PIEDMONT COMMUNITY SERVICES

Martinsville, Virginia

FINANCIAL REPORT

YEAR ENDED JUNE 30, 2019

PIEDMONT COMMUNITY SERVICES
Martinsville, Virginia

FINANCIAL REPORT - YEAR ENDED JUNE 30, 2019

Table of Contents

Organization of Directors

Jane Carlson, Chair
Justin Sigmon, 1st Vice-Chair
Dr. Paulette R. Simington, 2nd Vice-Chair

Franklin County

Bettye Buckingham
Vera Hollen
Justin Sigmon
B. W. Wright

Henry County

Garrett Dillard
Mary Blanche Horsley
Curtis Millner
Dr. Paulette R. Simington
Eric Winn

Patrick County

Jane Carlson
Rendy Williams

City of Martinsville

Linda R. Drage
Brenda Ephriam

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
JUNE 30, 2019

City of Martinsville | **Henry County** | **Franklin County** | **Patrick County**

BOARD OF DIRECTORS

Greg Preston, Executive Director

Support Staff
- Lynn Fleming-Admin Specialist

Sharon Buckman, Director
Clinical Services
- Kelly Koebel-Senior Clinical Manager
- Marcie Altice-FC Clinical Manager
- Dana Dehart-PC Clinical Manager
- Dr. Don Tessmann-Medical Director
- Susie Sizemore-Admin Specialist

Shannon Clark, Director
Community Support Services
- Teresa Hooper, ID/DD CM Coordinator
- Cynthia Scales, PSR Coordinator
- Malvina Sandidge, MV/HC/PC Coordinator
- Donna Hodges, FC Coordinator
- Todd Woodall-Budget Specialist
- Lynn Fleming, Admin Specialist

Caroline Pilson,
Chief Financial Officer
- Tiffany Windbush-Accountant
- Mary Potter- Internal Auditor
- Sandra Blevins- A/P Specialist
- Donna Doughton-Accounting Specialist
- Veraine Randolph- Finance Specialist
- Patricia Mitchell-Office Assist (Contract)
- Bonita Vipperman-QA Manager (Contract)
- Julia Campbell-QA Analyst
- Mandy Brannock-QA Analyst
- Vacant Position - Payroll Specialist
- Renee LaPrade-Benefits Specialist

Tammy Eames- Coordinator
- Sandra Keatts-Lead Financial Receptionist
- Elva Wilson-Collections
- Amanda Farrington-Insurance Billing Specialist
- Brandi Gusler-Insurance Billing Specialist

Fernanda Martin-Reimbursement Lead
- Melissa Gregory-Centralized Scheduler
- Karen Rorrer-Financial Receptionist
- Vickie Fountain-Reimbursement Receptionist
- Brenda Kahle-Reimbursement Specialist

Sandy Goad-Reimbursement Lead-PC
- Micah Mordue-Reimbursement Specialist-PC
- Nellie Handy-Receptionist-PC

Teresa Bowling-Office Manager
- Patricia Oakes-Medical Records Specialist-FC
- Cynthia Trotter-Reimbursement Specialist-FC
- Angela Jones-Reimbursement Specialist-FC
- Tammy Franklin-Receptionist-FC

Ron Hairston, Director
Human Resources
- Kathy Hutchens, Assistant Director
- Darlene Stroud-HR Administrator Specialist
- Katie Whitlow-HR/Community Relations
- Maria Vaughn-Translator
- Claudia Avila Molina-Translator
- Josue Gutierrez-Translator

Kippy Cassell, Director
of Operations
- Sam Petty-Sr. Network Admin
- Oliver Still-Electronic Health Records Admin
- Adrean El Kadi-IT Assistant
- Debra Burge-Records Tech
- Lue Redd-Switchboard Operator
- Stephanie Ross-Records Tech
- Donna Luther-Med Records Assist (Contract)

Carolyn Whiting-Property Manager
- Carl Dodson-Maintenance Supervisor
- Sherman Penn-Maintenance Tech
- Edward Penn-Maintenance Tech
- Natasha Hairston-ID In-Home Hourly EE
- Kay McEnheimer-ID In-Home Hourly EE

Bonnie Favero, Director
Prevention Services
- Valerie Blevins-Prevention Specialist
- Bailey Dalton-Prevention Specialist
- Harvey Taylor-Prevention Specialist
- Amanda Hendricks-Prevention Specialist
- Tobie Panos-CHILL Coordinator (Contract)
- Ann Gibson-Prevention Specialist (Contract)
- Cindy Breen-Sign Language Interpreter (Contract)
- Randall Via-MHAT Coordinator

Regina Clark-Lead Prevention Specialist-FC
- Donna Ferguson-Prevention Specialist-FC
- Kristi Norton-Prevention Specialist-FC
- Tony Wright-Prevention Specialist-FC

Amy Greer-Infant/Parent Program Coordinator
- Margaret Knight-Early Intervention CM
- Elizabeth Huerta-Early Intervention CM
- Dorothy Holmes-Early Intervention CM
- Ann Adkins-Early Intervention TSC-Contract
- Mae Maus-Early Intervention CM-FC
- Tami Sapp-DD Youth Case Manager-Contract
- Florence Parcell-Early Intervention CM-FC

Sherry Winn-Healthy Families Manager

Sarah Lawson-Lead Family Support Worker
- Ginger Clark-Family Support Worker
- Cindy Jacobs-Family Support Worker
- Rhonda Fulp-Family Support Worker

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, 2019, 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, 2019, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principles

As described in Note 17 to the financial statements, in 2019, the Organization adopted new accounting guidance, GASB Statement No. 88 *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules related to pension funding on pages 4-7 and 39-44 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' 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated November 16, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, 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 December 2, 2019 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 Farmer Cox Associates

Charlottesville, Virginia
December 2, 2019

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, 2019.

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 2019	FY 2018
Mental Health	$ 15,389,948	$ 14,231,136
DD Services	5,734,621	5,726,050
Substance Abuse	4,118,572	3,556,761
Total	$ 25,243,141	$ 23,513,947

Medicaid remains the largest source of revenue for PCS, with collections totaling $13.6 million.

Nearly $900,000 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 additional funds of $300,000 to expand the implementation of STEP-VA—System Transformation Excellence and Performance. This is a statewide project for improving services, including same-day access, expansion of outpatient, crisis response, and prescribing capabilities. The eventual goal of this project is to reduce state hospital bed day census by the improvement of community-based capabilities. In FY19, PCS contracted with MTM consulting firm for access to their data analytics software to track and analyze outcomes related to the implementation of Step-VA.

Funding for the second year in the amount of $182,000 was received from SAMHSA for the Virginia Opioid Prevention, Treatment and Recovery project (OPT-R). This project is continuing in FY20. 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 FY19 was short by 3%. 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.

