

EASTERN SHORE
COMMUNITY SERVICES BOARD

ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 2019

INTRODUCTORY SECTION

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**EASTERN SHORE
COMMUNITY SERVICES BOARD**

ANNUAL FINANCIAL REPORT

**FOR THE FISCAL YEAR
ENDED JUNE 30, 2019**

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EASTERN SHORE COMMUNITY SERVICES BOARD

BOARD OFFICIALS

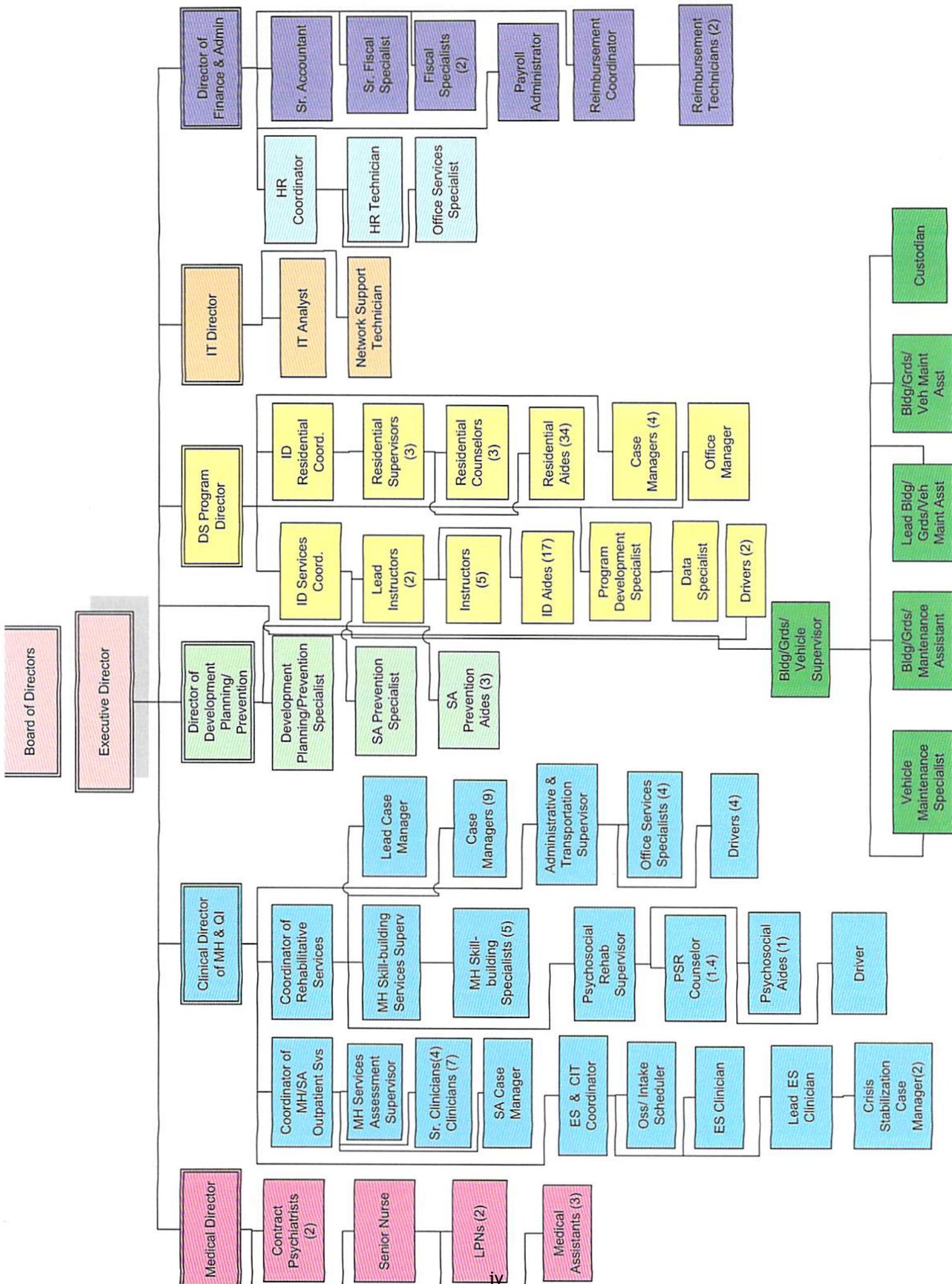
BOARD OF DIRECTORS

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

LEADERSHIP TEAM

Lisa B. Sedjat	Executive Director
Thomas Dix	Director of Finance & Administration
Dr. Nick McClean-Rice	Medical Director
Kathleen O'Keefe	Developmental Services Program Director
Damien Greene	IT Director
Kelly Hill Bulin	Director of Program Development, Planning and Prevention
Molly Walker	Clinical Director of Mental Health and Quality Improvement

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FINANCIAL SECTION

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Independent Auditors' Report

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

Report on Financial Statements

We have audited the accompanying financial statements of the business-type activities of Eastern Shore Community Services Board, as of and for the year ended June 30, 2019, 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, 2019, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

As described in Note 12 to the financial statements, in 2019, the Board adopted new accounting guidance, GASB Statement No. 88 *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. 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 36-41 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 fund financial statements and schedules 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 not a required part of the basic financial statements.

The combining 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 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 October 15, 2019, 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 "R. F. Cox", followed by a horizontal line extending to the right.

Richmond, Virginia
October 15, 2019

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EASTERN SHORE COMMUNITY SERVICES BOARD

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE YEAR ENDED JUNE 30, 2019

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, 2019, the Board received state, federal, and local funds in the amounts of \$2,917,552, \$1,050,745, and \$270,675, respectively. As of June 30, 2019, the Board had approximately 177 employees providing mental health, developmental services, substance use disorder (SUD), prevention, residential and administrative support services in 12 facilities. During 2019, total consumers served included 1,872 in Mental Health, 124 in SUD and 165 in Developmental Services. Our Prevention efforts served 1,024 individuals through its various initiatives.

HIGHLIGHTS

Financial Highlights for FY 2019

- Cash and investments increased \$335 thousand.
- Net position increased \$645 thousand.
- Operating revenues decreased \$283 thousand.
- Operating expenses decreased \$597 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, 2019. 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 FY2019 Financial Statements are combined with MENDISADD, Inc.

