DANVILLE-PITTSYLVANIA COMMUNITY SERVICES

FINANCIAL REPORT
(Audited)

JUNE 30, 2018 and 2017

C O N T E N T S

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES

OFFICERS, DIRECTORS, AND MANAGEMENT
For the Year Ended June 30, 2018

Board of Directors

Officers

Robert W. Warren - Chairperson

Shelby J. Irving - Vice Chairperson

Gracie Mays - Member-at-Large

Dr. Frank Wickers - Member-at-Large

Jessie Barksdale - Secretary

Directors

William Allgood

Dr. Julie Brown - Past Chairperson

Gwendolyn Edwards

Lori Eanes-Brooks

Angela Fowler

Rufus Fuller III

Michael Mondul

Jacqueline Satterfield

Kimberly Van DerHyde

Management

Executive Director
James F. Bebeau, LPC

Director of Finance
Mary Beth Clement, CPA

Division Directors
Sandy Irby - Behavioral Health Services

Sara Craddock - Intellectual Disability Services

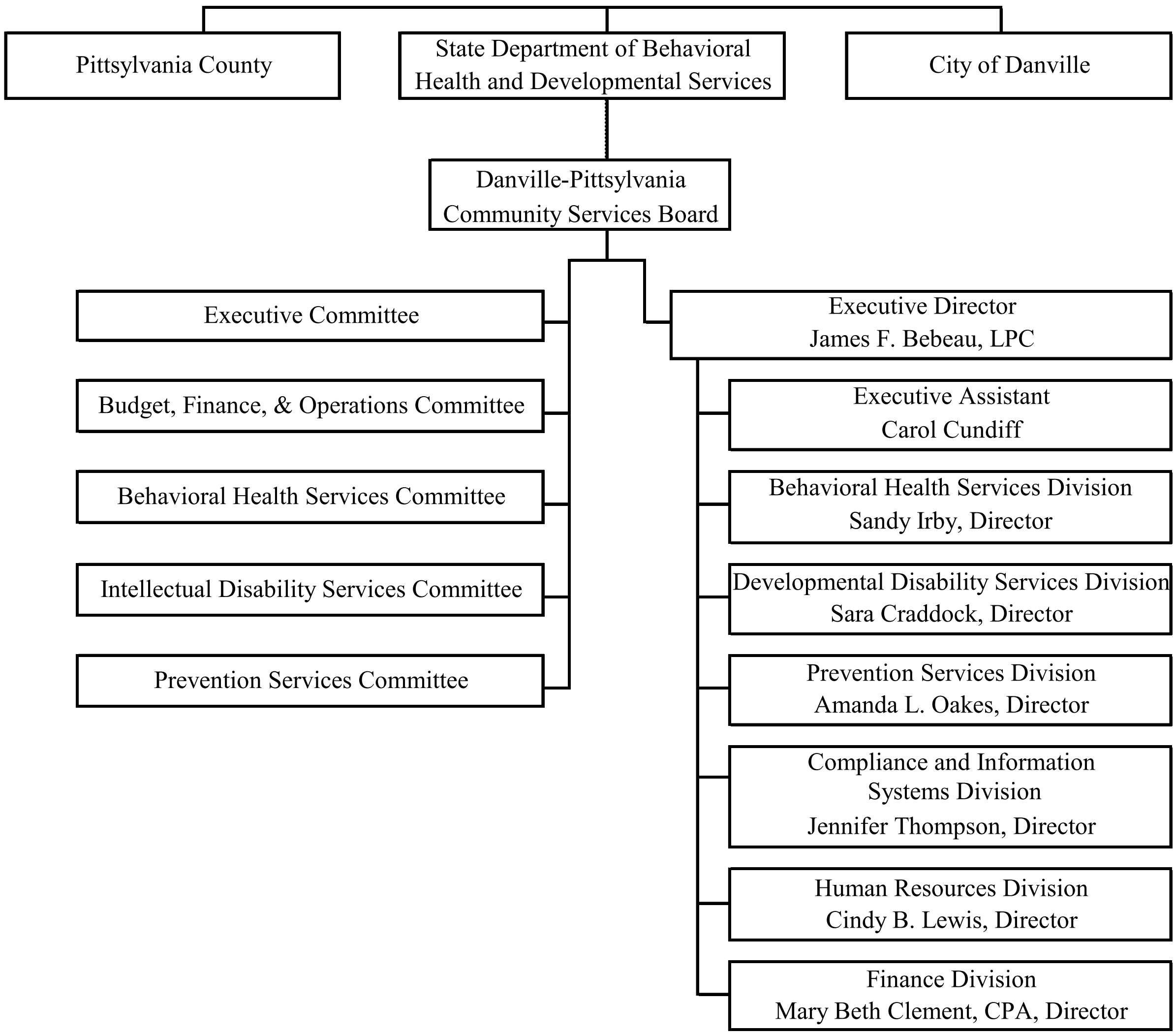
Amanda Oakes - Prevention Services Director

Cindy Lewis - Human Resources Director

Jennifer Thompson - Compliance and Information Systems Director

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES

ORGANIZATIONAL CHART
For the Year Ended June 30, 2018



HHN&Co.

Harris, Harvey, Neal & Co., LLP
Certified Public Accountants

2309 Riverside Drive • P.O. Box 3424 • Danville, VA 24543
434/792-3220 • Fax 434/792-8604 • www.hhncpa.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Danville-Pittsylvania Community Services
Danville, Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Danville-Pittsylvania Community Services, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions 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 and 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 auditor's 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component units of of Danville-Pittsylvania Community Services, as of June 30, 2018 and 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 2 to the financial statements, in 2018, DPCS adopted new accounting guidance, GASB Statement No. 74*, Financial Reporting for Postemployment Benefit Plans Other Than Pensions* and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4–16 and certain pension and group life insurance information on pages 49-52 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The schedule of expenditures of federal awards is the responsibility of management and was derived from and 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 schedule is fairly stated in all material respects in relation to the basic financial statements as a whole.

The schedule of current property and casualty insurance has not been subjected to the auditing procedures applied in the audit of the basic financial statements; and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2018, on our consideration of the Danville-Pittsylvania 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 the Danville-Pittsylvania 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 Danville-Pittsylvania Community Services' internal control over financial reporting and compliance.