Summary of Operations and Changes in Net Position

	FY 2019	FY 2018
Operating revenue	$ 15,325,145	$ 14,107,724
Operating expenses	25,455,809	23,539,275
Operating income (loss)	$ (10,130,664)	$ (9,431,551)
Nonoperating income (loss)	10,626,056	9,721,197
Income (loss) before contributions	$ 495,392	$ 289,646
Capital contributions	646,912	-
Extraordinary item	1,491,904	-
Change in Net Position	$ 2,634,208	$ 289,646

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, 2019 was $99,253.

Condensed Cash Flow

	FY 2019	FY 2018
Cash flows from operating activities	$ (9,065,742)	$ (9,109,265)
Cash flows from noncapital financing activities	10,612,342	9,563,418
Cash flows from capital and related financing activities	58,751	(1,908,684)
Cash flows from investing activities	33,479	17,093
Net cash increase (decrease)	$ 1,638,830	$ (1,437,438)
Cash and cash equivalents, beginning of year	8,099,211	9,536,649
Cash and cash equivalents, end of year	$ 9,738,041	$ 8,099,211

Consumer fees, operating expenses and personnel expenses determine the operating activities line of the cash flow report. Approximately $2,277,240 was used to acquire capital assets such as vehicles, furniture and equipment, and for property improvements. A significant portion of those costs were related to the fire at the Church Street apartments, which was reimbursed by insurance proceeds. Principal reductions of $61,030 were paid on mortgages and $63,793 was paid for interest expense.

Of the $9.7 M cash and equivalents as of 6/30/2019, balances in earmarked or restricted state, federal funds and grants totaled $1.9 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 $1.1K was from prior years. Because they are part of previous year balances, they do not affect current year-end cash increases. In addition to the $1.9k restricted operating funds, there was also $682,000 restricted funds in reserve held to support the start-up costs associated of the two new DD group homes which were under construction at the end of June 2019, and $80K insurance proceeds held in reserve to complete restoration of the Church Street Square Apartment.

Condensed Cash Flow (continued)

Cash and cash equivalents consist of the following at June 30, 2019:

Cash on hand or established as petty cash	$	5,800
Deposits with banks		7,959,667
Deposits with banks (Building Fund)		955,824
Deposits with banks - debt reserve funds		112,825
Deposits held for HUD projects		66,195
Investments - Local Government Investment Pool		637,730
Total cash and cash equivalents	$	9,738,041

Condensed Summary of PCS Statement of Net Position

		FY 2019		FY 2018
Assets				
Current assets	$	11,788,927	$	10,166,916
Restricted assets		223,394		205,729
Other Assets		1,672,579		1,508,427
Capital assets		12,446,260		10,706,195
Total assets	$	26,131,160	$	22,587,267
Deferred Outflows of Resources				
Items related to net pension asset	$	569,139	$	526,714
Items related to net OPEB liability		138,872		55,492
Total deferred outflows of resources	$	708,011	$	582,206
Liabilities				
Current liabilities	$	3,783,066	$	2,511,813
Liabilities payable from restricted assets		48,372		46,967
Long term liabilities		2,343,597		2,362,689
Total liabilities	$	6,175,035	$	4,921,469
Deferred Inflows of Resources				
Items related to net pension asset	$	568,907	$	773,983
Items related to net OPEB liability		84,000		97,000
Total deferred inflows of resources	$	652,907	$	870,983
Net Position				
Net investment in capital assets	$	10,885,567	$	9,084,472
Restricted		779,550		496,095
Unrestricted		8,346,112		7,796,454
Total net position	$	20,011,229	$	17,377,021

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 $20.0 million at the close of the most recent fiscal year, an increase of $2.6 million over FY18.

PCS staff act as payee representative to several consumers, primarily in residential settings, providing management of individual bank accounts totaling $41,115 on June 30, 2019, reflected in the table above as restricted assets. Other restricted assets are the funds designated for HUD and USDA sites. Of that amount, $179,018 is designated by the funding source for renovation and repair, and security deposits.

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, 2019.

PCS was awarded a contract by DBHDS to fund construction of two DD group homes in order to assist with the placement of residents of the Central Virginia Training Center, which is slated to close in December 2019.
The home on Independence Drive was completed September 2019 and the second home is currently under construction with an expected completion date of February 2020.

There was a fire at Church Street Apartments at the start of FY19, which made the entire 33 unit complex uninhabitable. Insurance proceeds of 1.7M were received to reimburse the restoration costs. The reconstruction is expected to be complete by Jan 2020.

The Tech Drive expansion for the Rocky Mount Clinic was completed in fall 2018.

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

Long-Term Debt

PCS has $1,560,693 (less current portion $63,096) of debt outstanding. A 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. This note was financed over five years.

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

Summary

Expansion of services is largely dependent upon economic conditions of state and local government and the effect on future funding. The state of Virginia expanded Medicaid coverage by lowering income requirements beginning January 2019. Because of expected growth in services, the funding for the expansion will be achieved by reducing state funds to all CSBs over two fiscal years. Piedmont will absorb a reduction in state general funds of approximately $400,000. Because of slower than expected income gains, DBHDS awarded a one-time restoration of the cut in the amount of $130,000 in FY20. DBHDS is continuing to monitor this situation by reviewing details of expansion collection data provided by the CSBs in the first half of FY20.

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 expanded 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, 2019
(With Comparative Totals for 2018)

	2019	2018
Assets		
Current Assets:		
Cash and cash equivalents	$ 9,559,023	$ 7,934,000
Accounts receivable, less allowance for uncollectibles	1,621,334	1,651,379
Due from other governments	387,843	360,069
Prepaid items	220,727	221,468
Total current assets	$ 11,788,927	$ 10,166,916
Restricted Assets:		
Cash and cash equivalents	$ 179,018	$ 165,211
Accounts receivable	3,261	3,415
Client funds	41,115	37,103
Total restricted assets	$ 223,394	$ 205,729
Other Assets:		
Net pension asset	$ 1,672,579	$ 1,508,427
Capital Assets:		
Property and equipment, less accumulated depreciation	$ 12,446,260	$ 10,706,195
Total assets	$ 26,131,160	$ 22,587,267
Deferred Outflows of Resources		
Items related to net pension asset	$ 569,139	$ 526,714
Items related to net OPEB liability	138,872	55,492
Total deferred outflows of resources	$ 708,011	$ 582,206
Liabilities		
Current Liabilities:		
Accounts payable and accrued expenses	$ 1,488,449	$ 1,273,510
Contracts payable	425,011	4,200
Retainage payable	30,255	69,626
Unearned revenue	682,000	-
Compensated absences	1,081,219	1,091,536
Security and escrow deposits	13,036	11,907
Long-term debt, current portion	63,096	61,034
Total current liabilities	$ 3,783,066	$ 2,511,813
Liabilities Payable from Restricted Assets:		
Accounts payable and accrued expenses	$ 2,500	$ 5,352
Client funds	41,115	37,103
Security deposits and other	4,757	4,512
Total liabilities payable from restricted assets	$ 48,372	$ 46,967
Long-Term Liabilities:		
Long-term debt, less current portion	$ 1,497,597	$ 1,560,689
Net OPEB Liability	846,000	802,000
Total long-term liabilities	$ 2,343,597	$ 2,362,689
Total liabilities	$ 6,175,035	$ 4,921,469
Deferred Inflows of Resources		
Items related to net pension asset	$ 568,907	$ 773,983
Items related to net OPEB liability	84,000	97,000
Total deferred inflows of resources	$ 652,907	$ 870,983
Net Position		
Net investment in capital assets	$ 10,885,567	$ 9,084,472
Restricted	779,550	496,095
Unrestricted	8,346,112	7,796,454
Total net position	$ 20,011,229	$ 17,377,021

