
NORTHWESTERN COMMUNITY SERVICES BOARD

FRONT ROYAL, VIRGINIA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

CHARLOTTESVILLE □ RICHMOND □ FREDERICKSBURG □ STAUNTON □ BLACKSBURG □ LOUISA



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NORTHWESTERN COMMUNITY SERVICES BOARD

BOARD OF DIRECTORS

Dominika Seal, Chair

Georgia Berry

Danny Birt

Audrey Brown

Rebecca Cooper

Sandra Dunkle

Suetta Freeman

Lucille Harris

Rev. David Howard

Lisa Hyde

Dr. Philip Pate

Joan Richardson

Debroah Rockwell

Gina Stetter

PRINCIPAL MANAGEMENT TEAM

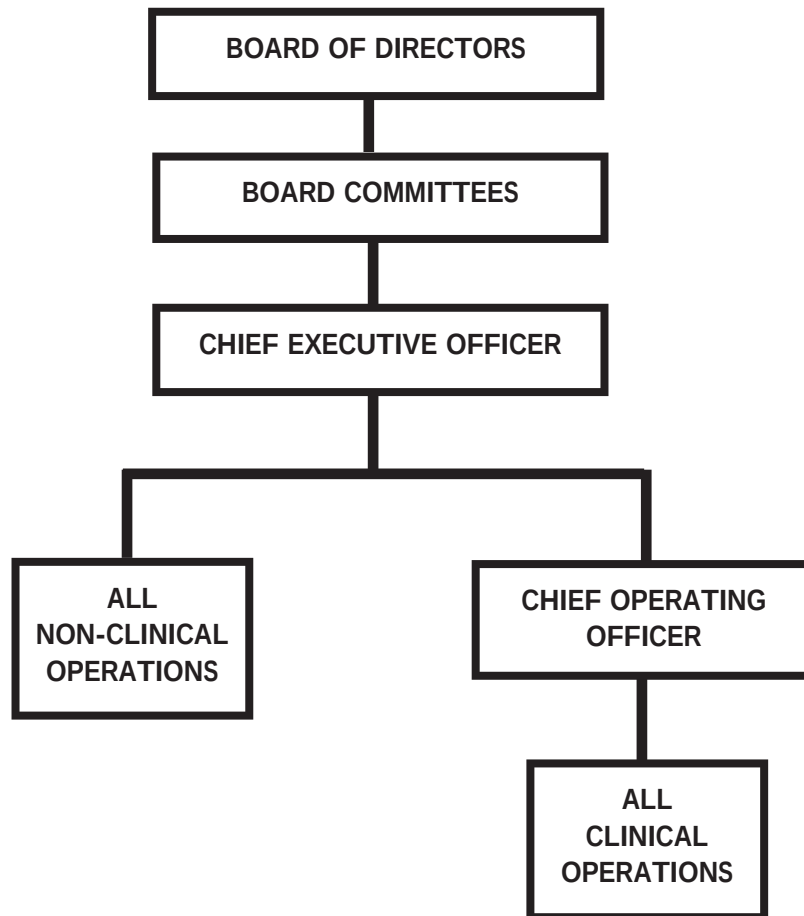
Mike Elwell, Chief Executive Officer

Mark Gleason, Chief Operating Officer

Catherine Russell, Chief Financial Officer

NORTHWESTERN COMMUNITY SERVICES BOARD

ORGANIZATIONAL CHART



ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Northwestern Community Services Board, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Northwestern Community Services Board's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards, and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Northwestern Community Services Board, as of June 30, 2016, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 15 to the financial statements, in 2016, the Board adopted new accounting guidance, GASB Statement Nos. 79 Certain External Investment Pools and Pool Participants and 82 Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73. 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 on pages 4-6 and schedules related to pension funding and OPEB funding progress on pages 42-45 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Northwestern Community Services Board's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Report on Summarized Comparative Information

We have previously audited Northwestern Community Services Board's 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 30, 2015. In our opinion, the summarized comparative information for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2016 on our consideration of Northwestern Community Services Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northwestern Community Services Board's internal control over financial reporting and compliance.

Robinson, Fawcett, Cox Associates

Charlottesville, Virginia

November 22, 2016

NORTHWESTERN COMMUNITY SERVICES BOARD

Management's Discussion and Analysis Year Ended June 30, 2016

The following Management's Discussion and Analysis (MD&A) of Northwestern Community Services Board's (NWCSB) financial performance provides the reader with an overview to the financial statements of the NWCSB for the fiscal year ended June 30, 2016.

Northwestern Community Services Board presents three basic financial statements for the purpose of analyzing the financial position of the NWCSB as of June 30, 2016. These are: (1) Statement of Net Position; (2) Statement of Revenues, Expenses and Changes in Net Position; and (3) Statement of Cash Flows.

NWCSB's financial position is measured in terms of resources (assets) owned and obligations (liabilities) owed as of June 30, 2016. This information is reflected on the Statement of Net Position. The excess of assets over liabilities is the net position.

Information reflecting the results of operations during the fiscal year 2016 is reported in the Statement of Revenues, Expenses and Changes in Net Position. This statement reflects total revenue and total expenses for the fiscal year ended June 30, 2016 and excess or deficiency of revenue over expenses for the year.

The flow of cash resources into and out of NWCSB during the fiscal year is reflected on the Statement of Cash Flows. This statement also reflects the net increase or decrease in cash and cash equivalents for the year and the ending cash and cash equivalents as of June 30, 2016.

Financial Position: A summary of NWCSB's Statement of Net Position for fiscal years 2016 and 2015 is presented below.

Summary Statement of Net Position

	2016	2015
Current assets	\$ 4,875,309	\$ 4,609,409
Restricted assets	180,522	171,467
Other assets	457,889	453,145
Capital assets	2,566,510	2,570,535
Total assets	\$ 8,080,230	\$ 7,804,556
Deferred outflows of resources	\$ 397,672	\$ 385,284
Current liabilities	\$ 1,204,559	\$ 1,740,883
Long-term liabilities	2,233,230	1,584,964
Total liabilities	\$ 3,437,789	\$ 3,325,847
Deferred inflows of resources	\$ 740,522	\$ 1,157,614
Net position:		
Net investment in capital assets	\$ 812,692	\$ 668,582
Restricted	180,522	171,467
Unrestricted	3,306,377	2,866,330
Total net position	\$ 4,299,591	\$ 3,706,379

Financial Position: (continued)

The financial position of Northwestern Community Services Board is strong with net position of \$4,299,591 as of June 30, 2016. Favorable interest earnings resulted in a significant decrease in deferred inflows of resources related to the pension plan.

A summary of NWCSB's Statement of Revenues, Expenses and Changes in Net Position for fiscal years 2016 and 2015 is presented below.

Summary Statement of Revenues, Expenses and Changes in Net Position		
	2016	2015
Operating revenues:		
Net patient service revenue	\$ 5,558,375	\$ 5,258,635
Operating expenses	14,344,370	13,539,467
Operating income (loss)	\$ (8,785,995)	\$ (8,280,832)
Nonoperating income, net	9,379,207	8,592,206
Change in net position	\$ 593,212	\$ 311,374

Operating income is generated from providing patient services with the majority of this income generated from Medicaid. Medicaid income represented approximately 89% of our operating income for 2016 and 95% for 2015. Non-operating income increased due to increased state funding. The increase in operating expenses is a result of increased pay rates, leading to higher salaries and benefits costs.

