
NORTHWESTERN COMMUNITY SERVICES BOARD

FRONT ROYAL, VIRGINIA

FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2018

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

Audrey Brown

Rebecca Cooper

Sandra Dunkle

Suetta Freeman

Linda Gray

Lucille Harris

Rev. David Howard

Lisa Hyde

Irina Khanin

Guss Morrison

Dr. Philip Pate

Debroah Rockwell

Gina Stetter

Vacancy

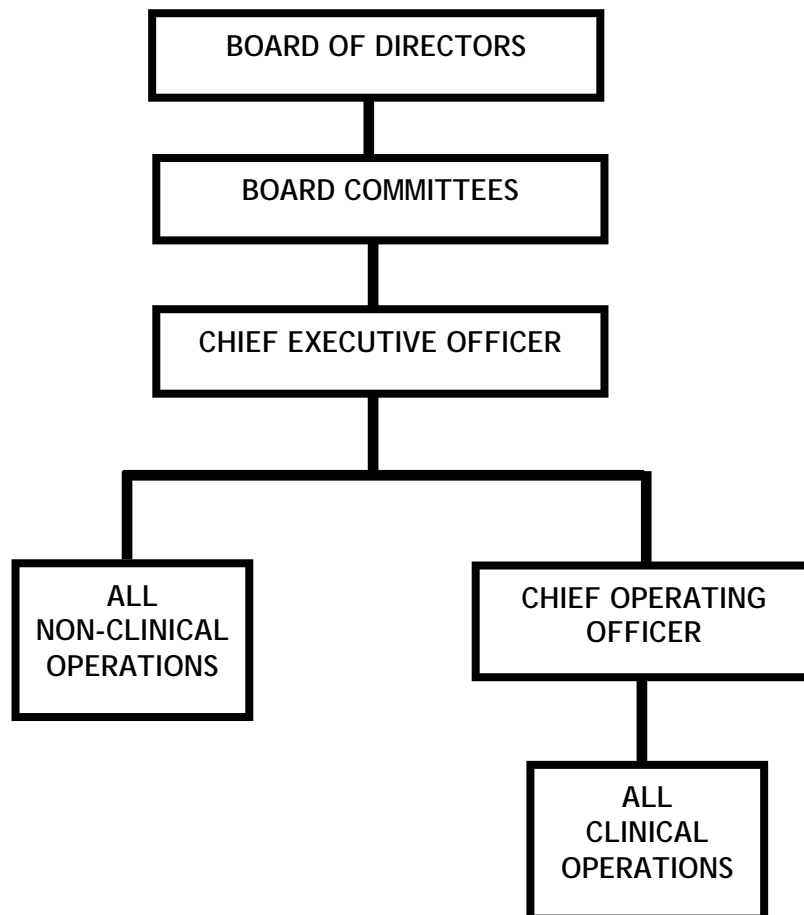
PRINCIPAL MANAGEMENT TEAM

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 the business-type activities of Northwestern Community Services Board, as of and for the year ended June 30, 2018, 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, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules related to pension and OPEB funding on pages 4-6 and 65-74 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.

Change in Accounting Principle

As described in Note 17 to the financial statements, in 2018, the Board adopted new accounting guidance, GASB Statement Nos. 75 *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* and 85 *Omnibus 2017*. Our opinion is not modified with respect to this matter.

Restatement of Beginning Balances

As described in Note 17 to the financial statements, in 2018, the Board restated beginning balances to reflect the requirements of GASB Statement No. 75. Our opinion is not modified with respect to this matter.

Supplementary Information

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

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

Report on Summarized Comparative Information

We have previously audited Northwestern Community Services Board's 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 27, 2017. In our opinion, the summarized comparative information for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2018 on our consideration of Northwestern Community Services Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Northwestern Community Services Board's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Northwestern Community Services Board's internal control over financial reporting and compliance.

Robinson, Fawcett, Cox Associates

Charlottesville, Virginia
November 16, 2018

NORTHWESTERN COMMUNITY SERVICES BOARD

Management's Discussion and Analysis Year Ended June 30, 2018

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, 2018.

Northwestern Community Services Board presents three basic financial statements for the purpose of analyzing the financial position of the NWCSB as of June 30, 2018. 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, 2018. This information is reflected on the Statement of Net Position. The excess of assets and deferred outflows of resources over liabilities and deferred inflows of resources is the net position.

Information reflecting the results of operations during the fiscal year 2018 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, 2018 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, 2018.

Financial Position: A summary of NWCSB's Statement of Net Position for fiscal years 2018 and 2017 is presented below.

Summary Statement of Net Position

	2018	2017
Current assets	\$ 4,228,572	\$ 5,139,572
Restricted assets	198,633	189,577
Other assets	433,632	-
Capital assets	2,501,378	2,571,641
Total assets	\$ 7,362,215	\$ 7,900,790
Deferred outflows of resources	\$ 447,527	\$ 974,047
Current liabilities	\$ 1,671,865	\$ 1,228,894
Long-term liabilities	1,580,688	2,838,067
Total liabilities	\$ 3,252,553	\$ 4,066,961
Deferred inflows of resources	\$ 474,587	\$ 119,408
Net position:		
Net investment in capital assets	\$ 1,088,416	\$ 984,327
Restricted	403,543	385,377
Unrestricted	2,590,643	3,318,764
Total net position	\$ 4,082,602	\$ 4,688,468

Financial Position: (continued)

The financial position of Northwestern Community Services Board is strong with net position of \$4,082,602 as of June 30, 2018. 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 2018 and 2017 is presented below.

Summary Statement of Revenues, Expenses and Changes in Net Position		
	2018	2017
Operating revenues:		
Net patient service revenue	\$ 6,541,198	\$ 5,571,889
Operating expenses	17,411,250	15,536,993
Operating income (loss)	\$ (10,870,052)	\$ (9,965,104)
Nonoperating income, net	10,373,061	10,353,981
Change in net position	\$ (496,991)	\$ 388,877

Operating income is generated from providing patient services with the majority of this income generated from Medicaid. Medicaid income represented approximately 84% of our operating income for 2018 and 91% for 2017. 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. Another factor in increased expenses was program expansion as a result of increased state funding.

Cash Flow: A summary of NWCSB's Statement of Cash Flows for fiscal years 2018 and 2017 is presented below.

Condensed Statement of Cash Flows		
	2018	2017
Cash flows provided (used) by operating activities	\$ (11,518,576)	\$ (9,932,693)
Cash flows provided (used) by noncapital and related financing activities	10,473,373	10,393,022
Cash flows provided (used) by capital and related financing activities	(466,196)	(506,091)
Cash flows provided (used) by investing activities	30,498	15,570
Net increase (decrease) in cash and cash equivalents	\$ (1,480,901)	\$ (30,192)
Cash and cash equivalents, beginning of year	4,062,673	4,092,865
Cash and cash equivalents, end of year	\$ 2,581,772	\$ 4,062,673

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

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

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

Cash flows from investing activities are comprised of interest income.

Financial Position: (continued)

During 2018, there was a decrease of \$1,480,901 in cash and cash equivalents compared to a decrease of \$30,192 in 2017. This decrease in cash was due to the changes in Medicaid billing. Effective 1/1/18 the state of Virginia went from one Managed Care Organization to six new Managed Care Organizations. DMAS mandated a 90 day continuity of care period (1/1/18-3/31/18) that required each managed care organization to lift certain edits in their systems and reimburse all providers as participating providers regardless of their status. This was done to ensure there would be no interruptions in client care. At the closing of the continuity of care period, the managed care organizations lifted these edits that had previously allowed our claims to pass through, and as a result Northwestern started to see a large number of rejected and denied claims. This also coincided with a vacancy in our reimbursement supervisor position. This left Northwestern without key expertise at a very critical time. Northwestern now has a new reimbursement supervisor who has been identifying certain trends in these denials and is making necessary configuration changes in our software system. As a result, fees due are starting to be reimbursed.