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, 2019
(With Comparative Totals for 2018)

	2019	2018
Operating revenue:		
Net patient service revenue	$ 15,325,145	$ 14,107,724
Operating expenses:		
Salaries and benefits	$ 18,423,921	$ 16,595,869
Staff development	105,661	89,011
Facility	1,391,785	1,032,299
Supplies	809,516	607,933
Travel	497,908	514,154
Contractual and consulting	3,395,240	3,837,606
Depreciation	612,783	632,483
Other	218,995	229,920
Total operating expenses	$ 25,455,809	$ 23,539,275
Operating loss	$ (10,130,664)	$ (9,431,551)
Nonoperating income (expense):		
Appropriations:		
Commonwealth of Virginia	$ 7,039,839	$ 6,820,060
Federal government	2,256,314	1,984,176
Local governments	407,714	353,168
Rent	255,686	274,501
Investment income	33,479	17,093
Other	680,651	335,387
Interest expense	(63,793)	(65,771)
Gain on sale of property and investments	16,166	2,583
Net nonoperating income	$ 10,626,056	$ 9,721,197
Income before capital contributions and extraordinary item	$ 495,392	$ 289,646
Capital contributions and extraordinary item:		
Construction grants and contributions	646,912	-
Impairment gain from fire	1,491,904	-
Change in net position	$ 2,634,208	$ 289,646
Net position, beginning of year	17,377,021	18,217,156
Restatements	$ -	$ (1,129,781)
Net position, beginning of year, as restated	$ 17,377,021	$ 17,087,375
Net position, end of year	$ 20,011,229	$ 17,377,021

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

PIEDMONT COMMUNITY SERVICES

Statement of Cash Flows
Year Ended June 30, 2019
(With Comparative Totals for 2018)

		2019		2018
Cash flows from operating activities:				
Receipts from customers	$	16,033,929	$	13,966,838
Payments to suppliers		(6,163,530)		(6,135,157)
Payments to and/or for employees		(18,936,141)		(16,940,946)
Cash flows provided by (used for) operating activities	$	(9,065,742)	$	(9,109,265)
Cash flows from noncapital financing activities:				
Government grants	$	9,676,093	$	8,955,469
Other		936,249		607,949
Cash flows provided by (used for) noncapital financing activities	$	10,612,342	$	9,563,418
Cash flows from capital and related financing activities:				
Acquisition of capital assets	$	(2,277,240)	$	(1,792,816)
Proceeds from insurance for fire		1,779,258		-
Proceeds from dispsal of property		34,644		2,956
Principal payments on mortgages and loans payable		(61,030)		(53,053)
Payments for interest		(63,793)		(65,771)
Cash flows provided by (used for) capital and related financing activities	$	58,751	$	(1,908,684)
Cash flows from investing activities:				
Investment income	$	33,479	$	17,093
Cash flows provided by (used for) investing activities	$	33,479	$	17,093
Net increase (decrease) in cash and cash equivalents	$	1,638,830	$	(1,437,438)
Cash and cash equivalents, beginning of year		8,099,211		9,536,649
Cash and cash equivalents, end of year	$	9,738,041	$	8,099,211
Cash and cash equivalents:				
Unrestricted	$	9,559,023	$	7,934,000
Restricted		179,018		165,211
Total	$	9,738,041	$	8,099,211
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	$	(10,130,664)	$	(9,431,551)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation		612,783		632,483
Changes in operating assets, liabilities, and deferred outflows/ inflows of resources:				
Accounts receivable and due from other governments		26,784		(140,876)
Prepaid items		741		(15,498)
Net pension asset		(164,152)		(1,095,780)
Deferred outflows related to net pension asset		(42,425)		299,402
Deferred outflows related to net OPEB liability		(83,380)		(4,029)
Accounts payable and accrued expenses		215,835		100,134
Security and escrow deposits		1,129		2,119
Unearned revenue		682,000		-
Compensated absences		(10,317)		48,029
Net OPEB liability		44,000		(139,000)
Deferred inflows related to net pension asset		(205,076)		538,302
Deferred inflows related to net OPEB liability		(13,000)		97,000
Cash flows provided by (used for) operating activities	$	(9,065,742)	$	(9,109,265)
Supplemental cash flow information:				
Non-cash investing, capital, and financing activities				
Property purchased on account	$	-	$	59,000
Personal property write-offs - new capitalization threshold		(450,251)		-
Impairment loss		(287,355)		-

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

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, 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.

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 $554,335 at June 30, 2019 and $502,633 at June 30, 2018.

J. Prepaids:

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 $5,000 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.

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:

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

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.

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 2018
Cash on hand and petty cash	$ 5,800	$ -	$ 5,800	$ 5,600
Deposits with banks	9,028,317	66,193	9,094,510	7,470,968
Investments-LGIP	637,731	-	637,731	622,643
Total	$ 9,671,848	$ 66,193	$ 9,738,041	$ 8,099,211

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, 2019 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	$ 637,731

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	$ 637,731	$ 637,731

External Investment Pool:

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

NOTE 3 - ACCOUNTS RECEIVABLE:

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

	2019	2018
Virginia Department of Medical Assistance Services (Medicaid)	$ 1,447,309	$ 1,495,980
Direct client, third party and other	728,360	658,032
Total	$ 2,175,669	$ 2,154,012
Less: Allowance for uncollectibles	(554,335)	(502,633)
Net accounts receivable	$ 1,621,334	$ 1,651,379

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:

	PCS	Component Units	Total	2018 Total
Commonwealth of Virginia:				
Tobacco Grant	$ 3,293	$ -	$ 3,293	$ 12,232
Healthy Families	14,756	-	14,756	42,234
DBHDS Group Home Reimbursement	185,856	-	185,856	81,053
DMV Grant	-	-	-	13,091
Dept. of Juvenile Justice	11,250	-	11,250	11,250
Others	12,765	-	12,765	7,031
City of Martinsville	155	-	155	368
County of Franklin	-	-	-	50
County of Henry	5,668	-	5,668	134
Danville-Pittsylvania CSB (DAP & Reg Funds)	92,208	-	92,208	148,189
US Dept. of Health and Human Services:				
Drug-Free Communities Grant	35,796	-	35,796	38,683
Mental Health Awareness Grant	26,096	-	26,096	-
US Dept. of Housing and Urban Development (HUD)	-	-	-	3,477
US Treasury	-	-	-	2,277
Total	$ 387,843	$ -	$ 387,843	$ 360,069