Cash Flow: A summary of NWCSB's Statement of Cash Flows for fiscal years 2016 and 2015 is presented below.

Condensed Statement of Cash Flows		
	2016	2015
Cash flows provided (used) by operating activities	\$ (8,481,633)	\$ (7,929,802)
Cash flows provided (used) by noncapital and related financing activities	9,451,699	8,670,472
Cash flows provided (used) by capital and related financing activities	(472,828)	(252,735)
Cash flows provided (used) by investing activities	6,644	2,310
Net increase (decrease) in cash and cash equivalents	\$ 503,882	\$ 490,245
Cash and cash equivalents, beginning of year	3,588,983	3,098,738
Cash and cash equivalents, end of year	\$ 4,092,865	\$ 3,588,983

Cash flows from operating activities reconcile the operating loss recorded on the Statement of Revenues, Expenses and Changes in Net Position to cash provided by operating activities. In this process, the Operating Loss is decreased by the amount of any non-cash transaction (depreciation) and adjusted for changes in operating assets, liabilities, and pension related deferred outflows and inflows of resources.

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

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

Financial Position: (continued)

Cash flows from investing activities are comprised of interest income.

During 2016, there was an increase of \$503,882 in cash and cash equivalents compared to an increase of \$490,245 in 2015.

Capital Assets and Debt Administration

Capital Assets:

On June 30, 2016, Northwestern Community Services Board had \$2,566,510 in net capital assets. These were comprised primarily of land, buildings and improvements, and equipment and vehicles. This is a net decrease of \$4,025 from 2015, which resulted from depreciation expense largely offsetting the new additions. New additions included six vehicles, a software upgrade, and LiveScan equipment. Four vehicles and a polycom view station were disposed of. All but one item was fully disposed. One vehicle belonged to a regional position and was transferred with that position.

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

Long-Term Debt:

Long-term debt as of June 30, 2016 is \$1,753,818. This debt is for two facilities. The first is Sunshine House in New Market, which is financed by two notes with Rural Economic Development Administration (FmHA) with a total balance of \$230,951. The second facility is the Center for Health and Development in Front Royal and is financed by two notes; one with FmHA with a balance of \$781,564 and the second note is with BB&T Bank with a balance of \$781,564. Long-term debt is not expected to increase in fiscal year 2016 as there are no current construction plans.

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

Other Significant Activities in Fiscal Year 2016

During fiscal year 2016, Northwestern Community Services Board continued to review and adjust its operations to include enhancement of third party reimbursements. Northwestern continues to adjust to Medicaid and Magellan regulations and policy changes that impacted documentation requirements and reimbursement. Fiscal year 2017 will continue to be a year of change that will impact operations for Northwestern Community Services Board.

All these changes require careful planning and implementation for Northwestern to continue to operate at a high level.

Requests for Information:

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

- Basic Financial Statements -

NORTHWESTERN COMMUNITY SERVICES BOARD

Statement of Net Position

At June 30, 2016

(With Comparative Totals for 2015)

	2016	2015
Assets		
Current Assets:		
Cash and cash equivalents	\$ 3,912,343	\$ 3,417,516
Accounts receivable, less allowance for uncollectibles	700,114	979,549
Due from other governments	67,342	42,700
Prepaid items	195,510	169,644
Total current assets	\$ 4,875,309	\$ 4,609,409
Restricted Assets:		
Cash and cash equivalents - debt reserve accounts	\$ 180,522	\$ 171,467
Total restricted assets	\$ 180,522	\$ 171,467
Other Assets:		
Net pension asset	\$ 457,889	\$ 453,145
Capital Assets:		
Property and equipment, less accumulated depreciation	\$ 2,566,510	\$ 2,570,535
Total assets	\$ 8,080,230	\$ 7,804,556
Deferred Outflows of Resources		
Pension contributions subsequent to measurement date	\$ 397,672	\$ 385,284
Liabilities		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 549,435	\$ 381,173
Accrued interest	4,462	-
Compensated absences	484,152	470,267
Loans payable, current portion	166,510	889,443
Total current liabilities	\$ 1,204,559	\$ 1,740,883
Long-term Liabilities:		
Loans payable, less current portion	\$ 1,587,308	\$ 1,012,510
Net OPEB obligation	645,922	572,454
Total long-term liabilities	\$ 2,233,230	\$ 1,584,964
Total liabilities	\$ 3,437,789	\$ 3,325,847
Deferred Outflows of Resources		
Items related to measurement of net pension asset	\$ 740,522	\$ 1,157,614
Net Position		
Net Investment in capital assets	\$ 812,692	\$ 668,582
Restricted for debt service	180,522	171,467
Unrestricted	3,306,377	2,866,330
Total net position	\$ 4,299,591	\$ 3,706,379

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

NORTHWESTERN COMMUNITY SERVICES BOARD

Statement of Revenues, Expenses and Changes in Net Position

Year Ended June 30, 2016

(With Comparative Totals for 2015)

	<u>2016</u>	<u>2015</u>
Operating revenues:		
Net patient service revenue	\$ 5,558,375	\$ 5,258,635
Operating Expenses:		
Salaries and benefits	\$ 9,128,280	\$ 8,908,220
Staff development	53,222	71,179
Facility	1,505,658	1,276,271
Supplies	312,870	326,115
Travel	209,876	200,873
Contractual and consulting	2,512,550	2,362,407
Depreciation	228,802	206,657
Other	393,112	187,745
Total operating expenses	\$ 14,344,370	\$ 13,539,467
Operating income (loss)	\$ (8,785,995)	\$ (8,280,832)
Nonoperating income (expense):		
Grants:		
Commonwealth of Virginia	\$ 6,820,276	\$ 5,773,071
Federal government	1,238,683	1,262,681
Local governments	1,188,873	1,163,608
Interest income	6,644	2,310
Other	229,109	478,612
Gain on asset disposal	1,500	-
Vehicle contribution to region	(12,158)	-
Interest expense	(93,720)	(88,076)
Net nonoperating income (expense)	\$ 9,379,207	\$ 8,592,206
Change in net position	\$ 593,212	\$ 311,374
Net position, beginning of year	\$ 3,706,379	\$ 3,999,602
Restatement	-	(604,597)
Net position, beginning of year, as restated	\$ 3,706,379	\$ 3,395,005
Net position, end of year	\$ 4,299,591	\$ 3,706,379

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

NORTHWESTERN COMMUNITY SERVICES BOARD

Statement of Cash Flows
Year Ended June 30, 2016
(With Comparative Totals for 2015)