CONDENSED FINANCIAL INFORMATION

The following schedule reflects the condensed Statement of Net Position.

Current Assets	\$	2,742,257
Property and Equipment, less Accumulated Depreciation		3,275,263
TOTAL ASSETS	\$	6,017,520
DEFERRED OUTFLOWS OF RESOURCES	\$	419,810
Current Liabilities	\$	864,465
Long-Term Liabilities		1,123,343
Net Pension Liability		1,076,837
Net OPEB Liability		402,000
TOTAL LIABILITIES	\$	3,466,645
DEFERRED INFLOWS OF RESOURCES	\$	337,718
Net Position:		
Net Investment in Capital Assets	\$	2,786,350
Unrestricted		(153,383)
TOTAL NET POSITION	\$	2,632,967

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

Operating Revenues	\$	6,553,776
Operating Expenses		<u>10,690,125</u>
Operating Income (Loss)	\$	(4,136,349)
Non-operating Income		<u>4,781,360</u>
Change in Net Position	\$	<u><u>645,011</u></u>

OVERALL FINANCIAL ANALYSIS

In general, the financial condition of the Board remains strong. The Statement of Net Position also shows 169% more total assets and deferred outflows of resources than total liabilities and deferred inflows of resources, an increase of 17% over the prior year.

The Board continues to monitor ways in which new revenues can be generated and expenses can be scaled back. Upgrading and investing in information technology equipment is one step the Board has taken in order to enhance employee productivity and free up time for revenue-generating activities. The Finance Department has continued to heighten its collections procedures; including the use of clinical staff in the collection of amounts due from clients in order to increase the Board's collection percentage. The Board took delivery of the state's first mobile unit for the purpose of remote administration of medication assisted treatment to better serve the residents of the counties in which it operates.

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, 2019

Current Assets:	
Cash and cash equivalents	\$ 1,941,253
Client receivables (net of allowance for uncollectible accounts)	615,307
Due from HUD	13,600
Due from Accomack County	98,057
Prepaid items	74,040
Total current assets	<u>\$ 2,742,257</u>
Capital Assets:	
Land	\$ 606,853
Construction in progress	5,050
Property and equipment, less accumulated depreciation	2,663,360
Total capital assets	<u>\$ 3,275,263</u>
Total assets	<u>\$ 6,017,520</u>
Deferred Outflows of Resources:	
Pension related items	\$ 362,496
OPEB related items	57,314
Total deferred outflows of resources	<u>\$ 419,810</u>
Current Liabilities:	
Accounts payable	\$ 213,835
Accrued expenses	210,314
Unearned revenues	303,421
Current portion of compensated absences	77,133
Current portion of notes payable	37,190
Current portion of capital lease payable	22,573
Total current liabilities	<u>\$ 864,466</u>
Long-Term Liabilities:	
Compensated absences, less current portion	\$ 694,192
Long-term notes payable, less current portion	425,231
Capital lease payable, less current portion	3,919
Net pension liability	1,076,837
Net OPEB liability	402,000
Total long-term liabilities	<u>\$ 2,602,179</u>
Total liabilities	<u>\$ 3,466,645</u>
Deferred Inflows of Resources:	
Pension related items	\$ 300,718
OPEB related items	37,000
Total deferred inflows of resources	<u>\$ 337,718</u>
Net Position:	
Net investment in capital assets	\$ 2,786,350
Unrestricted	(153,383)
Total net position	<u>\$ 2,632,967</u>

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

EASTERN SHORE COMMUNITY SERVICES BOARD

Statement of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2019

Operating revenues:		
Patient service fees	\$	<u>6,553,776</u>
Operating expenses:		
Personnel	\$	7,898,471
Staff development		39,940
Facility charges		831,961
Travel		66,921
Consultants and other professional services		771,163
Other charges		736,176
Depreciation		345,493
Total operating expenses	\$	<u>10,690,125</u>
Operating income (loss)	\$	<u>(4,136,349)</u>
Nonoperating revenues (expenses):		
Commonwealth of Virginia, including pass-through grants of \$1,050,745 from the federal government	\$	3,968,297
Local governments		270,675
Other agencies		508,181
Rental income		25,175
Interest income		34,518
Donation		10,000
Interest expense		<u>(35,486)</u>
Total nonoperating revenues (expenses)	\$	<u>4,781,360</u>
Change in net position	\$	645,011
Net position at beginning of year		<u>1,987,956</u>
Net position at end of year	\$	<u><u>2,632,967</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, 2019

Cash flows from operating activities:	
Receipts from clients' fees and other providers	\$ 6,782,162
Payments to suppliers	(2,419,797)
Payments to and for employees	(8,055,155)
Net cash provided by (used for) operating activities	\$ (3,692,790)
Cash flows from noncapital and related financing activities:	
Government and other agencies	\$ 4,747,153
Rental properties	25,175
Donation	10,000
Net cash provided by (used for) noncapital and related financing activities	\$ 4,782,328
Cash flows from capital and related financing activities:	
Purchase of capital assets	\$ (391,108)
Principal payments on line of credit	(299,176)
Principal payments on notes payable	(38,126)
Principal payments on capital leases payable	(25,316)
Interest paid on capital leases and notes payable	(35,486)
Net cash provided by (used for) capital and related financing activities	\$ (789,212)
Cash flows from investing activities:	
Interest received	\$ 34,518
Net increase (decrease) in cash and cash equivalents	\$ 334,844
Cash and cash equivalents, beginning of year	1,606,409
Cash and cash equivalents, end of year	\$ 1,941,253
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:	
Operating income (loss)	\$ (4,136,349)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	345,493
Changes in assets, liabilities, and deferred inflows/outflows of resources:	
Accounts receivable	326,145
Prepaid items	267,013
Due from local government	(98,057)
Deferred outflows of resources	(64,272)
Compensated absences	(51,059)
Accounts payable	(55,618)
Unearned revenues	23,337
Net pension liability	(23,293)
Net OPEB liability	5,000
Deferred inflows of resources	(252,493)
Other accrued expenses	21,363
Net cash provided by (used for) operating activities	\$ (3,692,790)

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, 2019

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. Basis of Accounting

The Board is funded by Federal, State and local funds. Its accounting policies are governed by applicable provisions of these grants and applicable pronouncements and publications of the grantors. The Board utilizes the accrual basis of accounting where revenues are recorded when earned and expenses recorded when incurred, regardless of when the related cash flow takes place.