Harris Harvey Neal & Co. LLP

Danville, Virginia
November 20, 2018

MANAGEMENT’S DISCUSSION AND ANALYSIS

The following discussion and analysis of Danville-Pittsylvania Community Services' (Agency) financial performance provides an overview of the Agency's financial activities for the fiscal years ended June 30, 2018 (FY2018) and June 30, 2017 (FY2017). The Agency's financial statements are reported on the full accrual basis as required by Governmental Accounting Standards Board (GASB) 34. Due to the requirements of GASB Statements related to the determination of component units and 'The Financial Reporting Entity', the financial statements for Piney Ridge Apartments Corporation, Piney Ridge Apartments Corporation II, Ashlawn View, Inc. and Bellevue, Inc. are blended with the Agency. GASB requires organizations that are legally separate, tax-exempt entities and that meet all of the following criteria to be presented as component units. These criteria include (a) the economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, (b) the primary government has the ability to otherwise access a majority of the economic resources held by the separate organization, and (c) the economic resources received or held by an individual organization that the specific primary government has the ability to otherwise access are significant to that primary government. Each component unit agency is tax exempt under 501(c)(3) of the Internal Revenue Code. The Piney Ridge Apartments Corporations provide apartments and Ashlawn View, Inc. provides a group home to house individuals receiving services from the Agency. Bellevue, Inc. provides DPCS, as the sole tenant, fixed assets (land, buildings and improvements, and furniture and equipment) totaling $6,298,645 and $5,797,997 less accumulated depreciation of $2,795,122 and $2,658,310 for a net value of $3,503,523 and $3,139,687 at December 31, 2017 and December 31, 2016 respectively. Furthermore, Joplin Street Properties, LLC was formed in FY2017 as a disregarded entity under the sole control of the Agency and as such the financial amounts are blended with the Agency.

Management Discussion and Analysis for the Agency Only- Not Including GASB Statements 68 or 75 for Pension Amounts and Other Post Retirement Benefits (OPEB) for the Virginia Retirement System

Basic Financial Statements: The basic financial statements for the Agency consist of the Statement of Net Assets (Balance Sheet), Statement of Revenues, Expenses and Changes in Net Assets (Income Statement) and the Statement of Cash Flows. The following are condensed Financial Statements which present the changes in the accounts from FY2017 to FY2018 for analysis purposes:

Summary Statement of Net Position Comparison					
			Dollar	Percent	
	FY2018	FY2017	Change	Change	FY2016
Assets:					
Cash and cash equivalents	$ 9,114,077	$ 11,035,213	$ (1,921,136)	-17.41%	$ 11,247,321
Prepaid expenses	2,461,003	43,588	2,417,415	5546.06%	49,306
Fees receivable (net)	2,005,270	1,459,611	545,659	37.38%	1,179,007
Due from other governments	158,805	147,151	11,654	7.92%	196,247
Notes receivable- consumers	24,048	32,128	(8,080)	-25.15%	43,761
Rental deposits	10,325	10,325	-	0.00%	65,825
Restricted cash held for consumers	70,804	71,714	(910)	-1.27%	64,869
Equip., Land & Land Improvements (net)	3,566,650	3,717,701	(151,051)	-4.06%	3,941,352
Liabilities:					
Accounts payable	$ 869,257	$ 514,705	$ 354,552	68.88%	$ 445,261
Accrued payroll & other liabilities	851,982	785,376	66,606	8.48%	618,756
Consumer deposits	70,804	71,714	(910)	-1.27%	64,869
Deferred revenue	1,711,931	2,251,649	(539,718)	-23.97%	2,769,405
Accrued leave	1,336,461	1,219,037	117,424	9.63%	1,298,924
Accrued postemployment health	488,934	486,571	2,363	0.49%	505,116
Net Position:					
Investments in fixed assets	$ 3,566,650	$ 3,717,701	$ (151,051)	-4.06%	$ 3,941,352
Unrestricted but designated	93,935	126,064	(32,129)	-25.49%	146,145
Unrestricted net position	8,421,028	7,344,614	$1,076,414	14.66%	6,997,860

Danville-Pittsylvania Community Services
Management Discussion and Analysis
For the Years Ended June 30, 2018 and 2017

Summary Statement of Revenues, Expenses and Changes in Net Position Comparison					
			Dollar	Percent	
	FY2018	FY2017	Change	Change	FY2016
Operating Revenues:					
Net consumer services revenue	$ 10,170,589	$9,660,677	$509,912	5.28%	$8,963,345
Other revenue	236,079	294,694	(58,615)	-19.89%	268,063
Operating Expenses:					
Personnel	14,689,176	14,278,764	410,412	2.87%	13,334,385
Staff development	156,709	170,568	(13,859)	-8.13%	148,525
Facilities	1,473,115	1,438,824	34,291	2.38%	1,460,622
Supplies/equipment maintenance	852,394	824,305	28,089	3.41%	885,441
Travel	183,215	169,440	13,775	8.13%	140,080
Consultant/contract	1,814,146	1,659,249	154,897	9.34%	1,615,186
Depreciation	339,634	410,164	(70,530)	-17.20%	283,317
Bad debt expense	211,567	179,586	31,981		273,859
Non-operating Revenues/(Expenses):					
Appropriations from State gov't	7,741,301	7,628,046	113,255	1.48%	7,394,126
Appropriations from Federal gov't	1,457,645	1,326,526	131,119	9.88%	1,214,032
Appropriations from Local sources	982,857	919,851	63,006		877,578
Gain/(Loss) on equipment disposal	1,500	-	1,500	100.00%	-
Contributions (to)/from Related Organizations	(18,495)	(639,347)	620,852	-97.11%	-
Interest income	41,714	43,475	(1,761)	-4.05%	44,716
Total Change in net position	$893,234	$103,022	790,212	767.03%	$620,445

Summary Statement of Cash Flows Comparison					
			Dollar	Percent	
	FY2018	FY2017	Change	Change	FY2016
Cash Flows from Operating Activities:					
Cash received from client services	$9,421,889	$9,208,846	$ 213,043	2.31%	$8,759,078
Other unrestricted operating revenue	266,090	299,894	(33,804)	-11.27%	298,912
Cash payments for personnel	(13,480,404)	(13,227,185)	(253,219)	1.91%	(12,943,925)
Cash payments for supplies/other operating needs	(6,996,908)	(5,510,424)	(1,486,484)	26.98%	(4,444,181)
Cash Flows from Non-capital Financing Activities:					
Appropriations from State gov't	7,157,663	7,167,687	(10,024)	-0.14%	8,436,867
Appropriations from Local gov't	686,152	623,773	62,379	10.00%	567,064
Appropriations from Federal gov't	1,476,933	1,325,621	151,312	11.41%	1,235,707
Cash Flows from Capital and Related Financing Activities:					
Acquisition of capital assets	(495,765)	(143,795)	(351,970)	244.77%	(909,124)
Proceeds from sale of assets	1500	-	1,500	100.00%	-
Cash Flows from Investing Activities:					
Interest Income	41,714	43,475	(1,761)	-4.05%	44,716
Net increase (decrease) in cash and cash equivalents	$ (1,921,136)	$ (212,108)	(1,709,028)	805.73%	$1,045,114

Financial Analysis

For the fiscal year ended June 30, 2018, the Agency reported total revenue of $20,631,685 and total expenses of $19,719,956 for a 'net income' of $911,729; however, contributions totaling $18,495 were made to the disregarded entity of Joplin Street Properties, LLC out of this 'net income' to fund operating expenses during the fiscal year resulting in a Total Change in Net Position of $893,234. For FY2017, the Agency reported total revenue of $19,873,269 and total expenses of $19,130,900 for a total 'net income' of $742,369 using $639,347 of this 'net income' to fund Joplin Street Properties, LLC resulting in a Total Change in Net Position of $103,022.

