****Notes to Financial Statements (Continued)**  
**As of June 30, 2021****NOTE 3 - PENSION PLAN (CONTINUED)*****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 6.75%, 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 (5.75%) or one percentage point higher (7.75%) than the current rate:

|                                  | <b>Rate</b>        |                         |                    |
|----------------------------------|--------------------|-------------------------|--------------------|
|                                  | <b>1% Decrease</b> | <b>Current Discount</b> | <b>1% Increase</b> |
|                                  | <b>(5.75%)</b>     | <b>(6.75%)</b>          | <b>(7.75%)</b>     |
| Net Pension Liability (Asset) \$ | 4,865,717 \$       | 2,399,927 \$            | 328,738            |

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

For the year ended June 30, 2021, the Board recognized pension expense of \$591,811. At June 30, 2021, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|  | <b>Deferred Outflows<br/>of Resources</b> | <b>Deferred Inflows<br/>of Resources</b> |
|--|---|--|
| Differences between expected and actual experience \$                            | 9,357 \$                                  | 93,813                                   |
| Change in assumptions  | 202,683                                   | -  |
| Net difference between projected and actual earnings on pension plan investments | 556,838                                   | -  |
| Employer contributions subsequent to the measurement date                        | 298,005                                   | -  |
| Total  | <u>\$ 1,066,883</u>                       | <u>\$ 93,813</u>                         |

\$298,005 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, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

**Year ended June 30**

|            |            |
|------------|------------|
| 2022       | \$ 139,778 |
| 2023       | 167,929    |
| 2024       | 189,347    |
| 2025       | 178,011    |
| 2026       | -          |
| Thereafter | -          |

## **EASTERN SHORE COMMUNITY SERVICES BOARD**

### **Notes to Financial Statements (Continued)** **As of June 30, 2021**

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#### **NOTE 3 - PENSION PLAN (CONTINUED)**

##### ***Pension Plan Data***

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2020 Comprehensive Annual Financial Report (Annual Report). A copy of the 2020 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/pdf/publications/2020-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

#### **NOTE 4—GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN)**

##### ***Plan Description***

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

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

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

##### ***Eligible Employees***

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

##### ***Benefit Amounts***

The GLI Plan is a defined benefit plan with several components. The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. The accidental death benefit is double the natural death benefit. In addition to basic natural and accidental death benefits, the plan provides additional benefits provided under specific circumstances that include the following: accidental dismemberment benefit, safety belt benefit, repatriation benefit, felonious assault benefit, and accelerated death benefit option. The benefit amounts are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value. For covered members with at least 30 years of service credit, the minimum benefit payable was set at \$8,000 by statute in 2015. This will be increased annually based on the VRS Plan 2 cost-of-living adjustment calculation. The minimum benefit adjusted for the COLA was \$8,616 as of June 30, 2021.



## **EASTERN SHORE COMMUNITY SERVICES BOARD**

### **Notes to Financial Statements (Continued)** **As of June 30, 2021**

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#### **NOTE 4—GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN) (CONTINUED)**

##### ***Contributions***

The contribution requirements for the GLI Plan are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the GLI Plan was 1.34% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.80% ( $1.34\% \times 60\%$ ) and the employer component was 0.54% ( $1.34\% \times 40\%$ ). Employers may elect to pay all or part of the employee contribution; however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2021 was 0.54% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2019. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the GLI Plan from the entity were \$26,919 and \$27,684 for the years ended June 30, 2021 and June 30, 2020, respectively.

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

At June 30, 2021, the entity reported a liability of \$431,728 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2020 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation performed as of June 30, 2019, and rolled forward to the measurement date of June 30, 2020. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the GLI Plan for the year ended June 30, 2020 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2020, the participating employer's proportion was .02590% as compared to .02580% at June 30, 2019.

For the year ended June 30, 2021, the participating employer recognized GLI OPEB expense of \$17,805. 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.

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**EASTERN SHORE COMMUNITY SERVICES BOARD****Notes to Financial Statements (Continued)**  
**As of June 30, 2021****NOTE 4—GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN) (CONTINUED)*****GLI OPEB Liabilities, GLI OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the GLI Plan OPEB (Continued)***

At June 30, 2021, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

|   | <b><u>Deferred<br/>Outflows<br/>of Resources</u></b> | <b><u>Deferred<br/>Inflows<br/>of Resources</u></b> |
|---|--|---|
| Differences between expected and actual experience                                | \$ 27,691  | \$ 3,877  |
| Net difference between projected and actual earnings on GLI OPEB plan investments | 12,969   | -   |
| Change in assumptions   | 21,591   | 9,015   |
| Changes in proportionate share  | 6,821  | 7,478   |
| Employer contributions subsequent to the measurement date                         | <u>26,919</u>  | <u>-</u>  |
| Total   | <u><u>\$ 95,991</u></u>                              | <u><u>\$ 20,370</u></u>                             |

\$26,919 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, 2022. 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:

| <b><u>Year Ended<br/>June 30</u></b> |          |
|--------------------------------------|----------|
| 2022                                 | \$ 7,845 |
| 2023                                 | 11,507   |
| 2024                                 | 13,490   |
| 2025                                 | 12,526   |
| 2026                                 | 3,054    |
| Thereafter                           | 280      |

## **EASTERN SHORE COMMUNITY SERVICES BOARD**

### **Notes to Financial Statements (Continued) As of June 30, 2021**

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#### **NOTE 4—GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN) (CONTINUED)**

##### ***Actuarial Assumptions***

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2019, 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, 2020. The assumptions include several employer groups as noted below. Salary increases and mortality rates included herein are for relevant employer groups. Information for other groups can be referenced in the VRS Annual Report.