E. Financial Statement Presentation

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

F. Enterprise Fund Accounting

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

EASTERN SHORE COMMUNITY SERVICES BOARD

**Notes to Financial Statements (Continued)
As of June 30, 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Use of Estimates

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

H. Cash and Cash Equivalents

The Board maintains cash accounts with financial institutions in accordance with the Virginia Security for Public Deposits Act of the Code of Virginia. The Act requires financial institutions to meet specific collateralization requirements. Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less at the date of acquisition.

I. Investments

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

J. Net Client Service Revenue

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

The Board bills and collects fees for services from its clients. At June 30, 2019, the Board was due \$965,028 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, 2019 was \$349,721.

K. Financial Assistance

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

EASTERN SHORE COMMUNITY SERVICES BOARD

**Notes to Financial Statements (Continued)
As of June 30, 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Capital Assets

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

M. Operating and Nonoperating Revenues and Expenses

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

N. Compensated Absences

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

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

The amount of annual and sick leave recognized as expense is the amount earned during the year. The balance at June 30, 2019 was \$771,325.

O. Budgetary Accounting

The Board follows these procedures in establishing its budgets:

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

EASTERN SHORE COMMUNITY SERVICES BOARD

**Notes to Financial Statements (Continued)
As of June 30, 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. 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 this item, reference the related notes.

Q. Pensions

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

R. 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' net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

S. Net Position

Net position is the difference between (a) assets and deferred outflows of resources and (b) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets, less accumulated depreciation, less any outstanding debt related to the acquisition, construction or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are also included in this component of net position.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)
As of June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

T. Net Position Flow Assumption

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

NOTE 2 - DEPOSITS AND INVESTMENTS

Deposits

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

Investments

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

Credit Risk of Debt Securities

The Board's rated debt investments as of June 30, 2019 were rated by Standard and Poor's and the ratings are presented below using Standard and Poor's rating scale. The Board and its blended component unit have no investment policies that would further limit their investment choices.

<u>Locality's Rated Debt Investment's Values</u>	
<u>Related Debt Investments</u>	<u>Fair Quality Rating</u>
	<u>AAAm</u>
Local Government Investment Pool	\$ <u>28,056</u>
Total	\$ <u><u>28,056</u></u>

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)
As of June 30, 2019

NOTE 2 - DEPOSITS AND INVESTMENTS (CONTINUED)

Interest Rate Risk

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

Investment Maturities (in years)		
<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1 Year</u>
Local Government Investment Pool	\$ 28,056	\$ 28,056
Total	\$ 28,056	\$ 28,056

External Investment Pool

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

NOTE 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 hired before July 1, 2010, vested as of January 1, 2013, and have not taken a refund, are covered under Plan 1, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced retirement benefit beginning at age 65 with at least 5 years of creditable service or age 50 with at least 30 years of creditable service. Non-hazardous duty employees may retire with a reduced benefit as early as age 55 with at least 5 years of creditable service or age 50 with at least 10 years of creditable service.
- b. Employees hired on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013 are covered under Plan 2, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of creditable service or when the sum of their age and service equals 90. Non-hazardous duty employees may retire with a reduced benefit as early as age 60 with at least 5 years of creditable service.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued) As of June 30, 2019

NOTE 3 - PENSION PLAN

Benefit Structures (Continued)

- c. Non-hazardous duty employees hired on or after January 1, 2014 are covered by the Hybrid Plan combining the features of a defined benefit plan and a defined contribution plan. Plan 1 and Plan 2 members also had the option of opting into this plan during the election window held January 1 - April 30, 2014 with an effective date of July 1, 2014. Employees covered by this plan are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of creditable service, or when the sum of their age and service equal 90. Employees may retire with a reduced benefit as early as age 60 with at least 5 years of creditable service. 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 creditable service. Under Plan 1, average final compensation is the average of the employee's 36 consecutive months of highest compensation and the multiplier is 1.7% 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.

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 creditable service 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 creditable service 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.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)
As of June 30, 2019

NOTE 3 - PENSION PLAN (CONTINUED)

Employees Covered by Benefit Terms

As of the June 30, 2017 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	73
Inactive members:	
Vested inactive members	16
Non-vested inactive members	30
Inactive members active elsewhere in VRS	<u>26</u>
Total inactive members	72
Active members	<u>136</u>
Total covered employees	<u><u>281</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, 2019 was 6.54% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Board were \$294,651 and \$329,339 for the years ended June 30, 2019 and June 30, 2018, respectively.

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, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation performed as of June 30, 2017 rolled forward to the measurement date of June 30, 2018.

EASTERN SHORE COMMUNITY SERVICES BOARD

**Notes to Financial Statements (Continued)
As of June 30, 2019**

NOTE 3 - PENSION PLAN (CONTINUED)

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, 2017, 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, 2018.

Inflation	2.5%
Salary increases, including inflation	3.5% - 5.35%
Investment rate of return	7.0%, net of pension plan investment expense, including inflation*

* Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of pension liabilities.

Mortality rates:

Largest 10 - Non-Hazardous Duty: 20% of deaths are assumed to be service related

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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, 2019**

NOTE 3 - PENSION PLAN (CONTINUED)

Actuarial Assumptions - General Employees (Continued)

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 - Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

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

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

EASTERN SHORE COMMUNITY SERVICES BOARD

**Notes to Financial Statements (Continued)
As of June 30, 2019**

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:

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

* The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. 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, 2018, the alternate rate was the employer contribution rate used in FY 2012 or 90% of the actuarially determined employer contribution rate from the June 30, 2015 actuarial valuations, whichever was greater. From July 1, 2018 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.