During FY2018, net consumer services revenue experienced an overall increase of 5.28% amounting to $509,912 while cash received from client services increased 2.31%. The Developmental Services Division increased billable revenue approximately $473,816 as vacant beds were filled at the waiver group homes and Mount Hermon Manor Intermediate Care Facility (ICF) and Developmental Services increased case management billable services by approximately $99,459. Both the Behavioral Health Services and Prevention Services Divisions experienced no significant changes in billable revenue during FY2018 as compared to FY2017. Note 5 in the Notes to the Financial Statements details the revenue information by payor source. As shown in Note 6 in the Notes to the Financial Statements, the allowance for uncollectible accounts increased from $237,479 in FY2017 to $256,576 in FY2018. The balance in the allowance for uncollectible accounts corresponds to the balance of accounts receivable greater than 90 days old for the direct client payor source and the balance in the Virginia Department of Taxation debt set off payor source. The net effect of the actual write-offs in FY2018 and FY2017 with the adjustments to the allowance for doubtful accounts resulted in bad debt expense on the operating statement of $211,567 and $179,586, respectively. The Agency's Finance Division sends delinquency notices to consumers at 60 and 90 day past due intervals. After the final notice and continued non-payment, the account is transferred from the direct client payor source to debt set off if pertinent information has been obtained on the individual's account. If after two years of non-payment from a matching Virginia income tax refund in the debt set-off payor source, the charge is written off the books as an uncollectible account. Consumer accounts are reviewed and write-offs are done monthly; therefore, the amount of annual write-offs will vary depending on the age of the receivable. Other revenue decreased slightly by $58,615 from FY2017 to FY2018 as shown on the operating statement. Other revenue consists mostly of local agency grants such as United Way, Community Foundation, etc. and will vary each year based on the grant awards and the timing of spending of the grant awards.

Appropriations from the federal government increased overall by $131,119 due to new federal Opioid Prevention, Treatment and Recovery funds used in Prevention Services and Behavioral Health services. Appropriations from the state government increased $113,255; however, on the cash flow statement this category decreased by $10,024. These changes are mostly due to the variability in the deferred revenue from unspent previous year state funds. Per Note 14 of the Notes to the Financial Statements, state deferred revenue decreased from $2,177,243 at June 30, 2017 to $1,609,459 at June 30, 2018.

The significant changes to state funds including appropriations and deferred revenue were as follows:

- A total of $1,668,264 in unspent prior year state funds were used by the Agency in FY2018 as follows: (1) $104,765 used for regional related programs for Discharge Assistance (DAP), Training & Recovery program related to the Employment Specialist position and to cover the .5 FTE Accountant position used by the Agency for regional accounting tasks; (2) $277,418 used by the Behavioral Health Services Division for purposes the state funds were restricted or for related program operations used in the Adult and Child/Youth Case Management programs, Program for Assertive Community Treatment and the Medical Services program; (3) $313,960 used to cover staffing and related operating expenses in the Piney Ridge Apartments program in the Behavioral Health Services Division; (4) $1,051 used from smaller one-time restricted state funds received in previous years for Suicide Prevention

- services; (5) $228,310 of regional state funds for which the Agency is fiscal agent and paid to Piedmont Community Services and Southside Community Services for regional programs for DAP and geriatric bed day reduction project expenses and (6) $742,760 used from previous year state general funds to issue an advance rental payment to Bellevue in December 2017 in accordance with the initial lease between the Agency and Bellevue related to the expansion of the Hairston Street property and the development of the Carolyn Court property for the vehicle service center.

- A total of $1,100,480 in FY2018 state funds were unspent at June 30, 2018 and therefore additions to deferred revenue: (1) $215,455 of restricted state funds for the Ambulatory Crisis Stabilization program started in April 2018; (2) $87,403 of restricted state funds for the Crisis Intervention Team Assessment Site mostly for transportation by off duty officers; (3) $29,540 in restricted state funds for the Permanent Supportive Housing program started in the fall of 2017; (4) $3,318 for Suicide Prevention; (5) $181,692 of State Substance Abuse General Funds unspent at June 30, 2018 and (6) $540,457 of regional DAP and $42,615 of regional Local Inpatient Purchase of Service (LIPOS) funding for which the Agency is fiscal agent for the region.

The remaining balance of deferred revenue from state funds in Note 14 includes $224,989 of state earmarked and restricted funds in the Behavioral Health Services Division and $283,990 of state regional restricted funds from years prior to FY2018. The deferred revenue from federal funds includes $58,523 Prevention funds and $13,781 Behavioral Health funds received in FY2018 but unspent at June 30. The Agency does anticipate using these balances in future fiscal years.

Overall, the Agency's total operating expenses increased 3.08% from $19,130,900 in FY2017 to $19,719,956 in FY2018. Personnel expense includes both salaries and wages and fringe benefits for payroll taxes, health insurance, retirement, group life and workers compensation insurance expenses. Personnel expense increased overall by 2.87% and was attributable to various factors. The Agency gave a 1% merit raise in salary to employees on their performance anniversary date and a 2% salary scale increase on November 25, 2017. Fringe benefits increased as salaries increased. The increase in the Facilities category is due to an increase in the assessment fee related to the Intermediate Care Facilities. The assessment fee is a set percentage of the payment from Medicaid to the ICF and Mount Hermon Manor was an ICF for the entire year for FY2018. The increase in the Travel category is due to increased cost of gas for Agency vehicles and repairs and additional hotel/lodging expenses related to staff conference attendance. The Consultant/Contract category includes expenses for clients which increased in FY2018 in both the DAP and Permanent Supportive Housing programs both of which pay for rents, utilities and other client expenses. Depreciation decreased during FY2018 due to the change in FY2017 of the estimated useful lives of ICF related building components and the increased depreciation for those reductions in useful lives as a result of the finalization of the cost settlement reports for River View Place ICF and the difference in the Agency's depreciation claimed versus the auditors depreciation adjustments. Finance obtained the auditor work papers and researched the useful lives used in the deprecation schedule prior to making those changes in FY2017. The increase in bad debt expense was mentioned previously in this analysis.

