
PIEDMONT COMMUNITY SERVICES

Martinsville, Virginia

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2018

ROBINSON, FARMER, COX ASSOCIATES

A PROFESSIONAL LIMITED LIABILITY COMPANY CERTIFIED PUBLIC ACCOUNTANTS

CHARLOTTESVILLE □ RICHMOND □ FREDERICKSBURG □ STAUNTON □ BLACKSBURG □ LOUISA



PIEDMONT COMMUNITY SERVICES
Martinsville, Virginia

FINANCIAL REPORT - YEAR ENDED JUNE 30, 2018

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PIEDMONT COMMUNITY SERVICES

Organization of Directors

Charles Wagner, Chair
James Hagwood, 1st Vice-Chair
Jane Carlson, 2nd Vice-Chair

Franklin County

Bettye Buckingham
Justin Sigmon
Tillie Thompson
Charles Wagner
Peggy Woody

Henry County

Mary Horsley
Carol Nelson
Leon Richardson
Dr. Paulette R. Simington
Eric Winn

Patrick County

Jane Carlson
Rendy Williams

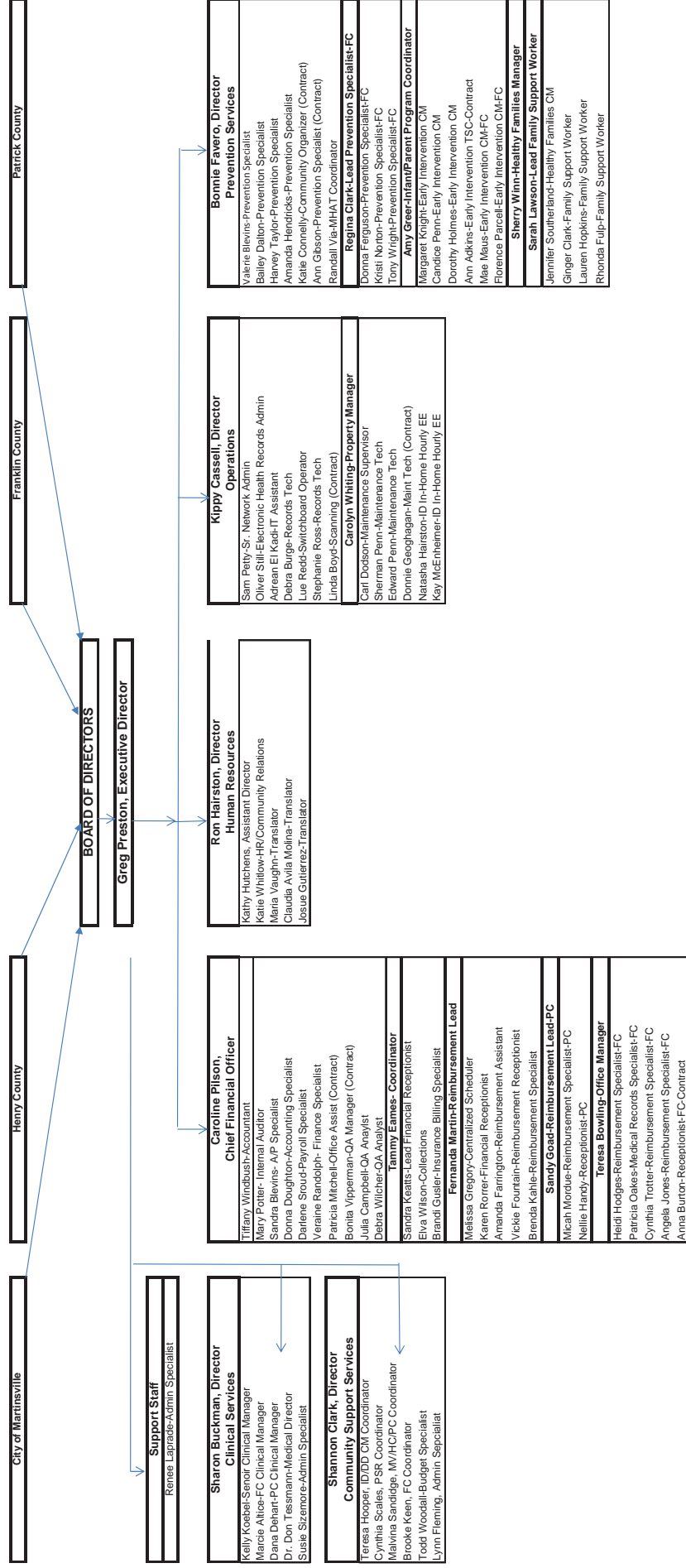
City of Martinsville

Linda R. Drage
James Hagwood

Key Administrative Staff

Brian "Greg" Preston	Executive Director
Caroline Pilson	Chief Financial Officer
Kippy Cassell	Director of Operations
Bonnie Favero	Director of Prevention Services
Ronald Hairston	Director of Human Resources
Shannon Clark	Director of Community Support Services
Sharon Buckman	Director of Clinical Services

PIEDMONT COMMUNITY SERVICES
ORGANIZATIONAL CHART
ADMINISTRATION



ROBINSON, FARMER, COX ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL LIMITED LIABILITY COMPANY

Independent Auditors' Report

To the Board of Directors
Piedmont Community Services
Martinsville, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Piedmont Community Services, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Piedmont Community Services' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Piedmont Community Services, as of June 30, 2018, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules related to pension funding on pages 4-7 and 55-61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

The combining financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining financial statements and the schedule of expenditures of federal awards are 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 Piedmont Community Services' 2017 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 21, 2017. In our opinion, the summarized comparative information presented herein as of and 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 Piedmont Community Services' 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 Piedmont Community Services' 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 Piedmont Community Services' internal control over financial reporting and compliance.

Robinson, Fawcett, Cox Associates

Charlottesville, Virginia

November 16, 2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS

The following Management's Discussion and Analysis (MD&A) of Piedmont Community Services' financial performance provides an introduction and overview to the financial statements for the fiscal year ended June 30, 2018.

Following this MD&A are the basic financial statements of Piedmont Community Services (PCS) together with the notes thereto which are essential to a full understanding of the data contained in the financial statements. In addition to the basic financial statements and accompanying notes, there is certain required supplementary information regarding schedule of expenditures of federal awards and schedules related to pension funding.

Revenue

The CSB disabilities (Mental Health, Developmental Disabilities, and Substance Abuse) fourth quarter operating revenues prior to fee transfers or adjustments are as follows:

Disability	FY 2018	FY 2017
Mental Health	\$ 14,231,136	\$ 13,545,726
DD Services	5,726,050	5,806,942
Substance Abuse	3,556,761	3,205,276
Total	\$ 23,513,947	\$ 22,557,944

Medicaid remains the largest source of revenue for PCS, with collections totaling \$12 million.

\$1,016,554 was spent for Discharge Assistance Program (DAP) recipients. These funds provide housing and wrap around services for clients transitioning from long term MH institutional stays back to community settings. These funds are managed by a Regional Consortium consisting of Piedmont, Danville CSB, South Side Community Services, and Southern Virginia Mental Health Institute.

The Department of Behavioral Health (DBHDS) awarded start-up funds of \$112,500 to begin the implementation of STEP-VA—System Transformation Excellence and Performance. This is a new state-wide project for improving services, including same-day access, expansion of outpatient, crisis response, and prescribing capabilities. The eventual goal of this project over the next two years is to reduce state hospital bed day census by the improvement of community based capabilities. PCS is one of 18 boards selected to receive \$270,000 on an annual basis to implement this initiative. In FY19, PCS will contract with MTM consulting firm for access to their data analytics software to track and analyze outcomes related to the implementation of Step-VA.

Funding in the amount of \$176,250 was received from SAMHSA for the Virginia Opioid Prevention, Treatment and Recovery project (OPT-R). This project is continuing through April 2019. PCS was selected due to the high incidents of abuse revealed from the data collected on Virginia's social indicator dashboard for this catchment area. The goal is to increase access to treatment and reduce overdose deaths.

The Code of Virginia requires that state funds from DBHDS be matched by the localities at a 90/10 ratio. When the funds fall short of the required ratio, the Community Service Boards must request a waiver and provide evidence of economic hardship within the catchment area. Piedmont's local match ratio at the end of FY18 was short by 2.39%. PCS management met with the local government officials about this concern and asked them to consider additional ways to improve the local match allocations, such as in-kind donations, or reallocation of school based reimbursement as government appropriation funds. As a result, FY19 local match increased from the previous fiscal year by \$90,000, and includes over \$8,700 in In-Kind Contributions.

Summary of Operations and Changes in Net Position

	FY 2018	FY 2017
Operating revenue	\$ 14,107,724	\$ 13,491,736
Operating expenses	23,539,275	21,878,305
Operating income (loss)	\$ (9,431,551)	\$ (8,386,569)
Nonoperating income (loss)	9,721,197	8,783,854
Change in Net Position	\$ 289,646	\$ 397,285

Operating revenue and expenses are defined as those items which result from providing services, primarily fees, and include all transactions and events which are noncapital and related financing. Non-operating revenues consist of grants, government appropriations, investment and other income. Non-operating expenses are defined as capital and noncapital related financing and other expenses.