NOTE 5 - CAPITAL ASSETS:

Capital assets consist of the following:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	$ 1,010,414	$ 2,500	$ -	$ 1,012,914
Construction in progress	1,642,599	2,029,133	1,607,436	2,064,296
Total capital assets not being depreciated	$ 2,653,013	$ 2,031,633	$ 1,607,436	$ 3,077,210
Capital assets being depreciated:				
Building and improvements	$ 12,974,946	$ 1,809,048	$ -	$ 14,783,994
Furnishings and equipment	2,542,584	133,761	587,970	2,088,375
Total capital assets being depreciated	$ 15,517,530	$ 1,942,809	$ 587,970	$ 16,872,369
Accumulated depreciation				
Building and improvements	$ 5,589,852	$ 437,001	$ -	$ 6,026,853
Furnishings and equipment	1,874,496	175,782	573,812	1,476,466
Total accumulated depreciation	$ 7,464,348	$ 612,783	$ 573,812	$ 7,503,319
Net capital assets being depreciated	$ 8,053,182	$ 1,330,026	$ 14,158	$ 9,369,050
Total net capital assets	$ 10,706,195	$ 3,361,659	$ 1,621,594	$ 12,446,260

Total depreciation expense was $612,783 for 2019 and $632,483 for 2018.

There was a fire at the Church Street apartments in fiscal year 2019 resulting in an impairment loss of $287,355. During the year, insurance proceeds of $1,779,258 were received to reimburse restoration costs, resulting in a gain of $1,491,904. Additional insurance proceeds were received to reimburse lost rent and other costs.

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 was renewed for one additional year. In August 2018, the Organization paid for carpet replacement and was given credit toward lease payments from September 2018 through April 2019.

Total rent expense for the years ended June 30, 2019 and 2018 totaled $109,340 and $103,047, respectively.

NOTE 7 - 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 $1,081,219 at June 30, 2019 and $1,091,536 at June 30, 2018. All of the compensated absence amounts are deemed to be current. Compensated absences decreased by $10,317 from 2018 to 2019.

NOTE 8 – LONG-TERM DEBT:

The following is a summary of long-term debt transactions of the Organization for the year ended June 30, 2019:

	Balance July 1, 2018	Increases	Decreases	Balance June 30, 2019
Direct borrowings and placements:				
Notes payable	$ 1,621,723	$ -	$ 61,030	$ 1,560,693

Details of long-term debt at June 30, 2019 were as follows:

	Balance	Current Portion
Direct borrowings and placements:		
$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.	$ 1,519,693	$ 51,096
$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.	41,000	12,000
Total notes payable (direct borrowings and placements)	$ 1,560,693	$ 63,096

The Organization is in compliance with federal arbitrage regulations.

NOTE 8 – LONG-TERM DEBT: (continued)

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

Year Ending June 30,	Direct Borrowings and Placements Principal	Interest
2020	$ 63,096	$ 61,728
2021	65,244	59,580
2022	67,482	57,342
2023	62,815	55,009
2024	60,245	52,579
2025-2029	341,412	222,708
2030-2034	419,468	144,652
2035-2039	480,931	48,896
Total	$ 1,560,693	$ 702,494

Outstanding notes carry the following default provisions:

For the USDA note, upon default in the payments of any principal and accrued interest on the bonds or in the performance of any covenant or agreement or in the instruments incident to making or insuring the loan, the Government at its option may (a) declare the entire principal amount then outstanding and accrued interest immediately due and payable, (b) for the account of the Organization (payable from the source of funds pledged to pay the bonds or any other legally permissible source), incur and pay reasonable expenses for repair, maintenance, and operation of the facility and such other reasonable expenses as may be necessary to cure the cause of default, and/or (c) take possession of the facility, repair, maintain, and operate or rent it. Default under the provisions of this resolution or any instrument incident to the making or insuring of the loan may be construed by the Government to constitute default under any other instrument held by the Government and executed or assumed by the Organization, and default under any such instrument may be construed by the Government to constitute default hereunder.

If any installment due under the $59,000 note is not paid when due and remains unpaid after thirty (30) days after such installment was due, the entire principal amount outstanding thereon shall at once become due and payable at the option of the Noteholder. The Noteholder may exercise this option to accelerate during any default by Borrower regardless of any prior forbearance. In the event of such acceleration by Noteholder, interest shall immediately begin to accrue on the entire remaining unpaid principal balance at the rate of five percent (5%) per annum until paid.

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.

NOTE 9 - COMMITMENTS AND CONTINGENCIES: (continued)

The Organization has a line of credit with Carter Bank and Trust in the amount of $3,000,000. The agreement is dated April 25, 2019 and expires on April 25, 2022 and carries an interest rate of 5.50%. The Organization did not draw on the line during fiscal year 2019 or fiscal year 2018.

At June 30, 2019, the Organization had several projects underway, which are presented in the financial statements as construction in progress. DBHDS contributed $646,912 toward the group home projects on Independence Drive and Tank Street. Startup funds of $682,000 were also provided by DBHDS for the group homes. These funds are reflected as unearned revenue at June 30, 2019. The Church Street Fire Restoration Project is being reimbursed by insurance. Presented is a list of contracts outstanding:

Independence Drive Project	$	166,425
Tank Street Project		584,104
Church Street Fire Restoration Project		510,943
Total	$	1,261,472

NOTE 10 - LOCAL FUNDS:

The following is a schedule of local funding by locality:

		2019		2018
Martinsville City	$	77,191	$	77,191
Henry County		181,539		130,281
Patrick County		71,779		71,779
Franklin County		77,205		73,917
Total	$	407,714	$	353,168

NOTE 11 - NET PATIENT SERVICE REVENUES:

Net patient service revenues were derived from the following sources:

		2019		2018
Medicaid	$	13,928,863	$	12,725,469
Direct client		446,704		391,253
Other		949,578		991,002
Total	$	15,325,145	$	14,107,724

NOTE 12 - RENTAL INCOME:

As a part of its operational purpose, the Organization receives rent for the use of residential facilities it owns. In fiscal year 2019, the Organization also entered into a three-year lease with a pharmacy provider, with the option for additional one-year renewal terms. The cost of the leased assets and related accumulated depreciation and depreciation expense are as follows:

	2019	2018
Rent received	$ 255,686	$ 274,501
Cost of leased assets	2,802,960	2,750,170
Accumulated depreciation	1,316,248	1,201,869
Depreciation expense	88,217	87,015

All rent received is pursuant to lease agreements which are one year or less, with the exception of the pharmacy lease.

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 $58,936 and (2) other unexpended grant funds of $720,614. 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.

NOTE 14 – SELF-INSURANCE / RISK MANAGEMENT: (continued)

Employee Health Insurance: (continued)

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 2019, 2018, and 2017 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
2019	$ 84,521	$ 2,133,510	$ 2,118,778	$ 99,253
2018	105,718	2,408,450	2,429,647	84,521
2017	108,409	2,198,621	2,201,312	105,718

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.