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

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

##### **Mortality Rates - Non-Largest Ten Locality Employers - General Employees**

###### **Pre-Retirement:**

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

###### **Post-Retirement:**

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

###### **Post-Disablement:**

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

**EASTERN SHORE COMMUNITY SERVICES BOARD****Notes to Financial Statements (Continued)**  
**As of June 30, 2021****NOTE 4—GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN) (CONTINUED)*****Actuarial Assumptions*****Mortality Rates - Non-Largest Ten Locality Employers - General Employees (Continued)**

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

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

***NET GLI OPEB Liability (Update table below)***

The net OPEB liability (NOL) for the GLI Plan represents the plan's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the measurement date of June 30, 2020, NOL amounts for the GLI Plan are as follows (amounts expressed in thousands):

|  |    | <b>GLI OPEB<br/>Plan</b> |
|--|----|--------------------------|
| Total GLI OPEB Liability   | \$ | 3,523,937                |
| Plan Fiduciary Net Position  |    | 1,855,102                |
| GLI Net OPEB Liability (Asset)   | \$ | <u>1,668,835</u>         |
| Plan Fiduciary Net Position as a Percentage<br>of the Total GLI OPEB Liability |    | 52.64%                   |

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, 2021****NOTE 4—GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN) (CONTINUED)*****Long-Term Expected Rate of Return (Update table below)***

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:

| <b>Asset Class (Strategy)</b>        | <b>Long-Term<br/>Target<br/>Asset<br/>Allocation</b> | <b>Arithmetic<br/>Long-term<br/>Expected<br/>Rate of Return</b> | <b>Weighted<br/>Average<br/>Long-term<br/>Expected<br/>Rate of Return*</b> |
|--------------------------------------|--|---|--|
| Public Equity                        | 34.00%   | 4.65%   | 1.58%  |
| Fixed Income                         | 15.00%   | 0.46%   | 0.07%  |
| Credit Strategies                    | 14.00%   | 5.38%   | 0.75%  |
| Real Assets                          | 14.00%   | 5.01%   | 0.70%  |
| Private Equity                       | 14.00%   | 8.34%   | 1.17%  |
| MAPS - Multi-Asset Public Strategies | 6.00%  | 3.04%   | 0.18%  |
| PIP - Private Investment Partnership | 3.00%  | 6.49%   | 0.19%  |
| Total                                | 100.00%  |   | 4.64%  |
|                                      |  | Inflation   | 2.50%  |
|                                      |  | Expected arithmetic nominal return*                             | 7.14%  |

\*The above allocation provides a one-year return of 7.14%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 7.11%, including expected inflation of 2.50%. On October 10, 2019, the VRS Board elected a long-term rate of 6.75% which is roughly at the 40<sup>th</sup> percentile of expected long-term results of the VRS fund asset allocation. More recent capital market assumptions compiled for the FY2020 actuarial valuations provide a median return of 6.81%.

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## **EASTERN SHORE COMMUNITY SERVICES BOARD**

### **Notes to Financial Statements (Continued)** **As of June 30, 2021**

#### **NOTE 4—GROUP LIFE INSURANCE (GLI) PLAN (OPEB PLAN) (CONTINUED)**

##### ***Discount Rate***

The discount rate used to measure the total GLI OPEB liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ended June 30, 2020, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly which was 100% of the actuarially determined contribution rate. From July 1, 2020 on, employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

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

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

|  | Rate        |                     |             |
|--|-------------|---------------------|-------------|
|  | 1% Decrease | Current             | 1% Increase |
|  | (5.75%)     | Discount<br>(6.75%) | (7.75%)     |
| Board's proportionate<br>share of the GLI Plan<br>Net OPEB Liability | \$ 567,539  | \$ 431,728          | \$ 321,436  |

##### ***GLI Plan Fiduciary Net Position***

Detailed information about the GLI Plan's Fiduciary Net Position is available in the separately issued VRS 2020 Comprehensive Annual Financial Report (Annual Report). A copy of the 2020 VRS Annual Report may be downloaded from the VRS website at <http://www.varetire.org/pdf/publications/2020-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

#### **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, 2021, 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.

**EASTERN SHORE COMMUNITY SERVICES BOARD**

**Notes to Financial Statements (Continued)**  
**As of June 30, 2021**

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**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, 2021****NOTE 7 - CHANGES IN CAPITAL ASSETS**

A summary of changes in capital assets for the year ended June 30, 2021 is presented below:

|   | Balance<br>July 1, 2020 | Increases    | Decreases | Balance<br>June 30, 2021 |
|---|-------------------------|--------------|-----------|--------------------------|
| <i>Eastern Shore Community Services Board:</i>    |                         |              |           |                          |
| Capital assets not subject to depreciation:       |                         |              |           |                          |
| Construction in Progress                          | \$ 24,558               | \$ 11,925    | \$ 24,558 | \$ 11,925                |
| Capital assets subject to depreciation:           |                         |              |           |                          |
| Computer Equipment                                | \$ 436,421              | \$ 182,286   | \$ -      | \$ 618,707               |
| Leasehold Improvements                            | 42,234                  | -            | -         | 42,234                   |
| Office Furniture and Equipment                    | 165,931                 | -            | -         | 165,931                  |
| Software  | 955,597                 | -            | -         | 955,597                  |
| Vehicles  | 816,058                 | -            | -         | 816,058                  |
| Total capital assets subject to depreciation      | \$2,416,241             | \$ 182,286   | \$ -      | \$2,598,527              |
| Less accumulated depreciation for:                |                         |              |           |                          |
| Computer Equipment                                | \$ 415,765              | \$ 34,150    | \$ -      | \$ 449,915               |
| Leasehold Improvements                            | 23,910                  | 948          | -         | 24,858                   |
| Office Furniture and Equipment                    | 126,341                 | 8,824        | -         | 135,165                  |
| Software  | 943,995                 | 2,371        | -         | 946,366                  |
| Vehicles  | 575,650                 | 28,960       | -         | 604,610                  |
| Total accumulated depreciation                    | \$2,085,661             | \$ 75,253    | \$ -      | \$2,160,914              |
| Total capital assets subject to depreciation, net | \$ 330,580              | \$ 107,033   | \$ -      | \$ 437,613               |
| ESCSB capital assets, net                         | \$ 355,138              | \$ 118,958   | \$ 24,558 | \$ 449,538               |
| <i>Component Unit- Mendisadd, Inc.:</i>           |                         |              |           |                          |
| Capital assets not subject to depreciation:       |                         |              |           |                          |
| Land  | \$ 606,853              | \$ -         | \$ -      | \$ 606,853               |
| Construction in Progress                          | -                       | 16,500       | -         | 16,500                   |
| Total capital assets not subject to depreciation  | \$ 606,853              | \$ 16,500    | \$ -      | \$ 623,353               |
| Capital assets subject to depreciation:           |                         |              |           |                          |
| Equipment   | \$ 241,129              | \$ -         | \$ -      | \$ 241,129               |
| Buildings and Improvements                        | 4,584,610               | 31,185       | -         | 4,615,795                |
| Total capital assets subject to depreciation      | \$4,825,739             | \$ 31,185    | \$ -      | \$4,856,924              |
| Less accumulated depreciation for:                |                         |              |           |                          |
| Equipment   | \$ 209,587              | \$ 9,202     | \$ -      | \$ 218,789               |
| Buildings and Improvements                        | 2,520,667               | 182,714      | -         | 2,703,381                |
| Total accumulated depreciation                    | \$2,730,254             | \$ 191,916   | \$ -      | \$2,922,170              |
| Total capital assets subject to depreciation, net | \$2,095,485             | \$ (160,731) | \$ -      | \$1,934,754              |
| Mendisadd, Inc. capital assets, net               | \$2,702,338             | \$ (144,231) | \$ -      | \$2,558,107              |
| Total reporting entity capital assets, net        | \$3,057,476             | \$ (25,273)  | \$ 24,558 | \$3,007,645              |