Per the Statement of Net Position (balance sheet) in this analysis, Cash and cash equivalents includes the Agency's regular checking account, client loan fund account and certificates of deposit (CD). At June 30, 2018 the Agency's regular checking account balance was $6,523,437 as compared to $8,475,039 at June 30, 2017. Also, at June 30, 2018 CD accounts totaled $2,268,901 as compared to $2,237,794 at June 30, 2017. Prepaid expenses increased substantially by $2,417,415 due to the advanced rent payments, both in cash and property value, to Bellevue for the Hairston Street expansion construction project. The value of the property transferred was $386,110. The Agency made two cash payments to Bellevue, both recognized by Bellevue as advanced rent payments on the final lease, the first payment being $742,760 as previously mentioned in the comments on changes in state deferred revenue and the second payment of $1,263,917 which was compromised of 'old' balances from state general, local and fees unspent in previous fiscal years but created prior to the accounting for deferred revenue. Fees receivable increased $545,659 in FY2018 due to the implementation of Medicaid CCC Plus and having to set up contracts, rules, billing forms, online access and payment processing for six insurance companies for Medicaid billable Behavioral Health services starting January 2018. Prior to January 2018, the Agency billed just one insurance company. It took a substantial amount of time to set up billing rules for each service and billing forms to six companies; therefore, billing was delayed; thus, the collection of the fee revenue was delayed as well. Notes receivable- consumers is the loan fund in the Behavioral Health Services Division and decreased due to a thorough analysis of those accounts and the write off of the uncollectible amounts at June 30, 2018. Accounts payable results from regular expenses incurred by June 30 but not paid until the subsequent fiscal year. The increase in Accounts Payable from FY2017 to FY2018 is attributable to the reimbursement to Piedmont Community Services and Southside Community Services of $90,938 in regional funds for LIPOS and DAP expenses more than the accounts payable for FY2017 for these regional funds and a total of $222,171 in construction related payables at June 30, 2018 for the additional parking and lighting at Mount Hermon Manor and the conversion of Keen Street to an ICF for the building and sprinkler renovations. Accrued payroll and related liabilities represent those payroll and related expenses incurred during the last pay period of the fiscal year thru June 30 for which the expenses were not paid until July.

Overall in FY2018 the increase in net position was $893,234 compared to $103,022 in FY2017 and the change in cash flow was $(1,921,136) compared to $(212,108) in FY2017. One of the factors which contributed to the decrease in cash flow was the use of a substantial amount of state deferred revenue and 'old' balances for the advanced rental payments to Bellevue during FY2018 and the construction/renovation projects during FY2018.

Fixed Assets

Note 8 of the Notes to the Financial Statements presents the details of the Agency's property and equipment. Approximately $574,694 in fixed assets were acquired during FY2018. Building and land improvements totaling $468,847 were completed and included: (1) $42,908 for the additional parking and lighting at Mount Hermon Manor, (2) $59,288 for the renovations to the River View Place kitchen, and (3) $366,651 in construction in progress costs for the project to convert Keen Street to an ICF. New equipment totaling $28,401 was purchased for the River View Place kitchen to include a refrigerator, cooktop, oven, refrigerator/freezer and dishwasher all of which are of the highest quality to endure the use in this residential setting. A total of $6,995 in fully depreciated equipment was written off the books as it was no longer in use. Three vehicles were sold for a $1,500 gain on the sale and removal of $36,000 from the books for the purchase price of the fully depreciated vehicles. Furthermore, two new handicap vans were purchased with a value totaling $77,446 in FY2018 for which a grant from the Department of Rail and Public Transportation was received in the amount of $61,957 with the Agency paying the remainder of the purchase prices. Finally, as Bellevue began construction on the Hairston Street expansion project, the Agency transferred the Hairston Street parcels to Bellevue for the book value of $386,110 for which Bellevue will recognize the transfer value as an advanced rent payment on the final lease once the construction is complete and the lease is finalized.

Long-Term Debt

Long-term debt consists of accrued leave balances for vacation and sick leave for current staff and postemployment health insurance. During FY2014, DPCS expired the two leave policy plan which included accruals for vacation and sick leave separately and replaced these with one accrual for Paid Time Off (PTO). The PTO system includes one accrual rate to be used for either vacation or sick time off. The accrued leave balances consist of PTO hours earned but unpaid at June 30 for all regular full-time and regular part-time staff and 25% of sick hours balance to a maximum of $6,000 for regular full-time and regular part-time staff employed at least 5 years as of June 30. The liability increased from $1,219,037 in FY2017 to $1,336,461 in FY2018 due to increase in wages due to the salary scale and merit increases during FY2018. The portion of this liability related to the sick hours balance will either remain steady or decrease over time as no additional hours will accrue in this category. The liability for postemployment health insurance increased from $486,571 in FY2017 to $488,934 in FY2018. This liability is due to Board policy allowing terminating staff with 20 years of service to use their remaining sick leave balance to cover health insurance premiums or to be reimbursed for other health insurance coverage after providing documentation to Finance of the coverage and cost amounts. This liability is calculated based on staff with 20 years or more of service at June 30 less the 25% payout of their unused sick leave hours accumulated times their pay rate at June 30. This postemployment health insurance balance will be used each month to cover the employee only premium of Agency sponsored health insurance or be used to cover the actual costs paid by the former employee for other health insurance coverage until the balance is exhausted or due to forfeiture of credits resulting from death or cancellation of insurance. The calculation of this liability is affected by the expiration of the accrual of sick leave separately and as a result will increase only when current employees reach the 20 year service level and have a balance of sick leave hours to use for postemployment health insurance coverage. The postemployment health insurance liability of $488,934 at June 30, 2018 includes nine 'retirees' and nineteen current employees with 20 years of service.

Unrestricted but Designated Net Assets

The Agency has designated $93,934 of unrestricted net position to pay for the postemployment health insurance liability. During FY2018, the Agency paid $32,129 for postemployment health insurance compared to $20,081 in FY2017.

Forecast for FY2019

In FY2019, the Agency will continue to use as much deferred revenue as possible including working with the regional partner CSBs to continue to utilize regional funds. Also, the Agency will continue the project to convert the group home on Keen Street to an ICF. The Hairston Street expansion project will be completed by Bellevue in FY2019.

Management Discussion and Analysis for the Agency Only- Including GASB Statement 68 for Pension Amounts Related to the Virginia Retirement System (VRS) and GASB Statement 75 for Other Post Employment Benefits (OPEB) Related to Group Life Insurance thru VRS

The Governmental Accounting Standards Board (GASB) issued Statement No. 68 which requires DPCS as a political subdivision and participant in the Virginia Retirement System to record and show on the audited financial statements amounts related to VRS retirement. GASB issued Statement No. 75, Other Post Employment Benefits (OPEB) which requires DPCS as a political subdivision and participant in the Group Life Insurance Plan thru VRS to record and show on the audited financial statements amounts related to VRS Group Life. DPCS is a participant in VRS as an Agent Multiple-Employer Plan and therefore has an 'account' with VRS. The following two tables represent the changes to DPCS's financial statements to show VRS amounts for pension/OPEB expense, net pension/OPEB liability and deferred inflows and outflows for each. These amounts were obtained from VRS and have been actuarially determined; however, they reflect amounts as of June 30, 2017 but are required to be presented in the FY2018 DPCS audited financial statements.