PCS is self-insured for medical insurance with intentions of reducing the long-term escalation of premiums over time. Estimated claims for health insurance incurred but not paid as of June 30, 2018 was \$84,521.

Condensed Cash Flow

	FY 2018	FY 2017
Cash flows from operating activities	\$ (9,109,265)	\$ (7,840,039)
Cash flows from noncapital financing activities	9,563,418	8,770,428
Cash flows from capital and related financing activities	(1,908,684)	(502,400)
Cash flows from investing activities	17,093	38,500
Net cash increase (decrease)	\$ (1,437,438)	\$ 466,489
Cash and cash equivalents, beginning of year	9,536,649	9,070,160
Cash and cash equivalents, end of year	\$ 8,099,211	\$ 9,536,649

Consumer fees, operating expenses and personnel expenses determine the operating activities line of the cash flow report. Approximately \$1,908,684 was used to acquire capital assets such as land, vehicles, furniture and equipment, and for property improvements. Principal reductions of \$53,053 were paid on mortgages and \$65,771 was paid for interest expense.

Factors for the net cash decrease include the use of approximately \$731,000 of Aftercare Pharmacy Year fund balances from FY13-FY15 earmarked for the Technology Drive Expansion Project. Other prior year restricted retained earning balances of \$365,000 were spent in FY18 to support the operating budget. The Department expects prior year balances to be spent before current year allocations are expended. In addition to the After Care funding, General Reserve funds of \$700k was also spent to support the Technology Drive Project.

6/30/2018 balances in earmarked or restricted state, federal funds and grants totaled \$1.3 M. The restricted funds include various funding streams including PACT, Regional, Aftercare Pharmacy, Geriatric, CIT, Crisis Stab, Infant Parent, Prevention, Community Recovery, as well as grants such as Harvest. Of this balance, approximately \$1,000,000 was from prior years. Because they are part of previous year balances, they do not affect current year end cash increases.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**Condensed Cash Flow (continued)**

Cash and cash equivalents consist of the following at June 30, 2018:

Cash on hand or established as petty cash	\$ 5,600
Deposits with banks	6,350,315
Deposits with banks (Building Fund)	955,442
Deposits with banks - debt reserve funds	102,763
Deposits held for HUD projects	62,448
Investments - Local Government Investment Pool	622,643
Total cash and cash equivalents	<u>\$ 8,099,211</u>

Condensed Summary of PCS Statement of Net Position

	<u>FY 2018</u>	<u>FY 2017</u>
Assets		
Current assets	\$ 10,166,916	\$ 11,259,146
Restricted assets	205,729	182,701
Other Assets	1,508,427	412,647
Capital assets	10,706,195	9,657,853
Total assets	<u>\$ 22,587,267</u>	<u>\$ 21,512,347</u>
Deferred Outflows of Resources		
Items related to net pension asset	\$ 526,714	\$ 826,116
Items related to net OPEB liability	55,492	-
Total deferred outflows of resources	<u>\$ 582,206</u>	<u>\$ 826,116</u>
Liabilities		
Current liabilities	\$ 2,511,813	\$ 2,279,662
Liabilities payable from restricted assets	46,967	37,244
Long term liabilities	2,362,689	1,568,720
Total liabilities	<u>\$ 4,921,469</u>	<u>\$ 3,885,626</u>
Deferred Inflows of Resources		
Items related to net pension asset	\$ 773,983	\$ 235,681
Items related to net OPEB liability	97,000	-
Total deferred inflows of resources	<u>\$ 870,983</u>	<u>\$ 235,681</u>
Net Position		
Net investment in capital assets	\$ 9,084,472	\$ 8,042,077
Restricted	496,095	905,245
Unrestricted	7,796,454	9,269,834
Total net position	<u>\$ 17,377,021</u>	<u>\$ 18,217,156</u>

Net Position may serve over time as a useful indicator of the Organization's financial position. Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$17.3 million at the close of the most recent fiscal year, a decrease of \$.8 million from FY17.

PCS staff act as payee representative to several consumers, primarily in residential settings, providing management of individual bank accounts totaling \$37,103 on June 30, 2018, reflected in the table above as restricted assets. Other restricted assets are the funds designated for HUD and USDA sites. Of that amount, \$165,211 is designated by the funding source for renovation and repair, and security deposits.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Capital Assets

PCS has long range building and property improvements as part of its management priorities. Investments in the cash reserves set aside for buildings totaled \$1 million as of June 30, 2018.

During FY18, PCS secured a contractor to expand the Technology Drive, Rocky Mount office location. \$1.4 M was spent in FY18 and the project was completed and occupied in October 2018.

Over the past year, PCS management has made requests to the local government officials for partnership opportunities or in-kind office space in Martinsville and Henry Counties. As a result, the City of Martinsville partnered with PCS to lease office space on 4th and D Streets. The property is being leased with the option to purchase, and provides office space for over 20 school based providers.

In December 2017, PCS closed on the purchase of the Dudley Street office which is used for providers of Infant Parent and Healthy Families services.

Additional information can be found in Note 5 of the financial statements.

Long-Term Debt

PCS has \$1,621,723 (less current portion \$61,034) of debt outstanding. The loan is payable to USDA for Technology Drive, Rocky Mount with final payment due February, 2039 (reduced from May, 2047 after a lump sum payment made in 2011). In addition, property was purchased with an interest-free note of \$59,000 during 2018.

Additional information can be found in Note 8 to the financial statements.

Summary

Piedmont Community Services' financial condition remained strong in fiscal year 2018.

Expansion of services is largely dependent upon economic conditions of state and local government and the effect on future funding. The state of Virginia will be expanding Medicaid coverage by lowering income requirements beginning January 2019. As a result of expected growth in services, the funding for the expansion will be achieved by reducing state funds to all CSBs over the next two fiscal years. Piedmont will absorb a reduction in state general funds exceeding \$500,000.

In November 2017, Commonwealth Coordinated Care Plus (CCC+) transformed Medicaid into Managed Long Term Care plans for eligible consumers. In January 2019, the transformation of Medicaid continues as Medallion IV Managed care plan expands to approximately 1,000 current PCS consumers.

The future of continued reimbursement will also depend upon meeting managed care organization requirements to hire and retain "qualified health care" providers for the population served by PCS. The state board of counseling began a registry for all Bachelor level "qualified mental health providers" in 2018. There will be an annual registration fee and external determination of qualification for designated direct care staff.

Requests for Information

This financial report is designed to provide a general overview of Piedmont Community Services' finances for all those with an interest in PCS'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, 24 Clay Street, Martinsville, Virginia 24112.

- Basic Financial Statements -

PIEDMONT COMMUNITY SERVICES

Statement of Net Position

As of June 30, 2018

(With Comparative Totals for 2017)

	2018	2017
Assets		
Current Assets:		
Cash and cash equivalents	\$ 7,934,000	\$ 9,384,539
Accounts receivable, less allowance for uncollectibles	1,651,379	1,510,503
Due from other governments	360,069	158,134
Prepaid items	221,468	205,970
Total current assets	<u>\$ 10,166,916</u>	<u>\$ 11,259,146</u>
Restricted Assets:		
Cash and cash equivalents	\$ 165,211	\$ 152,110
Accounts receivable	3,415	360
Client funds	37,103	30,231
Total restricted assets	<u>\$ 205,729</u>	<u>\$ 182,701</u>
Other Assets:		
Net pension asset	<u>\$ 1,508,427</u>	<u>\$ 412,647</u>
Capital Assets:		
Property and equipment, less accumulated depreciation	<u>\$ 10,706,195</u>	<u>\$ 9,657,853</u>
Total assets	<u>\$ 22,587,267</u>	<u>\$ 21,512,347</u>
Deferred Outflows of Resources		
Items related to net pension asset	\$ 526,714	\$ 826,116
Items related to net OPEB liability	55,492	-
Total deferred outflows of resources	<u>\$ 582,206</u>	<u>\$ 826,116</u>
Liabilities		
Current Liabilities:		
Accounts payable and accrued expenses	\$ 1,277,710	\$ 1,179,311
Retainage payable	69,626	-
Compensated absences	1,091,536	1,043,507
Security and escrow deposits	11,907	9,788
Long-term debt, current portion	61,034	47,056
Total current liabilities	<u>\$ 2,511,813</u>	<u>\$ 2,279,662</u>
Liabilities Payable from Restricted Assets:		
Accounts payable and accrued expenses	\$ 5,352	\$ 2,680
Client funds	37,103	30,231
Security deposits and other	4,512	4,333
Total liabilities payable from restricted assets	<u>\$ 46,967</u>	<u>\$ 37,244</u>
Long-Term Liabilities:		
Long-term debt, less current portion	\$ 1,560,689	\$ 1,568,720
Net OPEB Liability	802,000	-
Total long-term liabilities	<u>\$ 2,362,689</u>	<u>\$ 1,568,720</u>
Total liabilities	<u>\$ 4,921,469</u>	<u>\$ 3,885,626</u>
Deferred Inflows of Resources		
Items related to net pension asset	\$ 773,983	\$ 235,681
Items related to net OPEB liability	97,000	-
Total deferred inflows of resources	<u>\$ 870,983</u>	<u>\$ 235,681</u>
Net Position		
Net investment in capital assets	\$ 9,084,472	\$ 8,042,077
Restricted	496,095	905,245
Unrestricted	7,796,454	9,269,834
Total net position	<u>\$ 17,377,021</u>	<u>\$ 18,217,156</u>