Capital Assets and Debt Administration

Capital Assets:

On June 30, 2018, NWCSB had \$2,501,378 in net capital assets. These were comprised primarily of land, buildings and improvements, and equipment and vehicles. This is a net decrease of \$70,263 from 2017, which resulted from depreciation expense offsetting the new additions. New additions included eleven vehicles and polycom conference equipment. Three fully depreciated vehicles were traded in on the new vehicles.

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

Long-term Debt:

Long-term debt as of June 30, 2018 is \$1,412,962. 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 \$179,278. 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 \$671,972 and the second note is with BB&T Bank with a balance of \$561,712. Long-term debt is not expected to increase in fiscal year 2018 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 2019

During fiscal year 2018, NWCSB continued to review and adjust its operations to include enhancement of third party reimbursements. Northwestern continues to adjust to Medicaid's movement to managed care organizations. In fiscal year 2018 the state of Virginia went from one managed care organization to six. Fiscal year 2019 will continue to be a year of change that will impact operations for Northwestern Community Services Board. With the start of Medicaid expansion and the continued work with six managed care organizations Northwestern Community Services Board will work diligently to carefully plan and implement needed changes in order to operate at a high level.

Requests for Information:

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

- Basic Financial Statements -

NORTHWESTERN COMMUNITY SERVICES BOARD

Statement of Net Position
As of June 30, 2018
(With Comparative Totals for 2017)

	2018	2017
Assets		
Current Assets:		
Cash and cash equivalents	\$ 2,383,139	\$ 3,873,096
Accounts receivable, less allowance for uncollectibles	1,536,536	963,353
Due from other governments	5,833	105,545
Prepaid items	303,064	197,578
Total current assets	\$ 4,228,572	\$ 5,139,572
Restricted Assets:		
Cash and cash equivalents - debt reserve accounts	\$ 198,633	\$ 189,577
Other Assets:		
Net pension asset	\$ 433,632	\$ -
Capital Assets:		
Property and equipment, less accumulated depreciation	\$ 2,501,378	\$ 2,571,641
Total assets	\$ 7,362,215	\$ 7,900,790
Deferred Outflows of Resources		
Items related to measurement of net pension asset	\$ 379,603	\$ 974,047
Items related to measurement of net OPEB liabilities	67,924	-
Total deferred outflows of resources	\$ 447,527	\$ 974,047
Liabilities		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 449,498	\$ 546,241
Accrued interest	3,691	3,983
Compensated absences	570,106	503,425
Loans payable, current portion	648,570	175,245
Total current liabilities	\$ 1,671,865	\$ 1,228,894
Long-term Liabilities:		
Loans payable, less current portion	\$ 764,392	\$ 1,412,069
Net OPEB liabilities	816,296	723,143
Net pension liability	-	702,855
Total long-term liabilities	\$ 1,580,688	\$ 2,838,067
Total liabilities	\$ 3,252,553	\$ 4,066,961
Deferred Inflows of Resources		
Items related to measurement of net pension asset	\$ 405,049	\$ 119,408
Items related to measurement of net OPEB liabilities	69,538	-
Total deferred inflows of resources	\$ 474,587	\$ 119,408
Net Position		
Net investment in capital assets	\$ 1,088,416	\$ 984,327
Restricted for debt service	198,633	189,577
Restricted for unexpended grant funds	204,910	195,800
Unrestricted	2,590,643	3,318,764
Total net position	\$ 4,082,602	\$ 4,688,468

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, 2018

(With Comparative Totals for 2017)

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Net patient service revenue	\$ 6,541,198	\$ 5,571,889
Operating expenses:		
Salaries and benefits	\$ 11,311,678	\$ 9,950,665
Staff development	109,088	85,512
Facility	1,903,078	1,778,420
Supplies	650,705	492,257
Travel	222,215	216,497
Contractual and consulting	2,390,377	2,373,749
Depreciation	286,516	250,763
Other	537,593	389,130
Total operating expenses	\$ 17,411,250	\$ 15,536,993
Operating income (loss)	\$ (10,870,052)	\$ (9,965,104)
Nonoperating income (expense):		
Grants:		
Commonwealth of Virginia	\$ 7,153,132	\$ 7,719,439
Federal government	1,668,153	1,251,735
Local governments	1,320,261	1,241,425
Interest income	30,498	15,570
Other	276,315	209,026
Gain on asset disposal	1,754	1,500
Interest expense	(77,052)	(84,714)
Net nonoperating income (expense)	\$ 10,373,061	\$ 10,353,981
Change in net position	\$ (496,991)	\$ 388,877
Net position, beginning of year	4,688,468	4,299,591
Restatement	\$ (108,875)	\$ -
Net position, beginning of year, as restated	\$ 4,579,593	\$ 4,299,591
Net position, end of year	\$ 4,082,602	\$ 4,688,468

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, 2018 (With Comparative Totals for 2017)

	2018	2017
Cash flows from operating activities:		
Receipts from customers	\$ 6,012,215	\$ 5,299,050
Payments to suppliers	(5,890,681)	(5,274,197)
Payments to and for employees	(11,640,110)	(9,957,546)
Total cash flows provided by (used for) operating activities	\$ (11,518,576)	\$ (9,932,693)
Cash flows from noncapital and related financing activities:		
Government grants	\$ 10,197,058	\$ 10,183,996
Other	276,315	209,026
Total cash flows provided by (used for) noncapital financing activities	\$ 10,473,373	\$ 10,393,022
Cash flows from capital and related financing activities:		
Purchase of capital assets	\$ (214,500)	\$ (254,394)
Interest on long-term debt	(77,344)	(85,193)
Principal payments on mortgages and loans payable	(174,352)	(166,504)
Total cash flows provided by (used for) capital and related financing activities	\$ (466,196)	\$ (506,091)
Cash flows from investing activities:		
Interest income	\$ 30,498	\$ 15,570
Net increase (decrease) in cash and cash equivalents	\$ (1,480,901)	\$ (30,192)
Cash and cash equivalents, beginning of year	<u>4,062,673</u>	<u>4,092,865</u>
Cash and cash equivalents, end of year	<u>\$ 2,581,772</u>	<u>\$ 4,062,673</u>
Summary of cash and cash equivalents:		
Unrestricted	\$ 2,383,139	\$ 3,873,096
Restricted	198,633	189,577
Total cash and cash equivalents	<u>\$ 2,581,772</u>	<u>\$ 4,062,673</u>
Cash flows from operating activities:		
Operating income (loss)	\$ (10,870,052)	\$ (9,965,104)
Adjustments to reconcile operating income (loss) to cash provided by (used for) operating activities:		
Depreciation	286,516	250,763
Changes in assets, liabilities, and deferred inflows/outflows of resources:		
Accounts receivable	(573,183)	(263,239)
Due from other governments	44,200	(9,600)
Prepaid items	(105,486)	(2,068)
Net pension asset	(433,632)	457,889
Deferred outflows related to measurement of net pension asset	594,444	112,802
Deferred outflows related to measurement of net OPEB liabilities	(23,429)	(689,177)
Accounts payable and accrued expenses	(96,743)	(3,194)
Compensated absences	66,681	19,273
Net OPEB obligation	-	77,221
Net pension liability	(702,855)	702,855
Net OPEB liabilities	(60,216)	-
Deferred inflows related to measurement of net pension asset	285,641	(621,114)
Deferred inflows related to measurement of net OPEB liabilities	69,538	-
Net cash provided by (used for) operating activities	<u>\$ (11,518,576)</u>	<u>\$ (9,932,693)</u>
Noncash capital activities:		
Trade-in of vehicles	\$ 1,754	\$ 1,500

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, 2018

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 organizations or entities have been included as part of the reporting entity.