Summary Statement of Net Position Comparison

	FY2018 without VRS	Change- VRS	FY2018 with VRS	FY2017 with VRS
Assets:				
Cash and cash equivalents	$ 9,114,077	$ -	$9,114,077	$11,035,213
Prepaid expenses	2,461,003	-	2,461,003	43,588
Fees receivable (net)	2,005,270	-	2,005,270	1,459,611
Due from other governments	158,805	-	158,805	147,151
Notes receivable- consumers	24,048	-	24,048	32,128
Rental & Escrow deposits	10,325	-	10,325	10,325
Restricted cash held for consumers	70,804	-	70,804	71,714
Equipment, Land & Improvements (net)	3,566,650	-	3,566,650	3,717,701
Net Pension Asset- VRS	-	2,458,114	2,458,114	737,881
Deferred Outflows of Resources- VRS (GASB 68)	-	341,121	341,121	1,008,594
Deferred Outflows of Resources- VRS (GASB 75)		82,599	82,599	-
Liabilities:				
Accounts payable	$ 869,257	$ -	$ 869,257	$514,705
Accrued payroll & other liabilities	851,982	-	851,982	785,376
Consumer deposits	70,804	-	70,804	71,714
Deferred revenue	1,711,931	-	1,711,931	2,251,649
Accrued leave	1,336,461	-	1,336,461	1,219,037
Accrued postemployment health	488,934	-	488,934	486,571
Net OPEB Pension Liability- VRS (GASB 75)	-	781,000	781,000	-
Deferred Inflows of Resources- VRS (GASB 68)	-	953,542	953,542	337,869
Deferred Inflows of Resources- VRS (GASB 75)		87,000	87,000	-
Net Position:				
Investments in fixed assets	$3,566,650	$ -	$3,566,650	$3,717,701
Unrestricted but designated	93,935	-	93,935	126,064
Unrestricted net position	8,421,028	-	8,421,028	7,344,614
Restricted net position- VRS (GASB 68 & 75)	-	1,060,292	1,060,292	1,408,606

Summary Statement of Revenues, Expenses and Changes in Net Position Comparison					
	FY2018- without VRS	Change- VRS	FY2018- with VRS	FY2017- without VRS	FY2017- with VRS
Operating Revenues:					
Net consumer services revenue	$ 10,170,589	$ -	$ 10,170,589	$9,660,677	$9,660,677
Other revenue	236,079	-	236,079	294,694	294,694
Operating Expenses:					
Personnel	14,689,176	(473,686)	14,215,490	14,278,764	14,132,654
Staff development	156,709	-	156,709	170,568	170,568
Facilities	1,473,115	-	1,473,115	1,438,824	1,438,824
Supplies/equipment maintenance	852,394	-	852,394	824,305	824,305
Travel	183,215	-	183,215	169,440	169,440
Consultant/contract	1,814,146	-	1,814,146	1,659,249	1,659,249
Depreciation	339,634	-	339,634	410,164	410,164
Bad debt expense	211,567	-	211,567	179,586	179,586
Miscellaneous	-	-	-	-	-
Non-operating Revenues/(Expenses):					
Appropriations from State gov't	7,741,301	-	7,741,301	7,628,046	7,628,046
Appropriations from Federal gov't	1,457,645	-	1,457,645	1,326,526	1,326,526
Appropriations from Local sources	982,857	-	982,857	919,851	919,851
Gain on sale of equipment	1,500	-	1,500		
Contributions (to)/from related organization	(18,495)	-	(18,495)	(639,347)	(639,347)
Interest income	41,714	-	41,714	43,475	43,475
Total Change in Net Position	$ 893,234	$ 473,686	$ 1,366,920	$103,022	$249,132

For GASB 68: According to VRS, the Net Plan Assets for DPCS's account for retirement exceeded the Pension Liability; therefore, DPCS does not have a Net Pension Liability and instead has a Net Pension Asset of $2,458,114 as of June 30, 2017 to include in the FY2018 financial statements and a Net Pension Asset of $737,881 as of June 30, 2016 that was included in the FY2017 financial statements. The Deferred Outflows of Resources represent the VRS employer contributions and expense amount for FY2018 paid by DPCS to VRS based on the established 3.60 percent employer rate and the employee's monthly creditable compensation during FY2018. Per the Operating Statement above, $320,425 has been removed from the Personnel Expense category and replaced with the VRS actuarial Pension Expense amount of $(114,977) and a correction for FY2017 of $(1,685) for a net change on the operating statement of $(437,087). The $953,542 and $337,869 for FY2018 and FY2017 shown as the Deferred Inflows of Resources is the VRS Actuarial determined amount as of June 30, 2017 and June 30, 2016 respectively to be the difference in the projected and actual earnings on plan investments.

For GASB 75: According to VRS, the Net Plan Assets for DPCS's account for group life insurance are less than the OPEB Liability; therefore, DPCS does have a Net OPEB Liability of $781,000 as of June 30, 2017 to include in the FY2018 financial statements. The Deferred Outflows of Resources represent the VRS employer and employee contributions and expense amount for FY2018 paid by DPCS to VRS based on the established employer rate and the employee's monthly creditable compensation during FY2018. Per the Operating Statement above, $15,000 has been recorded as the VRS actuarial OPEB expense. The $87,000 FY2018 shown as the Deferred Inflows of Resources is the VRS Actuarial determined amount as of June 30, 2017 to be the difference in the projected and actual earnings on plan investments.

Management Discussion and Analysis for the Piney Ridge Apartments Corporation I Only

Summary Statement of Net Position Comparison				
	FY2018	FY2017	Dollar Change	FY2016
Assets:				
Cash and cash equivalents	$ 4,680	$ 520	$ 4,160	$ 131
Cash held in escrow	29,036	30,282	(1,246)	29,517
Rents receivable	-	-	-	-
Due from HUD	352	-	352	-
Land, buildings & equipment, net	306,763	316,129	(9,366)	325,164
Liabilities:				
Accounts payable	$ 404	$ 370	$ 34	$ 1,884
Tenant security deposits	1,106	1,076	30	1,076
Net Position:				
Investments in fixed assets	$ 306,763	$ 316,129	$ (9,366)	$325,164
Net Position in escrow accounts	27,930	29,206	(1,276)	28,441
Unrestricted Net Position	4,628	150	4,478	(1,753)