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

PIEDMONT COMMUNITY SERVICES

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 revenue:		
Net patient service revenue	\$ 14,107,724	\$ 13,491,736
Operating expenses:		
Salaries and benefits	\$ 16,595,869	\$ 15,630,764
Staff development	89,011	92,884
Facility	1,032,299	986,336
Supplies	607,933	534,189
Travel	514,154	555,289
Contractual and consulting	3,837,606	3,179,112
Depreciation	632,483	636,243
Other	229,920	263,488
Total operating expenses	\$ 23,539,275	\$ 21,878,305
Operating loss	\$ (9,431,551)	\$ (8,386,569)
Nonoperating income (expense):		
Appropriations:		
Commonwealth of Virginia	\$ 6,820,060	\$ 6,299,969
Federal government	1,984,176	1,834,756
Local governments	353,168	343,008
Rent	274,501	263,214
Investment income	17,093	14,545
Other	335,387	89,027
Interest expense	(65,771)	(67,670)
Gain on sale of property and investments	2,583	7,005
Net nonoperating income	\$ 9,721,197	\$ 8,783,854
Change in net position	\$ 289,646	\$ 397,285
Net position, beginning of year	18,217,156	17,819,871
Restatements	\$ (1,129,781)	\$ -
Net position, beginning of year, as restated	\$ 17,087,375	\$ 17,819,871
Net position, end of year	\$ 17,377,021	\$ 18,217,156

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

PIEDMONT COMMUNITY SERVICES

Statement of Cash Flows
Year Ended June 30, 2018
(With Comparative Totals for 2017)

	2018	2017
Cash flows from operating activities:		
Receipts from customers	\$ 13,966,838	\$ 13,461,392
Payments to suppliers	(6,135,157)	(5,603,942)
Payments to and/or for employees	(16,940,946)	(15,697,489)
Cash flows provided by (used for) operating activities	\$ (9,109,265)	\$ (7,840,039)
Cash flows from noncapital financing activities:		
Government grants	\$ 8,955,469	\$ 8,416,534
Other	607,949	353,894
Cash flows provided by (used for) noncapital financing activities	\$ 9,563,418	\$ 8,770,428
Cash flows from capital and related financing activities:		
Acquisition of capital assets	\$ (1,792,816)	\$ (392,532)
Proceeds from sale of property	2,956	2,956
Principal payments on mortgages and loans payable	(53,053)	(45,154)
Payments for interest	(65,771)	(67,670)
Cash flows provided by (used for) capital and related financing activities	\$ (1,908,684)	\$ (502,400)
Cash flows from investing activities:		
Investment income	\$ 17,093	\$ 14,545
Sale of stock	-	23,955
Cash flows provided by (used for) investing activities	\$ 17,093	\$ 38,500
Net increase (decrease) in cash and cash equivalents	\$ (1,437,438)	\$ 466,489
Cash and cash equivalents, beginning of year	9,536,649	9,070,160
Cash and cash equivalents, end of year	\$ 8,099,211	\$ 9,536,649
Cash and cash equivalents:		
Unrestricted	\$ 7,934,000	\$ 9,384,539
Restricted	165,211	152,110
Total	\$ 8,099,211	\$ 9,536,649
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:		
Operating income (loss)	\$ (9,431,551)	\$ (8,386,569)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	632,483	636,243
Changes in operating assets, liabilities, and deferred outflows/inflows of resources:		
Accounts receivable and due from other governments	(140,876)	(27,661)
Prepaid items	(15,498)	3,405
Net pension asset	(1,095,780)	400,646
Deferred outflows related to net pension asset	299,402	112,177
Deferred outflows related to net OPEB liability	(4,029)	(325,816)
Accounts payable and accrued expenses	100,134	(32,774)
Security and escrow deposits	2,119	1,431
Compensated absences	48,029	(24,432)
Net OPEB liability	(139,000)	-
Deferred inflows related to net pension asset	538,302	-
Deferred inflows related to net OPEB liability	97,000	(196,689)
Cash flows provided by (used for) operating activities	\$ (9,109,265)	\$ (7,840,039)
Supplemental cash flow information:		
Non-cash investing, capital, and financing activities		
Property purchased on account	\$ 59,000	\$ -

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

PIEDMONT COMMUNITY SERVICES

Notes to Financial Statements
As of June 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Description and Purpose of Organization:

The Organization operates as an agent for the Counties of Henry, Franklin, Patrick, and the City of Martinsville in the establishment and operation of community mental health, developmentally disabled 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 Organization provides a system of community mental health and developmentally disabled 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*, and Statement 61, *The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34*, the Organization includes all organizations which exclusively benefit the Organization. All component units included in these financial statements have years which end on June 30.

Blended Component Units:

Blended component units, although legally separate entities are, in substance, part of the Organization's operations, and so data from these units are combined with data of the Organization. The Organization has the following blended component units: Scuffling Hill Housing, Inc., Maynor Street Housing Inc., Pebble Creek Housing, Inc. and West Church Street Housing, Inc. All of these organizations have been included as part of the reporting entity. These entities are not-for-profit organizations exempt under Section 501(c)(3) of the Internal Revenue Code and were organized to own and operate facilities for handicapped individuals. Separately issued financial statements for the blended component units are available from the Chief Financial Officer, 24 Clay Street, Martinsville, VA 24112.

C. Financial Statement Presentation:

Piedmont Community Services is a governmental health care entity and is 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 Governmental Accounting Standards Board (GASB). The principles prescribed by GASB represent generally accepted accounting principles applicable to governmental units.

D. Basis of Accounting:

The Organization 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 Organization 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.

PIEDMONT COMMUNITY SERVICES

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

F. Cash and Cash Equivalents:

The Organization 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.

G. 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.

H. Restricted Assets:

The Organization segregates monies held on behalf of third parties (consumer funds and receivables) and debt reserve funds required to be maintained by loan covenants.

I. Client Accounts Receivable and Service Fee Revenue:

The Organization 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 Organization 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 Organization 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 residents, third-party payers, and others for services rendered. Revenue under third-party payer agreements is subject to audit and retroactive adjustment. Retroactive adjustments are reported in operations in the year of settlement.

The vast majority of fees collected result from Medicaid billings. An allowance for doubtful client and other accounts has been estimated by management to approximate \$502,633 at June 30, 2018 and \$619,802 at June 30, 2017.

J. 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.

K. Capital Assets:

Capital assets acquired which equal or exceed \$2,000 (equipment) and \$5,000 (buildings and renovations) and have a useful life of more than 2 years are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable assets using the straight-line method. Donated capital assets are recorded at acquisition value at the time of the gift.

PIEDMONT COMMUNITY SERVICES

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	25 to 40 years
Improvements to buildings	10 to 40 years
Furniture, fixtures, equipment and vehicles	5 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 Organization has one item that qualifies for reporting in this category. It is comprised of certain items related to the measurement of the net pension asset and net OPEB liability and contributions to the pension and OPEB plans made during the current year and subsequent to the net pension asset/liability and net OPEB asset/liability measurement date. 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 Organization has one type of item that qualifies for reporting in this category. Certain items related to the measurement of the net pension asset and net OPEB liability are reported as deferred inflows of resources. For more detailed information on these items, reference the related notes.

M. Pensions:

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Organization's Retirement Plan and the additions to/deductions from the Organization'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.

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

PIEDMONT COMMUNITY SERVICES

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

O. Compensated Absences:

Employees are entitled to certain compensated absences based upon length of employment. Sick leave does not vest with the employee and is recorded as an expense when paid. Vacation and certain other compensated absences do vest with the employee. Provisions for the estimated liability for these compensated absences have been recorded in the financial statements.

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 Organization 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 Organization's policy to consider restricted net position to have been depleted or used before unrestricted net position is applied.

R. Operating and Nonoperating Revenues and Expenses:

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

S. Rental Income:

The Organization and its component unit organizations receive rental income from tenants, including those eligible for certain U.S. Department of Housing and Urban Development programs. Tenant lease agreements are generally for one year terms and rental income is recorded when earned. This revenue is reported in other nonoperating income for financial reporting.

T. Budgetary Accounting:

The Organization follows these procedures in establishing its budgets:

In response to Letters of Notification received from the Virginia Department of Behavioral Health and Developmental Services (the Department), the Organization submits a Performance Contract to the Department. This application contains complete budgets for all core services.

The Organization'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 August 31 (unless extended), following the end of the fiscal year.

PIEDMONT COMMUNITY SERVICES

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

T. Budgetary Accounting: (continued)

If any changes are made during the fiscal year in state or federal block grants, or local match funds the Organization submits Performance Contract revisions which reflect these changes in time to be received by the Department by required deadlines.

U. Comparative Totals:

Comparative amounts are presented for informational purposes only.

NOTE 2 - DEPOSITS AND INVESTMENTS:

Deposits:

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

Restricted Deposits:

Restricted deposits consist of debt service reserve funds required by the USDA loan covenants and funds restricted for use by HUD in related organizations.