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

C. Financial Statement Presentation:

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

D. Basis of Accounting:

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

E. Use of Estimates:

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

F. Cash and Cash Equivalents:

The Board maintains cash accounts with financial institutions in accordance with the Virginia Security for Public Deposits Act of the Code of Virginia. The Act requires financial institutions to meet specific collateralization requirements. Cash and cash equivalents include 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, 2018 (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 \$198,633 and \$189,577 for 2018 and 2017, 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. Prepays:

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

J. Client Fees and Allowance for Uncollectible Accounts:

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

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

A significant majority of fees billed and collected result from Medicaid billings. Account balances in arrears for greater than 150 days are deemed uncollectible. An allowance for doubtful client accounts has been estimated by management to approximate \$1,592,708 at June 30, 2018 and \$890,744 at June 30, 2017.

K. 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.

NORTHWESTERN COMMUNITY SERVICES BOARD

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

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

K. Capital Assets: (continued)

Estimated useful lives of capital assets are as follows:

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

L. Deferred Outflows/Inflows of Resources:

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

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

M. Pensions:

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

NORTHWESTERN COMMUNITY SERVICES BOARD

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

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

N. Other Postemployment Benefits (OPEB):

Group Life Insurance:

The Virginia Retirement System (VRS) Group Life Insurance (GLI) Program provides coverage to state employees, teachers, and employees of participating political subdivisions. The GLI Program was established pursuant to §51.1-500 et seq. of the Code of Virginia, as amended, and which provides the authority under which benefit terms are established or may be amended. The GLI Program is a defined benefit plan that provides a basic group life insurance benefit for employees of participating employers. For purposes of measuring the net GLI Program OPEB liability, deferred outflows of resources and deferred inflows of resources related to the GLI OPEB, and GLI OPEB expense, information about the fiduciary net position of the VRS GLI Program OPEB and the additions to/deductions from the VRS GLI OPEB's net fiduciary position have been determined on the same basis as they were reported by VRS. In addition, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Political Subdivision Employee Virginia Local Disability Program (VLDP):

For purposes of measuring the net VLDP OPEB liability, deferred outflows of resources and deferred inflows of resources related to the VLDP OPEB, and the VLDP OPEB expense, information about the fiduciary net position of the VRS Political Subdivision Employee VLDP; and the additions to/deductions from the VRS Political Subdivision Employee VLDP's net fiduciary position have been determined on the same basis as they were reported by VRS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

O. Compensated Absences:

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

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

P. Net Position:

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.

Q. 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.

NORTHWESTERN COMMUNITY SERVICES BOARD

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

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

R. 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.

S. 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.

T. Comparative Amounts:

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

Note 2 - Fiscal Agent:

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

Note 3 - Deposits and Investments:

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

	<u>2018</u>	<u>2017</u>
Cash in bank - operating	\$ 1,272,630	\$ 1,793,118
Cash in bank - restricted - debt reserves	198,633	189,577
Cash on hand and petty cash accounts	5,625	5,575
Investments	<u>1,104,884</u>	<u>2,074,403</u>
Total	<u>\$ 2,581,772</u>	<u>\$ 4,062,673</u>

NORTHWESTERN COMMUNITY SERVICES BOARD

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

Note 3 - Deposits and Investments: (continued)

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.

Credit Risk of Debt Securities:

The Board's rated debt investments as of June 30, 2018 were rated by Standard and Poor's and the ratings are presented below using the Standard and Poor's rating scale.

Rated Debt Investments Value	
Rated Debt Investments	Fair Quality Ratings AAAm
Virginia Local Government Investment Pool	\$ 1,104,884

Concentration of Credit Risk:

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

NORTHWESTERN COMMUNITY SERVICES BOARD

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

Note 3 - Deposits and Investments: (continued)

Interest Rate Risk:

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

Investment Type	Value	Investment Maturity Less Than One Year
Virginia Local Government Investment Pool	\$ 1,104,884	\$ 1,104,884

External Investment Pool:

The value of the positions in the external investment pool (Local Government Investment Pool) is the same as the value of the pool shares. As LGIP is not SEC registered, regulatory oversight of the pool rests with the Virginia State Treasury. LGIP is an amortized cost basis portfolio under the provisions of GASB Statement No. 79. There are no withdrawal limitations or restrictions imposed on participants.

Note 4 - Client Fees and Receivables:

Client fee revenues were from the following sources:

	2018	2017
Medicaid	\$ 5,468,163	\$ 5,042,869
Direct client	154,647	144,730
Third-party and other	918,388	384,290
Total	\$ 6,541,198	\$ 5,571,889

Net client fee and other receivables at June 30, 2018 and 2017 were due from the following sources:

	2018	2017
Direct and other client	\$ 834,991	\$ 682,155
Medicaid	1,544,957	936,556
Third party and other	749,296	235,386
Total	\$ 3,129,244	\$ 1,854,097
Allowance for uncollectibles	1,592,708	890,744
Net fees receivable	\$ 1,536,536	\$ 963,353

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

NORTHWESTERN COMMUNITY SERVICES BOARD

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

Note 5 - Capital Assets:

Capital assets consist of the following:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Capital assets not being depreciated:				
Land	\$ 129,881	\$ -	\$ -	\$ 129,881
Capital assets being depreciated:				
Building and improvements	\$ 4,620,305	\$ -	\$ -	\$ 4,620,305
Equipment and vehicles	1,771,659	216,253	30,994	1,956,918
Leasehold improvements	11,895	-	-	11,895
Total capital assets being depreciated	\$ 6,403,859	\$ 216,253	\$ 30,994	\$ 6,589,118
Accumulated depreciation				
Building and improvements	\$ 2,423,782	\$ 129,642	\$ -	\$ 2,553,424
Equipment and vehicles	1,526,422	156,874	30,994	1,652,302
Leasehold improvements	11,895	-	-	11,895
Total accumulated depreciation	\$ 3,962,099	\$ 286,516	\$ 30,994	\$ 4,217,621
Net capital assets being depreciated	\$ 2,441,760	\$ (70,263)	\$ -	\$ 2,371,497
Net capital assets	\$ 2,571,641	\$ (70,263)	\$ -	\$ 2,501,378

Total depreciation expense was \$286,516 for 2018 and \$250,763 for 2017.

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:

<u>Year Ending June 30,</u>	
2019	\$ 132,257
2020	55,107
Total	\$ 187,364

Total rental expense amounted to \$1,229,612 in 2018 and \$1,143,559 in 2017.

NORTHWESTERN COMMUNITY SERVICES BOARD

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

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 \$570,106 at June 30, 2018 and \$503,425 at June 30, 2017, an increase of \$66,681. 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, 2018.