## **EASTERN SHORE COMMUNITY SERVICES BOARD**

### **Notes to Financial Statements (Continued)**

**As of June 30, 2021**

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#### **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 \$336,412 for the fiscal year ended June 30, 2021.

#### **NOTE 9 - CAPITAL LEASE**

The Board entered into a lease classified as a capital lease of \$82,426. 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 2021, amortization under the aforementioned lease was \$3,920, which paid off the lease.

The assets acquired through a capital lease are as follows:

|                                |    |                 |
|--------------------------------|----|-----------------|
| Asset:                         |    |                 |
| Computer equipment             | \$ | 82,426          |
| Less: accumulated depreciation |    | (82,426)        |
| Total                          | \$ | <u><u>-</u></u> |

The Board has capitalized costs net of depreciation totaling \$0 under capital lease at June 30, 2021.

#### **NOTE 10 - LOCAL GOVERNMENT CONTRIBUTIONS BY PARTICIPANT**

The participating localities contributed the following for the fiscal year ended June 30, 2021:

|                       |    |                       |
|-----------------------|----|-----------------------|
| County of Accomack    | \$ | 200,036               |
| County of Northampton |    | 75,635                |
| Total                 | \$ | <u><u>275,671</u></u> |

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**EASTERN SHORE COMMUNITY SERVICES BOARD****Notes to Financial Statements (Continued)**  
**As of June 30, 2021****NOTE 11 - LONG-TERM OBLIGATIONS**

A summary of long-term obligations transactions of the Board for the year ended June 30, 2021 is as follows:

|                                    | Amounts<br>payable at<br>July 1, 2020 | Increases           | Decreases           | Amounts<br>payable at<br>June 30, 2021 | Amounts<br>due within<br>one year |
|------------------------------------|---------------------------------------|---------------------|---------------------|--|-----------------------------------|
| Compensated Absences               | \$ 703,879                            | \$ 63,643           | \$ 165,663          | \$ 601,859                             | \$ 60,186                         |
| Note Payable from Direct Borrowing | 415,386                               | -                   | 39,959              | 375,427                                | 42,011                            |
| Net Pension Liability              | 1,564,503                             | 1,802,860           | 967,436             | 2,399,927                              | -                                 |
| Net OPEB Liability                 | 419,998                               | 122,821             | 111,091             | 431,728                                | -                                 |
| Capital Lease Payable              | 3,920                                 | -                   | 3,920               | -                                      | -                                 |
| Total                              | <u>\$ 3,107,686</u>                   | <u>\$ 1,989,324</u> | <u>\$ 1,288,069</u> | <u>\$ 3,808,941</u>                    | <u>\$ 102,197</u>                 |

Details of long-term obligations are as follows:

|   | Amount<br>Outstanding |
|---|-----------------------|
| Note Payable from Direct Borrowing:   |                       |
| 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%. Secured by real estate property at 19056 Greenbush Road, Parskley, Virginia 23421. | \$ <u>375,427</u>     |
| Net Pension Liability   | \$ <u>2,399,927</u>   |
| Net OPEB Liability  | \$ <u>431,728</u>     |
| Compensated Absences  | \$ <u>601,859</u>     |
| Total Long-Term Obligations   | \$ <u>3,808,941</u>   |

The Board has a \$250,000 revolving line of credit. At June 30, 2021, the Board's outstanding balance against the line of credit was \$0.

**EASTERN SHORE COMMUNITY SERVICES BOARD****Notes to Financial Statements (Continued)**  
**As of June 30, 2021**

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**NOTE 11 - LONG-TERM OBLIGATIONS (CONTINUED)**

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

| Year<br>Ending<br>June 30 | Note Payable from Direct Borrowing |                  |
|---------------------------|------------------------------------|------------------|
|                           | Principal                          | Interest         |
| 2022                      | \$ 42,011                          | \$ 15,589        |
| 2023                      | 43,886                             | 13,714           |
| 2024                      | 45,845                             | 11,755           |
| 2025                      | 47,891                             | 9,709            |
| 2026                      | 50,029                             | 7,571            |
| 2027-2029                 | 145,765                            | 8,999            |
| Total                     | \$ <u>375,427</u>                  | \$ <u>67,337</u> |

**NOTE 12 - UNEARNED REVENUE**

Unearned revenue represents amounts for which asset recognition criteria have been met, but for which revenue recognition criteria have not been met. This represents a liability incurred by the Board for monies accepted from a grantor using the advance method for payments. The liability is reduced and revenue recorded when expenses are made in accordance with the grantor's requirements. If expenses are not made, the funds may revert to the grantor.