	2016	2015
Cash flows from operating activities:		
Receipts from customers	\$ 5,838,410	\$ 5,666,137
Payments to suppliers	(4,787,377)	(4,441,494)
Payments to and for employees	(9,532,666)	(9,154,445)
Total cash flows provided by (used for) operating activities	<u>\$ (8,481,633)</u>	<u>\$ (7,929,802)</u>
Cash flows from noncapital and related financing activities:		
Government grants	\$ 9,222,590	\$ 8,191,860
Other	229,109	478,612
Total cash flows provided by (used for) noncapital financing activities	<u>\$ 9,451,699</u>	<u>\$ 8,670,472</u>
Cash flows from capital and related financing activities:		
Purchase of capital assets	\$ (235,435)	\$ (14,773)
Interest on long-term debt	(89,258)	(88,076)
Principal payments on mortgages and loans payable	(148,135)	(149,886)
Cash flows provided by (used for) capital and related financing activities	<u>\$ (472,828)</u>	<u>\$ (252,735)</u>
Cash flows from investing activities:		
Interest income	\$ 6,644	\$ 2,310
Net increase (decrease) in cash and cash equivalents	\$ 503,882	\$ 490,245
Cash and cash equivalents, beginning of year	3,588,983	3,098,738
Cash and cash equivalents, end of year	<u>\$ 4,092,865</u>	<u>\$ 3,588,983</u>
Summary of Cash and cash equivalents:		
Unrestricted	\$ 3,912,343	\$ 3,417,516
Restricted	180,522	171,467
Total cash and cash equivalents	<u>\$ 4,092,865</u>	<u>\$ 3,588,983</u>
Cash flows from operating activities:		
Operating income (loss)	\$ (8,785,995)	\$ (8,280,832)
Adjustments to reconcile excess of revenues over expenses to cash provided by (used for) operations:		
Depreciation	228,802	206,657
Pension expense per GASB 68 calculation	-	99,872
Changes in assets, liabilities, and deferred inflows/outflows of resources:		
Accounts receivable	279,435	457,265
Due from other governments	600	(35,200)
Prepaid items	(25,866)	(16,639)
Net pension asset	(4,744)	-
Pension contributions subsequent to measurement date	(12,388)	(385,284)
Accounts payable and accrued expenses	168,262	(63,972)
Compensated absences	13,885	(5,306)
Client funds	-	(14,563)
Net OPEB obligation	73,468	108,200
Items related to measurement of net pension asset	(417,092)	-
Net cash provided by (used for) operating activities	<u>\$ (8,481,633)</u>	<u>\$ (7,929,802)</u>
Noncash capital activities:		
Trade-in of vehicles	1,500	
Book value of vehicle transferred to regional position	(12,158)	

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

NORTHWESTERN COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2016

Note 1 - Summary of Significant Accounting Policies:

A. Description and Purpose of Agency:

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

B. Financial Reporting Entity:

For financial reporting purposes, in conformance with Governmental Accounting Standards Board (GASB) Statement 39, *Determining Whether Certain Organizations are Component Units*, the Board includes all organizations for which it is considered financially accountable.

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

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

C. Financial Statement Presentation:

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

D. Basis of Accounting:

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

E. Use of Estimates:

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

F. Cash and Cash Equivalents:

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

NORTHWESTERN COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2016 (continued)

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

G. Restricted Assets:

The Board segregates funds reserved for debt service as required by loan agreements with Rural Development. The restricted debt service accounts were \$180,522 and \$171,467, respectively.

H. 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.

I. Client Fees and Allowance for Uncollectible Accounts:

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

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

A significant majority of fees billed and collected result from Medicaid billings. Account balances in arrears for greater than 150 days are deemed uncollectible. An allowance for doubtful client accounts has been estimated by management to approximate \$384,636 at June 30, 2016 and \$777,343 at June 30, 2015.

J. Capital Assets:

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

Estimated useful lives of capital assets are as follows:

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

NORTHWESTERN COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2016 (continued)

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

K. Deferred Outflows/Inflows of Resources:

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then. The Board has one item that qualifies for reporting in this category. It is comprised of contributions to the pension plan made during the current year and subsequent to the net pension asset measurement date, which will be recognized as an addition to the net pension asset next fiscal year. For more detailed information on this item, reference the pension note.

In addition to liabilities, the statement of financial position may report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Board has one type of item that qualifies for reporting in this category. Certain items related to the measurement of the net pension asset are reported as deferred inflows of resources. These include differences between expected and actual experience, change in assumptions, and the net difference between projected and actual earnings on pension plan investments. For more detailed information on these items, reference the pension note.

L. Pensions:

For purposes of measuring the net pension asset, 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.

M. Compensated Absences:

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

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

N. 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.

NORTHWESTERN COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2016 (continued)

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

O. Net Position Flow Assumption:

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

P. 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.

Q. Budgetary Accounting:

The Board follows these procedures in establishing its budgets:

1. In response to Letters of Notification received from the Department of Behavioral Health and Developmental Services (the Department), the Board submits a Performance Contract to the Department. This application contains complete budgets for all Core Services.
2. The Board's Performance reports are filed with the Department during the fiscal year, 45 working days after the end of the second quarter. The final quarterly report is generally due by September 30 (following the end of the fiscal year), unless extended.
3. If any changes are made during the fiscal year in state or federal block grants, or local match funds, the Board submits Performance Contract revisions which reflect these changes in time to be received by the Department by required deadlines.

R. Comparative Amounts:

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

Note 2 - Fiscal Agent:

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

NORTHWESTERN COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2016 (continued)

Note 3 - Deposits and Investments:

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

	<u>2016</u>	<u>2015</u>
Cash in bank - operating	\$ 1,847,918	\$ 1,354,619
Cash in bank - restricted - debt reserves	180,522	171,467
Cash on hand and petty cash accounts	5,575	10,675
Investments	<u>2,058,850</u>	<u>2,052,222</u>
Total	<u>\$ 4,092,865</u>	<u>\$ 3,588,983</u>

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 the Board to invest in obligations of the United States or agencies thereof, obligations of the Commonwealth of Virginia or political subdivisions thereof, obligations of the International Bank for Reconstruction and Development (World Bank), the Asian Development Bank, the African Development Bank, "prime quality" commercial paper and certain corporate notes, banker's acceptances, repurchase agreements and the State Treasurer's Local Government Investment Pool (LGIP). The Board's investment policies are the same as the state statutes.

Custodial Credit Risk (Investments):

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

NORTHWESTERN COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2016 (continued)

Note 3 - Deposits and Investments: (continued)

Credit Risk of Debt Securities:

The Board's rated debt investments as of June 30, 2016 were rated by Standard and Poor's and the ratings are presented below using the Standard and Poor's rating scale.

<u>Rated Debt Investments Value</u>	
<u>Rated Debt Investments</u>	<u>Fair Quality Ratings AAAm</u>
Virginia Local Government Investment Pool	<u><u>\$ 2,058,850</u></u>

Concentration of Credit Risk:

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

Interest Rate Risk:

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

<u>Investment Type</u>	<u>Value</u>	<u>Investment Maturity Less Than One Year</u>
Virginia Local Government Investment Pool	<u><u>\$ 2,058,850</u></u>	<u><u>\$ 2,058,850</u></u>

External Investment Pool:

The value of the positions in the external investment pools (Local Government Investment Pool and State Non-Arbitrage 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 and SNAP are amortized cost basis portfolios under the provisions of GASB Statement No. 79. There are no withdrawal limitations or restrictions imposed on participants.