Benefit Structures

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

a. Employees hired before July 1, 2010, vested as of January 1, 2013, and have not taken a refund, are covered under Plan 1, a defined benefit plan. Non-hazardous duty employees are eligible for an unreduced retirement benefit beginning at age 65 with at least 5 years of creditable service or age 50 with at least 30 years of creditable service. Non-hazardous duty employees may retire with a reduced benefit as early as age 55 with at least 5 years of creditable service or age 50 with at least 10 years of creditable service.

NOTE 15 - PENSION PLAN: (continued)

Benefit Structures: (continued)

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

c. Non-hazardous duty employees hired on or after January 1, 2014 are covered by the Hybrid Plan combining the features of a defined benefit plan and a defined contribution plan. Plan 1 and Plan 2 members also had the option of opting into this plan during the election window held January 1 – April 30, 2014 with an effective date of July 1, 2014. Employees covered by this plan are eligible for an unreduced benefit beginning at their normal social security retirement age with at least 5 years of creditable service, or when the sum of their age and service equal 90. Employees may retire with a reduced benefit as early as age 60 with at least 5 years of creditable service. For the defined contribution component, members are eligible to receive distributions upon leaving employment, subject to restrictions.

Average Final Compensation and Service Retirement Multiplier

The VRS defined benefit is a lifetime monthly benefit based on a retirement multiplier as a percentage of the employee's average final compensation multiplied by the employee's total creditable service. Under Plan 1, average final compensation is the average of the employee's 36 consecutive months of highest compensation and the multiplier is 1.7% for non-hazardous duty employees and 1.85% for sheriffs and regional jail superintendents. Under Plan 2, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the retirement multiplier is 1.65% for non-hazardous duty employees, 1.85% for sheriffs and regional jail superintendents. Under the Hybrid Plan, average final compensation is the average of the employee's 60 consecutive months of highest compensation and the multiplier is 1.00%. For members who opted into the Hybrid Retirement Plan from Plan 1 or Plan 2, the applicable multipliers for those plans will be used to calculate the retirement benefit for service credited in those plans.

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

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

NOTE 15 - PENSION PLAN: (continued)

Employees Covered by Benefit Terms

As of the June 30, 2017 actuarial valuation, the following employees were covered by the benefit terms of the pension plan:

	Number
Inactive members or their beneficiaries currently receiving benefits	37
Inactive members:	
Vested inactive members	20
Non-vested inactive members	64
Inactive members active elsewhere in VRS	36
Total inactive members	120
Active members	263
Total covered employees	420

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.

Piedmont Community Services' contractually required employer contribution rate for the year ended June 30, 2019 was 4.83% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017.

This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the Organization were $520,097 and $526,714 for the years ended June 30, 2019 and June 30, 2018, respectively.

Net Pension Asset

The net pension liability (NPL) is calculated separately for each employer and represents that particular employer's total pension liability determined in accordance with GASB Statement No. 68, less that employer's fiduciary net position. For Piedmont Community Services, the net pension asset was measured as of June 30, 2018. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation performed as of June 30, 2017 rolled forward to the measurement date of June 30, 2018.

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, 2017, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018.

Inflation	2.5%
Salary increases, including inflation	3.5% – 5.35%
Investment rate of return	7.0%, net of pension plan investment 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.

NOTE 15 - PENSION PLAN: (continued)

Actuarial Assumptions – General Employees (continued)

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

Largest 10 – Non-Hazardous Duty:

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

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

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

NOTE 15 - PENSION PLAN: (continued)

Long-Term Expected Rate of Return

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

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

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

Discount Rate

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate. Consistent with the phased-in funding provided by the General Assembly for state and teacher employer contributions; the Organization was also provided with an opportunity to use an alternative employer contribution rate. For the year ended June 30, 2018, the alternate rate was the employer contribution rate used in FY 2012 or 90% of the actuarially determined employer contribution rate from the June 30, 2015 actuarial valuations, whichever was greater. From July 1, 2018 on, participating employers are assumed to continue to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 15 - PENSION PLAN: (continued)

Changes in Net Pension Liability (Asset)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at June 30, 2017	$ 12,421,160	$ 13,929,587	$ (1,508,427)
Changes for the year:			
Service cost	$ 984,281	$ -	$ 984,281
Interest	855,703	-	855,703
Differences between expected and actual experience	61,880	-	61,880
Contributions - employer	-	526,714	(526,714)
Contributions - employee	-	497,499	(497,499)
Net investment income	-	1,051,311	(1,051,311)
Benefit payments, including refunds of employee contributions	(393,670)	(393,670)	-
Administrative expenses	-	(8,362)	8,362
Other changes	-	(1,146)	1,146
Net changes	$ 1,508,194	$ 1,672,346	$ (164,152)
Balances at June 30, 2018	$ 13,929,354	$ 15,601,933	$ (1,672,579)

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 (6.00%)	Current Discount (7.00%)	1% Increase (8.00%)
Piedmont Community Services Net Pension Liability (Asset)	$ 422,716	$ (1,672,579)	$ (3,383,762)

NOTE 15 - PENSION PLAN: (continued)

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

For the year ended June 30, 2019, the Organization recognized pension expense of $108,444. At June 30, 2019, 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	$ 49,042	$ 151,842
Change in assumptions	-	263,429
Net difference between projected and actual earnings on pension plan investments	-	153,636
Employer contributions subsequent to the measurement date	520,097	-
Total	$ 569,139	$ 568,907

$520,097 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 ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense in future reporting periods as follows:

Year ended June 30	
2020	$ (110,349)
2021	(157,569)
2022	(237,757)
2023	(14,190)
2024	-
Thereafter	-

Pension Plan Data

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

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

Plan Description

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

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

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

Eligible Employees

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

Benefit Amounts

The GLI Program is a defined benefit plan with several components. The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled. The accidental death benefit is double the natural death benefit. In addition to basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances that include the following: accidental dismemberment benefit, safety belt benefit, repatriation benefit, felonious assault benefit, and accelerated death benefit option. The benefit amounts are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value. For covered members with at least 30 years of creditable service, the minimum benefit payable was set at $8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and was increased to $8,279 effective July 1, 2018.

NOTE 16 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (continued)

Contributions

The contribution requirements for the GLI Program are governed by §51.1-506 and §51.1-508 of the Code of Virginia, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the GLI Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% x 60%) and the employer component was 0.52% (1.31% x 40%). Employers may elect to pay all or part of the employee contribution; however, the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2019 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2017. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the GLI Program from the entity were $62,872 and $55,492 for the years ended June 30, 2019 and June 30, 2018, respectively.

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

At June 30, 2019, the entity reported a liability of $846,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2018 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the GLI Program for the year ended June 30, 2018 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2018, the participating employer's proportion was .05569% as compared to .05324% at June 30, 2017.

For the year ended June 30, 2019, the participating employer recognized GLI OPEB expense of $10,000. 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.