Unearned revenue consisted of the following:

|                  |                   |
|------------------|-------------------|
| Local Revenue:   |                   |
| Pre-pays         | \$ 164            |
| State Revenue:   |                   |
| MH grants        | 9,305             |
| DS grants        | 33,696            |
| SA grants        | 82,974            |
| Federal Revenue: |                   |
| SA grants        | 270,964           |
|                  | \$ <u>397,103</u> |

**NOTE 13 - ADOPTION OF ACCOUNTING PRINCIPLES**

The Board early implemented provisions of Governmental Accounting Standards Board Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period* during the fiscal year ended June 30, 2021. This Statement simplifies accounting for interest cost incurred before the end of a construction period. Interest cost incurred during construction is expensed and no longer capitalized as part of project costs. No restatement was required as a result of this implementation.

## **EASTERN SHORE COMMUNITY SERVICES BOARD**

### **Notes to Financial Statements (Continued)** **As of June 30, 2021**

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#### **NOTE 14 - UPCOMING PRONOUNCEMENTS**

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

Statement No. 91, *Conduit Debt Obligations*, provides a single method of reporting conduit debt obligations by issuers and eliminates diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021.

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

Statement No. 93, *Replacement of Interbank Offered Rates*, establishes accounting and financial reporting requirements related to the replacement of Interbank Offered Rates (IBORs) in hedging derivative instruments and leases. It also identifies appropriate benchmark interest rates for hedging derivative instruments. The requirements of this Statement, except for removal of London Interbank Offered Rate (LIBOR) as an appropriate benchmark interest rate and the requirements related to lease modifications, are effective for reporting periods beginning after June 15, 2020. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2021. All requirements related to lease modifications in this Statement are effective for reporting periods beginning after June 15, 2021.

Statement No. 94, *Public-Private and Public-Public Partnerships and Availability of Payment Arrangements*, addresses issues related to public-private and public-public partnership arrangements. This Statement also provides guidance for accounting and financial reporting for availability payment arrangements. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*, (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. The requirements of this Statement are effective for reporting periods beginning after June 15, 2022.

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

#### **NOTE 15 - SUBSEQUENT EVENTS**

The COVID-19 pandemic and its impact on operations continues to evolve. Specific to the Board, COVID-19 impacted various parts of its 2021 operations and financial results including, but not limited to, costs for emergency preparedness and shortages of personnel. Federal relief has been received through various programs. The Board believes it is taking appropriate actions to mitigate the negative impact. The extent to which COVID-19 may impact operations in subsequent years remains uncertain, and management is unable to estimate the effects on future results of operations, financial condition, or liquidity for fiscal year 2022.

## **EASTERN SHORE COMMUNITY SERVICES BOARD**

### **Notes to Financial Statements (Continued)** **As of June 30, 2021**

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#### **NOTE 15 - SUBSEQUENT EVENTS**

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was passed by the federal government to alleviate some of the effects of the sharp economic downturn due to the COVID-19 pandemic, which included direct aid for state and local governments from the federal Coronavirus Relief Fund (CRF).

The Board received CRF funding of \$363,599 for the year ended June 30, 2021. All funds were expended during the year.

#### **NOTE 16 - LOCAL CONTRIBUTIONS**

The Board receives local contributions from Northampton County and Accomack County, with budgeted contributions of \$75,635 and \$200,036, respectively. As of June 30, 2021, the Board has not received funding of \$245 and \$100,018 from Northampton County and Accomack County, respectively.

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*REQUIRED SUPPLEMENTARY INFORMATION*

**EASTERN SHORE COMMUNITY SERVICES BOARD****Schedule of Changes in Net Pension Liability and Related Ratios - Pension Plan****For the Measurement Dates June 30, 2014 through June 30, 2020**

|   | <b><u>2020</u></b>          | <b><u>2019</u></b>          |
|---|-----------------------------|-----------------------------|
| <b>Total pension liability</b>  |                             |                             |
| Service cost  | \$ 456,516                  | \$ 443,631                  |
| Interest  | 1,333,711                   | 1,296,671                   |
| Differences between expected and actual experience                                    | (76,725)                    | (121,303)                   |
| Changes of assumptions  | -                           | 564,617                     |
| Benefit payments  | (960,226)                   | (937,388)                   |
| <b>Net change in total pension liability</b>  | <b>\$ 753,276</b>           | <b>\$ 1,246,228</b>         |
| <b>Total pension liability - beginning</b>  | <b>20,238,793</b>           | <b>18,992,565</b>           |
| <b>Total pension liability - ending (a)</b>   | <b><u>\$ 20,992,069</u></b> | <b><u>\$ 20,238,793</u></b> |
| <br><b>Plan fiduciary net position</b>  |                             |                             |
| Contributions - employer  | \$ 296,704                  | \$ 294,505                  |
| Contributions - employee  | 238,332                     | 231,450                     |
| Net investment income   | 355,675                     | 1,182,582                   |
| Benefit payments  | (960,226)                   | (937,388)                   |
| Administrator charges   | (12,214)                    | (11,842)                    |
| Other   | (419)                       | (745)                       |
| <b>Net change in plan fiduciary net position</b>                                      | <b>\$ (82,148)</b>          | <b>\$ 758,562</b>           |
| <b>Plan fiduciary net position - beginning</b>  | <b>18,674,290</b>           | <b>17,915,728</b>           |
| <b>Plan fiduciary net position - ending (b)</b>                                       | <b><u>\$ 18,592,142</u></b> | <b><u>\$ 18,674,290</u></b> |
| <br><b>Board's net pension liability - ending (a) - (b)</b>                           | <b>\$ 2,399,927</b>         | <b>\$ 1,564,503</b>         |
| <br><b>Plan fiduciary net position as a percentage of the total pension liability</b> | <b>88.57%</b>               | <b>92.27%</b>               |
| <br><b>Covered payroll</b>  | <b>\$ 5,301,671</b>         | <b>\$ 5,053,249</b>         |
| <br><b>Board's net pension liability as a percentage of covered payroll</b>           | <b>45.27%</b>               | <b>30.96%</b>               |