Summary Statement of Revenues, Expenses and Changes in Net Position Comparison				
	FY2018	FY2017	Dollar Change	FY2016
Operating Revenues:				
Rent revenue, net	$ 21,203	$ 20,805	$ 398	$ 20,160
Operating Expenses:				
Facilities	$ 12,754	12,992	(238)	15,886
Supplies	170	23	147	-
Legal and professional fees	1,172	1,125	47	1,105
Management fee	2,512	2,465	47	2,388
Amortization expense	-	-	-	-
Depreciation expense	10,774	10,581	193	10,553
Payment to HUD for excess residual receipts	-	-	-	8,221
Non-operating Revenues/(Expenses):				
Interest income	15	14	1	13
Total Changes in Net Position	$ (6,164)	$ (6,367)	$ 203	$(17,980)

Piney Ridge residents pay monthly rents based on income/expense determinations and HUD pays a subsidy of the rent. Piney Ridge Apartments Corporation is responsible for facility related expenses. The Agency pays for staffing and related expenses to supervise the residents. Beginning in FY2016, HUD issued regulations which require HUD sponsored organizations to return the excess balance in the Residual Receipts Escrow Account upon their annual renewal. This excess balance is calculated as the balance at renewal less $250.00 per apartment. This amounted to an excess in FY2016 of $8,221 for Piney Ridge Apartments Corporation. The payment was issued to HUD. There was no excess balance in the Residual Receipts escrow account returned to HUD during FY2017 or FY2018. Residual Receipts are generated at fiscal year-end when the organization has a checking account balance higher than the amount of accounts payable and other current liabilities.

Management Discussion and Analysis for the Piney Ridge Apartments Corporation II Only

Summary Statement of Net Position Comparison				
			Dollar	
	FY2018	FY2017	Change	FY2016
Assets:				
Cash and cash equivalents	$ 10,374	$ 6,692	$ 3,682	$ 6,000
Cash held in escrow	30,111	34,118	(4,007)	27,850
Tenant rent receivable	2	-	2	-
Due from HUD	3,583	-	3,583	-
Prepaid Insurance	-	-	-	-
Land, buildings & equipment, net	740,148	760,883	(20,735)	784,604
Liabilities:				
Accounts payable	$ 3,818	$ 3,421	$ 397	$ 3,378
Tenant security deposits	1,595	1,594	1	1,527
Net Position:				
Investments in fixed assets	$ 740,148	$ 760,883	$ (20,735)	$784,604
Net Position in escrow accounts	28,516	32,524	(4,008)	26,323
Unrestricted net position	10,141	3,271	6,870	2,622

Summary Statement of Revenues, Expenses and Changes in Net Position Comparison				
			Dollar	
	FY2018	FY2017	Change	FY2016
Operating Revenues:				
Rent revenue, net	$ 37,693	$ 37,134	$ 559	$ 35,964
Operating Expenses:				
Facilities	21,615	22,132	(517)	21,412
Supplies	-	169	(169)	-
Legal and professional fees	3,953	3,938	15	3,857
Management fee	4,118	4,057	61	3,933
Amortization expense	-	-	-	-
Depreciation expense	23,271	23,721	(450)	23,721
Payment to HUD for excess residual receipts	2,622	-	2,622	16,888
Non-operating Revenues/(Expenses):				
Interest income	13	12	1	11
Total Changes in Net Position	$ (17,873)	$ (16,871)	$ (1,002)	$(33,836)

Piney Ridge II residents pay monthly rents based on income/expense determinations and HUD pays a subsidy of the rent. Piney Ridge Apartments Corporation II is responsible for facility related expenses. The Agency pays for staffing and related expenses to supervise the residents. Beginning in FY2016, HUD issued regulations which require HUD sponsored organizations to return the excess balance in the Residual Receipts Escrow Account upon their annual renewal. This excess balance is calculated as the balance at renewal less $250.00 per apartment. This amounted to an excess paid to HUD in FY2018 of $2,622 and in FY2016 of $16,888 for Piney Ridge Apartments Corporation II. Residual Receipts are generated at fiscal year-end when the organization has a checking account balance higher than the amount of accounts payable and other current liabilities.

Management Discussion and Analysis for Ashlawn View, Inc. Only

Summary Statement of Net Position Comparison				
			Dollar	
	FY2018	FY2017	Change	FY2016
Assets:				
Cash and cash equivalents	$ 90	$ 305	$ (215)	$ 610
Cash held in escrow	15,038	13,213	1,825	11,094
Tenant rent receivable	-	-	-	-
Due from HUD	-	-	-	-
Unamortized organization costs	267	908	(641)	1,549
Land, buildings & equipment, net	526,977	542,614	(15,637)	558,251
Liabilities:				
Accounts payable	$ 14,561	$ 14,868	$ (307)	$ 12,031
Tenant security deposits & other escrow liability	4,466	4,466	-	4,466
Net Position:				
Investments in fixed assets	$ 527,244	$ 543,522	$ (16,278)	$559,800
Net Position in escrow accounts	10,572	8,746	1,826	6,628
Unrestricted Net Position	(14,471)	(14,562)	91	(11,421)

Summary Statement of Revenues, Expenses and Changes in Net Position Comparison				
			Dollar	
	FY2018	FY2017	Change	FY2016
Operating Revenues:				
Rent revenue, net	$ 22,392	$ 20,600	$ 1,792	$ 15,600
Operating Expenses:				
Facilities	16,814	17,748	(934)	15,375
Supplies	-	-	-	-
Legal and professional fees	3,665	3,877	(212)	6,737
Management fee	-	-	-	-
Amortization expense	641	641	-	641
Depreciation expense	15,637	15,637	-	15,637
Miscellaneous	-	-	-	-
Non-operating Revenues/(Expenses):				
Interest income	4	2	2	
Total Changes in Net Position	$ (14,361)	$ (17,301)	$ 2,940	$(22,790)

Ashlawn View, Inc. was organized in FY2011 as a 501(c)(3) corporation HUD project to build a waiver group home for individuals receiving services with an Intellectual Disability. Ashlawn residents pay monthly rents based on income/expense determinations and HUD pays a subsidy of the rent. Ashlawn View, Inc. is responsible for facility related expenses. The Agency pays for staffing and related expenses to operate the home.