Investments:

Statutes authorize the Organization 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 following is a summary of cash and cash equivalents:

	PCS	Component Units	Total	Total 2017
Cash on hand and petty cash	\$ 5,600	\$ -	\$ 5,600	\$ 5,000
Deposits with banks	7,408,520	62,448	7,470,968	8,918,123
Investments-LGIP	622,643	-	622,643	613,526
Total	<u>\$ 8,036,763</u>	<u>\$ 62,448</u>	<u>\$ 8,099,211</u>	<u>\$ 9,536,649</u>

PIEDMONT COMMUNITY SERVICES

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

NOTE 2 - DEPOSITS AND INVESTMENTS: (continued)

Credit Risk of Debt Securities:

The Organization's investment policies allow the investment of funds in money market funds, repurchase agreements, the Commonwealth of Virginia Local Government Investment Pool, U.S. Treasury and agency securities and non-negotiable certificates of deposit. The Organization also accepts donations of equity securities. The Organization's rated debt investments at 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	
Rated Debt Investments	Fair Quality Ratings AAAm
Virginia Local Government Investment Pool	\$ 622,643

Interest Rate Risk:

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

Interest Rate Risk		
	Investment Maturities (in Years)	
	Value	Less than 1 Year
Virginia Local Government Investment Pool	\$ 622,643	\$ 622,643

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.

PIEDMONT COMMUNITY SERVICES

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

NOTE 3 - ACCOUNTS RECEIVABLE:

At June 30, the Organization had accounts receivable due from the following primary sources.

	<u>2018</u>	<u>2017</u>
Virginia Department of Medical Assistance Services (Medicaid)	\$ 1,495,980	\$ 1,234,088
Direct client, third party and other	<u>658,032</u>	<u>896,217</u>
Total	\$ 2,154,012	\$ 2,130,305
Less: Allowance for uncollectibles	<u>(502,633)</u>	<u>(619,802)</u>
Net accounts receivable	<u>\$ 1,651,379</u>	<u>\$ 1,510,503</u>

Other than the amounts due for Medicaid charges, there are no other individually significant sources of receivables.

NOTE 4 - DUE FROM OTHER GOVERNMENTS:

The Organization has amounts due from other governments as follows:

	<u>PCS</u>	<u>Component Units</u>	<u>Total</u>	<u>2017 Total</u>
Commonwealth of Virginia:				
Tobacco Grant	\$ 12,232	\$ -	\$ 12,232	\$ 6,542
Healthy Families	42,234	-	42,234	21,306
DBHDS Group Home Reimbursement	81,053	-	81,053	-
DMV Grant	13,091	-	13,091	-
Dept. of Juvenile Justice	11,250	-	11,250	-
Others	7,031	-	7,031	-
City of Martinsville	368	-	368	-
County of Franklin	50	-	50	-
County of Henry	134	-	134	-
Danville-Pittsylvania CSB (DAP & Reg Funds)	148,189	-	148,189	84,639
US Dept. of Health and Human Services:				
Drug-Free Communities Grant	38,683	-	38,683	45,647
US Dept. of Housing and Urban Development (HUD)	3,477	-	3,477	-
US Treasury	2,277	-	2,277	-
Total	<u>\$ 360,069</u>	<u>\$ -</u>	<u>\$ 360,069</u>	<u>\$ 158,134</u>

PIEDMONT COMMUNITY SERVICES

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

NOTE 5 - CAPITAL ASSETS:

Capital assets consist of the following:

	Beginning Balances (As Restated)	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 938,314	\$ 72,100	\$ -	\$ 1,010,414
Construction in progress	115,739	1,526,860	-	1,642,599
Total capital assets not being depreciated	\$ 1,054,053	\$ 1,598,960	\$ -	\$ 2,653,013
Capital assets being depreciated:				
Building and improvements	\$ 12,826,263	\$ 148,683	\$ -	\$ 12,974,946
Furnishings and equipment	2,478,111	173,799	109,326	2,542,584
Total capital assets being depreciated	\$ 15,304,374	\$ 322,482	\$ 109,326	\$ 15,517,530
Accumulated depreciation				
Building and improvements	\$ 5,165,602	\$ 424,250	\$ -	\$ 5,589,852
Furnishings and equipment	1,775,216	208,233	108,953	1,874,496
Total accumulated depreciation	\$ 6,940,818	\$ 632,483	\$ 108,953	\$ 7,464,348
Net capital assets being depreciated	\$ 8,363,556	\$ (310,001)	\$ 373	\$ 8,053,182
Total net capital assets	\$ 9,417,609	\$ 1,288,959	\$ 373	\$ 10,706,195

Total depreciation expense was \$632,483 for 2018 and \$636,243 for 2017.

NOTE 6 - LEASE COMMITMENTS:

The Organization leases office space and other facilities from various lessors. The lease terms range from monthly to one year. On May 31, 2018, the Organization entered into a new lease with the City of Martinsville for office space. This lease includes an option to purchase the property. Any payments tendered prior to the exercise of said option, less major capital expenses, incurred by the City related to occupancy of the premises, shall be applied to the purchase price. The Organization may be given credit toward lease payments for any improvement costs incurred, pending approval. The lease provides for thirteen monthly payments of \$1,500 expiring June 30, 2019, and can be renewed for one additional year.

Total rent expense for the years ended June 30, 2018 and 2017 totaled \$103,047 and \$130,455, respectively.

PIEDMONT COMMUNITY SERVICES

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

NOTE 7 - COMPENSATED ABSENCES:

In accordance with the Governmental Accounting Standards Board Statement 16, *Accounting for Compensated Absences*, the Organization has accrued the liability arising from compensated absences.

Organization employees earn leave based on length of service. The Organization has outstanding accrued leave pay totaling \$1,091,536 at June 30, 2018 and \$1,043,507 at June 30, 2017. All of the compensated absence amounts are deemed to be current. Compensated absences increased by \$48,029 from 2017 to 2018.

NOTE 8 - LONG-TERM DEBT:

The following is a summary of long-term debt transactions of the Organization for the year ended June 30, 2018:

	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Long-Term Obligations:				
Notes payable	\$ 1,615,776	\$ 59,000	\$ 53,053	\$ 1,621,723

Details of long-term debt at June 30, 2018 were as follows:

	Balance	Current Portion
\$2,161,300 note payable to USDA; interest only through May 22, 2009, payable in monthly installments of \$9,402 beginning June 22, 2009 (including principal and interest) through May 22, 2047, interest at 4.125%, secured by property in Rocky Mount, Virginia. The scheduled maturity date is February 22, 2039 due to a lump sum payment made in 2011.	\$ 1,568,723	\$ 49,034
\$59,000 note payable issued November 2018 for the purchase of land and a building in Martinsville, Virginia. The note was owner financed with no interest, paid in monthly installments of \$1,000 over 5 years.	53,000	12,000
Total notes payable	\$ 1,621,723	\$ 61,034

The Organization is in compliance with federal arbitrage regulations.

PIEDMONT COMMUNITY SERVICES

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

NOTE 8 - LONG-TERM DEBT: (continued)

Maturities of notes payable and related interest (at current interest rates) are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 61,034	\$ 63,790
2020	63,096	61,728
2021	65,244	59,580
2022	67,482	57,342
2023	62,815	55,009
2024-2028	327,639	236,481
2029-2033	402,545	161,575
2034-2038	494,578	69,542
2039	77,290	1,236
Total	<u>\$ 1,621,723</u>	<u>\$ 766,283</u>

NOTE 9 - COMMITMENTS AND CONTINGENCIES:

Federal programs in which the Organization participates were audited in accordance with the provisions of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Pursuant to the provisions therein all major programs were tested for compliance with applicable grant requirements. While no matters of noncompliance were disclosed by audit, the federal government may subject grant programs to additional compliance tests which may result in disallowed expenditures. In the opinion of management, any future disallowances of current grant program expenditures, if any, would be immaterial.

The Organization has a line of credit with Carter Bank and Trust in the amount of \$800,000. The Organization did not draw on the line during fiscal year 2018 or fiscal year 2017.

At June 30, 2018, the Organization had several projects underway, which are presented in the financial statements as construction in progress. Presented is a list of contracts outstanding:

Rocky Mount Expansion and Renovations	\$ 228,106
Group Homes Architect	<u>18,800</u>
Total	<u>\$ 246,906</u>

PIEDMONT COMMUNITY SERVICES

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

NOTE 10 - LOCAL FUNDS:

The following is a schedule of local funding by locality:

	<u>2018</u>	<u>2017</u>
Martinsville City	\$ 77,191	\$ 77,191
Henry County	130,281	130,281
Patrick County	71,779	69,783
Franklin County	73,917	65,753
Total	<u>\$ 353,168</u>	<u>\$ 343,008</u>

NOTE 11 - NET PATIENT SERVICE REVENUES:

Net patient service revenues were derived from the following sources:

	<u>2018</u>	<u>2017</u>
Medicaid	\$ 12,725,469	\$ 12,191,251
Direct client	391,253	478,068
Other	991,002	822,417
Total	<u>\$ 14,107,724</u>	<u>\$ 13,491,736</u>

NOTE 12 - RENTAL INCOME:

As a part of its operational purpose, the Organization receives rent for the use of residential facilities it owns. The cost of the leased assets and related accumulated depreciation and depreciation expense are as follows:

	<u>2018</u>	<u>2017</u>
Rent received	\$ 274,501	\$ 263,214
Cost of leased assets	2,750,170	2,750,170
Accumulated depreciation	1,201,869	1,114,854
Depreciation expense	87,015	87,682

All rent received is pursuant to lease agreements which are one year or less.