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



| 2018          | 2017          | 2016          | 2015          | 2014          |
|---------------|---------------|---------------|---------------|---------------|
| \$ 443,060    | \$ 462,023    | \$ 487,979    | \$ 496,973    | \$ 498,592    |
| 1,236,376     | 1,202,747     | 1,148,526     | 1,104,668     | 1,041,588     |
| 97,089        | (230,377)     | (67,126)      | (247,395)     | -             |
| -             | (85,193)      | -             | -             | -             |
| (892,953)     | (844,618)     | (744,969)     | (710,434)     | (567,640)     |
| \$ 883,572    | \$ 504,582    | \$ 824,410    | \$ 643,812    | \$ 972,540    |
| 18,108,993    | 17,604,411    | 16,780,001    | 16,136,189    | 15,163,649    |
| \$ 18,992,565 | \$ 18,108,993 | \$ 17,604,411 | \$ 16,780,001 | \$ 16,136,189 |
| \$ 328,849    | \$ 328,079    | \$ 417,369    | \$ 421,399    | \$ 468,572    |
| 231,102       | 227,912       | 218,246       | 263,147       | 236,859       |
| 1,251,849     | 1,869,763     | 266,474       | 671,135       | 1,994,489     |
| (892,953)     | (844,618)     | (744,969)     | (710,434)     | (567,640)     |
| (10,870)      | (10,859)      | (9,443)       | (9,077)       | (10,531)      |
| (1,112)       | (1,662)       | (113)         | (142)         | 105           |
| \$ 906,865    | \$ 1,568,615  | \$ 147,564    | \$ 636,028    | \$ 2,121,854  |
| 17,008,863    | 15,440,248    | 15,292,684    | 14,656,656    | 12,534,802    |
| \$ 17,915,728 | \$ 17,008,863 | \$ 15,440,248 | \$ 15,292,684 | \$ 14,656,656 |
| \$ 1,076,837  | \$ 1,100,130  | \$ 2,164,163  | \$ 1,487,317  | \$ 1,479,533  |
| 94.33%        | 93.92%        | 87.71%        | 91.14%        | 90.83%        |
| \$ 5,020,238  | \$ 4,867,751  | \$ 4,550,610  | \$ 4,519,527  | \$ 4,640,238  |
| 21.45%        | 22.60%        | 47.56%        | 32.91%        | 31.88%        |

**EASTERN SHORE COMMUNITY SERVICES BOARD**

**Schedule of Employer Contributions - Pension Plan**

**For the Years Ended June 30, 2012 through June 30, 2021**

| Date | Contributions in<br>Relation to           |   |  | Employer's<br>Covered<br>Payroll | Contributions<br>as a % of<br>Covered<br>Payroll |
|------|---|---|--|----------------------------------|--|
|      | Contractually<br>Required<br>Contribution | Contractually<br>Required<br>Contribution | Contribution<br>Deficiency<br>(Excess) |                                  |  |
|      | (1)                                       | (2)                                       | (3)                                    | (4)                              | (5)  |
| 2021 | \$ 298,005                                | \$ 298,005                                | \$ -                                   | \$ 4,968,316                     | 6.00%  |
| 2020 | 301,901                                   | 301,901                                   | -                                      | 5,301,671                        | 5.69%  |
| 2019 | 294,651                                   | 294,651                                   | -                                      | 5,053,249                        | 5.83%  |
| 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%  |

## **EASTERN SHORE COMMUNITY SERVICES BOARD**

### **Notes to Required Supplementary Information - Pension Plan** **For the Year Ended June 30, 2021**

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

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

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

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

**EASTERN SHORE COMMUNITY SERVICES BOARD****Schedule of Board's Share of Net OPEB Liability****Group Life Insurance (GLI) Plan****For the Measurement Dates of June 30, 2017 through June 30, 2020**

| Date<br>(1) | Employer's<br>Proportion of the<br>Net GLI OPEB<br>Liability<br>(2) | Employer's<br>Proportionate<br>Share of the<br>Net GLI OPEB<br>Liability<br>(3) | Employer's<br>Covered<br>Payroll<br>(4) | Employer's<br>Proportionate Share<br>of the Net GLI OPEB<br>Liability<br>as a Percentage of<br>Covered Payroll<br>(3)/(4)<br>(5) | Plan Fiduciary<br>Net Position as a<br>Percentage of Total<br>GLI OPEB Liability<br>(6) |
|-------------|---|---|---|--|---|
|             |   |   |   |  |   |
| 2020        | 0.02590% \$   | 431,728 \$  | 5,323,828                               | 8.11%  | 52.64%  |
| 2019        | 0.02581%  | 419,998   | 5,060,345                               | 8.30%  | 52.00%  |
| 2018        | 0.02650%  | 402,000   | 5,038,227                               | 7.98%  | 51.22%  |
| 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 (GLI) Plan****For the Years Ended June 30, 2012 through June 30, 2021**

| Date | Contributions in<br>Relation to                  |  |   | Employer's<br>Covered<br>Payroll | Contributions<br>as a % of<br>Covered<br>Payroll |
|------|--|--|---|----------------------------------|--|
|      | Contractually<br>Required<br>Contribution<br>(1) | Contractually<br>Required<br>Contribution<br>(2) | Contribution<br>Deficiency<br>(Excess)<br>(3) |                                  |  |
| 2021 | \$ 26,919  | \$ 26,919  | \$ -  | \$ 4,984,979                     | 0.54%  |
| 2020 | 27,684   | 27,684   | -   | 5,323,828                        | 0.52%  |
| 2019 | 26,314   | 26,314   | -   | 5,060,345                        | 0.52%  |
| 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%  |