	<u>Loans Payable</u>	<u>Net OPEB Obligation</u>	<u>Net OPEB Liabilities</u>	<u>Total</u>
Balance, July 1, 2017	\$ 1,587,314	\$ 723,143	-	\$ 2,310,457
Restatement		(723,143)	876,512	153,369
Issuances/additions	-	-	57,787	57,787
Retirement/decreases	<u>(174,352)</u>	<u>-</u>	<u>(118,003)</u>	<u>(292,355)</u>
Balance, June 30, 2018	<u>\$ 1,412,962</u>	<u>\$ -</u>	<u>816,296</u>	<u>\$ 2,229,258</u>

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 648,570	\$ 54,336
2020	91,287	35,709
2021	95,942	31,054
2022	100,835	26,161
2023	105,978	21,018
2024-2028	<u>370,350</u>	<u>38,308</u>
Total	<u>\$ 1,412,962</u>	<u>\$ 206,586</u>

NORTHWESTERN COMMUNITY SERVICES BOARD

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

Note 7 - Long-term Obligations: (continued)

Details of Long-term Debt:

Loans payable:

	<u>Balance Due</u>	<u>Current Portion</u>
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	\$ 25,886	\$ 4,029
Original amount of \$466,000, interest at 5.25%, payments of \$2,615 per month, including principal and interest, matures in 2024	153,392	23,897
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	671,972	58,932
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	<u>561,712</u>	<u>561,712</u>
Total loans payable	<u>\$ 1,412,962</u>	<u>\$ 648,570</u>

The Board is in compliance with federal arbitrage regulations.

Note 8 - Unsecured Line of Credit:

The Board has an available unsecured line of credit with BB&T Bank of Winchester in the amount of \$500,000. There is no outstanding balance at June 30, 2018 and there was no activity on the line of credit during the year.

NORTHWESTERN COMMUNITY SERVICES BOARD

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

Note 9 - Funding from Participant Localities:

The Board received appropriations from the participant localities as follows:

	<u>2018</u>	<u>2017</u>
County of Clarke	\$ 90,000	\$ 88,000
County of Frederick	377,784	343,440
County of Page	86,227	78,388
County of Shenandoah	240,646	240,646
County of Warren	303,298	288,855
City of Winchester	<u>222,306</u>	<u>202,096</u>
Total	<u>\$ 1,320,261</u>	<u>\$ 1,241,425</u>

Note 10 - Risk Management:

The Board has contracted with insurance carriers for property damage and liability, workers compensation, directors and officer liability and professional liability coverage. Coverage is \$7,000,000 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 11 - Commitments and Contingencies:

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

Note 12 - Deferred Compensation Plan:

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

NORTHWESTERN COMMUNITY SERVICES BOARD

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

Note 13 - Pension Plan:

Plan Description

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

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

RETIREMENT PLAN PROVISIONS		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>About Plan 1 Plan 1 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</p>	<p>About Plan 2 Plan 2 is a defined benefit plan. The retirement benefit is based on a member's age, creditable service and average final compensation at retirement using a formula.</p>	<p>About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan.</p> <ul style="list-style-type: none"> • The defined benefit is based on a member's age, creditable service and average final compensation at retirement using a formula. • The benefit from the defined contribution component of the plan depends on the member and employer contributions made to the plan and the investment performance of those contributions. • 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, 2018 (continued)

Note 13 - Pension Plan: (continued)

Plan Description (continued)

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

NORTHWESTERN COMMUNITY SERVICES BOARD

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

Note 13 - Pension Plan: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction. Member contributions are tax-deferred until they are withdrawn as part of a retirement benefit or as a refund. The employer makes a separate actuarially determined contribution to VRS for all covered employees. VRS invests both member and employer contributions to provide funding for the future benefit payment.</p>	<p>Retirement Contributions Employees contribute 5% of their compensation each month to their member contribution account through a pre-tax salary reduction.</p>	<p>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.</p>
<p>Creditable Service Creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their eligibility for retirement and to calculate their retirement benefit. It also may count toward</p>	<p>Creditable Service Same as Plan 1.</p>	<p>Creditable Service <u>Defined Benefit Component:</u> Under the defined benefit component of the plan, creditable service includes active service. Members earn creditable service for each month they are employed in a covered position. It also may include credit for prior service the member has purchased or additional creditable service the member was granted. A member's total creditable service is one of the factors used to determine their</p>

NORTHWESTERN COMMUNITY SERVICES BOARD

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

Note 13 - Pension Plan: (continued)

Plan Description (continued)

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

NORTHWESTERN COMMUNITY SERVICES BOARD

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

Note 13 - Pension Plan: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Vesting (Cont.)	Vesting (Cont.)	<p>Vesting (Cont.) <u>Defined 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.</p> <p>Members are always 100% vested in the contributions that they make.</p> <p>Upon retirement or leaving covered employment, a member is eligible to withdraw a percentage of employer contributions to the defined contribution component of the plan, based on service.</p> <ul style="list-style-type: none"> • After two years, a member is 50% vested and may withdraw 50% of employer contributions. • After three years, a member is 75% vested and may withdraw 75% of employer contributions. • After four or more years, a member is 100% vested and may withdraw 100% of employer contributions. <p>Distribution is not required by law until age 70½.</p>

NORTHWESTERN COMMUNITY SERVICES BOARD

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

Note 13 - Pension Plan: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Calculating the Benefit The Basic Benefit is calculated based on a formula using the member's average final compensation, a retirement multiplier and total service credit at retirement. It is one of the benefit payout options available to a member at retirement.</p> <p>An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.</p>	<p>Calculating the Benefit See definition under Plan 1.</p>	<p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1.</p> <p><u>Defined Contributions Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.</p>
<p>Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.</p>	<p>Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.</p>
<p>Service Retirement Multiplier VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%.</p>	<p>Service Retirement Multiplier VRS: Same as Plan 1 for service earned, purchased or granted prior to January 1, 2013. For non-hazardous duty members the retirement multiplier is 1.65% for creditable service earned, purchased or granted on or after January 1, 2013.</p>	<p>Service Retirement Multiplier <u>Defined Benefit Component:</u> VRS: The retirement multiplier for the defined benefit component is 1.00%.</p> <p>For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.</p>

NORTHWESTERN COMMUNITY SERVICES BOARD

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

Note 13 - Pension Plan: (continued)

Plan Description (continued)

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

NORTHWESTERN COMMUNITY SERVICES BOARD

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

Note 13 - Pension Plan: (continued)

Plan Description (continued)

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

NORTHWESTERN COMMUNITY SERVICES BOARD

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

Note 13 - Pension Plan: (continued)

Plan Description (continued)

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

NORTHWESTERN COMMUNITY SERVICES BOARD

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

Note 13 - Pension Plan: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates: (Cont.)</u></p> <ul style="list-style-type: none"> • The member retires directly from short-term or long-term disability under the Virginia Sickness and Disability Program (VSDP). • The member is involuntarily separated from employment for causes other than job performance or misconduct and is eligible to retire under the Workforce Transition Act or the Transitional Benefits Program. • The member dies in service and the member's survivor or beneficiary is eligible for a monthly death-in-service benefit. The COLA will go into effect on July 1 following one full calendar year (January 1 to December 31) from the date the monthly benefit begins. 	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates: (Cont.)</u></p> <p>Same as Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates: (Cont.)</u></p> <p>Same as Plan 1 and Plan 2.</p>
<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service,</p>	<p>Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service,</p>	<p>Disability Coverage Employees of political subdivisions (including Plan 1 and Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local</p>

NORTHWESTERN COMMUNITY SERVICES BOARD

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

Note 13 - 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.	Disability Coverage (Cont.) regardless of when it was earned, purchased or granted.	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. 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: <ul style="list-style-type: none"> •Hybrid Retirement Plan members are ineligible for ported service. <u>Defined Contributions Component:</u> Not applicable.