Note 4 - Client Fees and Receivables:

Client fee revenues were from the following sources:

	<u>2016</u>	<u>2015</u>
Medicaid	\$ 4,954,872	\$ 4,994,236
Direct client	74,630	73,626
Third-party and other	<u>528,873</u>	<u>190,773</u>
Total	<u><u>\$ 5,558,375</u></u>	<u><u>\$ 5,258,635</u></u>

NORTHWESTERN COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2016 (continued)

Note 4 - Client Fees and Receivables: (continued)

Net client fee and other receivables at June 30, 2016 and 2015 were due from the following sources:

	<u>2016</u>	<u>2015</u>
Direct and other client	\$ 410,258	\$ 361,120
Medicaid	513,279	1,190,929
Third party and other	<u>161,213</u>	<u>204,843</u>
Total	\$ 1,084,750	\$ 1,756,892
Allowance for uncollectibles	<u>384,636</u>	<u>777,343</u>
Net fees receivable	<u><u>\$ 700,114</u></u>	<u><u>\$ 979,549</u></u>

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

Note 5 - Capital Assets:

Capital assets consist of the following:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Adjustments</u>	<u>Ending Balances</u>
Capital assets not being depreciated:					
Land	\$ 129,881	\$ -	\$ -	\$ -	\$ 129,881
Capital assets being depreciated:					
Building and improvements	\$ 4,413,869	\$ -	\$ -	\$ -	\$ 4,413,869
Equipment and vehicles	1,616,901	236,935	65,580	6,527	1,794,783
Leasehold improvements	<u>11,895</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,895</u>
Total capital assets being depreciated	\$ 6,042,665	\$ 236,935	\$ 65,580	\$ 6,527	\$ 6,220,547
Accumulated depreciation					
Building and improvements	\$ 2,170,918	\$ 116,879	\$ -	\$ -	\$ 2,287,797
Equipment and vehicles	1,419,198	111,923	53,422	6,527	1,484,226
Leasehold improvements	<u>11,895</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>11,895</u>
Total accumulated depreciation	\$ 3,602,011	\$ 228,802	\$ 53,422	\$ 6,527	\$ 3,783,918
Net capital assets being depreciated	\$ 2,440,654	\$ 8,133	\$ 12,158	\$ -	\$ 2,436,629
Net capital assets	<u><u>\$ 2,570,535</u></u>	<u><u>\$ 8,133</u></u>	<u><u>\$ 12,158</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,566,510</u></u>

Total depreciation expense was \$228,802 for 2016 and \$206,657 for 2015.

NORTHWESTERN COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2016 (continued)

Note 6 - Operating Lease Agreements:

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

	Year Ending June 30,	
	<u>2017</u>	<u>\$ 42,742</u>
	<u>Total</u>	<u>\$ 42,742</u>

Total rental expense amounted to \$999,259 in 2016 and \$777,542 in 2015.

Note 7 - Long-term Obligations:**Compensated Absences:**

In accordance with GASB Statement 16, "*Accounting for Compensated Absences*," the Board has accrued the liability arising from outstanding claims and judgments and compensated absences.

Board employees earn leave based on length of service. No benefits or pay is received for unused sick leave upon termination by general government employees. The Board has outstanding accrued leave pay totaling \$484,152 at June 30, 2016 and \$470,267 at June 30, 2015, an increase of \$13,885. All of the leave liability is reported as current because any amounts deemed to be long-term cannot be estimated.

Long-term Obligations:

The following is a summary of long-term obligation transactions for the Board for the year ended June 30, 2016.

	Loans Payable	Net OPEB Obligation	Total
Balance, July 1, 2015	\$ 1,901,953	\$ 572,454	\$ 2,474,407
Issuances/additions	-	73,468	73,468
Retirement/decreases	<u>(148,135)</u>	<u>-</u>	<u>(148,135)</u>
Balance, June 30, 2016	<u>\$ 1,753,818</u>	<u>\$ 645,922</u>	<u>\$ 2,399,740</u>

NORTHWESTERN COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2016 (continued)

Note 7 - Long-term Obligations: (continued)Long-term Obligations: (continued)

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

Fiscal Year	Principal	Interest
2017	\$ 166,510	\$ 85,186
2018	175,245	76,451
2019	647,682	54,336
2020	91,287	35,709
2021	95,942	31,054
2022-2026	467,636	81,890
2027-2028	109,516	3,597
Total	<u>\$ 1,753,818</u>	<u>\$ 368,223</u>

Details of Long-Term Debt:

Loans payable:

	Balance Due	Current Portion
Rural Economic Development Administration (FmHA):		
Secured by real estate located in New Market, Virginia:		
Original amount of \$79,900, interest at 5%, payments of \$436 per month, including principal and interest, matures in 2024	\$ 33,365	\$ 3,647
Original amount of \$466,000, interest at 5.25%, payments of \$2,615 per month, including principal and interest, matures in 2024	197,586	21,520
Secured by real estate located in Front Royal, Virginia:		
Original amount of \$1,400,000, payments of \$7,532 per month, including principal and interest, interest at 4.875%, matures in 2027	781,564	53,467
BB&T Bank:		
Secured by real estate located in Front Royal, Virginia:		
Original amount of \$1,787,000, modified on 7/27/15 to monthly payments of \$10,392 including principal and interest, interest at the Bank's Prime Rate plus 1.00% per annum to be adjusted daily, not to decrease below a fixed rate of 5.25% or exceed a fixed maximum rate of 30.00%, through 1/27/16 at which time the loan was modified with the same payment and interest terms for 36 monthly payments, with one final payment due on February 5, 2019	741,303	87,876
Total loans payable	<u>\$ 1,753,818</u>	<u>\$ 166,510</u>

The Board is in compliance with federal arbitrage regulations.

NORTHWESTERN COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2016 (continued)

Note 8 - Unsecured Line of Credit:

The Board has an available unsecured line of credit with BB&T Bank of Winchester in the amount of \$500,000. There is no outstanding balance at June 30, 2016 and there was no activity on the line of credit during the year.

Note 9 - Funding from Participant Localities:

The Board received appropriations from the participant localities as follows:

	<u>2016</u>	<u>2015</u>
County of Clarke	\$ 88,000	\$ 85,000
County of Frederick	318,000	318,000
County of Page	74,655	74,655
County of Shenandoah	240,646	240,646
County of Warren	275,100	262,000
City of Winchester	192,472	183,307
Total	<u>\$ 1,188,873</u>	<u>\$ 1,163,608</u>

Note 10 - Pension Plan:

Plan Description:

All full-time, salaried permanent employees of the Board are automatically covered by 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.

NORTHWESTERN COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2016 (continued)

Note 10 - Pension Plan:

Plan Description: (Continued)

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

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013.	About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. Employees are eligible for Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013.	About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. Most members hired on or after January 1, 2014 are in this plan, as well as Plan 1 and Plan 2 members who were eligible and opted into the plan during a special election window. (see "Eligible Members") • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • In addition to the monthly benefit payment payable from the defined benefit plan at retirement, a member may start receiving distributions from the balance in the defined contribution account, reflecting the contributions, investment gains or losses, and any required fees.