PIEDMONT COMMUNITY SERVICES

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

NOTE 13 - RESTRICTED NET POSITION:

Restricted net position consists of: (1) the net position of the component units less the cost of capital assets net of related debt of \$54,506 and (2) other unexpended grant funds of \$441,589. The net position is considered restricted due to the regulatory oversight over the Organization by the U.S. Department of Housing and Urban Development and the restrictions on the use of the property pursuant to the acceptance of capital advance funds by the Organization and state program restrictions on the use of certain funds.

NOTE 14 - SELF-INSURANCE / RISK MANAGEMENT:

General and Property Insurance:

The Organization has contracted with a commercial insurance carrier for general, professional liability, and director and officers' liability coverages which have \$1,000,000 coverage limits. Professional malpractice coverage is \$2,150,000. Other insurance coverages for property, workers compensation, crime, dishonesty and related coverages are provided by various commercial insurance carriers. Any settlements have not exceeded coverage in the past three years. Management believes the above described coverage is sufficient to preclude any significant uninsured losses.

Employee Health Insurance:

The Organization has established a self-insurance plan for its employee health program. The program is administered by a private insurance carrier. Premium payments are based on the number of employees insured and benefits.

Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors. Incurred but not reported claims have been accrued based upon history and estimates from the insurance carrier. The change in the estimated claims liability recorded in accounts payable and accrued liabilities for fiscal years 2018, 2017, and 2016 is summarized below.

Fiscal Year	Estimated Claims Liability Beginning of Fiscal Year	Current Year Claims and Changes in Estimates	Claim Payments	Estimated Claims Liability End of Fiscal Year
2018	\$ 105,718	\$ 2,408,450	\$ 2,429,647	\$ 84,521
2017	108,409	2,198,621	2,201,312	105,718
2016	127,950	1,379,812	1,399,353	108,409

PIEDMONT COMMUNITY SERVICES

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

NOTE 15 - PENSION PLAN:

Plan Description

All full-time, salaried permanent employees of Piedmont Community Services 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
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.	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.	About the Hybrid Retirement Plan The Hybrid Retirement Plan combines the features of a defined benefit plan and a defined contribution plan. <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.

PIEDMONT COMMUNITY SERVICES

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

NOTE 15 - PENSION PLAN: (continued)

Plan Description (continued)

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

PIEDMONT COMMUNITY SERVICES

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

NOTE 15 - PENSION PLAN: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and had prior service under Plan 1 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 1 or ORP.</p>	<p>Hybrid Opt-In Election (Cont.) Members who were eligible for an optional retirement plan (ORP) and have prior service under Plan 2 were not eligible to elect the Hybrid Retirement Plan and remain as Plan 2 or ORP.</p>	<p>*Non-Eligible Members (Cont.) Those employees eligible for an optional retirement plan (ORP) must elect the ORP plan or the Hybrid Retirement Plan. If these members have prior service under Plan 1 or Plan 2, they are not eligible to elect the Hybrid Retirement Plan and must select Plan 1 or Plan 2 (as applicable) or ORP.</p>
<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>

PIEDMONT COMMUNITY SERVICES

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

NOTE 15 - PENSION PLAN: (continued)

Plan Description (continued)

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

PIEDMONT COMMUNITY SERVICES

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

NOTE 15 - PENSION PLAN: (continued)

Plan Description (continued)

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

PIEDMONT COMMUNITY SERVICES

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

NOTE 15 - PENSION PLAN: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Vesting (Cont.)	Vesting (Cont.)	<p>Vesting (Cont.) <u>Defined Contribution Component: (Cont.)</u> 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>
<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>Calculating the Benefit See definition under Plan 1.</p>	<p>Calculating the Benefit <u>Defined Benefit Component:</u> See definition under Plan 1.</p>

PIEDMONT COMMUNITY SERVICES

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

NOTE 15 - PENSION PLAN: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Calculating the Benefit (Cont.) An early retirement reduction factor is applied to the Basic Benefit if the member retires with a reduced retirement benefit or selects a benefit payout option other than the Basic Benefit.	Calculating the Benefit (Cont.)	Calculating the Benefit (Cont.) <u>Defined Contribution Component:</u> The benefit is based on contributions made by the member and any matching contributions made by the employer, plus net investment earnings on those contributions.
Average Final Compensation A member's average final compensation is the average of the 36 consecutive months of highest compensation as a covered employee.	Average Final Compensation A member's average final compensation is the average of their 60 consecutive months of highest compensation as a covered employee.	Average Final Compensation Same as Plan 2. It is used in the retirement formula for the defined benefit component of the plan.
Service Retirement Multiplier VRS: The retirement multiplier is a factor used in the formula to determine a final retirement benefit. The retirement multiplier for non-hazardous duty members is 1.70%. Sheriffs and regional jail superintendents: The retirement multiplier for sheriffs and regional jail superintendents is 1.85%. Political subdivision hazardous duty employees: The retirement multiplier of eligible political subdivision hazardous duty employees other than sheriffs and regional jail superintendents is 1.70% or 1.85% as elected by the employer.	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. Sheriffs and regional jail superintendents: Same as Plan 1. Political subdivision hazardous duty employees: Same as Plan 1.	Service Retirement Multiplier <u>Defined Benefit Component:</u> VRS: The retirement multiplier for the defined benefit component is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans. Sheriffs and regional jail superintendents: Not applicable. Political subdivision hazardous duty employees: Not applicable. Defined Contribution Component: Not applicable.

PIEDMONT COMMUNITY SERVICES

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

NOTE 15 - PENSION PLAN: (continued)

Plan Description (continued)

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

PIEDMONT COMMUNITY SERVICES

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

NOTE 15 - PENSION PLAN: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
<p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: 50 with at least five years of creditable service.</p>	<p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: Same as Plan 1.</p>	<p>Earliest Reduced Retirement Eligibility (Cont.)</p> <p>Political subdivisions hazardous duty employees: Not applicable.</p> <p><u>Defined Contribution Component:</u> Members are eligible to receive distributions upon leaving employment, subject to restrictions.</p>
<p>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>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>Cost-of-Living Adjustment (COLA) in Retirement <u>Defined Benefit Component:</u> Same as Plan 2.</p> <p><u>Defined Contribution Component:</u> Not applicable.</p> <p><u>Eligibility:</u> Same as Plan 1 and Plan 2.</p>

PIEDMONT COMMUNITY SERVICES

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

NOTE 15 - 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:</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. • 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:</u> Same as Plan 1.</p>	<p>Cost-of-Living Adjustment (COLA) in Retirement (Cont.)</p> <p><u>Exceptions to COLA Effective Dates:</u> Same as Plan 1 and Plan 2.</p>

PIEDMONT COMMUNITY SERVICES

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

NOTE 15 - PENSION PLAN: (continued)

Plan Description (continued)

RETIREMENT PLAN PROVISIONS (CONTINUED)		
PLAN 1	PLAN 2	HYBRID RETIREMENT PLAN
Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.7% on all service, regardless of when it was earned, purchased or granted.	Disability Coverage Members who are eligible to be considered for disability retirement and retire on disability, the retirement multiplier is 1.65% on all service, regardless of when it was earned, purchased or granted.	Disability Coverage Employees of political subdivisions (including Plan 1 and Plan2 opt-ins) participate in the Virginia Local Disability Program (VLDP) unless their local 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 Contribution Component:</u> Not applicable.

Pension Plan Data

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

PIEDMONT COMMUNITY SERVICES

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

NOTE 15 - 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	31
Inactive members:	
Vested inactive members	17
Non-vested inactive members	57
Inactive members active elsewhere in VRS	<u>30</u>
Total inactive members	104
Active members	<u>256</u>
Total covered employees	<u><u>391</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.

Piedmont Community Services' contractually required employer contribution rate for the year ended June 30, 2018 was 5.36% 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 Organization were \$526,714 and \$500,300 for the years ended June 30, 2018 and June 30, 2017, respectively.

Net Pension Asset

The Organization's net pension asset was measured as of June 30, 2017. The total pension liability used to calculate the net pension 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.

PIEDMONT COMMUNITY SERVICES

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

NOTE 15 - PENSION PLAN: (continued)

Actuarial Assumptions - General Employees

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

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

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

Mortality rates:

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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.

PIEDMONT COMMUNITY SERVICES

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

NOTE 15 - 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%

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	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%.

PIEDMONT COMMUNITY SERVICES

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

NOTE 15 - PENSION PLAN: (continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Through the fiscal year ending June 30, 2019, the rate contributed by the employer for the Piedmont Community Services 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.