Management Discussion and Analysis for Joplin Street Properties, LLC Only

Summary Statement of Net Position Comparison				
			Dollar	
	FY2018	FY2017	Change	FY2016
Assets:				
Cash and cash equivalents	$ 62,807	$ 993	$ 61,814	$
Tenant rent receivable	-	700	(700)	-
Prepaid expenses	607,212		607,212	
Construction in Progress	-	667,611	(667,611)	-
Liabilities:				
Accounts payable	$ 1,173	$ 16,778	$ (15,605)	$
Net Position:				
Investments in fixed assets	$ -	$ 667,611	$ (667,611)	$ -
Unrestricted net position	668,846	(15,085)	683,931	-

Summary Statement of Revenues, Expenses and Changes in Net Assets Comparison				
			Dollar	
	FY2018	FY2017	Change	FY2016
Operating Revenues:				
Rent revenue, net	$ 5,600	$ 15,698	$ (10,098)	$
Operating Expenses:				
Facilities	7,775	2,519	5,256	-
Non-operating Revenues/(Expenses):				
Interest income	-	-	-	-
Contribution from sponsoring agent	18,495	639,347	(620,852)	-
Total Changes in Net Position	$ 16,320	$ 652,526	$ (636,206)	$

Joplin Street Properties, LLC was formed in September 2016 as a disregarded entity with the Agency as the sole member. Joplin Street Properties, LLC was formed with the purpose of taking title to the property located on Carolyn Court, servicing the lease as landlord, accepting rents and maintaining the property until the later of the environmental issues are resolved or the property is transferred to either the Agency or Bellevue, Inc. The Agency transferred prior year unspent state general funds to Joplin Street Properties LLC for the purchase of Carolyn Court and to cover any expenses that exceeded the amount of tenant rents received. The Agency and Bellevue, Inc. broke ground on the Hairston Street Campus Expansion in October 2017 and in January 2018, Joplin LLC transferred the property to Bellevue for a book value of $607,212 to be recognized by the Agency as an advanced rental payment once the lease is completed.

Bellevue, Inc.

Bellevue, Inc. maintains a calendar based fiscal year from January thru December and as such those audited amounts are included in these financial statements. Bellevue, Inc. provides DPCS, as the sole tenant, fixed assets (land, buildings and improvements, and furniture and equipment) totaling $6,298,645 and $5,797,997 less accumulated depreciation of $2,795,122 and $2,658,310 for a net value of $3,503,523 and $3,139,687 at December 31, 2017 and December 31, 2016 respectively. The Agency leases five locations from Bellevue, Inc. The rents the Agency pays to Bellevue, Inc. are used to pay towards the outstanding loans as specified in the Notes to the Financial Statements. The amount of loans payable at December 31, 2017 and December 31, 2016 were $277,229 and $463,661 respectively.

Contacting the Agency's Financial Management

This financial report is designed to provide our citizens, individuals receiving services and taxpayers with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the funds it receives. Questions concerning this report or requests for additional financial information should be made to Mary Beth Clement, C.P.A., Director of Finance, Danville-Pittsylvania Community Services, 245 Hairston Street, Danville, VA 24540 or phone at 434-799-0456, extension 3078 or email to mclement@dpcs.org.

BASIC FINANCIAL STATEMENTS

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES

STATEMENTS OF NET POSITION
June 30, 2018 and 2017
See Independent Auditors' Report

	2018	2017
ASSETS		
Current assets:		
Unrestricted cash and cash equivalents	$ 9,885,954	$ 11,307,533
Prepaid expenses	2,299,250	17,383
Fees receivable (net of allowance for doubtful accounts)	2,005,272	1,460,311
Due from other governments and agencies	144,508	130,119
Notes receivable - consumers	24,048	32,128
Rental deposits	10,325	10,325
Restricted current assets:		
Cash held for consumers	70,804	71,714
Restricted cash - held in escrow	74,185	77,614
Total current assets	14,514,346	13,107,127
Capital assets:		
Equipment, buildings, land & improvements	14,826,386	14,843,816
Less accumulated depreciation	(6,182,325)	(5,699,192)
Total capital assets	8,644,061	9,144,624
Other assets:		
Organizational costs, net	267	1,000
Net pension asset - Virginia Retirement System	2,458,114	737,881
Total other assets	2,458,381	738,881
Deferred outflows of resources		
Pension contributions	423,720	1,008,594
Total assets	$ 26,040,508	$ 23,999,226

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES

STATEMENTS OF NET POSITION
June 30, 2018 and 2017
See Independent Auditors' Report

	2018	2017
LIABILITIES AND NET POSITION		
Current liabilities:		
Accounts payable	$ 957,410	$ 536,342
Accrued payroll and other liabilities	851,982	785,376
Current portion of long-term obligations	277,229	112,705
Deferred revenue	1,711,931	2,251,649
	3,798,552	3,686,072
Current liabilities payable from restricted assets:		
Consumer deposits	74,739	75,618
Total current liabilities	3,873,291	3,761,690
Long-term liabilities:		
Long-term debt non-current portion	-	350,956
Net group life insurance liability - VRS	781,000	-
Accrued postemployment health insurance	488,934	486,571
Accrued leave	1,336,461	1,219,037
Total long-term liabilities	2,606,395	2,056,564
Total liabilities	6,479,686	5,818,254
Deferred inflows of resources		
Unamortized balance - VRS	1,040,542	337,869
Net position:		
Investment in capital assets, net of related debt	8,367,099	8,681,964
Restricted for cash held in escrow	67,018	70,476
VRS net position	1,060,291	1,408,606
Unrestricted	9,025,872	7,682,057
Total net position	18,520,280	17,843,103
Total liabilities and net position	$ 26,040,508	$ 23,999,226

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

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Years Ended June 30, 2018 and 2017
See Independent Auditors' Report

	2018	2017
Operating revenues:		
Net services revenue	$ 10,257,477	$ 9,754,914
Other revenues	229,449	288,172
Total operating revenues	10,486,926	10,043,086
Operating expenses:		
Personnel	14,215,490	14,132,654
Staff development	156,709	170,568
Facilities	1,059,953	1,012,095
Supplies and equipment maintenance	852,564	824,497
Travel	183,215	169,440
Consultant/contract	1,837,176	1,683,827
Depreciation	526,128	596,915
Amortization	733	1,813
Bad debt expense	211,567	179,586
Miscellaneous	442	242
Total operating expenses	19,043,977	18,771,637
Operating (loss)	(8,557,051)	(8,728,551)
Non-operating income (expense):		
Appropriations from government:		
State	7,741,301	7,628,046
Federal	1,457,645	1,326,526
Local	825,197	762,191
Interest income	41,746	43,503
Gain on sale of equipment	1,500	-
Interest expense	(11,161)	(15,825)
Total non-operating income	10,056,228	9,744,441
Total changes in net position	1,499,177	1,015,890
Net position, beginning of year, as restated	17,021,103	16,827,213
Net position, end of year	$ 18,520,280	$ 17,843,103

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

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES

STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2018 and 2017
See Independent Auditors' Report

	2018	2017
Cash flows from operating activities:		
Cash received for services provided	$ 9,505,540	$ 9,302,383
Other unrestricted operating revenue	260,021	293,372
Cash payments for personnel	(13,480,404)	(13,227,185)
Cash payments for supplies and other operating needs	(5,959,437)	(4,633,808)
Net cash (used by) operating activities	(9,674,280)	(8,265,238)
Cash flows from non-capital financing activities:		
Appropriations from the commonwealth	7,157,663	7,167,687
Appropriations from local governments	686,152	623,773
Grants received from federal government	1,476,933	1,325,621
Net cash provided by non-capital financing activities	9,320,748	9,117,081
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(913,216)	(1,022,812)
Sale of fixed assets	1,500	-
Net cash (used by) capital and related financing activities	(911,716)	(1,022,812)
Cash flows from investing activities:		
Interest income	41,746	43,503
Escrow account activity	(484)	(10,629)
Loan payments	(197,593)	(124,567)
	(156,331)	(91,693)
Net (decrease) in cash and cash equivalents	(1,421,579)	(262,662)
Cash and cash equivalents:		
Beginning of year	11,307,533	11,570,195
End of year	$ 9,885,954	$ 11,307,533