EASTERN SHORE COMMUNITY SERVICES BOARD**Notes to Financial Statements (Continued)
As of June 30, 2019****NOTE 3 - PENSION PLAN (CONTINUED)***Changes in Net Pension Liability*

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances at June 30, 2017	\$ 18,108,993	\$ 17,008,863	\$ 1,100,130
Changes for the year:			
Service cost	\$ 443,060	\$ -	\$ 443,060
Interest	1,236,376	-	1,236,376
Differences between expected and actual experience	97,089	-	97,089
Contributions - employer	-	328,849	(328,849)
Contributions - employee	-	231,102	(231,102)
Net investment income	-	1,251,849	(1,251,849)
Benefit payments, including refunds			
Refunds of employee contributions	(892,953)	(892,953)	-
Administrative expenses	-	(10,870)	10,870
Other changes	-	(1,112)	1,112
Net changes	\$ 883,572	\$ 906,865	\$ (23,293)
Balances at June 30, 2018	\$ 18,992,565	\$ 17,915,728	\$ 1,076,837

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

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

	Rate		
	1% Decrease (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
Net Pension Liability (Asset)	\$ 3,484,366	\$ 1,076,837	\$ (932,839)

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)
As of June 30, 2019

NOTE 3 - PENSION PLAN (CONTINUED)

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

For the year ended June 30, 2019, the Board recognized pension expense of (\$21,782). At June 30, 2019, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 67,845	\$ 116,261
Change in assumptions	-	36,787
Net difference between projected and actual earnings on pension plan investments	-	147,670
Employer contributions subsequent to the measurement date	<u>294,651</u>	<u>-</u>
Total	<u>\$ 362,496</u>	<u>\$ 300,718</u>

\$294,651 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, 2020. 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

2020	\$ (21,053)
2021	(31,959)
2022	(165,202)
2023	(14,659)
2024	-
Thereafter	-

Pension Plan Data

Information about the VRS Political Subdivision Retirement Plan is also available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf>, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA 23218-2500.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued) As of June 30, 2019

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

Plan Description

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

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

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

Eligible Employees

The GLI Program was established July 1, 1960, for state employees, teachers, and employees of political subdivisions that elect the program. 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 Program 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 program 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 creditable service, the minimum benefit payable was set at \$8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and was increased to \$8,279 effective July 1, 2018.

Contributions

The contribution requirements for the GLI Program are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the GLI Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% x 60%) and the employer component was 0.52% (1.31% x 40%). Employers may elect to pay all or part of the employee contribution; however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2019 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the GLI Program from the entity were \$26,314 and \$26,199 for the years ended June 30, 2019 and June 30, 2018, respectively.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)

As of June 30, 2019

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

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

At June 30, 2019, the entity reported a liability of \$402,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2018 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the GLI Program for the year ended June 30, 2018 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2018, the participating employer's proportion was .02650% as compared to .02640% at June 30, 2017.

For the year ended June 30, 2019, the participating employer recognized GLI OPEB expense of \$8,000. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

At June 30, 2019, the employer reported deferred outflows of resources and deferred inflows of resources related to the GLI OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 20,000	\$ 7,000
Net difference between projected and actual earnings on GLI OPEB program investments	-	13,000
Change in assumptions	-	17,000
Changes in proportion	11,000	-
Employer contributions subsequent to the measurement date	<u>26,314</u>	<u>-</u>
Total	<u>\$ 57,314</u>	<u>\$ 37,000</u>

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)
As of June 30, 2019

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

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

\$26,314 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, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

	Year Ended		
	June 30		
	2020	\$	(3,000)
	2021		(3,000)
	2022		(3,000)
	2023		-
	2024		1,000
	Thereafter		2,000

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2017, 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, 2018. The assumptions include several employer groups as noted below. Mortality rates included herein are for relevant employer groups. Information for other groups can be referenced in the VRS CAFR.

Inflation	2.5%
Salary increases, including inflation:	
General state employees	3.5% - 5.35%
Teachers	3.5%-5.95%
SPORS employees	3.5%-4.75%
VaLORS employees	3.5%-4.75%
JRS employees	4.5%
Locality - General employees	3.5%-5.35%
Locality - Hazardous Duty employees	3.5%-4.75%
Investment rate of return	7.0%, net of investment expenses, including inflation*

*Administrative expenses as a percent of the market value of assets for the last experience study were found to be approximately 0.06% of the market assets for all of the VRS plans. This would provide an assumed investment return rate for GASB purposes of slightly more than the assumed 7.0%. However, since the difference was minimal, and a more conservative 7.0% investment return assumption provided a projected plan net position that exceeded the projected benefit payments, the long-term expected rate of return on investments was assumed to be 7.0% to simplify preparation of OPEB liabilities.

EASTERN SHORE COMMUNITY SERVICES BOARD

**Notes to Financial Statements (Continued)
As of June 30, 2019**

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

Actuarial Assumptions: (Continued)

Mortality Rates - Largest Ten Locality Employers - General Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

EASTERN SHORE COMMUNITY SERVICES BOARD

**Notes to Financial Statements (Continued)
As of June 30, 2019**

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

Actuarial Assumptions: (Continued)

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016. Changes to the actuarial assumptions as a result of the experience study are as follows:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

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EASTERN SHORE COMMUNITY SERVICES BOARD

**Notes to Financial Statements (Continued)
As of June 30, 2019**

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

NET GLI OPEB Liability

The net OPEB liability (NOL) for the GLI Program represents the program’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, 2018, NOL amounts for the GLI Program are as follows (amounts expressed in thousands):

	Group Life Insurance OPEB Program
Total GLI OPEB Liability	\$ 3,113,508
Plan Fiduciary Net Position	1,594,773
Employers' Net GLI OPEB Liability (Asset)	<u>\$ 1,518,735</u>
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability	51.22%

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.

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EASTERN SHORE COMMUNITY SERVICES BOARD

**Notes to Financial Statements (Continued)
As of June 30, 2019**

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

Long-Term Expected Rate of Return

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

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

*The above allocation provides a one-year return of 7.30%. However, one-year returns do not take into account the volatility present in each of the asset classes. In setting the long-term expected return for the system, stochastic projections are employed to model future returns under various economic conditions. The results provide a range of returns over various time periods that ultimately provide a median return of 6.83%, including expected inflation of 2.50%.