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	\$ 11,423,103	\$ 11,835,750	\$ (412,647)
Changes for the year:			
Service cost	\$ 1,040,068	\$ -	\$ 1,040,068
Interest	787,047	-	787,047
Changes in assumptions	(430,687)	-	(430,687)
Differences between expected and actual experience	(39,235)	-	(39,235)
Contributions - employer	-	500,100	(500,100)
Contributions - employee	-	469,678	(469,678)
Net investment income	-	1,492,425	(1,492,425)
Benefit payments, including refunds of employee contributions	(359,136)	(359,136)	-
Administrative expenses	-	(7,869)	7,869
Other changes	-	(1,361)	1,361
Net changes	\$ 998,057	\$ 2,093,837	\$ (1,095,780)
Balances at June 30, 2017	\$ 12,421,160	\$ 13,929,587	\$ (1,508,427)

PIEDMONT COMMUNITY SERVICES

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

NOTE 15 - PENSION PLAN: (continued)

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

The following presents the net pension liability (asset) of Piedmont Community Services using the discount rate of 7.00%, as well as what the Organization'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	Current	1% Increase
	(6.00%)	(7.00%)	(8.00%)
Piedmont Community Services			
Net Pension Liability (Asset)	\$ 384,227	\$ (1,508,427)	\$ (3,051,678)

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

For the year ended June 30, 2018, the Organization recognized pension expense of \$268,438. At June 30, 2018, the Organization reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience \$	-	\$ 213,379
Change in assumptions	-	347,058
Net difference between projected and actual earnings on pension plan investments	-	213,546
Employer contributions subsequent to the measurement date	526,714	-
Total	\$ 526,714	\$ 773,983

PIEDMONT COMMUNITY SERVICES

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

NOTE 15 - PENSION PLAN: (continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: (continued)

\$526,714 reported as deferred outflows of resources related to pensions resulting from the Organization's contributions subsequent to the measurement date will be recognized as an increase to the Net Pension Asset 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	\$ (248,679)
2020	(112,286)
2021	(159,506)
2022	(239,694)
2023	(13,818)
Thereafter	-

NOTE 16—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.

PIEDMONT COMMUNITY SERVICES

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

NOTE 16—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

Plan Description: (Continued)

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
<p>Eligible Employees</p> <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>
<p>Benefit Amounts</p> <p>The benefits payable under the Group Life Insurance Program have several components.</p> <ul style="list-style-type: none">• <u>Natural Death Benefit</u> - The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled.• <u>Accidental Death Benefit</u> - The accidental death benefit is double the natural death benefit.• <u>Other Benefit Provisions</u> - In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include:<ul style="list-style-type: none">○ Accidental dismemberment benefit○ Safety belt benefit○ Repatriation benefit○ Felonious assault benefit○ Accelerated death benefit option
<p>Reduction in Benefit Amounts</p> <p>The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.</p>

PIEDMONT COMMUNITY SERVICES

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

NOTE 16—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

Plan Description: (Continued)

GROUP LIFE INSURANCE PROGRAM PLAN PROVISIONS (CONTINUED)
Minimum Benefit Amount and Cost-of-Living Adjustment (COLA) 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.

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 \$55,492 and \$51,463 for the years ended June 30, 2018 and June 30, 2017, respectively.

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 \$802,000 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 .05324% as compared to .05381% at June 30, 2016.

For the year ended June 30, 2018, the participating employer recognized GLI OPEB expense of \$7,000. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

PIEDMONT COMMUNITY SERVICES

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

NOTE 16—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)

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 \$	- \$	18,000
Net difference between projected and actual earnings on GLI OPEB program investments	-	30,000
Change in assumptions	-	41,000
Changes in proportion	-	8,000
Employer contributions subsequent to the measurement date	<u>55,492</u>	<u>-</u>
Total	<u>\$ 55,492</u>	<u>\$ 97,000</u>

\$55,492 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	\$ (20,000)
2020	(20,000)
2021	(20,000)
2022	(20,000)
2023	(11,000)
Thereafter	(6,000)

PIEDMONT COMMUNITY SERVICES

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

NOTE 16—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

Actuarial Assumptions: (Continued)

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.

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.

PIEDMONT COMMUNITY SERVICES

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

NOTE 16—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

Actuarial Assumptions: (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 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%

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.

PIEDMONT COMMUNITY SERVICES

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

NOTE 16—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

Actuarial Assumptions: (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 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

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%

PIEDMONT COMMUNITY SERVICES

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

NOTE 16—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%

PIEDMONT COMMUNITY SERVICES

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

NOTE 16—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

PIEDMONT COMMUNITY SERVICES

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

NOTE 16—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%

PIEDMONT COMMUNITY SERVICES

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

NOTE 16—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

Actuarial Assumptions: (Continued)

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

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

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

Mortality Rates - Largest Ten Locality Employers - Hazardous Duty Employees

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

PIEDMONT COMMUNITY SERVICES

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

NOTE 16—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

Actuarial Assumptions: (Continued)

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

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

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

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

Pre-Retirement:

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

Post-Retirement:

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

Post-Disablement:

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

PIEDMONT COMMUNITY SERVICES

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

NOTE 16—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	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%

NOTE 16—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

NET GLI OPEB Liability: (Continued)

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.

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%.

PIEDMONT COMMUNITY SERVICES

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

NOTE 16—GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (CONTINUED)

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.

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 (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
Organization's proportionate share of the Group Life Insurance Program			
Net OPEB Liability	\$ 1,037,000	\$ 802,000	\$ 611,000

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.

PIEDMONT COMMUNITY SERVICES

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

NOTE 17 - ADOPTION OF ACCOUNTING PRINCIPLES AND CORRECTION OF BALANCES:

The Organization 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 Organization 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 and the correction of capital asset balances resulted in the following restatement of net position:

Net Position, July 1, 2017, as previously stated	\$ 18,217,156
Restatements:	
Group Life Insurance - GASB 75 Implementation	(889,537)
Correction of balances - ICF assets and depreciation	<u>(240,244)</u>
Net Position, July 1, 2017, as restated	<u>\$ 17,087,375</u>

In the year of implementation of GASB 75, prior year comparative information was unavailable. Therefore, the 2017 information has not been restated to reflect the requirements of GASB 75.

NOTE 18 - SUBSEQUENT EVENTS:

In July 2018, there was a substantial fire at Church Street Apartments. Fifteen of thirty-three units were declared a total loss and residents were relocated. The expected contract for reconstruction is \$2,023,860. Approximately \$70,000 will be received from the insurance company for lost income. The Organization must pay a \$500 deductible and the remaining costs, estimated at \$2.82 million, will be covered by insurance.

In October 2018, property in the amount of \$28,000 was purchased for a future group home. Two new group homes are being built to accommodate residents from the closure of the Central Virginia Training Center. DBHDS has agreed to reimburse the Organization for costs related to these two group homes.

- Required Supplementary Information -

PIEDMONT COMMUNITY SERVICES

Schedule of Changes in Net Pension Asset and Related Ratios
For the Years Ended June 30, 2015 through June 30, 2018

	2017	2016	2015	2014
Total pension liability				
Service cost	\$ 1,040,068	\$ 1,044,230	\$ 1,007,002	\$ 1,003,846
Interest	787,047	691,313	610,290	516,190
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience	(39,235)	(77,525)	(253,095)	-
Changes in assumptions	(430,687)	-	-	-
Benefit payments, including refunds of employee contributions	(359,136)	(221,626)	(191,837)	(159,644)
Net change in total pension liability	\$ 998,057	\$ 1,436,392	\$ 1,172,360	\$ 1,360,392
Total pension liability - beginning	11,423,103	9,986,711	8,814,351	7,453,959
Total pension liability - ending (a)	\$ 12,421,160	\$ 11,423,103	\$ 9,986,711	\$ 8,814,351
Plan fiduciary net position				
Contributions - employer	\$ 500,100	\$ 598,255	\$ 572,388	\$ 846,014
Contributions - employee	469,678	451,813	453,791	460,047
Net investment income	1,492,425	213,600	458,772	1,222,332
Benefit payments, including refunds of employee contributions	(359,136)	(221,626)	(191,837)	(159,644)
Administrative expense	(7,869)	(6,210)	(5,378)	(5,542)
Other	(1,361)	(86)	(101)	64
Net change in plan fiduciary net position	\$ 2,093,837	\$ 1,035,746	\$ 1,287,635	\$ 2,363,271
Plan fiduciary net position - beginning	11,835,750	10,800,004	9,512,369	7,149,098
Plan fiduciary net position - ending (b)	\$ 13,929,587	\$ 11,835,750	\$ 10,800,004	\$ 9,512,369
Organization's net pension liability (asset) - ending (a) - (b)	\$ (1,508,427)	\$ (412,647)	\$ (813,293)	\$ (698,018)
Plan fiduciary net position as a percentage of the total pension liability	112.14%	103.61%	108.14%	107.92%
Covered payroll	\$ 9,816,096	\$ 9,645,309	\$ 9,117,984	\$ 8,605,627
Organization's net pension asset as a percentage of covered payroll	-15.37%	-4.28%	-8.92%	-8.11%

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.