Pension Plan Data

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

NORTHWESTERN COMMUNITY SERVICES BOARD

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

Note 13 - Pension Plan: (continued)

Employees Covered by Benefit Terms

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

	<u>Number</u>
Inactive members or their beneficiaries currently receiving benefits	76
Inactive members:	
Vested inactive members	56
Non-vested inactive members	90
Inactive members active elsewhere in VRS	<u>58</u>
Total inactive members	204
Active members	<u>140</u>
Total covered employees	<u><u>420</u></u>

Contributions

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

The Board's contractually required employer contribution rate for the year ended June 30, 2018 was 4.68% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Board were \$312,266 and \$284,870 for the years ended June 30, 2018 and June 30, 2017, respectively.

Net Pension Liability (Asset)

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

NORTHWESTERN COMMUNITY SERVICES BOARD

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

Note 13 - Pension Plan: (continued)

Actuarial Assumptions - General Employees

The total pension liability for General Employees in the Board's Retirement Plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

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

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

Mortality rates:

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

Pre-Retirement:

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

Post-Retirement:

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

Largest 10 - Non-Hazardous Duty: (Continued)

Post-Disablement:

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

NORTHWESTERN COMMUNITY SERVICES BOARD

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

Note 13 - Pension Plan: (continued)

Actuarial Assumptions - General Employees (continued)

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

Largest 10 - Non-Hazardous Duty:

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

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

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

NORTHWESTERN COMMUNITY SERVICES BOARD

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

Note 13 - Pension Plan: (continued)

Long-term Expected Rate of Return

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

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

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

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the employer for the Board Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

NORTHWESTERN COMMUNITY SERVICES BOARD

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

Note 13 - Pension Plan: (continued)

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, 2016	\$ 20,910,834	\$ 20,207,979	\$ 702,855
Changes for the year:			
Service cost	\$ 608,297	\$ -	\$ 608,297
Interest	1,431,194	-	1,431,194
Changes in assumptions	(135,359)	-	(135,359)
Differences between expected and actual experience	(6,295)	-	(6,295)
Contributions - employer	-	283,117	(283,117)
Contributions - employee	-	314,162	(314,162)
Net investment income	-	2,453,436	(2,453,436)
Benefit payments, including refunds of employee contributions	(930,409)	(930,409)	-
Administrative expenses	-	(14,211)	14,211
Other changes	-	(2,180)	2,180
Net changes	\$ 967,428	\$ 2,103,915	\$ (1,136,487)
Balances at June 30, 2017	\$ 21,878,262	\$ 22,311,894	\$ (433,632)

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

The following presents the net pension liability (asset) of the Board using the discount rate of 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		
	1% Decrease (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
Board's Net Pension Liability (Asset)	\$ 2,488,326	\$ (433,632)	\$ (2,846,913)

NORTHWESTERN COMMUNITY SERVICES BOARD

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

Note 13 - Pension Plan: (continued)

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

For the year ended June 30, 2018, the Board recognized pension expense of \$54,111. At June 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 67,337	\$ 3,817
Change in assumptions	-	82,068
Net difference between projected and actual earnings on pension plan investments	-	319,164
Employer contributions subsequent to the measurement date	312,266	-
Total	<u>\$ 379,603</u>	<u>\$ 405,049</u>

\$312,266 reported as deferred outflows of resources related to pensions resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction to the Net Pension Liability in the fiscal year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

<u>Year ended June 30</u>	
2019	\$ (187,139)
2020	60,580
2021	(931)
2022	(210,222)

NORTHWESTERN COMMUNITY SERVICES BOARD

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

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

Group Life Insurance (GLI) Program (OPEB Plan)

Plan Description

All full-time, salaried permanent employees of the state agencies, teachers, and employees of participating political subdivisions are automatically covered by the VRS Group Life Insurance Program upon employment. This is a cost-sharing multiple-employer plan administered by the Virginia Retirement System (the System), along with pensions and other OPEB plans, for public employer groups in the Commonwealth of Virginia.

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

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

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

NORTHWESTERN COMMUNITY SERVICES BOARD

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

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

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

Plan Description (continued)

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

Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% x 60%) and the employer component was 0.52% (1.31% x 40%). Employers may elect to pay all or part of the employee contribution; however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the Group Life Insurance Program from the entity were \$38,842 and \$34,154 for the years ended June 30, 2018 and June 30, 2017, respectively.

NORTHWESTERN COMMUNITY SERVICES BOARD

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

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

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

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

At June 30, 2018, the entity reported a liability of \$536,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2017 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the participating employer's proportion was .03561% as compared to .03471% at June 30, 2016.

For the year ended June 30, 2018, the participating employer recognized GLI OPEB expense of \$8,000. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 12,000
Net difference between projected and actual earnings on GLI OPEB program investments	-	20,000
Change in assumptions	-	28,000
Changes in proportion	14,000	-
Employer contributions subsequent to the measurement date	<u>38,842</u>	<u>-</u>
Total	<u>\$ 52,842</u>	<u>\$ 60,000</u>

NORTHWESTERN COMMUNITY SERVICES BOARD

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

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

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

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

\$38,842 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

<u>Year Ended June 30</u>	
2019	\$ (10,000)
2020	(10,000)
2021	(10,000)
2022	(10,000)
2023	(5,000)
Thereafter	(1,000)

Actuarial Assumptions

The total GLI OPEB liability was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

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

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

NORTHWESTERN COMMUNITY SERVICES BOARD

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

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

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

Actuarial Assumptions (continued)

Mortality Rates - General State Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

NORTHWESTERN COMMUNITY SERVICES BOARD

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

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

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

Actuarial Assumptions (continued)

Mortality Rates - Teachers

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

NORTHWESTERN COMMUNITY SERVICES BOARD

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

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

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

Actuarial Assumptions (continued)

Mortality Rates - SPORS Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

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

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

NORTHWESTERN COMMUNITY SERVICES BOARD

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

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

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

Actuarial Assumptions (continued)

Mortality Rates - VaLORS Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

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

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

NORTHWESTERN COMMUNITY SERVICES BOARD

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

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

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

Actuarial Assumptions (continued)

Mortality Rates - JRS Employees

Pre-Retirement:

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

Post-Retirement:

RP-2014 Employee Rates to age 49, Healthy Annuitant Rates at ages 50 and older projected with scale BB to 2020; males set forward 1 year; females set back 1 year with 1.5% compounding increase from ages 70 to 85.

Post-Disablement:

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

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

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

NORTHWESTERN COMMUNITY SERVICES BOARD

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

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

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

Actuarial Assumptions (continued)

Mortality Rates - Largest Ten Locality Employers - General Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

NORTHWESTERN COMMUNITY SERVICES BOARD

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

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

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

Actuarial Assumptions (continued)

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

Mortality Rates - Largest Ten Locality Employers - Hazardous Duty Employees

Pre-Retirement:

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

Post-Retirement:

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

NORTHWESTERN COMMUNITY SERVICES BOARD

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

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

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

Actuarial Assumptions (continued)

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

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

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

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

Mortality Rates - Non-Largest Ten Locality Employers - Hazardous Duty Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

RP-2014 Disability Mortality Rates projected with scale BB to 2020; males set forward 2 years; unisex using 100% male.

NORTHWESTERN COMMUNITY SERVICES BOARD

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

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

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

Actuarial Assumptions (continued)

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

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

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

NET GLI OPEB Liability

The net OPEB liability (NOL) for the Group Life Insurance Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the Group Life Insurance Program is as follows (amounts expressed in thousands):

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

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

NORTHWESTERN COMMUNITY SERVICES BOARD

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

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

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

Long-Term Expected Rate of Return

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

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

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

Discount Rate

The discount rate used to measure the total GLI OPEB liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that member contributions will be made per the VRS guidance and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the entity for the GLI OPEB will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the GLI OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of eligible employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total GLI OPEB liability.