NORTHWESTERN COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2016 (continued)

Note 10 - Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Eligible Members Employees are in Plan 1 if their membership date is before July 1, 2010, and they were vested as of January 1, 2013. Hybrid Opt-In Election VRS non-hazardous duty covered Plan 1 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.	Eligible Members Employees are in Plan 2 if their membership date is on or after July 1, 2010, or their membership date is before July 1, 2010, and they were not vested as of January 1, 2013. Hybrid Opt-In Election Eligible Plan 2 members were allowed to make an irrevocable decision to opt into the Hybrid Retirement Plan during a special election window held January 1 through April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 2 members who opted in was July 1, 2014. If eligible deferred members returned to work during the election window, they were also eligible to opt into the Hybrid Retirement Plan. Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.	Eligible Members Employees are in the Hybrid Retirement Plan if their membership date is on or after January 1, 2014. This includes: • Political subdivision employees* • Members in Plan 1 or Plan 2 who elected to opt into the plan during the election window held January 1-April 30, 2014; the plan's effective date for opt-in members was July 1, 2014. *Non-Eligible Members Some employees are not eligible to participate in the Hybrid Retirement Plan. They include: • Political subdivision employees who are covered by enhanced benefits for hazardous duty employees. Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.

NORTHWESTERN COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2016 (continued)

Note 10 - Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.	Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Some political subdivisions elected to phase in the required 5% member contribution but all employees will be paying the full 5% by July 1, 2016.	Retirement Contributions A member's retirement benefit is funded through mandatory and voluntary contributions made by the member and the employer to both the defined benefit and the defined contribution components of the plan. Mandatory contributions are based on a percentage of the employee's creditable compensation and are required from both the member and the employer. Additionally, members may choose to make voluntary contributions to the defined contribution component of the plan, and the employer is required to match those voluntary contributions according to specified percentages.
Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward	Creditable Service Same as Plan 1.	Creditable Service <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their

NORTHWESTERN COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2016 (continued)

Note 10 - Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Creditable Service (Cont.) eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit.	Creditable Service (Cont.) Same as Plan 1.	Creditable Service (Cont.) <u>Defined Benefit Component:</u> eligibility for retirement and to calculate their retirement benefit. It also may count toward eligibility for the health insurance credit in retirement, if the employer offers the health insurance credit. <u>Defined Contributions Component:</u> Under the defined contribution component, creditable service is used to determine vesting for the employer contribution portion of the plan.
Vesting Vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members become vested when they have at least five years (60 months) of creditable service. Vesting means members are eligible to qualify for retirement if they meet the age and service requirements for their plan. Members also must be vested to receive a full refund of their member contribution account balance if they leave employment and request a refund. Members are always 100% vested in the contributions that they make.	Vesting Same as Plan 1	Vesting <u>Defined Benefit Component:</u> Defined benefit vesting is the minimum length of service a member needs to qualify for a future retirement benefit. Members are vested under the defined benefit component of the Hybrid Retirement Plan when they reach five years (60 months) of creditable service. Plan 1 or Plan 2 members with at least five years (60 months) of creditable service who opted into the Hybrid Retirement Plan remain vested in the defined benefit component.

NORTHWESTERN COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2016 (continued)

Note 10 - Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Vesting (Cont.)	Vesting (Cont.)	Vesting (Cont.) <u>Defined Contributions Component:</u> Defined contribution vesting refers to the minimum length of service a member needs to be eligible to withdraw the employer contributions from the defined contribution component of the plan. Members are always 100% vested in the contributions that they make. Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service. • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. Distribution is not required by law until age 70½.

NORTHWESTERN COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2016 (continued)

Note 10 - Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement. An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	Calculating the Benefit See definition under Plan 1.	Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1 <u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.	Service Retirement Multiplier VRS: Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.	Service Retirement Multiplier <u>Defined Benefit Component:</u> VRS: The retirement multiplier for the defined benefit component 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.

NORTHWESTERN COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2016 (continued)

Note 10 - Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.	Sheriffs and regional jail superintendents: Same as Plan 1. Political subdivision hazardous duty employees: Same as Plan 1.	Sheriffs and regional jail superintendents: Not applicable. Political subdivision hazardous duty employees: Not applicable. Defined Contribution Component: Not applicable.
Normal Retirement Age VRS: Age 65. Political subdivisions hazardous duty employees: Age 60.	Normal Retirement Age VRS: Normal Social Security retirement age. Political subdivisions hazardous duty employees: Same as Plan 1.	Normal Retirement Age <u>Defined Benefit Component:</u> VRS: Same as Plan 2. Political subdivisions hazardous duty employees: Not applicable. <u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.

NORTHWESTERN COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2016 (continued)

Note 10 - Pension Plan: (Continued)

Plan Description (Continued)

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

NORTHWESTERN COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2016 (continued)

Note 10 - Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 3% increase in the Consumer Price Index for all Urban Consumers (CPI-U) and half of any additional increase (up to 4%) up to a maximum COLA of 5%. <u>Eligibility:</u> For members who retire with an unreduced benefit or with a reduced benefit with at least 20 years of creditable service, the COLA will go into effect on July 1 after one full calendar year from the retirement date. For members who retire with a reduced benefit and who have less than 20 years of creditable service, the COLA will go into effect on July 1 after one calendar year following the unreduced retirement eligibility date. <u>Exceptions to COLA Effective Dates:</u> The COLA is effective July 1 following one full calendar year (January 1 to December 31) under any of the following circumstances: • The member is within five years of qualifying for an unreduced retirement benefit as of January 1, 2013. • The member retires on disability.	Cost-of-Living Adjustment (COLA) in Retirement The Cost-of-Living Adjustment (COLA) matches the first 2% increase in the CPI-U and half of any additional increase (up to 2%), for a maximum COLA of 3%. <u>Eligibility:</u> Same as Plan 1. <u>Exceptions to COLA Effective Dates:</u> Same as Plan 1.	Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2. <u>Defined Contribution Component:</u> Not applicable. <u>Eligibility:</u> Same as Plan 1 and Plan 2. <u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2

NORTHWESTERN COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2016 (continued)

Note 10 - Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Cost-of-Living Adjustment (COLA) in Retirement (Cont.) <u>Exceptions to COLA Effective Dates: (Cont.)</u> • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins.	Cost-of-Living Adjustment (COLA) in Retirement (Cont.) <u>Exceptions to COLA Effective Dates: (Cont.)</u> Same as Plan 1	Cost-of-Living Adjustment (COLA) in Retirement (Cont.) <u>Exceptions to COLA Effective Dates: (Cont.)</u> Same as Plan 1 and Plan 2.
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service,	Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service,	Disability Coverage Employees of political subdivisions (including Plan 1 and Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local

NORTHWESTERN COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2016 (continued)

Note 10 - Pension Plan: (Continued)