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ended June 30, 2018, 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, 2018 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.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)
As of June 30, 2019

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

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

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

	<u>Rate</u>		
	<u>1% Decrease</u>	<u>Current</u>	<u>1% Increase</u>
	<u>(6.00%)</u>	<u>(7.00%)</u>	<u>(8.00%)</u>
Board’s proportionate share of the Group Life Insurance Program Net OPEB Liability	\$ 526,000	\$ 402,000	\$ 302,000

GLI Program Fiduciary Net Position

Detailed information about the Group Life Insurance Program’s Fiduciary Net Position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at <http://www.varetire.org/Pdf/Publications/2018-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, 2019, there were no matters of litigation involving the Board which would materially affect the Board’s financial position should any court decision or pending matter not be favorable to the Board.

NOTE 6 - RISK MANAGEMENT

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

EASTERN SHORE COMMUNITY SERVICES BOARD**Notes to Financial Statements (Continued)
As of June 30, 2019****NOTE 7 - CHANGES IN CAPITAL ASSETS**

A summary of changes in capital assets for the year ended June 30, 2019 is presented below:

	Balance July 1, 2018	Increases	Decreases	Balance June 30, 2019
<i>Eastern Shore Community Services Board:</i>				
Capital assets subject to depreciation:				
Computer Equipment	\$ 654,427	\$ 18,611	\$ 236,617	\$ 436,421
Leasehold Improvements	42,234	-	-	42,234
Office Furniture and Equipment	227,047	-	61,116	165,931
Software	942,887	-	-	942,887
Vehicles	796,590	275,801	256,333	816,058
Total capital assets subject to depreciation	<u>\$ 2,663,185</u>	<u>\$ 294,412</u>	<u>\$ 554,066</u>	<u>\$ 2,403,531</u>
Less accumulated depreciation for:				
Computer Equipment	\$ 534,684	\$ 84,303	\$ 236,617	\$ 382,370
Leasehold Improvements	22,016	948	-	22,964
Office Furniture and Equipment	169,808	8,824	61,116	117,516
Software	893,772	37,641	-	931,413
Vehicles	791,488	11,295	256,333	546,450
Total accumulated depreciation	<u>\$ 2,411,768</u>	<u>\$ 143,011</u>	<u>\$ 554,066</u>	<u>\$ 2,000,713</u>
Total capital assets subject to depreciation, net	<u>\$ 251,417</u>	<u>\$ 151,401</u>	<u>\$ -</u>	<u>\$ 402,818</u>
ESCSB capital assets, net	<u>\$ 251,417</u>	<u>\$ 151,401</u>	<u>\$ -</u>	<u>\$ 402,818</u>
<i>Component Unit- Mendisadd, Inc.:</i>				
Capital assets not subject to depreciation:				
Land	\$ 606,853	\$ -	\$ -	\$ 606,853
Construction in Progress	27,823	90,495	113,268	5,050
Total capital assets not subject to depreciation	<u>\$ 634,676</u>	<u>\$ 90,495</u>	<u>\$ 113,268</u>	<u>\$ 611,903</u>
Capital assets subject to depreciation:				
Equipment	\$ 224,829	\$ 6,200	\$ -	\$ 231,029
Buildings and Improvements	4,468,842	113,268	17,000	4,565,110
Total capital assets subject to depreciation	<u>\$ 4,693,671</u>	<u>\$ 119,468</u>	<u>\$ 17,000</u>	<u>\$ 4,796,139</u>
Less accumulated depreciation for:				
Equipment	\$ 182,612	\$ 13,112	\$ -	\$ 195,724
Buildings and Improvements	2,167,503	189,370	17,000	2,339,873
Total accumulated depreciation	<u>\$ 2,350,115</u>	<u>\$ 202,482</u>	<u>\$ 17,000</u>	<u>\$ 2,535,597</u>
Total capital assets subject to depreciation, net	<u>\$ 2,343,556</u>	<u>\$ (83,014)</u>	<u>\$ -</u>	<u>\$ 2,260,542</u>
Mendisadd, Inc. capital assets, net	<u>\$ 2,978,232</u>	<u>\$ 7,481</u>	<u>\$ 113,268</u>	<u>\$ 2,872,445</u>
Total reporting entity capital assets, net	<u>\$ 3,229,649</u>	<u>\$ 158,882</u>	<u>\$ 113,268</u>	<u>\$ 3,275,263</u>

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)
As of June 30, 2019

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 \$336,294 for the fiscal year ended June 30, 2019.

NOTE 9 - CAPITAL LEASE

The Board entered into leases classified as capital leases 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 2019, amortization under the aforementioned leases was \$25,316.

The assets acquired through a capital lease are as follows:

Asset:		
Computer equipment	\$	82,426
Less: accumulated depreciation		(58,385)
Total	\$	<u>24,041</u>

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

2020	\$	23,727
2021		3,954
	\$	<u>27,681</u>
Less - amount representing interest		(1,189)
	\$	<u>26,492</u>

The Board has capitalized costs net of depreciation totaling \$24,041 under capital lease at June 30, 2019.

NOTE 10 - LOCAL GOVERNMENT CONTRIBUTIONS BY PARTICIPANT

The participating localities contributed the following for the fiscal year ended June 30, 2019:

County of Accomack	\$	196,114
County of Northampton		74,561
Total	\$	<u>270,675</u>

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)
As of June 30, 2019

NOTE 11 - LONG-TERM OBLIGATIONS

A summary of long-term obligations transactions of the Board for the year ended June 30, 2019 is as follows:

	Amounts payable at July 1, 2018	Increases	Decreases	Amounts payable at June 30, 2019	Amounts due within one year
Compensated Absences	\$ 822,384	\$ 31,179	\$ 82,238	\$ 771,325	\$ 77,133
Note Payable from Direct Borrowing	500,547	-	38,126	462,421	37,190
Net Pension Liability	1,100,130	1,618,292	1,641,585	1,076,837	-
Net OPEB Liability	397,000	83,000	78,000	402,000	-
Capital Lease Payable	51,808	-	25,316	26,492	22,573
Total	<u>\$ 2,871,869</u>	<u>\$ 1,732,471</u>	<u>\$ 1,865,265</u>	<u>\$ 2,739,075</u>	<u>\$ 136,896</u>