## **EASTERN SHORE COMMUNITY SERVICES BOARD**

### **Notes to Required Supplementary Information**

#### **Group Life Insurance (GLI) Plan**

#### **For the Year Ended June 30, 2021**

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

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

#### **Non-Largest Ten Locality Employers - General Employees**

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

*OTHER SUPPLEMENTARY INFORMATION*

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## *COMBINING FINANCIAL STATEMENTS*

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**EASTERN SHORE COMMUNITY SERVICES BOARD****Combining Statement of Net Position****As of June 30, 2021**

|  | ESCSB<br>Operating<br>Fund | Mendisadd,<br>Inc.<br>Fund | Inter-<br>Company<br>Eliminations | Total        |
|--|----------------------------|----------------------------|-----------------------------------|--------------|
| Current Assets:  |                            |                            |                                   |              |
| Cash and cash equivalents  | \$ 3,930,542               | \$ 251,080                 | \$ -                              | \$ 4,181,622 |
| Client receivables (net of allowance for uncollectible accounts) | 795,495                    | -                          | -                                 | 795,495      |
| Due from Accomack County   | 100,018                    | -                          | -                                 | 100,018      |
| Due from Northampton County                                      | 245                        | -                          | -                                 | 245          |
| Notes receivable   | 102,147                    | -                          | (102,147)                         | -            |
| Prepaid items  | 48,293                     | 1,300                      | -                                 | 49,593       |
| Total current assets   | \$ 4,976,740               | \$ 252,380                 | \$ (102,147)                      | \$ 5,126,973 |
| Capital Assets:  |                            |                            |                                   |              |
| Land   | \$ -                       | \$ 606,853                 | \$ -                              | \$ 606,853   |
| Construction in progress   | 11,925                     | 16,500                     | -                                 | 28,425       |
| Property and equipment, less accumulated depreciation            | 437,613                    | 1,934,754                  | -                                 | 2,372,367    |
| Total capital assets   | \$ 449,538                 | \$ 2,558,107               | \$ -                              | \$ 3,007,645 |
| Total assets   | \$ 5,426,278               | \$ 2,810,487               | \$ (102,147)                      | \$ 8,134,618 |
| Deferred Outflows of Resources:                                  |                            |                            |                                   |              |
| Pension related items  | \$ 1,066,883               | \$ -                       | \$ -                              | \$ 1,066,883 |
| OPEB related items   | 95,991                     | -                          | -                                 | 95,991       |
| Total deferred outflows of resources                             | \$ 1,162,874               | \$ -                       | \$ -                              | \$ 1,162,874 |
| Current Liabilities:   |                            |                            |                                   |              |
| Accounts payable   | \$ 279,500                 | \$ 360                     | \$ -                              | \$ 279,860   |
| Accrued expenses   | 227,412                    | -                          | -                                 | 227,412      |
| Unearned revenues  | 397,103                    | -                          | -                                 | 397,103      |
| Due to HUD   | 30,994                     | -                          | -                                 | 30,994       |
| Current portion of compensated absences                          | 60,186                     | -                          | -                                 | 60,186       |
| Current portion of note payable                                  | -                          | 52,502                     | (10,491)                          | 42,011       |
| Total current liabilities  | \$ 995,195                 | \$ 52,862                  | \$ (10,491)                       | \$ 1,037,566 |
| Long-Term Liabilities:   |                            |                            |                                   |              |
| Compensated absences, less current portion                       | \$ 541,673                 | \$ -                       | \$ -                              | \$ 541,673   |
| Notes payable, less current portion                              | -                          | 425,072                    | (91,656)                          | 333,416      |
| Net pension liability  | 2,399,927                  | -                          | -                                 | 2,399,927    |
| Net OPEB liability   | 431,728                    | -                          | -                                 | 431,728      |
| Total long-term liabilities                                      | \$ 3,373,328               | \$ 425,072                 | \$ (91,656)                       | \$ 3,706,744 |
| Total liabilities  | \$ 4,368,523               | \$ 477,934                 | \$ (102,147)                      | \$ 4,744,310 |
| Deferred Inflows of Resources:                                   |                            |                            |                                   |              |
| Pension related items  | \$ 93,813                  | \$ -                       | \$ -                              | \$ 93,813    |
| OPEB related items   | 20,370                     | -                          | -                                 | 20,370       |
| Total deferred inflows of resources                              | \$ 114,183                 | \$ -                       | \$ -                              | \$ 114,183   |
| Net Position:  |                            |                            |                                   |              |
| Net investment in capital assets                                 | \$ 449,538                 | \$ 2,080,533               | \$ 102,147                        | \$ 2,632,218 |
| Unrestricted   | 1,656,908                  | 252,020                    | (102,147)                         | 1,806,781    |
| Total net position   | \$ 2,106,446               | \$ 2,332,553               | \$ -                              | \$ 4,438,999 |