PIEDMONT COMMUNITY SERVICES

Schedule of Employer Contributions

Pension Plan

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

Date	Contributions in Relation to			Contributions	
	Contractually Required Contribution (1)	Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	as a % of Covered Payroll (5)
2018	\$ 526,714	\$ 526,714	\$ -	\$ 10,582,256	4.98%
2017	500,300	500,300	-	9,816,096	5.10%
2016	612,477	612,477	-	9,645,309	6.35%
2015	578,992	578,992	-	9,117,984	6.35%
2014	846,794	846,794	-	8,605,627	9.84%
2013	824,026	824,026	-	8,374,247	9.84%
2012	692,811	692,811	-	7,935,976	8.73%
2011	636,090	636,090	-	7,286,250	8.73%
2010	470,284	470,284	-	7,235,139	6.50%
2009	452,638	452,638	-	6,963,654	6.50%

PIEDMONT COMMUNITY SERVICES

Notes to Required Supplementary Information

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%

PIEDMONT COMMUNITY SERVICES

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

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 GLI OPEB Liability (6)
2017	0.05324% \$	802,000 \$	9,816,096	8.17%	48.86%

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

PIEDMONT COMMUNITY SERVICES

Schedule of Employer Contributions
Group Life Insurance Program
For the Years Ended June 30, 2009 through June 30, 2018

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Employer's Covered Payroll (4)	Contributions as a % of Covered Payroll (5)
2018	\$ 55,492	\$ 55,492	\$ -	\$ 10,589,886	0.52%
2017	51,463	51,463	-	9,820,945	0.52%
2016	46,418	46,418	-	9,670,313	0.48%
2015	43,739	43,739	-	9,112,191	0.48%
2014	41,339	41,339	-	8,612,346	0.48%
2013	40,222	40,222	-	8,379,675	0.48%
2012	22,239	22,239	-	7,942,420	0.28%
2011	20,415	20,415	-	7,290,907	0.28%
2010	14,738	14,738	-	7,240,413	0.20%
2009	14,344	14,344	-	5,312,676	0.27%

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%

- Other Supplementary Information -
Combining Financial Statements

PIEDMONT COMMUNITY SERVICES

Combining Statement of Net Position
As of June 30, 2018

Assets	Piedmont Community Services	Scuffling Hill Housing, Inc.	Maynor Street Housing, Inc.	Pebble Creek Housing, Inc.
Current Assets:				
Cash and cash equivalents	\$ 7,934,000	\$ -	\$ -	\$ -
Accounts receivable, less allowance for uncollectibles	1,651,379	-	-	-
Due from other governments	360,069	-	-	-
Prepaid items	221,468	-	-	-
Total current assets	\$ 10,166,916	\$ -	\$ -	\$ -
Restricted Assets:				
Cash and cash equivalents	\$ 102,763	\$ 14,999	\$ 19,934	\$ 9,392
Accounts receivable	-	805	-	1,493
Client funds	37,103	-	-	-
Total restricted assets	\$ 139,866	\$ 15,804	\$ 19,934	\$ 10,885
Other Assets:				
Net pension asset	\$ 1,508,427	\$ -	\$ -	\$ -
Capital Assets:				
Property and equipment, less accumulated depreciation	\$ 9,314,697	\$ 284,554	\$ 327,085	\$ 339,131
Total assets	\$ 21,129,906	\$ 300,358	\$ 347,019	\$ 350,016
Deferred Outflows of Resources				
Items related to net pension asset	\$ 526,714	\$ -	\$ -	\$ -
Items related to net OPEB liability	55,492	-	-	-
Total deferred outflows of resources	\$ 582,206	\$ -	\$ -	\$ -
Liabilities				
Current Liabilities:				
Accounts payable and accrued expenses	\$ 1,276,217	\$ -	\$ -	\$ 1,493
Retainage payable	69,626	-	-	-
Compensated absences	1,091,536	-	-	-
Security and escrow deposits	11,907	-	-	-
Long-term debt, current portion	61,034	-	-	-
Total current liabilities	\$ 2,510,320	\$ -	\$ -	\$ 1,493
Liabilities Payable from Restricted Assets:				
Accounts payable and accrued expenses	\$ -	\$ 1,735	\$ -	\$ -
Client funds	37,103	-	-	-
Security deposits and other	-	596	1,320	1,301
Total liabilities payable from restricted assets	\$ 37,103	\$ 2,331	\$ 1,320	\$ 1,301
Long-Term Liabilities:				
Long-term debt, less current portion	\$ 1,560,689	\$ -	\$ -	\$ -
Net OPEB liability	802,000	-	-	-
Total long-term liabilities	\$ 2,362,689	\$ -	\$ -	\$ -
Total liabilities	\$ 4,910,112	\$ 2,331	\$ 1,320	\$ 2,794
Deferred Inflows of Resources				
Items related to net pension asset	\$ 773,983	\$ -	\$ -	\$ -
Items related to net OPEB liability	97,000	-	-	-
Total deferred inflows of resources	\$ 870,983	\$ -	\$ -	\$ -
Net Position				
Net investment in capital assets	\$ 7,692,974	\$ 284,554	\$ 327,085	\$ 339,131
Restricted	441,589	13,473	18,614	8,091
Unrestricted	7,796,454	-	-	-
Total net position	\$ 15,931,017	\$ 298,027	\$ 345,699	\$ 347,222

West Church Street Housing, Inc.	Intercompany Eliminations	Total
\$ -	\$ -	\$ 7,934,000
-	-	1,651,379
-	-	360,069
-	-	221,468
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,166,916</u>
\$ 18,123	\$ -	\$ 165,211
1,117	-	3,415
-	-	37,103
<u>\$ 19,240</u>	<u>\$ -</u>	<u>\$ 205,729</u>
\$ -	\$ -	\$ 1,508,427
\$ 440,728	\$ -	\$ 10,706,195
<u>\$ 459,968</u>	<u>\$ -</u>	<u>\$ 22,587,267</u>
\$ -	\$ -	\$ 526,714
-	-	55,492
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 582,206</u>
\$ -	\$ -	\$ 1,277,710
-	-	69,626
-	-	1,091,536
-	-	11,907
-	-	61,034
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,511,813</u>
\$ 3,617	\$ -	\$ 5,352
-	-	37,103
1,295	-	4,512
<u>\$ 4,912</u>	<u>\$ -</u>	<u>\$ 46,967</u>
\$ -	\$ -	\$ 1,560,689
-	-	802,000
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,362,689</u>
<u>\$ 4,912</u>	<u>\$ -</u>	<u>\$ 4,921,469</u>
\$ -	\$ -	\$ 773,983
-	-	97,000
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 870,983</u>
\$ 440,728	\$ -	\$ 9,084,472
14,328	-	496,095
-	-	7,796,454
<u>\$ 455,056</u>	<u>\$ -</u>	<u>\$ 17,377,021</u>

PIEDMONT COMMUNITY SERVICES

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

	<u>Piedmont Community Services</u>	<u>Scuffling Hill Housing, Inc.</u>	<u>Maynor Street Housing, Inc.</u>
Operating revenue:			
Net patient service revenue	\$ 14,107,724	\$ -	\$ -
Operating expenses:			
Salaries and benefits	\$ 16,595,869	\$ -	\$ -
Staff development	89,011	-	-
Facility	919,968	44,571	30,963
Supplies	607,933	-	-
Travel	514,154	-	-
Contractual and consulting	3,837,606	-	-
Depreciation	566,806	14,053	19,803
Other	229,920	-	-
Total operating expenses	\$ 23,361,267	\$ 58,624	\$ 50,766
Operating income (loss)	\$ (9,253,543)	\$ (58,624)	\$ (50,766)
Nonoperating income (expense):			
Appropriations:			
Commonwealth of Virginia	\$ 6,820,060	\$ -	\$ -
Federal government	1,984,176	-	-
Local governments	353,168	-	-
Rent	160,352	18,248	30,963
Investment income	16,884	55	78
Other	335,387	24,705	1,649
Interest expense	(65,771)	-	-
Gain on sale of property and investments	2,583	-	-
Net nonoperating income (expense)	\$ 9,606,839	\$ 43,008	\$ 32,690
Change in net position	\$ 353,296	\$ (15,616)	\$ (18,076)
Net position, beginning of year	16,707,502	313,643	363,775
Restatements	\$ (1,129,781)	\$ -	\$ -
Net position, beginning of year, as restated	\$ 15,577,721	\$ 313,643	\$ 363,775
Net position, end of year	\$ 15,931,017	\$ 298,027	\$ 345,699

<u>Pebble Creek Housing, Inc.</u>	<u>West Church Street Housing, Inc.</u>	<u>Intercompany Eliminations</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 14,107,724
\$ -	\$ -	\$ -	\$ 16,595,869
-	-	-	89,011
35,995	30,258	(29,456)	1,032,299
-	-	-	607,933
-	-	-	514,154
-	-	-	3,837,606
14,879	16,942	-	632,483
-	-	-	229,920
\$ 50,874	\$ 47,200	\$ (29,456)	\$ 23,539,275
\$ (50,874)	\$ (47,200)	\$ 29,456	\$ (9,431,551)
\$ -	\$ -	\$ -	\$ 6,820,060
-	-	-	1,984,176
-	-	-	353,168
34,680	30,258	-	274,501
24	52	-	17,093
1,598	1,504	(29,456)	335,387
-	-	-	(65,771)
-	-	-	2,583
\$ 36,302	\$ 31,814	\$ (29,456)	\$ 9,721,197
\$ (14,572)	\$ (15,386)	\$ -	\$ 289,646
361,794	470,442	-	18,217,156
\$ -	\$ -	\$ -	\$ (1,129,781)
\$ 361,794	\$ 470,442	\$ -	\$ 17,087,375
\$ 347,222	\$ 455,056	\$ -	\$ 17,377,021