Details of long-term obligations are as follows:

	<u>Amount Outstanding</u>
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>462,421</u>
Capital Lease Payable:	
Capital lease issued by Dell Financial Services, Inc. to Eastern Shore Community Services Board on August 31, 2016 for computer equipment payable over 48 months in equal installments of \$1,977 at 7.09%.	<u>26,492</u>
Net Pension Liability	\$ <u>1,076,837</u>
Net OPEB Liability	\$ <u>402,000</u>
Compensated Absences	\$ <u>771,325</u>
Total Long-Term Obligations	<u>\$ 2,739,075</u>

The Board has a \$500,000 revolving line of credit. At June 30, 2019, 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, 2019

NOTE 11 - LONG-TERM OBLIGATIONS (Continued)

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

<u>Ending June 30</u>	<u>Note Payable from Direct Borrowing</u>	
	<u>Principal</u>	<u>Interest</u>
2020	\$ 37,190	\$ 20,410
2021	39,521	18,078
2022	41,312	16,288
2023	43,184	14,416
2024	45,140	12,460
2025-2029	256,074	29,707
Total	<u>\$ 462,421</u>	<u>\$ 111,359</u>

NOTE 12 - ADOPTION OF ACCOUNTING PRINCIPLES AND RESTATEMENT OF BEGINNING NET POSITION

The Board implemented the financial reporting provisions of Governmental Accounting Standards Board Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements* during the fiscal year ended June 30, 2019. This Statement clarifies which liabilities governments should include when disclosing information related to debt. It also requires that additional essential information related to debt be disclosed in notes to financial statements. No restatement was required as a result of this implementation.

NOTE 13 - UPCOMING PRONOUNCEMENTS

Statement No. 84, *Fiduciary Activities*, establishes criteria for identifying fiduciary activities of all state and local governments for accounting and financial reporting purposes and how those activities should be reported. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

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 December 15, 2019.

Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, provides guidance for reporting capital assets and the cost of borrowing for a reporting period and simplifies accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

Statement No. 90, *Majority Equity Interests - An Amendment of GASB Statements No. 14 and No. 61*, provides guidance for reporting a government's majority equity interest in a legally separate organization and for reporting financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Financial Statements (Continued)
As of June 30, 2019

NOTE 13 - UPCOMING PRONOUNCEMENTS (Continued)

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, 2020.

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

REQUIRED SUPPLEMENTARY INFORMATION

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EASTERN SHORE COMMUNITY SERVICES BOARD

Schedule of Changes in Net Pension Liability and Related Ratios
For the Measurement Dates June 30, 2014 through June 30, 2018

	2018	2017	2016	2015	2014
Total pension liability					
Service cost	\$ 443,060	\$ 462,023	\$ 487,979	\$ 496,973	\$ 498,592
Interest	1,236,376	1,202,747	1,148,526	1,104,668	1,041,588
Differences between expected and actual experience	97,089	(230,377)	(67,126)	(247,395)	-
Changes in assumptions	-	(85,193)	-	-	-
Benefit payments, including refunds of employee contributions	(892,953)	(844,618)	(744,969)	(710,434)	(567,640)
Net change in total pension liability	\$ 883,572	\$ 504,582	\$ 824,410	\$ 643,812	\$ 972,540
Total pension liability - beginning	18,108,993	17,604,411	16,780,001	16,136,189	15,163,649
Total pension liability - ending (a)	\$ 18,992,565	\$ 18,108,993	\$ 17,604,411	\$ 16,780,001	\$ 16,136,189
Plan fiduciary net position					
Contributions - employer	\$ 328,849	\$ 328,079	\$ 417,369	\$ 421,399	\$ 468,572
Contributions - employee	231,102	227,912	218,246	263,147	236,859
Net investment income	1,251,849	1,869,763	266,474	671,135	1,994,489
Benefit payments, including refunds of employee contributions	(892,953)	(844,618)	(744,969)	(710,434)	(567,640)
Administrative expense	(10,870)	(10,859)	(9,443)	(9,077)	(10,531)
Other	(1,112)	(1,662)	(113)	(142)	105
Net change in plan fiduciary net position	\$ 906,865	\$ 1,568,615	\$ 147,564	\$ 636,028	\$ 2,121,854
Plan fiduciary net position - beginning	17,008,863	15,440,248	15,292,684	14,656,656	12,534,802
Plan fiduciary net position - ending (b)	\$ 17,915,728	\$ 17,008,863	\$ 15,440,248	\$ 15,292,684	\$ 14,656,656
Board's net pension liability - ending (a) - (b)	\$ 1,076,837	\$ 1,100,130	\$ 2,164,163	\$ 1,487,317	\$ 1,479,533
Plan fiduciary net position as a percentage of the total pension liability	94.33%	93.92%	87.71%	91.14%	90.83%
Covered payroll	\$ 5,020,238	\$ 4,867,751	\$ 4,550,610	\$ 4,519,527	\$ 4,640,238
Board's net pension liability as a percentage of covered payroll	21.45%	22.60%	47.56%	32.91%	31.88%

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.

EASTERN SHORE COMMUNITY SERVICES BOARD

Schedule of Employer Contributions - Pension Plan

For the Years Ended June 30, 2010 through June 30, 2019

<u>Date</u>	<u>Contractually Required Contribution (1)</u>	<u>Contributions in Relation to Contractually Required Contribution (2)</u>	<u>Contribution Deficiency (Excess) (3)</u>	<u>Employer's Covered Payroll (4)</u>	<u>Contributions as a % of Covered Payroll (5)</u>
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%
2011	326,525	326,525	-	4,336,321	7.53%
2010	292,507	292,507	-	4,339,860	6.74%

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Required Supplementary Information - Pension Plan
For the Year Ended June 30, 2019

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

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

Largest 10 - Non-Hazardous Duty:

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

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

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Lowered rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