NORTHWESTERN COMMUNITY SERVICES BOARD

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

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

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

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

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

		Rate		
		1% Decrease	Current Discount	1% Increase
		(6.00%)	(7.00%)	(8.00%)
Board's proportionate share of the GLI Net OPEB Liability	\$	693,000	\$ 536,000	\$ 408,000

Group Life Insurance Program Fiduciary Net Position

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

Political Subdivision Employee Virginia Local Disability Program (VLDP)

Plan Description

All full-time, salaried general employees; including local law enforcement officers, firefighters, or emergency medical technicians of political subdivisions who do not provide enhanced hazardous duty benefits; who are in the VRS Hybrid Retirement Plan benefit structure and whose employer has not elected to opt out of the VRS-sponsored program are automatically covered by the VRS Political Subdivision Employee Virginia Local Disability Program. This is a multiple-employer, cost-sharing plan administered by the Virginia Retirement System (the System), along with pension and other OPEB plans, for eligible public employer groups in the Commonwealth of Virginia. Political subdivisions are required by Title 51.1 of the Code of Virginia, as amended, to provide short-term and long-term disability benefits for their Hybrid employees either through a local plan or through the Virginia Local Disability Program (VLDP).

NORTHWESTERN COMMUNITY SERVICES BOARD

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

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

Political Subdivision Employee Virginia Local Disability Program (VLDP): (Continued)

Plan Description: (Continued)

The specific information for each plan and the eligibility for covered groups within each plan are set out in the table below:

POLITICAL SUBDIVISION EMPLOYEE VIRGINIA LOCAL DISABILITY PROGRAM PLAN PROVISIONS
<p>Eligible Employees</p> <p>The Political Subdivision Employee Virginia Local Disability Program was implemented January 1, 2014 to provide short-term and long-term disability benefits for non-work-related and work-related disabilities for employees with Hybrid retirement benefits.</p> <p>Eligible employees are enrolled automatically upon employment, unless their employer has elected to provide comparable coverage. They include:</p> <ul style="list-style-type: none">• Full-time general employees; including local law enforcement officers, firefighters, or emergency medical technicians who do not have enhanced hazardous duty benefits; of public political subdivisions covered under VRS.
<p>Benefit Amounts</p> <p>The Political Subdivision Employee Virginia Local Disability Program (VLDP) provides the following benefits for eligible employees:</p> <p><u>Short-Term Disability -</u></p> <ul style="list-style-type: none">• The program provides a short-term disability benefit beginning after a seven-calendar-day waiting period from the first day of disability. Employees become eligible for non-work-related short-term disability coverage after one year of continuous participation in VLDP with their current employer.• During the first five years of continuous participation in VLDP with their current employer, employees are eligible for 60% of their pre-disability income if they go out on non-work-related or work-related disability.• Once the eligibility period is satisfied, employees are eligible for higher income replacement levels. <p><u>Long-Term Disability -</u></p> <ul style="list-style-type: none">• The VLDP program provides a long-term disability benefit beginning after 125 workdays of short-term disability. Members are eligible if they are unable to work at all or are working fewer than 20 hours per week.• Members approved for long-term disability will receive 60% of their pre-disability income. If approved for work-related long-term disability, the VLDP benefit will be offset by the workers' compensation benefit. Members will not receive a VLDP benefit if their workers' compensation benefit is greater than the VLDP benefit.
<p>Virginia Local Disability Program Notes:</p> <ul style="list-style-type: none">• Members approved for short-term or long-term disability at age 60 or older will be eligible for a benefit, provided they remain medically eligible.• VLDP Long-Term Care Plan is a self-funded program that assists with the cost of covered long-term care services.

NORTHWESTERN COMMUNITY SERVICES BOARD

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

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

Political Subdivision Employee Virginia Local Disability Program (VLDP) (continued)

Contributions

The contribution requirements for active Hybrid employees is governed by §51.1-1178(C) of the Code of Virginia, as amended, but may be impacted as a result of funding provided to political subdivisions by the Virginia General Assembly. Each political subdivision's contractually required employer contribution rate for the year ended June 30, 2018 was 0.60% of covered employee compensation for employees in the VRS Political Subdivision Employee VDLP. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the Board to the VRS Political Subdivision Employee VDLP were \$15,082 and \$10,341 for the years ended June 30, 2018 and June 30, 2017, respectively.

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

At June 30, 2018, the Board reported a liability of \$6,000 for its proportionate share of the VLDP Net OPEB Liability. The Net VLDP OPEB Liability was measured as of June 30, 2017 and the total VLDP OPEB liability used to calculate the Net VLDP OPEB Liability was determined by an actuarial valuation as of that date. The Board's proportion of the Net VLDP OPEB Liability was based on the Board's actuarially determined employer contributions to the VLDP OPEB plan for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the Board's proportion of the VLDP was .93858% as compared to .90274%.

For the year ended June 30, 2018, the Board recognized VLDP OPEB expense of \$10,000. Since there was a change in proportionate share between June 30, 2016 and June 30, 2017 a portion of the VLDP Net OPEB expense was related to deferred amounts from changes in proportion.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Change in assumptions	\$ -	\$ 1,000
Employer contributions subsequent to the measurement date	15,082	-
Total	\$ 15,082	\$ 1,000

NORTHWESTERN COMMUNITY SERVICES BOARD

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

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

Political Subdivision Employee Virginia Local Disability Program (VLDP) (continued)

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

\$15,082 reported as deferred outflows of resources related to the VLDP OPEB resulting from the Board's contributions subsequent to the measurement date will be recognized as a reduction of the Net VLDP OPEB Liability in the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the VLDP OPEB will be recognized in the VLDP OPEB expense in future reporting periods as follows:

<u>Year Ended June 30</u>	
2019	\$ (1,000)
2020	-
2021	-
2022	-
2023	-
Thereafter	-

Actuarial Assumptions

The total VLDP OPEB liability for the VLDP was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Inflation	2.5%
Salary increases, including inflation:	
Political Subdivision Employees	3.5%-5.35%
Investment rate of return	7.0%, net of plan investment expenses, including inflation*

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

NORTHWESTERN COMMUNITY SERVICES BOARD

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

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

Political Subdivision Employee Virginia Local Disability Program (VLDP) (continued)

Actuarial Assumptions: (Continued)

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

NORTHWESTERN COMMUNITY SERVICES BOARD

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

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

Actuarial Assumptions: (Continued)

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

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

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

Net VLDP OPEB Liability

The net OPEB liability (NOL) for the Political Subdivision Employee VLDP represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of June 30, 2017, NOL amounts for the VRS Political Subdivision Employee VLDP is as follows (amounts expressed in thousands):

		Political Subdivision Employee VLDP OPEB Plan
Total Political Subdivision VLDP OPEB Liability	\$	914
Plan Fiduciary Net Position		351
Political Subdivision net VLDP OPEB Liability (Asset)	\$	563
Plan Fiduciary Net Position as a Percentage of the Total Political Subdivision VLDP OPEB Liability		38.40%

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

NORTHWESTERN COMMUNITY SERVICES BOARD

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

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

Political Subdivision Employee Virginia Local Disability Program (VLDP) (continued)

Long-Term Expected Rate of Return

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

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

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

Discount Rate

The discount rate used to measure the total VLDP OPEB was 7.00%. The projection of cash flows used to determine the discount rate assumed that employer contributions will be made in accordance with the VRS funding policy at rates equal to the actuarially determined contribution rates adopted by the VRS Board of Trustees. Through the fiscal year ending June 30, 2019, the rate contributed by the Board for the VLDP will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, all agencies are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the VLDP OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total VLDP OPEB liability.