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 GLI Program OPEB: (continued)

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 41,000	$ 15,000
Net difference between projected and actual earnings on GLI OPEB program investments	-	28,000
Change in assumptions	-	35,000
Changes in proportion	35,000	6,000
Employer contributions subsequent to the measurement date	62,872	-
Total	$ 138,872	$ 84,000

$62,872 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the fiscal year ending June 30, 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OEPB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year Ended June 30	
2020	$ (8,000)
2021	(8,000)
2022	(8,000)
2023	1,000
2024	9,000
Thereafter	6,000

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, 2017, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2018. The assumptions include several employer groups as noted below. Mortality rates included herein are for relevant employer groups. Information for other groups can be referenced in the VRS CAFR.

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

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

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.

NOTE 16 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (continued)

Actuarial Assumptions: (Continued)

Mortality Rates – Largest Ten Locality Employers – General Employees: (continued)

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

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%

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.

NOTE 16 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (continued)

Actuarial Assumptions: (continued)

Mortality Rates – Non-Largest Ten Locality Employers – General Employees: (continued)

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

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%

NET GLI OPEB Liability

The net OPEB liability (NOL) for the GLI Program represents the program's total OPEB liability determined in accordance with GASB Statement No. 74, less the associated fiduciary net position. As of the measurement date of June 30, 2018, NOL amounts for the GLI Program are as follows (amounts expressed in thousands):

		GLI OPEB Program
Total GLI OPEB Liability	$	3,113,508
Plan Fiduciary Net Position		1,594,773
Employers' Net GLI OPEB Liability (Asset)	$	1,518,735
Plan Fiduciary Net Position as a Percentage of the Total GLI OPEB Liability		51.22%

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

NOTE 16 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (continued)

Long-Term Expected Rate of Return

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

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

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

Discount Rate

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

NOTE 16 - GROUP LIFE INSURANCE (GLI) PROGRAM (OPEB PLAN): (continued)

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

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

	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	$ 1,105,000	$ 846,000	$ 635,000

GLI Program Fiduciary Net Position

Detailed information about the GLI Program's Fiduciary Net Position is available in the separately issued VRS 2018 Comprehensive Annual Financial Report (CAFR). A copy of the 2018 VRS CAFR may be downloaded from the VRS website at http://www.varetire.org/Pdf/Publications/2018-annual-report.pdf, or by writing to the System's Chief Financial Officer at P.O. Box 2500, Richmond, VA, 23218-2500.

NOTE 17 – ADOPTION OF ACCOUNTING PRINCIPLES:

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

NOTE 18 - UPCOMING PRONOUNCEMENTS:

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

Statement No. 87, *Leases*, requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

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

- Required Supplementary Information -

PIEDMONT COMMUNITY SERVICES

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

	2018	2017	2016	2015	2014
Total pension liability					
Service cost	$ 984,281	$ 1,040,068	$ 1,044,230	$ 1,007,002	$ 1,003,846
Interest	855,703	787,047	691,313	610,290	516,190
Changes of benefit terms	-	-	-	-	-
Differences between expected and actual experience	61,880	(39,235)	(77,525)	(253,095)	-
Changes in assumptions	-	(430,687)	-	-	-
Benefit payments, including refunds of employee contributions	(393,670)	(359,136)	(221,626)	(191,837)	(159,644)
Net change in total pension liability	$ 1,508,194	$ 998,057	$ 1,436,392	$ 1,172,360	$ 1,360,392
Total pension liability - beginning	12,421,160	11,423,103	9,986,711	8,814,351	7,453,959
Total pension liability - ending (a)	$ 13,929,354	$ 12,421,160	$ 11,423,103	$ 9,986,711	$ 8,814,351
Plan fiduciary net position					
Contributions - employer	$ 526,714	$ 500,100	$ 598,255	$ 572,388	$ 846,014
Contributions - employee	497,499	469,678	451,813	453,791	460,047
Net investment income	1,051,311	1,492,425	213,600	458,772	1,222,332
Benefit payments, including refunds of employee contributions	(393,670)	(359,136)	(221,626)	(191,837)	(159,644)
Administrative expense	(8,362)	(7,869)	(6,210)	(5,378)	(5,542)
Other	(1,146)	(1,361)	(86)	(101)	64
Net change in plan fiduciary net position	$ 1,672,346	$ 2,093,837	$ 1,035,746	$ 1,287,635	$ 2,363,271
Plan fiduciary net position - beginning	13,929,587	11,835,750	10,800,004	9,512,369	7,149,098
Plan fiduciary net position - ending (b)	$ 15,601,933	$ 13,929,587	$ 11,835,750	$ 10,800,004	$ 9,512,369
Organization's net pension liability (asset) - ending (a) - (b)	$ (1,672,579)	$ (1,508,427)	$ (412,647)	$ (813,293)	$ (698,018)
Plan fiduciary net position as a percentage of the total pension liability	112.01%	112.14%	103.61%	108.14%	107.92%
Covered payroll	$ 10,582,256	$ 9,816,096	$ 9,645,309	$ 9,117,984	$ 8,605,627
Organization's net pension asset as a percentage of covered payroll	-15.81%	-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, 2010 through June 30, 2019

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)
2019	$ 520,097	$ 520,097	$ -	$ 11,978,257	4.34%
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%

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

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

Largest 10 – Non-Hazardous Duty:

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

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

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

PIEDMONT COMMUNITY SERVICES

Schedule of Organization's Share of Net OPEB Liability
Group Life Insurance Program
For the Measurement Dates June 30, 2017 through 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)
2018	0.05569%	$ 846,000	$ 10,589,886	7.99%	51.22%
2017	0.05324%	802,000	9,820,945	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, 2010 through June 30, 2019

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)
2019	$ 62,872	$ 62,872	$ -	$ 11,998,385	0.52%
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%