Plan Description (Continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Disability Coverage (Cont.) regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	Disability Coverage (Cont.) regardless of when it was earned, purchased or granted. VSDP members are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.	Disability Coverage (Cont.) governing body provides an employer-paid comparable program for its members. Hybrid members (including Plan 1 and Plan 2 opt-ins) covered under VLDP are subject to a one-year waiting period before becoming eligible for non-work-related disability benefits.
Purchase of Prior Service Members may be eligible to purchase service from previous public employment, active duty military service, an eligible period of leave or VRS refunded service as creditable service in their plan. Prior creditable service counts toward vesting, eligibility for retirement and the health insurance credit. Only active members are eligible to purchase prior service. When buying service, members must purchase their most recent period of service first. Members also may be eligible to purchase periods of leave without pay.	Purchase of Prior Service Same as Plan 1.	Purchase of Prior Service <u>Defined Benefit Component:</u> Same as Plan 1, with the following exceptions: •Hybrid Retirement Plan members are ineligible for ported service. •The cost for purchasing refunded service is the higher of 4% of creditable compensation or average final compensation. •Plan members have one year from their date of hire or return from leave to purchase all but refunded prior service at approximate normal cost. After that one-year period, the rate for most categories of service will change to actuarial cost. <u>Defined Contribution Component:</u> Not applicable.

NORTHWESTERN COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2016 (continued)

Note 10 - Pension Plan: (Continued)

Plan Description (Continued)

The System issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for VRS. A copy of the most recent report may be obtained from the VRS website at <http://www.varetire.org/Pdf/Publications/2015-annual-report.pdf> or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

Employees Covered by Benefit Terms

As of the June 30, 2014 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	58
Inactive members:	
Vested inactive members	53
Non-vested inactive members	94
Inactive members active elsewhere in VRS	<u>53</u>
Total inactive members	200
Active members	<u>143</u>
Total covered employees	<u><u>401</u></u>

Contributions

The contribution requirement for active employees is governed by §51.1-145 of the Code of Virginia, as amended, but may be impacted as a result of funding options provided to political subdivisions by the Virginia General Assembly. Employees are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, all or part of the 5.00% member contribution may have been assumed by the employer. Beginning July 1, 2012 new employees were required to pay the 5% member contribution. In addition, for existing employees, employers were required to begin making the employee pay the 5.00% member contribution. This could be phased in over a period of up to 5 years and the employer is required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The Board's contractually required contribution rate for the year ended June 30, 2016 was 6.39% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2013.

NORTHWESTERN COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2016 (continued)

Note 10 - Pension Plan: (Continued)

Contributions: (Continued)

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 \$397,672 and \$385,284 for the years ended June 30, 2016 and June 30, 2015, respectively.

Net Pension Asset

The Board's net pension asset was measured as of June 30, 2015. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation performed as of June 30, 2014, using updated actuarial assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2015.

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, 2014, 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, 2015.

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: 14% of deaths are assumed to be service related

Largest 10 – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

NORTHWESTERN COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2016 (continued)

Note 10 - Pension Plan: (Continued)

Actuarial Assumptions - General Employees (Continued)

Post- Largest 10 – Non-LEOS: (Continued)

Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

All Others (Non 10 Largest) – Non-LEOS:

Pre-Retirement:

RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years

Post-Retirement:

RP-2000 Combined Mortality Table Projected with Scale AA to 2020 with males set forward 1 year

Post-Disablement:

RP-2000 Disability Life Mortality Table Projected to 2020 with males set back 3 years and no provision for future mortality improvement

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the period from July 1, 2008 through June 30, 2012. Changes to the actuarial assumptions as a result of the experience study are as follows:

Largest 10 – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

NORTHWESTERN COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2016 (continued)

Note 10 - Pension Plan: (Continued)

Long-Term Expected Rate of Return

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

Asset Class (Strategy)	Target Allocation	Arithmetic Long-Term Expected Rate of Return	Weighted Average Long-Term Expected Rate of Return
U.S. Equity	19.50%	6.46%	1.26%
Developed Non U.S. Equity	16.50%	6.28%	1.04%
Emerging Market Equity	6.00%	10.00%	0.60%
Fixed Income	15.00%	0.09%	0.01%
Emerging Debt	3.00%	3.51%	0.11%
Rate Sensitive Credit	4.50%	3.51%	0.16%
Non Rate Sensitive Credit	4.50%	5.00%	0.23%
Convertibles	3.00%	4.81%	0.14%
Public Real Estate	2.25%	6.12%	0.14%
Private Real Estate	12.75%	7.10%	0.91%
Private Equity	12.00%	10.41%	1.25%
Cash	1.00%	-1.50%	-0.02%
Total	100.00%		5.83%
		Inflation	2.50%
		*Expected arithmetic nominal return	8.33%

* Using stochastic projection results provides an expected range of real rates of return over various time horizons. Looking at one year results produces an expected real return of 8.33% but also has a high standard deviation, which means there is high volatility. Over larger time horizons the volatility declines significantly and provides a median return of 7.44%, including expected inflation of 2.50%.

NORTHWESTERN COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2016 (continued)

Note 10 - Pension Plan: (Continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2018, the rate contributed by the employer for the Board Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2018 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2014	\$ 18,646,646	\$ 19,099,791	\$ (453,145)
Changes for the year:			
Service cost	\$ 657,547	\$ -	\$ 657,547
Interest	1,282,594	-	1,282,594
Differences between expected and actual experience	(358,226)	-	(358,226)
Contributions - employer	-	396,000	(396,000)
Contributions - employee	-	321,755	(321,755)
Net investment income	-	880,885	(880,885)
Benefit payments, including refunds of employee contributions	(647,749)	(647,749)	-
Administrative expenses	-	(11,794)	11,794
Other changes	-	(187)	187
Net changes	\$ 934,166	\$ 938,910	\$ (4,744)
Balances at June 30, 2015	\$ 19,580,812	\$ 20,038,701	\$ (457,889)

NORTHWESTERN COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2016 (continued)

Note 10 - Pension Plan: (Continued)***Sensitivity of the Net Pension Liability (Asset) to Changes in the Discount Rate***

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

	Rate		
	(6.00%)	(7.00%)	(8.00%)
Board's Net Pension			
Liability (Asset)	\$ 2,235,465	\$ (457,889)	\$ (2,677,514)

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

For the year ended June 30, 2016, the Board recognized pension expense of (\$25,836). At June 30, 2016, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 238,817
Net difference between projected and actual earnings on pension plan investments	-	501,705
Employer contributions subsequent to the measurement date	397,672	-
Total	\$ 397,672	\$ 740,522

\$397,672 reported as deferred outflows of resources related to pensions resulting from the Board's contributions subsequent to the measurement date will be recognized as an addition to the Net Pension Asset in the fiscal year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year ended June 30</u>	
2017	\$ (317,187)
2018	(317,186)
2019	(197,776)
2020	91,627

NORTHWESTERN COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2016 (continued)

Note 11 - Risk Management:

The Board has contracted with insurance carriers for property damage and liability, workers compensation, directors and officer liability and professional liability coverage. Coverage is \$7,000,000 for directors and officers and professional liability policies. Workers compensation coverage is for statutory amounts. There is no surety bond coverage required or purchased for members of the Board of Directors. The Board also has crime coverage packages totaling \$237,000. There have been no settlements which exceeded insurance coverage in the past three years. The Board retains the risk of deductibles on each policy plus any settlements over insurance coverage limits.