NORTHWESTERN COMMUNITY SERVICES BOARD

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

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

Political Subdivision Employee Virginia Local Disability Program (VLDP) (continued)

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

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

	Rate		
	1% Decrease (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
Board's proportionate share of the Net VLDP OPEB Liability	\$ 6,000	\$ 6,000	\$ 5,000

Political Subdivision Employee VLDP OPEB Fiduciary Net Position

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

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

A. Plan Description:

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

B. Plan Membership:

At June 30, 2018 (measurement date), the following employees were covered by the benefit terms:

Total active employees with coverage	\$ 146
Total retirees with coverage	1
Total retirees without coverage	15
Total	<u>\$ 162</u>

NORTHWESTERN COMMUNITY SERVICES BOARD

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

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

C. Funding Policy:

The board does not pre-fund benefits; therefore, no assets are accumulated in a trust fund. The current funding policy is to pay benefits directly from general assets on a pay-as-you-go basis. The Board establishes the employer contribution rates and how the plan will be funded as part of the annual budget process. The plan specifies that the Board will make explicit contributions of 50% of the retiree-only premium for all eligible retirees. Various amounts are paid by the Board depending on the status of each plan participant. The amount paid by the Board for OPEB as the benefits came due during the year ended June 30, 2018 was \$3,033.

D. Total OPEB Liability:

The Board's total OPEB liability was measured as of June 30, 2018. The total OPEB liability was determined by an actuarial valuation performed as of July 1, 2017, using updated actuarial assumptions, applied to all periods included in the measurement and projected forward to the measurement date of June 30, 2018.

E. Actuarial Assumptions:

The total OPEB liability in the July 1, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50% per year
Salary Increases	5.35% for 1 year gradually declining to 3.50% for 20 or more years of service
Discount Rate	3.50% as of June 30, 2017 3.87% as of June 30, 2018

Mortality rates:

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

NORTHWESTERN COMMUNITY SERVICES BOARD

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

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

E. Actuarial Assumptions: (continued)

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

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

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

F. Discount Rate

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

G. Changes in Total OPEB Liability

		<u>Total OPEB Liability</u>
Balances at June 30, 2017	\$	266,512
Changes for the year:		
Service cost		16,033
Interest		9,754
Changes in assumptions		(10,212)
Benefit payments		(7,791)
Net changes		<u>7,784</u>
Balances at June 30, 2018	\$	<u><u>274,296</u></u>

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

The following amounts present the total OPEB liability of the Board, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.87%) or one percentage point higher (4.87%) than the current discount rate:

		<u>Rate</u>	
<u>1% Decrease</u>		<u>Current Discount</u>	<u>1% Increase</u>
<u>(2.87%)</u>		<u>Rate (3.87%)</u>	<u>(4.87%)</u>
\$ 302,703	\$	274,296	\$ 248,451

NORTHWESTERN COMMUNITY SERVICES BOARD

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

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

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

The following presents the total OPEB liability of the Board, as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower (5.10% decreasing to an ultimate rate of 3.40%) or one percentage point higher (7.10% decreasing to an ultimate rate of 5.40%) than the current healthcare cost trend rates:

Rates		
1% Decrease (5.10% decreasing to 3.40%)	Healthcare Cost Trend (6.10% decreasing to 4.40%)	1% Increase (7.10% decreasing to 5.40%)
\$ 237,050	\$ 274,296	\$ 318,939

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

For the year ended June 30, 2018, the Board recognized OPEB expense in the amount of \$24,113. At June 30, 2018, the Board reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions	\$ -	\$ 8,538
Total	\$ -	\$ 8,538

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

Year Ended June 30	
2019	\$ (1,674)
2020	(1,674)
2021	(1,674)
2022	(1,674)
2023	(1,674)
Thereafter	(168)

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

NORTHWESTERN COMMUNITY SERVICES BOARD

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

Note 16 - Upcoming Pronouncements:

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

Statement No. 87, *Leases*, increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

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

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

NORTHWESTERN COMMUNITY SERVICES BOARD

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

Note 17 - Adoption of Accounting Principles:

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

Net Position, July 1, 2017, as previously stated	\$	4,688,468
GASB 75 Implementation:		
Retiree Health Plan		(266,512)
Group Life Insurance		(572,846)
Virginia Local Disability Program		7,340
Writeoff Net OPEB Obligation		723,143
Net Position, July 1, 2017, as restated	\$	<u><u>4,579,593</u></u>

- Required Supplementary Information -

NORTHWESTERN COMMUNITY SERVICES BOARD

Schedule of Changes in Net Pension Liability (Asset) and Related Ratios
VRS Pension Plan
Years Ended June 30, 2015 through June 30, 2018

	2017	2016	2015	2014
Total pension liability				
Service cost	\$ 608,297	\$ 599,614	\$ 657,547	\$ 702,987
Interest	1,431,194	1,340,736	1,282,594	1,192,464
Differences between expected and actual experience	(6,295)	244,543	(358,226)	-
Changes in assumptions	(135,359)	-	-	-
Benefit payments, including refunds of employee contributions	(930,409)	(854,871)	(647,749)	(568,024)
Net change in total pension liability	\$ 967,428	\$ 1,330,022	\$ 934,166	\$ 1,327,427
Total pension liability - beginning	20,910,834	19,580,812	18,646,646	17,319,219
Total pension liability - ending (a)	\$ 21,878,262	\$ 20,910,834	\$ 19,580,812	\$ 18,646,646
Plan fiduciary net position				
Contributions - employer	\$ 283,117	\$ 385,244	\$ 396,000	\$ 464,928
Contributions - employee	314,162	301,469	321,755	373,185
Net investment income	2,453,436	349,931	880,885	2,593,479
Benefit payments, including refunds of employee contributions	(930,409)	(854,871)	(647,749)	(568,024)
Administrative expense	(14,211)	(12,347)	(11,794)	(13,607)
Other	(2,180)	(148)	(187)	136
Net change in plan fiduciary net position	\$ 2,103,915	\$ 169,278	\$ 938,910	\$ 2,850,097
Plan fiduciary net position - beginning	20,207,979	20,038,701	19,099,791	16,249,694
Plan fiduciary net position - ending (b)	\$ 22,311,894	\$ 20,207,979	\$ 20,038,701	\$ 19,099,791
Board's net pension liability (asset) - ending (a) - (b)	\$ (433,632)	\$ 702,855	\$ (457,889)	\$ (453,145)
Plan fiduciary net position as a percentage of the total pension liability	101.98%	96.64%	102.34%	102.43%
Covered payroll	\$ 6,556,103	\$ 6,223,354	\$ 6,133,171	\$ 6,684,098
Board's net pension liability (asset) as a percentage of covered payroll	-6.61%	11.29%	-7.47%	-6.78%

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

NORTHWESTERN COMMUNITY SERVICES BOARD

Schedule of Employer Contributions

VRS Pension Plan

Years Ended June 30, 2009 through June 30, 2018

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)
2018	\$ 312,266	\$ 312,266	\$ -	\$ 7,464,636	4.18%
2017	284,870	284,870	-	6,556,103	4.35%
2016	397,672	397,672	-	6,223,354	6.39%
2015	391,910	391,910	-	6,133,171	6.39%
2014	465,882	465,882	-	6,684,098	6.97%
2013	453,951	453,951	-	6,512,921	6.97%
2012	223,324	223,324	-	5,987,240	3.73%
2011	204,177	204,177	-	5,473,917	3.73%
2010	124,968	124,968	-	5,039,031	2.48%
2009	125,272	125,272	-	5,051,307	2.48%