**EASTERN SHORE COMMUNITY SERVICES BOARD****Combining Statement of Revenues, Expenses and Changes in Net Position****Year Ended June 30, 2021**

|  | ESCSB<br>Operating<br>Fund | Mendisadd<br>Inc.<br>Fund | Inter-<br>Company<br>Eliminations | Total          |
|--|----------------------------|---------------------------|-----------------------------------|----------------|
| Operating revenues:  |                            |                           |                                   |                |
| Patient service and other fees   | \$ 5,929,497               | \$ -                      | \$ -                              | \$ 5,929,497   |
| Operating expenses:  |                            |                           |                                   |                |
| Personnel  | \$ 8,175,577               | \$ -                      | \$ -                              | \$ 8,175,577   |
| Staff development  | 14,379                     | -                         | -                                 | 14,379         |
| Facility charges   | 926,909                    | 144,096                   | (336,412)                         | 734,593        |
| Travel   | 7,675                      | -                         | -                                 | 7,675          |
| Consultants and other professional services  | 1,306,341                  | -                         | -                                 | 1,306,341      |
| Other charges  | 644,691                    | -                         | -                                 | 644,691        |
| Depreciation   | 75,253                     | 191,916                   | -                                 | 267,169        |
| Total operating expenses   | \$ 11,150,825              | \$ 336,012                | \$ (336,412)                      | \$ 11,150,425  |
| Operating income (loss)  | \$ (5,221,328)             | \$ (336,012)              | \$ 336,412                        | \$ (5,220,928) |
| Nonoperating revenues (expenses):  |                            |                           |                                   |                |
| Commonwealth of Virginia, including pass-through grants of \$1,223,842 from the federal government | \$ 4,863,985               | \$ -                      | \$ -                              | \$ 4,863,985   |
| Direct federal   | 363,599                    | -                         | -                                 | 363,599        |
| Local governments  | 275,671                    | -                         | -                                 | 275,671        |
| Other agencies   | 708,110                    | -                         | -                                 | 708,110        |
| Rental income  | -                          | 362,412                   | (336,412)                         | 26,000         |
| Interest income  | 33,508                     | -                         | (5,113)                           | 28,395         |
| Interest expense   | (35)                       | (22,754)                  | 5,113                             | (17,676)       |
| Total nonoperating revenues (expenses)   | \$ 6,244,838               | \$ 339,658                | \$ (336,412)                      | \$ 6,248,084   |
| Change in net position   | \$ 1,023,510               | \$ 3,646                  | \$ -                              | \$ 1,027,156   |
| Net position at beginning of year  | 1,082,936                  | 2,328,907                 | -                                 | 3,411,843      |
| Net position at end of year  | \$ 2,106,446               | \$ 2,332,553              | \$ -                              | \$ 4,438,999   |

# EASTERN SHORE COMMUNITY SERVICES BOARD

## Combining Statement of Cash Flows

Year Ended June 30, 2021

|   | ESCSB<br>Operating<br>Fund | Mendisadd,<br>Inc.<br>Fund | Inter-<br>Company<br>Eliminations | Total          |
|---|----------------------------|----------------------------|-----------------------------------|----------------|
| Cash flows from operating activities:   |                            |                            |                                   |                |
| Receipts from clients' fees and other providers   | \$ 5,729,963               | \$ -                       | \$ -                              | \$ 5,729,963   |
| Payments to suppliers   | (2,821,387)                | (143,736)                  | 336,412                           | (2,628,711)    |
| Payments to and for employees   | (8,009,823)                | -                          | -                                 | (8,009,823)    |
| Net cash provided by (used for) operating activities  | \$ (5,101,247)             | \$ (143,736)               | \$ 336,412                        | \$ (4,908,571) |
| Cash flows from noncapital and related financing activities:  |                            |                            |                                   |                |
| Government and other agencies   | \$ 6,211,365               | \$ -                       | \$ -                              | \$ 6,211,365   |
| Rent of property  | -                          | 362,412                    | (336,412)                         | 26,000         |
| Net cash provided by (used for) noncapital and related financing activities                               | \$ 6,211,365               | \$ 362,412                 | \$ (336,412)                      | \$ 6,237,365   |
| Cash flows from capital and related financing activities:   |                            |                            |                                   |                |
| Purchase of capital assets  | \$ (169,653)               | \$ (47,685)                | \$ -                              | \$ (217,338)   |
| Principal payments on note payable  | -                          | (49,964)                   | 10,005                            | (39,959)       |
| Principal payments on capital leases payable  | (3,920)                    | -                          | -                                 | (3,920)        |
| Interest paid on capital leases and notes payable   | (35)                       | (22,754)                   | 5,113                             | (17,676)       |
| Net cash provided by (used for) capital and related financing activities                                  | \$ (173,608)               | \$ (120,403)               | \$ 15,118                         | \$ (278,893)   |
| Cash flows from investing activities:   |                            |                            |                                   |                |
| Interest received   | \$ 33,508                  | \$ -                       | \$ (5,113)                        | \$ 28,395      |
| Principal received on notes receivable  | 10,005                     | -                          | (10,005)                          | -              |
| Net cash provided by (used for) investing activities  | \$ 43,513                  | \$ -                       | \$ (15,118)                       | \$ 28,395      |
| Net increase (decrease) in cash and cash equivalents  | \$ 980,023                 | \$ 98,273                  | \$ -                              | \$ 1,078,296   |
| Cash and cash equivalents, beginning of year  | 2,950,519                  | 152,807                    | -                                 | 3,103,326      |
| Cash and cash equivalents, end of year  | \$ 3,930,542               | \$ 251,080                 | \$ -                              | \$ 4,181,622   |
| Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:        |                            |                            |                                   |                |
| Operating income (loss)   | \$ (5,221,328)             | \$ (336,012)               | \$ 336,412                        | \$ (5,220,928) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: |                            |                            |                                   |                |
| Depreciation  | 75,253                     | 191,916                    | -                                 | 267,169        |
| Changes in assets, liabilities, and deferred inflows/outflows of resources:                               |                            |                            |                                   |                |
| Accounts receivable   | (119,061)                  | -                          | -                                 | (119,061)      |
| Prepaid items   | (9,857)                    | -                          | -                                 | (9,857)        |
| Due to (from) HUD   | 53,818                     | -                          | -                                 | 53,818         |
| Due from local government   | (100,263)                  | -                          | -                                 | (100,263)      |
| Deferred outflows of resources  | (348,062)                  | -                          | -                                 | (348,062)      |
| Compensated absences  | (102,020)                  | -                          | -                                 | (102,020)      |
| Accounts payable  | 28,262                     | 360                        | -                                 | 28,622         |
| Unearned revenues   | (3,034)                    | -                          | -                                 | (3,034)        |
| Net pension liability   | 835,424                    | -                          | -                                 | 835,424        |
| Net OPEB liability  | 11,730                     | -                          | -                                 | 11,730         |
| Deferred inflows of resources   | (209,264)                  | -                          | -                                 | (209,264)      |
| Other accrued expenses  | 7,155                      | -                          | -                                 | 7,155          |
| Net cash provided by (used for) operating activities  | \$ (5,101,247)             | \$ (143,736)               | \$ 336,412                        | \$ (4,908,571) |

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ROBINSON, FARMER, COX ASSOCIATES, PLLC

*Certified Public Accountants*

**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, 2021 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 5, 2021.