Note 12 - Commitments and Contingencies:

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

Note 13 - Deferred Compensation Plan:

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

Note 14 - Other Postemployment Benefits:

A. Plan Description:

In addition to the pension benefits described in Note 10, the Board pays a portion of the cost of health related insurance benefits to all employees who retire from the Board and have worked for the Board for at least 15 years and retire under the Virginia Retirement system. The benefits are comprised of health related group insurance policies through which retirees and their spouses can obtain coverage. Once the retirees reach age 65 or are eligible for Medicare they are not entitled to these benefits. There were no retirees covered by this plan at June 30, 2016.

B. Funding Policy:

The Board establishes the employer contribution rates and how the plan will be funded as part of the annual budget process. The plan specifies that the Board will make explicit contributions of 50% of the retiree-only premium for all eligible retirees. Various amounts are paid by the Board depending on the status of each plan participant. There were no monthly payments in fiscal year 2016. The Board is on a pay-as-you go basis and has not funded the plan.

NORTHWESTERN COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2016 (continued)

Note 14 - Other Postemployment Benefits: (continued)**C. Annual OPEB Cost and Net OPEB Obligation:**

The annual cost of other postemployment benefits (OPEB) under Governmental Accounting Standards Board (GASB) Statement No. 45 is based on the annual required contribution (ARC). The estimated pay as you go cost for OPEB benefits is \$73,468 for fiscal year 2016. The Board paid \$0 toward this obligation in fiscal year 2016. The ARC is an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The following table shows the components of the Board's annual OPEB cost for the year, the estimated contributions to the Plan, and changes in the Board's net OPEB obligation to the Plan:

Annual Required Contribution (ARC)	\$	74,600
Interest on OPEB Obligation		20,036
Adjustment to ARC		(21,168)
Annual OPEB Cost	\$	73,468
Contributions Made During FY16		-
Increase in Net OPEB Obligation	\$	73,468
Net OPEB Obligation - beginning of year		572,454
Net OPEB Obligation - end of year	\$	645,922

For fiscal year 2016 the Board's expected cash payment of \$0 was \$73,468 short of the OPEB cost of \$73,468. The Board's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2016 and the two preceding years are as follows:

Fiscal Year Ended	Annual OPEB Cost	Amount of OPEB Cost Paid	Percentage of OPEB cost Paid	Net OPEB Obligation
June 30, 2016	\$ 73,468	\$ -	0%	\$ 645,922
June 30, 2015	108,200	-	0%	572,454
June 30, 2014	101,900	-	0%	464,254

NORTHWESTERN COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2016 (continued)

Note 14 - Other Postemployment Benefits: (continued)

D. Funded Status and Funding Progress:

The funded status of the plan as of July 1, 2015, the last actuarial valuation date, is as follows:

Actuarial accrued liability (AAL)	\$	643,600
Actuarial value of plan assets (AAV)		-
Unfunded actuarial liability (UAAL)		643,600
Funded ratio (actuarial value of plan assets/AAL)		0.00%
Current payroll (active plan members)		6,724,600
UAAL as a percentage of covered payroll		9.57%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revisions as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

E. Actuarial Methods and Assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefits costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Actuarial Cost Method:

The cost method for valuation of liabilities used for this valuation is the entry age normal method. Under this method, an individual entry age normal cost ratio is determined for each participant by taking the value, as of his entry age in the plan, of the participant's projected future benefits (assuming the current plan benefit provisions had always been in existence), and dividing it by the value, as of the participant's entry age, of his expected future service. This ratio for each participant is then multiplied by the present value, as of the valuation date, of the participant's future service. The sum of these values for all active participants is the plan's present value (as of the valuation date) of future normal costs. The excess of the present value of all plan benefits over the present value of future normal costs is the actuarial liability. The difference between the actuarial liability and the value of the plan assets as of the valuation date is the unfunded actuarial liability.

NORTHWESTERN COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2016 (continued)

Note 14 - Other Postemployment Benefits: (continued)

E. Actuarial Methods and Assumptions: (continued)

Actuarial Cost Method: (continued)

The annual unfunded actuarial liability is amortized over 30 years as a level percent of payroll using a 3.00% payroll growth assumption. The annual normal cost and the unfunded actuarial liability amortization payment are adjusted to reflect that the contribution payments are made evenly throughout the year. The sum of the normal cost and the amortization payment equal the annual required contribution under GASB Statement No. 45.

Asset Valuation Method:

The plan is currently funded on a pay-as-you-go basis, so the plan has no assets.

Interest Assumptions:

Discount rate – 3.50% (unfunded)
Inflation – 2.50%

Medical Trend Rate:

Average medical costs and premiums are assumed to increase 6.40%. The trend rate decreases until an ultimate rate of 4.60% is reached.

Note 15 - Adoption of Accounting Principles:

Governmental Accounting Standards Board Statement No. 79, *Certain External Investment Pools and Pool Participants*

The Board implemented the provisions of the above Statement during the fiscal year ended June 30, 2016. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. There was no material impact on the Board's financial statement as a result of the implementation of Statement No. 79. All required disclosures are located in Note 3.

NORTHWESTERN COMMUNITY SERVICES BOARD

Notes to Financial Statements
As of June 30, 2016 (continued)

Note 15 - Adoption of Accounting Principles: (continued)

Governmental Accounting Standards Board Statement No. 82, *Pension Issues - an amendment of GASB Statements No. 67, No. 68, and No. 73*

The Board early implemented provisions of the above Statement during the fiscal year ended June 30, 2016. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. No restatement was required as a result of this implementation.

Note 16 - Upcoming Pronouncements:

Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, improves the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No. 50, *Pension Disclosures*. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016.

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*, improves accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans. This Statement is effective for fiscal years beginning after June 15, 2017.

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

- Required Supplementary Information -

NORTHWESTERN COMMUNITY SERVICES BOARD

Schedule of Components of and Changes in Net Pension Asset and Related Ratios Year Ended June 30, 2016

	2015	2014
Total pension liability		
Service cost	\$ 657,547	\$ 702,987
Interest	1,282,594	1,192,464
Differences between expected and actual experience	(358,226)	-
Benefit payments, including refunds of employee contributions	(647,749)	(568,024)
Net change in total pension liability	\$ 934,166	\$ 1,327,427
Total pension liability - beginning	18,646,646	17,319,219
Total pension liability - ending (a)	<u>\$ 19,580,812</u>	<u>\$ 18,646,646</u>
Plan fiduciary net position		
Contributions - employer	\$ 396,000	\$ 464,928
Contributions - employee	321,755	373,185
Net investment income	880,885	2,593,479
Benefit payments, including refunds of employee contributions	(647,749)	(568,024)
Administrative expense	(11,794)	(13,607)
Other	(187)	136
Net change in plan fiduciary net position	\$ 938,910	\$ 2,850,097
Plan fiduciary net position - beginning	19,099,791	16,249,694
Plan fiduciary net position - ending (b)	<u>\$ 20,038,701</u>	<u>\$ 19,099,791</u>
Board's net pension liability (asset) - ending (a) - (b)	\$ (457,889)	\$ (453,145)
Plan fiduciary net position as a percentage of the total pension liability	102.34%	102.43%
Covered payroll	\$ 6,133,171	\$ 6,684,098
Board's net pension liability (asset) as a percentage of covered payroll	-7.47%	-6.78%