EASTERN SHORE COMMUNITY SERVICES BOARD

Schedule of Board's Share of Net OPEB Liability

Group Life Insurance (GLI) Program

For the Measurement Dates of June 30, 2018 and June 30, 2017

Date (1)	Employer's Proportion of the Net GLI OPEB Liability (2)	Employer's Proportionate Share of the Net GLI OPEB Liability (3)	Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net GLI OPEB Liability as a Percentage of Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total GLI OPEB Liability (6)
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) Program

For the Years Ended June 30, 2010 through June 30, 2019

<u>Date</u>	<u>Contractually Required Contribution (1)</u>	<u>Contributions in Relation to Contractually Required Contribution (2)</u>	<u>Contribution Deficiency (Excess) (3)</u>	<u>Employer's Covered Payroll (4)</u>	<u>Contributions as a % of Covered Payroll (5)</u>
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%
2011	12,162	12,162	-	4,343,549	0.28%
2010	8,773	8,773	-	3,249,247	0.27%

EASTERN SHORE COMMUNITY SERVICES BOARD

Notes to Required Supplementary Information
Group Life Insurance (GLI) Program
For the Year Ended June 30, 2019

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

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

Largest Ten Locality Employers - General Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 20%

Non-Largest Ten Locality Employers - General Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages and extended final retirement age from 70 to 75
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Lowered disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 15%

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, 2019

	ESCSB Operating Fund	Mendisadd, Inc. Fund	Inter- Company Eliminations	Total
Current Assets:				
Cash and cash equivalents	\$ 1,874,315	\$ 66,938	\$ -	\$ 1,941,253
Client receivables (net of allowance for uncollectible accounts)	615,307	-	-	615,307
Due from affiliates	-	350	(350)	-
Due from HUD	13,600	-	-	13,600
Due from Accomack County	98,057	-	-	98,057
Notes receivable	121,026	-	(121,026)	-
Prepaid items	72,740	1,300	-	74,040
Total current assets	\$ 2,795,045	\$ 68,588	\$ (121,376)	\$ 2,742,257
Capital Assets:				
Land	\$ -	\$ 606,853	\$ -	\$ 606,853
Construction in progress	-	5,050	-	5,050
Property and equipment, less accumulated depreciation	402,818	2,260,542	-	2,663,360
Total capital assets	\$ 402,818	\$ 2,872,445	\$ -	\$ 3,275,263
Total assets	\$ 3,197,863	\$ 2,941,033	\$ (121,376)	\$ 6,017,520
Deferred Outflows of Resources:				
Pension related items	\$ 362,496	\$ -	\$ -	\$ 362,496
OPEB related items	57,314	-	-	57,314
Total deferred outflows of resources	\$ 419,810	\$ -	\$ -	\$ 419,810
Current Liabilities:				
Accounts payable	\$ 213,835	\$ -	\$ -	\$ 213,835
Accrued expenses	210,314	-	-	210,314
Unearned revenues	303,421	-	-	303,421
Due to affiliates	350	-	(350)	-
Current portion of compensated absences	77,133	-	-	77,133
Current portion of note payable	-	42,733	(5,543)	37,190
Current portion of capital lease payable	22,573	-	-	22,573
Total current liabilities	\$ 827,626	\$ 42,733	\$ (5,893)	\$ 864,466
Long-Term Liabilities:				
Compensated absences, less current portion	\$ 694,192	\$ -	\$ -	\$ 694,192
Long-term notes payable, less current portion	-	540,714	(115,483)	425,231
Capital lease payable, less current portion	3,919	-	-	3,919
Net pension liability	1,076,837	-	-	1,076,837
Net OPEB liability	402,000	-	-	402,000
Total long-term liabilities	\$ 2,176,948	\$ 540,714	\$ (115,483)	\$ 2,602,179
Total liabilities	\$ 3,004,574	\$ 583,447	\$ (121,376)	\$ 3,466,645
Deferred Inflows of Resources:				
Pension related items	\$ 300,718	\$ -	\$ -	\$ 300,718
OPEB related items	37,000	-	-	37,000
Total deferred inflows of resources	\$ 337,718	\$ -	\$ -	\$ 337,718
Net Position:				
Net investment in capital assets	\$ 376,326	\$ 2,288,998	\$ 121,026	\$ 2,786,350
Unrestricted	(100,945)	68,588	(121,026)	(153,383)
Total net position	\$ 275,381	\$ 2,357,586	\$ -	\$ 2,632,967

EASTERN SHORE COMMUNITY SERVICES BOARD

Combining Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2019

	ESCSB Operating Fund	Mendisadd Inc. Fund	Inter- Company Eliminations	Total
Operating revenues:				
Patient service and other fees	\$ 6,553,776	\$ -	\$ -	\$ 6,553,776
Operating expenses:				
Personnel	\$ 7,898,471	\$ -	\$ -	\$ 7,898,471
Staff development	39,940	-	-	39,940
Facility charges	956,088	212,167	(336,294)	831,961
Travel	66,921	-	-	66,921
Consultants and other professional services	771,163	-	-	771,163
Other charges	736,176	-	-	736,176
Depreciation	143,011	202,482	-	345,493
Total operating expenses	\$ 10,611,770	\$ 414,649	\$ (336,294)	\$ 10,690,125
Operating income (loss)	\$ (4,057,994)	\$ (414,649)	\$ 336,294	\$ (4,136,349)
Nonoperating revenues (expenses):				
Commonwealth of Virginia, including pass-through grants of \$1,050,745 from the federal government	\$ 3,968,297	\$ -	\$ -	\$ 3,968,297
Local governments	270,675	-	-	270,675
Other agencies	508,181	-	-	508,181
Rental income	-	361,469	(336,294)	25,175
Interest income	41,023	-	(6,505)	34,518
Donation	-	10,000	-	10,000
Interest expense	(14,013)	(27,978)	6,505	(35,486)
Total nonoperating revenues (expenses)	\$ 4,774,163	\$ 343,491	\$ (336,294)	\$ 4,781,360
Change in net position	\$ 716,169	\$ (71,158)	\$ -	\$ 645,011
Net position at beginning of year	(440,788)	2,428,744	-	1,987,956
Net position at end of year	\$ 275,381	\$ 2,357,586	\$ -	\$ 2,632,967