NORTHWESTERN COMMUNITY SERVICES BOARD

Notes to Required Supplementary Information

VRS Pension Plan

For the Year Ended June 30, 2018

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

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

Largest 10 - Non-Hazardous Duty:

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

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

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

NORTHWESTERN COMMUNITY SERVICES BOARD

Schedule of Board's Share of Net OPEB Liabilities

VRS Cost Sharing OPEB Plans

For the Year Ended June 30, 2018

Group Life Insurance Program					
Date (1)	Employer's Proportion of the Net GLI OPEB Liability (Asset) (2)	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) (3)	Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net GLI OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total VLDP OPEB Liability (6)
2017	0.03561% \$	536,000 \$	6,556,103	8.18%	48.86%

Virginia Local Disability Program (VLDP)					
Date (1)	Employer's Proportion of the Net GLI OPEB Liability (Asset) (2)	Employer's Proportionate Share of the Net VLDP OPEB Liability (Asset) (3)	Employer's Covered Payroll (4)	Employer's Proportionate Share of the Net VLDP OPEB Liability (Asset) as a Percentage of Covered Payroll (3)/(4) (5)	Plan Fiduciary Net Position as a Percentage of Total VLDP OPEB Liability (6)
2017	0.93858% \$	6,000 \$	1,723,500	0.35%	38.40%

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

NORTHWESTERN COMMUNITY SERVICES BOARD

Schedule of Employer Contributions

VRS Cost Sharing OPEB Plans

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

Group Life Insurance Program					
Contributions in Relation to					
Date	Contractually Required Contribution (1)	Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2018	\$ 38,842	\$ 38,842	\$ -	\$ 7,469,583	0.52%
2017	34,154	34,154	-	6,556,103	0.52%

Virginia Local Disability Program (VLDP)					
Contributions in Relation to					
Date	Contractually Required Contribution (1)	Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2018	\$ 15,081	\$ 15,081	\$ -	\$ 2,513,581	0.60%
2017	10,341	10,341	-	1,723,500	0.60%

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

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

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

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

General State Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered rates at older ages and changed final retirement from 70 to 75
Withdrawal Rates	Adjusted rates to better fit experience at each year age and service through 9 years of service
Disability Rates	Adjusted rates to better match experience
Salary Scale	No change
Line of Duty Disability	Increased rate from 14% to 25%

Teachers

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

SPORS Employees

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

VaLORS Employees

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

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

JRS Employees

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

Largest Ten Locality Employers - General Employees

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

Non-Largest Ten Locality Employers - General Employees

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

Largest Ten Locality Employers - Hazardous Duty Employees

Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Updated to a more current mortality table - RP-2014 projected to 2020
Retirement Rates	Lowered retirement rates at older ages
Withdrawal Rates	Adjusted termination rates to better fit experience at each age and service year
Disability Rates	Increased disability rates
Salary Scale	No change
Line of Duty Disability	Increased rate from 60% to 70%

Non-Largest Ten Locality Employers - Hazardous Duty Employees

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

NORTHWESTERN COMMUNITY SERVICES BOARD

Notes to Required Supplementary Information
Virginia Local Disability Program (VLDP)
For the Year Ended June 30, 2018

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

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

Largest Ten Locality Employers - General and Non-Hazardous Duty Employees

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

Non-Largest Ten Locality Employers - General and Non-Hazardous Duty Employees

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

NORTHWESTERN COMMUNITY SERVICES BOARD

Schedule of Changes in Total OPEB Liability (Asset) and Related Ratios Retiree Health Plan For the Year Ended June 30, 2018

	<u>2018</u>
Total OPEB liability	
Service cost	\$ 16,033
Interest	9,754
Changes in assumptions	(10,212)
Benefit payments	<u>(7,791)</u>
Net change in total OPEB liability	\$ 7,784
Total OPEB liability - beginning	266,512
Total OPEB liability - ending	<u>\$ 274,296</u>
 Covered payroll	 \$ 7,224,427
 Board's total OPEB liability (asset) as a percentage of covered payroll	 3.80%

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

NORTHWESTERN COMMUNITY SERVICES BOARD

Notes to Required Supplementary Information
Retiree Health Plan
For the Year Ended June 30, 2018

Valuation Date: 7/1/2017
Measurement Date: 6/30/2018

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

Methods and assumptions used to determine OPEB liability:

Actuarial Cost Method	Entry age normal, level % of pay
Discount Rate	3.50% as of June 30, 2017; 3.87% as of June 30, 2018
Inflation	2.50% per year
Healthcare Trend Rate	The healthcare trend rate assumption starts at 6.10% in 2018 and gradually declines to 4.40% by the year 2088
Salary Increase Rates	The salary increase rate starts at 5.35% salary increase for 1 year of service and gradually declines to 3.50% salary increase for 20 or more years of service
Retirement Age	The average age at retirement is 62
Disability Rates	25% of disability cases are assumed to be service related
Mortality Rates (pre-retirement, post-retirement healthy, and disabled)	Calculated using the RP-2014 projected to 2020

- Compliance -

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 the business-type activities of Northwestern Community Services Board, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Northwestern Community Services Board's basic financial statements and have issued our report thereon dated November 16, 2018.

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 16, 2018

ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

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

To the Board of Directors
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, 2018. 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, 2018.

Report on Internal Control over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Robinson, Fawcett, Cox Associates

Charlottesville, Virginia
November 16, 2018

NORTHWESTERN COMMUNITY SERVICES BOARD

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

<u>Federal Grantor/Pass-through Grantor/Program or Cluster Title</u>	<u>Federal CFDA Number</u>	<u>Pass-through Entity Identifying Number</u>	<u>Total Federal Expenditures</u>
<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	\$ <u>311,848</u>
Total Department of Housing and Urban Development			\$ <u>311,848</u>
<u>Department of Health and Human Services</u>			
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	105,662
Opiod STR	93.788	1H079TI080220-01/ 5H79TI080220-02	434,306
Block Grants for Community Mental Health Services	93.958	50120	56,051
Block Grants for Prevention and Treatment of Substance Abuse	93.959	50190	<u>812,299</u>
Total Department of Health and Human Services			\$ <u>1,408,318</u>
Total expenditures of federal awards			\$ <u><u>1,720,166</u></u>

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, 2018. 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.

NORTHWESTERN COMMUNITY SERVICES BOARD

Schedule of Expenditures of Federal Awards
Year Ended June 30, 2018 (Continued)

Notes to Schedule of Expenditures of Federal Awards (Continued)

Note B - Summary of Significant Accounting Policies

(1) Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance 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 - Indirect Cost Recovery

The entity has elected not to use the 10% de minimis indirect cost rate allowed under Uniform Guidance.

Note E - Items Not Included in the Schedule

USDA Rural Development loan balances at June 30, 2018 for which only the payment of debt service is the primary compliance requirement.

\$ 851,250

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

Federal revenue reported	\$ 1,668,153
Reconciling items:	
Expenditure of carryover funds	78,286
Unexpended current year funds	(86,028)
Revenue recognition timing differences	59,755
Total expenditures of federal awards	<u>\$ 1,720,166</u>

NORTHWESTERN COMMUNITY SERVICES BOARD

Schedule of Findings and Questioned Costs
Year Ended June 30, 2018

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	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:

<u>CFDA #</u>	<u>Name of Federal Program or Cluster</u>
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, 2018

There were no items reported.