PIEDMONT COMMUNITY SERVICES

Combining Statement of Cash Flows
Year Ended June 30, 2018

	Piedmont Community Services	Scuffling Hill Housing, Inc.	Maynor Street Housing, Inc.
Cash flows from operating activities:			
Receipts from customers	\$ 13,966,838	\$ -	\$ -
Payments to suppliers	(6,024,559)	(42,836)	(30,963)
Payments to and/or for employees	(16,940,946)	-	-
Cash flows provided by (used for) operating activities	<u>\$ (8,998,667)</u>	<u>\$ (42,836)</u>	<u>\$ (30,963)</u>
Cash flows from noncapital financing activities:			
Government grants	\$ 8,955,469	\$ -	\$ -
Other	495,739	42,306	32,620
Cash flows provided by (used for) noncapital financing activities	<u>\$ 9,451,208</u>	<u>\$ 42,306</u>	<u>\$ 32,620</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	\$ (1,792,816)	\$ -	\$ -
Proceeds from sale of capital assets	2,956	-	-
Principal payments on mortgages and loans payable	(53,053)	-	-
Payments for interest	(65,771)	-	-
Cash flows provided by (used for) capital and related financing activities	<u>\$ (1,908,684)</u>	<u>\$ -</u>	<u>\$ -</u>
Cash flows from investing activities:			
Investment income	\$ 16,884	\$ 55	\$ 78
Cash flows provided by (used for) investing activities	<u>\$ 16,884</u>	<u>\$ 55</u>	<u>\$ 78</u>
Net increase (decrease) in cash and cash equivalents	<u>\$ (1,439,259)</u>	<u>\$ (475)</u>	<u>\$ 1,735</u>
Cash and cash equivalents, beginning of year	<u>9,476,022</u>	<u>15,474</u>	<u>18,199</u>
Cash and cash equivalents, end of year	<u><u>\$ 8,036,763</u></u>	<u><u>\$ 14,999</u></u>	<u><u>\$ 19,934</u></u>
Cash and cash equivalents:			
Unrestricted	\$ 7,934,000	\$ -	\$ -
Restricted	102,763	14,999	19,934
Total	<u><u>\$ 8,036,763</u></u>	<u><u>\$ 14,999</u></u>	<u><u>\$ 19,934</u></u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:			
Operating income (loss)	\$ (9,253,543)	\$ (58,624)	\$ (50,766)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) by operating activities:			
Depreciation	566,806	14,053	19,803
Changes in operating assets, liabilities, and deferred outflows/inflows of resources:			
Accounts receivable and due from other governments	(140,876)	-	-
Prepaid items	(15,498)	-	-
Net pension asset	(1,095,780)	-	-
Deferred outflows related to net pension asset	299,402	-	-
Deferred outflows related to net OPEB liability	(4,029)	-	-
Accounts payable and accrued expenses	98,401	1,735	-
Security and escrow deposits	2,119	-	-
Compensated absences	48,029	-	-
Net OPEB liability	(139,000)	-	-
Deferred inflows related to net pension asset	538,302	-	-
Deferred inflows related to net OPEB liability	97,000	-	-
Cash flows provided by (used for) operating activities	<u><u>\$ (8,998,667)</u></u>	<u><u>\$ (42,836)</u></u>	<u><u>\$ (30,963)</u></u>

Pebble Creek Housing, Inc.	West Church Street Housing, Inc.	Intercompany Eliminations	Total
\$ -	\$ -	\$ -	\$ 13,966,838
(35,997)	(30,258)	29,456	(6,135,157)
-	-	-	(16,940,946)
<u>\$ (35,997)</u>	<u>\$ (30,258)</u>	<u>\$ 29,456</u>	<u>\$ (9,109,265)</u>
\$ -	\$ -	\$ -	\$ 8,955,469
34,973	31,767	(29,456)	607,949
<u>\$ 34,973</u>	<u>\$ 31,767</u>	<u>\$ (29,456)</u>	<u>\$ 9,563,418</u>
\$ -	\$ -	\$ -	\$ (1,792,816)
-	-	-	2,956
-	-	-	(53,053)
-	-	-	(65,771)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,908,684)</u>
\$ 24	\$ 52	\$ -	\$ 17,093
<u>\$ 24</u>	<u>\$ 52</u>	<u>\$ -</u>	<u>\$ 17,093</u>
\$ (1,000)	\$ 1,561	\$ -	\$ (1,437,438)
10,392	16,562	-	9,536,649
<u>\$ 9,392</u>	<u>\$ 18,123</u>	<u>\$ -</u>	<u>\$ 8,099,211</u>
\$ -	\$ -	\$ -	\$ 7,934,000
9,392	18,123	-	165,211
<u>\$ 9,392</u>	<u>\$ 18,123</u>	<u>\$ -</u>	<u>\$ 8,099,211</u>
\$ (50,874)	\$ (47,200)	\$ 29,456	\$ (9,431,551)
14,879	16,942	-	632,483
-	-	-	(140,876)
-	-	-	(15,498)
-	-	-	(1,095,780)
-	-	-	299,402
-	-	-	(4,029)
(2)	-	-	100,134
-	-	-	2,119
-	-	-	48,029
-	-	-	(139,000)
-	-	-	538,302
-	-	-	97,000
<u>\$ (35,997)</u>	<u>\$ (30,258)</u>	<u>\$ 29,456</u>	<u>\$ (9,109,265)</u>

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- Compliance -

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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
Piedmont Community Services
Martinsville, 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 Piedmont Community Services, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Piedmont Community Services' 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 Piedmont Community Services' 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 Piedmont Community Services' internal control. Accordingly, we do not express an opinion on the effectiveness of Piedmont Community Services' 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 a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Piedmont Community Services' 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 Piedmont Community Services' internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Piedmont Community Services' 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
Piedmont Community Services
Martinsville, Virginia

Report on Compliance for Each Major Federal Program

We have audited Piedmont Community Services' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Piedmont Community Services' major federal programs for the year ended June 30, 2018. Piedmont Community Services' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Piedmont Community Services' basic financial statements include the operations of component unit organizations Scuffling Hill Housing, Inc.; Maynor Street Housing, Inc.; Pebble Creek Housing, Inc.; and West Church Street Housing Inc., which received, in the aggregate, a total of \$1,849,611 in federal awards which is not included the Schedule of Federal Awards during the year ended June 30, 2018. Our audit, described below, did not include the operations of the above component units because each of the component units issues separate financial statements, and audits in compliance with the Uniform Guidance are performed at the component unit level, where applicable.

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 Piedmont Community Services' 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 Piedmont Community Services' 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 Piedmont Community Services' compliance.

Opinion on Each Major Federal Program

In our opinion, Piedmont Community Services 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 June 30, 2018.

Report on Internal Control over Compliance

Management of Piedmont Community Services 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 Piedmont Community Services' 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 Piedmont Community Services' 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

PIEDMONT COMMUNITY SERVICES

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 Agriculture:</u>			
Pass-through payments:			
Virginia Department of Agriculture:			
Child and Adult Care Food Program (CACFP)	10.558	10340	\$ 46,011
Total Department of Agriculture			\$ 46,011
<u>Department of Health and Human Services:</u>			
Direct payments:			
Drug-Free Communities Support Program Grants	93.276	Not Applicable	\$ 122,866
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	5U79SP020791-04	100,000
Opioid STR	93.788	5H79T1080220-02	176,250
Block Grants for Community Mental Health Services	93.958	3B09SM010053-18S2	248,153
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2B08T110053-18	974,552
Virginia Department of Social Services:			
Temporary Assistance for Needy Families (TANF)	93.558	FAM-15-084-19	236,144
Total Department of Health and Human Services			\$ 1,857,965
<u>Department of Education:</u>			
Pass-through payments:			
Virginia Department of Behavioral Health and Developmental Services:			
Special Education - Grants for Infants and Families	84.181	H181A180017	\$ 50,200
Total expenditures of federal awards			\$ 1,954,176

Notes to the Schedule of Expenditures of Federal Awards

Note A - Basis of Presentation:

The schedule of expenditures of federal awards (the Schedule) includes the federal award activity of Piedmont Community Services 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 Piedmont Community Services, it is not intended to and does not present the financial position, changes in net position, or cash flows of Piedmont Community Services.

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 as 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 - Item Not Included in the Schedule:

U.S.D.A. Rural Development loan balance at June 30, 2018 for which only the payment of debt service is the primary compliance requirement.

\$ 1,621,723

Note F - Reconciliation of Expenditures of Federal Awards to Financial Statements:

Total expenditures of Federal Awards

\$ 1,954,176

Adjustments:

 OPT-R Federal Balance

30,000

Total federal revenue per financial statements

\$ 1,984,176

PIEDMONT COMMUNITY SERVICES

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 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.

PIEDMONT COMMUNITY SERVICES

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2018

There were no items reported for the year ended June 30, 2017.

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