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

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

Largest Ten Locality Employers - General Employees

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

Non-Largest Ten Locality Employers - General Employees

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

- Other Supplementary Information -

Combining Financial Statements

PIEDMONT COMMUNITY SERVICES

Combining Statement of Net Position
As of June 30, 2019

Assets	Piedmont Community Services	Scuffling Hill Housing, Inc.	Maynor Street Housing, Inc.	Pebble Creek Housing, Inc.
Current Assets:				
Cash and cash equivalents	$ 9,559,023	$ -	$ -	$ -
Accounts receivable, less allowance for uncollectibles	1,624,595	-	-	-
Due from other governments	387,843	-	-	-
Prepaid items	220,727	-	-	-
Total current assets	$ 11,792,188	$ -	$ -	$ -
Restricted Assets:				
Cash and cash equivalents	$ 112,825	$ 15,215	$ 21,777	$ 9,719
Accounts receivable	-	731	-	1,900
Client funds	41,115	-	-	-
Total restricted assets	$ 153,940	$ 15,946	$ 21,777	$ 11,619
Other Assets:				
Net pension asset	$ 1,672,579	$ -	$ -	$ -
Capital Assets:				
Property and equipment, less accumulated depreciation	$ 11,120,437	$ 270,501	$ 307,283	$ 324,252
Total assets	$ 24,739,144	$ 286,447	$ 329,060	$ 335,871
Deferred Outflows of Resources				
Items related to net pension asset	$ 569,139	$ -	$ -	$ -
Items related to net OPEB liability	138,872	-	-	-
Total deferred outflows of resources	$ 708,011	$ -	$ -	$ -
Liabilities				
Current Liabilities:				
Accounts payable and accrued expenses	$ 1,488,449	$ -	$ -	$ -
Contracts payable	425,011	-	-	-
Retainage payable	30,255	-	-	-
Unearned revenue	682,000	-	-	-
Compensated absences	1,081,219	-	-	-
Security and escrow deposits	13,036	-	-	-
Long-term debt, current portion	63,096	-	-	-
Total current liabilities	$ 3,783,066	$ -	$ -	$ -
Liabilities Payable from Restricted Assets:				
Accounts payable and accrued expenses	$ -	$ 731	$ -	$ 1,900
Client funds	41,115	-	-	-
Security deposits and other	-	950	1,403	1,318
Total liabilities payable from restricted assets	$ 41,115	$ 1,681	$ 1,403	$ 3,218
Long-Term Liabilities:				
Long-term debt, less current portion	$ 1,497,597	$ -	$ -	$ -
Net OPEB liability	846,000	-	-	-
Total long-term liabilities	$ 2,343,597	$ -	$ -	$ -
Total liabilities	$ 6,167,778	$ 1,681	$ 1,403	$ 3,218
Deferred Inflows of Resources				
Items related to net pension asset	$ 568,907	$ -	$ -	$ -
Items related to net OPEB liability	84,000	-	-	-
Total deferred inflows of resources	$ 652,907	$ -	$ -	$ -
Net Position				
Net investment in capital assets	$ 9,559,744	$ 270,501	$ 307,283	$ 324,252
Restricted	720,614	14,265	20,374	8,401
Unrestricted	8,346,112	-	-	-
Total net position	$ 18,626,470	$ 284,766	$ 327,657	$ 332,653

West Church Street Housing, Inc.	Intercompany Eliminations	Total
$ -	$ -	$ 9,559,023
-	(3,261)	1,621,334
-	-	387,843
-	-	220,727
$ -	$ (3,261)	$ 11,788,927
$ 19,482	$ -	$ 179,018
630	-	3,261
-	-	41,115
$ 20,112	$ -	$ 223,394
$ -	$ -	$ 1,672,579
$ 423,787	$ -	$ 12,446,260
$ 443,899	$ (3,261)	$ 26,131,160
$ -	$ -	$ 569,139
-	-	138,872
$ -	$ -	$ 708,011
$ -	$ -	$ 1,488,449
-	-	425,011
-	-	30,255
-	-	682,000
-	-	1,081,219
-	-	13,036
-	-	63,096
$ -	$ -	$ 3,783,066
$ 3,130	$ (3,261)	$ 2,500
-	-	41,115
1,086	-	4,757
$ 4,216	$ (3,261)	$ 48,372
$ -	$ -	$ 1,497,597
-	-	846,000
$ -	$ -	$ 2,343,597
$ 4,216	$ (3,261)	$ 6,175,035
$ -	$ -	$ 568,907
-	-	84,000
$ -	$ -	$ 652,907
$ 423,787	$ -	$ 10,885,567
15,896	-	779,550
-	-	8,346,112
$ 439,683	$ -	$ 20,011,229

PIEDMONT COMMUNITY SERVICES

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

	Piedmont Community Services	Scuffling Hill Housing, Inc.	Maynor Street Housing, Inc.
Operating revenue:			
Net patient service revenue	$ 15,325,145	$ -	$ -
Operating expenses:			
Salaries and benefits	$ 18,423,921	$ -	$ -
Staff development	105,661	-	-
Facility	1,279,020	42,816	29,666
Supplies	809,516	-	-
Travel	497,908	-	-
Contractual and consulting	3,395,240	-	-
Depreciation	547,108	14,053	19,802
Other	218,995	-	-
Total operating expenses	$ 25,277,369	$ 56,869	$ 49,468
Operating income (loss)	$ (9,952,224)	$ (56,869)	$ (49,468)
Nonoperating income (expense):			
Appropriations:			
Commonwealth of Virginia	$ 7,039,839	$ -	$ -
Federal government	2,256,314	-	-
Local governments	407,714	-	-
Rent	138,753	22,287	29,666
Investment income	33,217	60	111
Other	680,651	21,261	1,649
Interest expense	(63,793)	-	-
Gain on sale of property and investments	16,166	-	-
Net nonoperating income (expense)	$ 10,508,861	$ 43,608	$ 31,426
Income (loss) before capital contributions and extraordinary item	$ 556,637	$ (13,261)	$ (18,042)
Capital contributions and Extraordinary Item:			
Construction grants and contributions	646,912	-	-
Impairment gain from fire	1,491,904	-	-
Change in net position	$ 2,695,453	$ (13,261)	$ (18,042)
Net position, beginning of year	15,931,017	298,027	345,699
Net position, end of year	$ 18,626,470	$ 284,766	$ 327,657

Pebble Creek Housing, Inc.	West Church Street Housing, Inc.	Intercompany Eliminations	Total
$ -	$ -	$ -	$ 15,325,145
$ -	$ -	$ -	$ 18,423,921
-	-	-	105,661
37,315	28,980	(26,012)	1,391,785
-	-	-	809,516
-	-	-	497,908
-	-	-	3,395,240
14,879	16,941	-	612,783
-	-	-	218,995
$ 52,194	$ 45,921	$ (26,012)	$ 25,455,809
$ (52,194)	$ (45,921)	$ 26,012	$ (10,130,664)
$ -	$ -	$ -	$ 7,039,839
-	-	-	2,256,314
-	-	-	407,714
36,000	28,980	-	255,686
27	64	-	33,479
1,598	1,504	(26,012)	680,651
-	-	-	(63,793)
-	-	-	16,166
$ 37,625	$ 30,548	$ (26,012)	$ 10,626,056
$ (14,569)	$ (15,373)	$ -	$ 495,392
-	-	-	646,912
-	-	-	1,491,904
$ (14,569)	$ (15,373)	$ -	$ 2,634,208
347,222	455,056	-	17,377,021
$ 332,653	$ 439,683	$ -	$ 20,011,229