**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) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of 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 have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2021-001 that we consider to significant deficiencies.

## 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 financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### Eastern Shore Community Services Board's Response to Finding

Eastern Shore Community Services Board's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. 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. Cox", followed by a horizontal line.

Richmond, Virginia  
November 5, 2021



ROBINSON, FARMER, COX ASSOCIATES, PLLC

*Certified Public Accountants*

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

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**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, 2021. 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, 2021.

## 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 "D. Frick", followed by a long horizontal line extending to the right.

Richmond, Virginia  
November 5, 2021

**EASTERN SHORE COMMUNITY SERVICES BOARD****Schedule of Expenditures of Federal Awards**  
**Year Ended June 30, 2021**

| <b>Federal Grantor/<br/>State Pass-Through Grantor/<br/>Program or Cluster Title</b>                             | <b>Assistance<br/>Listing<br/>Number</b> | <b>Pass-Through<br/>Entity<br/>Identifying<br/>Number</b> | <b>Total<br/>Federal<br/>Expenditures</b> |
|--|--|---|---|
| Department of Education<br>Pass Through Payments:<br>Department of Behavioral Health and Developmental Services: |  |   |   |
| Special Education - Grants for Infants and Families  | 84.181                                   | 445007-43080 & 445007-43081                               | \$ 54,021                                 |
| Total Department of Education  |  |   | <u>\$ 54,021</u>                          |
| Department of Health and Human Services:<br>Direct Payments:   |  |   |   |
| COVID-19 Provider Relief Fund  | 93.498                                   | N/A   | <u>\$ 4,178</u>                           |
| Pass Through Payments:<br>Department of Behavioral Health and Developmental Services:                            |  |   |   |
| COVID-19 - Emergency Grants to Address Mental and Substance Use<br>Disorders During COVID-19                     | 93.665                                   | 1H79FG000285-01<br>1H79FG000712-01                        | \$ 190,548                                |
| Block Grants for Community Mental Health Services  | 93.958                                   | 2B09SM010053-19<br>1B09SM082636-01                        | 89,633                                    |
| Block Grants for Prevention and Treatment of Substance Abuse   | 93.959                                   | 2B08TI010053-19<br>1B08TI083056-01                        | 426,622                                   |
| Opioid STR   | 93.788                                   | 5H79TI081682-02   | <u>463,018</u>                            |
| Total Department of Health and Human Services  |  |   | <u>\$ 1,173,999</u>                       |
| Total Expenditures of Federal Awards   |  |   | <u><u>\$ 1,228,020</u></u>                |

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, 2021

#### Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Eastern Shore Community Services Board under programs of the federal government for the year ended June 30, 2021. 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 - Subrecipients

No awards were passed through to subrecipients.

#### Note D - Provider Relief Fund

For fiscal years ended (FYE) on or before June 29, 2021, no Provider Relief Fund (PRF) expenditures (including lost revenue) should have been reported on the SEFA. Due to guidance available when the FYE 2020 report was issued, the entity reported \$4,178 of Period 1 PRF expenditures on the FYE 2020 SEFA with no significant impact on the SEFA. Based on current guidance from the Department of Health and Human Services (HHS), PRF expenditures (including lost revenue) are to be reported on the SEFA based upon PRF reports submitted through the Health Resources and Services Administration (HRSA) reporting portal. Therefore, the amount of PRF expenditures included on the FYE June 30, 2021 SEFA is based upon the PRF reporting portal guidelines for Period 1, as specified by HHS.

#### Note E - Relationship to Financial Statements

|   |                            |
|---|----------------------------|
| Appropriations from the Commonwealth of Virginia, including pass-through grants | \$ 1,223,842               |
| Direct federal aid  | <u>363,599</u>             |
| Total federal expenditures per basic financial statements                       | \$ 1,587,441               |
| COVID-19 Provider Relief Funds - Period 1                                       | 4,178                      |
| COVID-19 Provider Relief Funds - Period 2 (reported FY22)                       | <u>(363,599)</u>           |
| Total federal expenditures per the Schedule of Expenditures of Federal Awards   | <u><u>\$ 1,228,020</u></u> |

**EASTERN SHORE COMMUNITY SERVICES BOARD**

**Schedule of Findings and Questioned Costs  
As of June 30, 2021**

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**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 2 CFR section 200.516(a) \_\_\_\_\_ yes ☒ no

Identification of major programs:

Assistance Listing 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, 2021**

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#### **Section II - Financial Statement Findings**

2021-001

|                        |  |
|------------------------|--|
| Criteria:              | Per AU-C 265, failure to perform reconciliations of significant accounts is a failure in the operation of controls.  |
| Condition:             | Bank reconciliations were not performed in a timely manner, indicating a significant deficiency in controls over financial reporting.                              |
| Effect of Condition:   | The financial statements being reviewed by management could include inaccurate information due to the bank reconciliations not being performed in a timely manner. |
| Cause of Condition:    | The loss of key employees that performed bank reconciliations resulted in a delay in performing reconciliation procedures.   |
| Recommendation:        | The Board should implement steps and controls to improve the timeliness of bank reconciliation procedures.   |
| Management's Response: | The Board agrees with the finding and is taking corrective action for FY22.  |

#### **Section III - Federal Award Findings and Question Costs**

None

#### **Section IV - Prior Year Findings**

There were no prior year audit findings.