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

NORTHWESTERN COMMUNITY SERVICES BOARD

Schedule of Employer Contributions Year Ended June 30, 2016

Date	Contributions in Relation to				Contributions as a % of	
	Contractually Required Contribution (1)	Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Covered Payroll (5)	
2016	\$ 397,672	\$ 397,672	\$ -	\$ 6,223,354	6.39%	
2015	391,910	391,910	-	6,133,171	6.39%	
2014	465,882	465,882	-	6,684,098	6.97%	
2013	453,951	453,951	-	6,512,921	6.97%	
2012	223,324	223,324	-	5,987,240	3.73%	
2011	204,177	204,177	-	5,473,917	3.73%	
2010	124,968	124,968	-	5,039,031	2.48%	
2009	125,272	125,272	-	5,051,307	2.48%	
2008	112,029	112,029	-	4,746,992	2.36%	
2007	104,105	104,105	-	4,411,235	2.36%	

NORTHWESTERN COMMUNITY SERVICES BOARD

Notes to Required Supplementary Information Year Ended June 30, 2016

In 2015, Covered Employee Payroll (as defined by GASB 68) included the total payroll for employees covered under the pension plan whether that payroll is subject to pension coverage or not. This definition was modified in GASB Statement No. 82 and now is the payroll on which contributions to a pension plan are based. The ratios presented use the same measure.

Changes of benefit terms – There have been no actuarially material changes to the System benefit provisions since the prior actuarial valuation. The 2014 valuation includes Hybrid Retirement Plan members for the first time. The hybrid plan applies to most new employees hired on or after January 1, 2014 and not covered by enhanced hazardous duty benefits. Because this was a new benefit and the number of participants was relatively small, the impact on the liabilities as of the measurement date of June 30, 2015 is not material.

Changes of assumptions – The following changes in actuarial assumptions were made effective June 30, 2013 based on the most recent experience study of the System for the four-year period ending June 30, 2012:

Largest 10 – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

All Others (Non 10 Largest) – Non-LEOS:

- Update mortality table
- Decrease in rates of service retirement
- Decrease in rates of disability retirement
- Reduce rates of salary increase by 0.25% per year

NORTHWESTERN COMMUNITY SERVICES BOARD

Schedule of OPEB Funding Progress

As of June 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets (AVA)	Actuarial Accrued Liability (AAL)	Unfunded Actuarial Accrued Liability (UAAL) (3)-(2)	Funded Ratio (2)/(3)	Covered Payroll	UAAL as a % of Payroll (4)/(6)
July 1, 2015	\$ -	\$ 643,600	\$ 643,600	0.00%	\$ 6,724,600	9.57%
July 1, 2012	-	778,600	778,600	0.00%	6,187,300	12.58%
July 1, 2009	-	711,700	711,700	0.00%	5,140,400	13.85%

- Compliance -

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Specifications for Audits of Authorities, Boards and Commissions*, issued by the Auditor of Public Accounts of the Commonwealth of Virginia, the financial statements of Northwestern Community Services Board, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Northwestern Community Services Board's basic financial statements and have issued our report thereon dated November 22, 2016.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Northwestern Community Services Board's internal control over financial reporting (internal control) 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 Northwestern Community Services Board's internal control. Accordingly, we do not express an opinion on the effectiveness of Northwestern Community Services Board's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Northwestern Community Services Board's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the 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 Northwestern Community Services Board's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northwestern Community Services Board's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Robinson, Fawcett, Cox Associates

Charlottesville, Virginia

November 22, 2016

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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

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

Report on Compliance for Each Major Federal Program

We have audited Northwestern Community Services Board's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Northwestern Community Services Board's major federal programs for the year ended June 30, 2016. Northwestern Community Services Board's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Northwestern Community Services Board's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Northwestern Community Services Board's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, Northwestern Community Services Board complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

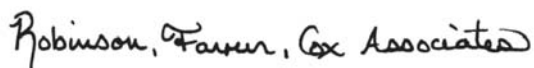
Report on Internal Control over Compliance

Management of Northwestern Community Services Board is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Northwestern Community Services Board's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Northwestern Community Services Board's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or 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.



Charlottesville, Virginia
November 22, 2016

NORTHWESTERN COMMUNITY SERVICES BOARD

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Total Federal Expenditures
<u>Department of Housing and Urban Development</u>			
Pass-Through Payments:			
Virginia Department of Behavioral Health and Developmental Services:			
Shelter Plus Care	14.238	N/A	\$ 349,823
Total Department of Housing and Urban Development			\$ 349,823
<u>Department of Health and Human Services</u>			
Direct payments:			
Drug-Free Communities Support Program Grants	93.276		\$ 47,805
Pass-Through Payments:			
Virginia Department of Behavioral Health and Developmental Services:			
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	N/A	16,052
Block Grants for Community Mental Health Services	93.958	50120	56,378
Block Grants for Prevention and Treatment of Substance Abuse	93.959	50190	802,578
Total Department of Health and Human Services			\$ 922,813
Total expenditures of federal awards			\$ 1,272,636

N/A = Not available

Notes to Schedule of Expenditures of Federal Awards

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal grant activity of the Northwestern Community Services Board under programs of the federal government for the year ended June 30, 2016. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Northwestern Community Services Board, it is not intended to and does not present the financial position, changes in net position, or cash flows of Northwestern Community Services Board.

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 and/or OMB Circular A-87, *Cost Principles for States, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited to reimbursement.

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

Note C - Subrecipients

No awards were passed through to subrecipients.

Note D - Items not included in the Schedule

USDA Rural Development loan balances at June 30, 2016 for which only the payment of debt service is the primary compliance requirement.

\$ 1,012,515

Note E - Reconciliation of the Schedule of Expenditures of Federal Awards to federal revenues reported on the Statement of Revenues, Expenses and Changes in Net Position

Federal revenue reported	\$ 1,238,683
Reconciling items:	
Expenditure of carryover funds	56,677
Unexpended current year funds	(63,948)
Revenue recognition timing differences	41,224
Total expenditures of federal awards	\$ 1,272,636

NORTHWESTERN COMMUNITY SERVICES BOARD

Schedule of Findings and Questioned Costs
Year Ended June 30, 2016

Section I - Summary of Auditors' Results

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)?	No
Identification of major programs:	
CFDA # Name of Federal Program or Cluster	
93.959 Block Grants for the Prevention and Treatment of Substance Abuse	
Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee?	Yes

Section II - Financial Statement Findings

There are no financial statement findings to report.

Section III - Federal Award Findings and Questioned Costs

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

NORTHWESTERN COMMUNITY SERVICES BOARD

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2016

There were no items reported.