PIEDMONT COMMUNITY SERVICES

Combining Statement of Cash Flows
Year Ended June 30, 2019

	Piedmont Community Services	Scuffling Hill Housing, Inc.	Maynor Street Housing, Inc.
Cash flows from operating activities:			
Receipts from customers	$ 16,033,929	$ -	$ -
Payments to suppliers	(6,050,168)	(43,820)	(29,666)
Payments to and/or for employees	(18,936,141)	-	-
Cash flows provided by (used for) operating activities	$ (8,952,380)	$ (43,820)	$ (29,666)
Cash flows from noncapital financing activities:			
Government grants	$ 9,676,093	$ -	$ -
Other	819,404	43,976	31,398
Cash flows provided by (used for) noncapital financing activities	$ 10,495,497	$ 43,976	$ 31,398
Cash flows from capital and related financing activities:			
Acquisition of capital assets	$ (2,277,240)	$ -	$ -
Proceeds from insurance for fire	1,779,258	-	-
Proceeds from dispsal of property	34,644	-	-
Principal payments on mortgages and loans payable	(61,030)	-	-
Payments for interest	(63,793)	-	-
Construction grants and contributions	646,912	-	-
Cash flows provided by (used for) capital and related financing activities	$ 58,751	$ -	$ -
Cash flows from investing activities:			
Investment income	$ 33,217	$ 60	$ 111
Cash flows provided by (used for) investing activities	$ 33,217	$ 60	$ 111
Net increase (decrease) in cash and cash equivalents	$ 1,635,085	$ 216	$ 1,843
Cash and cash equivalents, beginning of year	8,036,763	14,999	19,934
Cash and cash equivalents, end of year	$ 9,671,848	$ 15,215	$ 21,777
Cash and cash equivalents:			
Unrestricted	$ 9,559,023	$ -	$ -
Restricted	112,825	15,215	21,777
Total	$ 9,671,848	$ 15,215	$ 21,777
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:			
Operating income (loss)	$ (9,952,224)	$ (56,869)	$ (49,468)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) by operating activities:			
Depreciation	547,108	14,053	19,802
Changes in operating assets, liabilities, and deferred outflows/inflows of resources:			
Accounts receivable	26,784	-	-
Prepaid items	741	-	-
Net pension asset	(164,152)	-	-
Deferred outflows related to net pension asset	(42,425)	-	-
Deferred outflows related to net OPEB liability	(83,380)	-	-
Accounts payable and accrued expenses	216,432	(1,004)	-
Security and escrow deposits	1,129	-	-
Unearned revenue	682,000	-	-
Compensated absences	(10,317)	-	-
Net OPEB liability	44,000	-	-
Deferred inflows related to net pension asset	(205,076)	-	-
Deferred inflows related to net OPEB liability	(13,000)	-	-
Cash flows provided by (used for) operating activities	$ (8,952,380)	$ (43,820)	$ (29,666)

Pebble Creek Housing, Inc.	West Church Street Housing, Inc.	Intercompany Eliminations	Total
$ -	$ -	$ -	$ 16,033,929
(36,908)	(28,980)	26,012	(6,163,530)
-	-	-	(18,936,141)
$ (36,908)	$ (28,980)	$ 26,012	$ (9,065,742)
$ -	$ -	$ -	$ 9,676,093
37,208	30,275	(26,012)	936,249
$ 37,208	$ 30,275	$ (26,012)	$ 10,612,342
$ -	$ -	$ -	$ (2,277,240)
-	-	-	1,779,258
-	-	-	34,644
-	-	-	(61,030)
-	-	-	(63,793)
-	-	-	646,912
$ -	$ -	$ -	$ 58,751
$ 27	$ 64	$ -	$ 33,479
$ 27	$ 64	$ -	$ 33,479
$ 327	$ 1,359	$ -	$ 1,638,830
9,392	18,123	-	8,099,211
$ 9,719	$ 19,482	$ -	$ 9,738,041
$ -	$ -	$ -	$ 9,559,023
9,719	19,482	-	179,018
$ 9,719	$ 19,482	$ -	$ 9,738,041
$ (52,194)	$ (45,921)	$ 26,012	$ (10,130,664)
14,879	16,941	-	612,783
-	-	-	26,784
-	-	-	741
-	-	-	(164,152)
-	-	-	(42,425)
-	-	-	(83,380)
407	-	-	215,835
-	-	-	1,129
-	-	-	682,000
-	-	-	(10,317)
-	-	-	44,000
-	-	-	(205,076)
-	-	-	(13,000)
$ (36,908)	$ (28,980)	$ 26,012	$ (9,065,742)

- Compliance -

Robinson, Farmer, Cox Associates, PLLC
Certified Public Accountants
CPAs | Consultants

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, 2019, and the related notes to the financial statements, which collectively comprise Piedmont Community Services' basic financial statements and have issued our report thereon dated December 2, 2019.

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 Farmer Cox Associates

Charlottesville, Virginia
December 2, 2019

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

To the Board of Directors
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, 2019. 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 expended, in the aggregate, a total of $1,849,195 in federal awards which is not included the Schedule of Federal Awards during the year ended June 30, 2019. 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, 2019.

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 Farmer Cox Associates

Charlottesville, Virginia
December 2, 2019

PIEDMONT COMMUNITY SERVICES

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

Federal Grantor/ Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number		Total Federal Expenditures
Department of Agriculture:				
Direct payments:				
Communities Facilities Loans and Grants Cluster:				
Community Facilities Loans and Grants	10.766	Not Applicable		$ 25,000
Pass-through payments:				
Virginia Department of Agriculture:				
Child and Adult Care Food Program (CACFP)	10.558	10340		59,509
Total Department of Agriculture				$ 84,509
Department of Health and Human Services:				
Direct payments:				
Drug-Free Communities Support Program Grants	93.276	Not Applicable		$ 127,751
Pass-through payments:				
Virginia Department of Behavioral Health and Developmental Services:				
Substance Abuse and Mental Health Services -				
Projects of Regional and National Significance (Direct)	93.243	Not Applicable	$ 57,753	
Projects of Regional and National Significance (Pass-Through)	93.243	5U79SP020791-04	102,272	160,025
Opioid STR	93.788	5H79TI080220-02/ 1H79TI081682-01		228,137
Block Grants for Community Mental Health Services	93.958	2B090SM010053-18		267,915
Block Grants for Prevention and Treatment of Substance Abuse	93.959	2B08TI010053-18		929,075
Virginia Department of Social Services:				
TANF Cluster:				
Temporary Assistance for Needy Families (TANF)	93.558	FAM-18-106A-19		234,864
Total Department of Health and Human Services				$ 1,947,767
Department of Education:				
Pass-through payments:				
Virginia Department of Behavioral Health and Developmental Services:				
Special Education - Grants for Infants and Families	84.181	H181A190017		$ 63,031
Total expenditures of federal awards				$ 2,095,307

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, 2019. 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, 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, 2019 for which only the payment of debt service is the primary compliance requirement.	$ 1,560,693

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

Total expenditures of Federal Awards	$ 2,095,307
Adjustments:	
Block Grant for Prevention and Treatment of Substance Abuse	7,577
Mental Health Block Grant Federal Balance	42,401
OPT-R Opioid Response Federal Balance	111,029
Total federal revenue per financial statements	$ 2,256,314

PIEDMONT COMMUNITY SERVICES

Schedule of Findings and Questioned Costs
Year Ended June 30, 2019

Section I - Summary of Auditors' Results

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified)?	None reported
Type of auditors' report issued on compliance for major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)?	No

Identification of major programs:

CFDA #	Name of Federal Program or Cluster
93.959	Block Grants for 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.

Summary Schedule of Prior Audit Findings
Year Ended June 30, 2019

There were no items reported for the year ended June 30, 2018.