EASTERN SHORE COMMUNITY SERVICES BOARD

Combining Statement of Cash Flows

Year Ended June 30, 2019

	ESCSB Operating Fund	Mendisadd, Inc. Fund	Inter- Company Eliminations	Total
Cash flows from operating activities:				
Receipts from clients' fees and other providers	\$ 6,782,162	\$ -	\$ -	\$ 6,782,162
Payments to suppliers	(2,230,669)	(189,128)	-	(2,419,797)
Payments to and for employees	(8,391,449)	-	336,294	(8,055,155)
Net cash provided by (used for) operating activities	<u>\$ (3,839,956)</u>	<u>\$ (189,128)</u>	<u>\$ 336,294</u>	<u>\$ (3,692,790)</u>
Cash flows from noncapital and related financing activities:				
Government and other agencies	\$ 4,747,153	\$ -	\$ -	\$ 4,747,153
Rent of property	-	361,469	(336,294)	25,175
Donation	-	10,000	-	10,000
Net cash provided by (used for) noncapital and related financing activities	<u>\$ 4,747,153</u>	<u>\$ 371,469</u>	<u>\$ (336,294)</u>	<u>\$ 4,782,328</u>
Cash flows from capital and related financing activities:				
Purchase of capital assets	\$ (294,412)	\$ (96,696)	\$ -	\$ (391,108)
Principal payments on line of credit	(299,176)	-	-	(299,176)
Principal payments on note payable	-	(43,382)	5,256	(38,126)
Principal payments on capital leases payable	(25,316)	-	-	(25,316)
Interest paid on capital leases and notes payable	(14,013)	(27,978)	6,505	(35,486)
Net cash provided by (used for) capital and related financing activities	<u>\$ (632,917)</u>	<u>\$ (168,056)</u>	<u>\$ 11,761</u>	<u>\$ (789,212)</u>
Cash flows from investing activities:				
Interest received	\$ 41,023	\$ -	\$ (6,505)	\$ 34,518
Principal received on notes receivable	5,256	-	(5,256)	-
Net cash provided by (used for) investing activities	<u>\$ 46,279</u>	<u>\$ -</u>	<u>\$ (11,761)</u>	<u>\$ 34,518</u>
Net increase (decrease) in cash and cash equivalents	\$ 320,559	\$ 14,285	\$ -	\$ 334,844
Cash and cash equivalents, beginning of year	1,553,756	52,653	-	1,606,409
Cash and cash equivalents, end of year	<u>\$ 1,874,315</u>	<u>\$ 66,938</u>	<u>\$ -</u>	<u>\$ 1,941,253</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ (4,057,994)	\$ (414,649)	\$ 336,294	\$ (4,136,349)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	143,011	202,482	-	345,493
Changes in assets, liabilities, and deferred inflows/outflows of resources:				
Accounts receivable	326,145	-	-	326,145
Prepaid items	267,013	-	-	267,013
Due from affiliates	(23,039)	23,039	-	-
Due from local government	(98,057)	-	-	(98,057)
Deferred outflows of resources	(64,272)	-	-	(64,272)
Compensated absences	(51,059)	-	-	(51,059)
Accounts payable	(55,618)	-	-	(55,618)
Unearned revenues	23,337	-	-	23,337
Net pension liability	(23,293)	-	-	(23,293)
Net OPEB liability	5,000	-	-	5,000
Deferred inflows of resources	(252,493)	-	-	(252,493)
Other accrued expenses	21,363	-	-	21,363
Net cash provided by (used for) operating activities	<u>\$ (3,839,956)</u>	<u>\$ (189,128)</u>	<u>\$ 336,294</u>	<u>\$ (3,692,790)</u>

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COMPLIANCE

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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, 2019 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 October 15, 2019.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

Richmond, Virginia
October 15, 2019



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

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

Report on Compliance for Each Major Federal Program

We have audited Eastern Shore Community Services Board's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Eastern Shore Community Services Board's major federal programs for the year ended June 30, 2019. 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, 2019.

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.



Richmond, Virginia
October 15, 2019

EASTERN SHORE COMMUNITY SERVICES BOARD

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2019

Federal Grantor/ State Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
Department of Education Pass Through Payments: Department of Behavioral Health and Developmental Services:			
Special Education - Grants for Infants and Families	84.181	445007-43080 & 445007-43081	\$ 38,620
Total Department of Education			\$ 38,620
Department of Health and Human Services: Pass Through Payments: Department of Behavioral Health and Developmental Services:			
Block Grants for Community Mental Health Services	93.958	445006-50128	\$ 37,755
Block Grants for Prevention and Treatment of Substance Abuse	93.959	445001-50168 & 445001-50198	440,189
Opioid STR	93.788	455001-51011 & 445001-50197	534,181
Total Department of Health and Human Services			\$ 1,012,125
Total Expenditures of Federal Awards			\$ 1,050,745

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, 2019

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, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (Uniform Guidance) Part 200, *Uniform Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Because the Schedule presents only a selected portion of the operations of Eastern Shore Community Services Board, it is not intended to and does not present the financial position, changes in net position, or cash flows of Eastern Shore Community Services Board.

Note B - Summary of Significant Accounting Policies

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

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

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

Note C - Relationship to Financial Statements

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

Appropriations from the Commonwealth of Virginia, including pass-through grants	<u>\$ 1,050,745</u>
Total federal expenditures per basic financial statements	<u>\$ 1,050,745</u>
Total federal expenditures per the Schedule of Expenditures of Federal Awards	<u><u>\$ 1,050,745</u></u>

EASTERN SHORE COMMUNITY SERVICES BOARD

**Schedule of Findings and Questioned Costs
As of June 30, 2019**

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:

CFDA Number(s)
93.959

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

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

\$750,000

Auditee qualified as low-risk auditee?

_____ yes no

EASTERN SHORE COMMUNITY SERVICES BOARD

**Schedule of Findings and Questioned Costs (Continued)
As of June 30, 2019**

Section II-Financial Statement Findings

None

Section III - Federal Award Findings and Question Costs

None

Section IV-Prior Year Findings

Identifying Number:

Finding 2018-001

Finding:

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

Corrective Action Taken or Planned:

The Board implemented procedures to ensure all credit cards purchase backup documentation is submitted and retained.