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

Note 1. Organization and Purpose

Danville-Pittsylvania Community Services ("Agency") was established in 1972 as an intergovernmental joint venture between the City of Danville and Pittsylvania County, Virginia. The Agency was established to provide public behavioral health, intellectual disability, and substance abuse treatment, and prevention services to the citizens of the City of Danville and Pittsylvania County, Virginia as provided for in Chapter 10 of Title 37.2 of the Code of Virginia, as amended. Pittsylvania County Board of Supervisors appoints eight of the fifteen members of the Agency's Board of Directors and Danville City Council appoints the remaining seven. The State agency with oversight responsibility for the programs conducted by the Agency is the Virginia Department of Behavioral Health and Developmental Services.

Note 2. Summary of Significant Accounting Policies

Financial Reporting Entity

Most Community Service Boards of Virginia use the governmental reporting model for financial reporting. This entails reporting under the provisions of the Governmental Accounting Standards Board's (GASB) Statement 34, *Basic Financial Statements and Management Discussion and Analysis*. This statement establishes financial reporting requirements for state and local governmental entities of the United States. The Agency is not included as part of the financial statements of another primary government.

In defining the Agency as an appropriate reporting entity, related organizations were evaluated for possible inclusion using criteria established by the GASB. The criteria include the Agency's ability to influence designation of management, operations, accountability for fiscal matters, and scope of public service. Further, GASB established broader criteria to consider for determining if an affiliated organization should be considered a component unit. Entities that hold resources entirely or almost entirely for the direct benefit of the Agency, where the Agency has the ability to access a majority of those resources and those resources are significant to the Agency are also to be included as part of the reporting entity. Based on these criteria, the financial statements of the Agency include Bellevue, Inc., Piney Ridge Apartments Corporation I (Piney Ridge), Piney Ridge Apartments Corporation II (Piney Ridge II), and Ashlawn View, Inc. as component units. The assets, liabilities, net assets, revenues, and expenses for these four entities are blended with those of the Agency and reported as if it were a single entity. In 2017 Joplin Street Properties, LLC was formed as a disregarded entity under the control of the Agency. All of its activities are reported as part of the Agency.

Component Units

Bellevue, Inc. is a non-stock, non-profit corporation that is tax-exempt under Section 501(c)(3) of the Internal Revenue Code. The Board of Directors of Bellevue, Inc. is self-perpetuating and is independent from the Agency's Board of Directors. The Agency's administrative office complex plus three facilities for residential and day services for intellectually disabled individuals receiving services are owned by Bellevue, Inc. The Agency is the exclusive tenant of Bellevue, Inc.'s property (see Note 17 - Commitments), and the Agency's management handles all administrative responsibilities for Bellevue, Inc.

Piney Ridge is a non-stock, non-profit organization, incorporated February 24, 1999 for the purpose of acquiring real estate to establish and operate a five-unit apartment complex for adults with serious behavioral health disabilities. The corporation is tax exempt under Section 501(c)(3) of the Internal Revenue Code. Operations as an apartment complex began during the year ended June 30, 2007.

Note 2. Summary of Significant Accounting Policies (continued)

Component Units (continued)

On November 17, 2006, Piney Ridge II was incorporated as a non-stock, non-profit corporation, organized to establish and operate phase II of the Piney Ridge apartment complex. As with the first phase, phase II, a nine-unit apartment complex, was constructed with funds from a U. S. Department of Housing and Urban Development Section 811 grant. The apartments are for adults with serious behavioral health disabilities and began operations in July 2010. The corporation is tax exempt under Section 501(c)(3) of the Internal Revenue Code.

Ashlawn View, Inc. is a non-stock, non-profit organization, incorporated August 30, 2010 for the purpose of acquiring and providing housing facilities and services to promote the health and security of elderly and/or handicapped individuals, specifically a waiver group home for individuals with intellectual disabilities. The corporation is also tax exempt under Section 501(c)(3) of the Internal Revenue Code. The facility was opened for occupancy in April 2014.

The separate financial statements of Bellevue, Inc., Piney Ridge II, and Ashlawn View, Inc. may be obtained by writing to the Director of Finance, Danville-Pittsylvania Community Services, 245 Hairston Street, Danville, VA 24540.

Basis of Presentation

The accompanying financial statements were prepared on the accrual basis of accounting in accordance with statements of the GASB and the Virginia Department of Behavioral Health and Developmental Services. The principles prescribed by the GASB are recognized to represent accounting principles generally accepted in the United States of America for governmental health care reporting entities. As such, the Agency recognizes revenues in the period when earned rather than when received in cash. Expenses are recognized when the underlying obligation is incurred rather than when paid.

The Agency applies all pronouncements of the GASB as well as those of the Financial Accounting Standards Board (FASB) that were issued on or before November 30, 1989 and do not contradict or conflict with the GASB pronouncements.

All significant intercompany transactions and accounts have been eliminated.

Budgets and Budgetary Accounting

The Agency is divided into three program services areas: Behavioral Health Services, Intellectual Disability Services, and Prevention Services. Administrative functions are divided among three divisions: Compliance and Information Systems Division, Human Resources Division, and the Finance Division. Funds to support these programs as well as the related administrative costs are provided from the Commonwealth of Virginia, Federal and local agency grants, local governments, (City of Danville and Pittsylvania County), and fees for services.

The organization operates from a budget for each disability area. Formulation of the budget begins in May of each year upon receipt of a letter of notification of the expected level of funding from the Virginia Department of Behavioral Health and Developmental Services.

The annual budget is approved by the Board of Directors prior to the beginning of the fiscal year. Budgets are adjusted as dictated by funding changes.

Cash and Cash Equivalents

For purposes of the cash flows statement, cash and cash equivalents are considered to include certificates of deposit and highly liquid depository accounts.

Note 2. Summary of Significant Accounting Policies (Continued)

Investments

Investments are stated at cost, which approximates market. Certificates of deposit and short-term repurchase agreements are reported as cash and cash equivalents.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated from the primary operations of the Agency. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the Agency. All other expenses are reported as non-operating expenses.

Net Services Revenue

Net consumer revenue is reported at the net realizable amounts from third party payers, clients, and others for services rendered. Medicaid and other third party payers account for the majority of these revenues with direct client payments representing a small portion of net services revenue.

Consumer Deposits

Some residents of the Agency's residential facilities are entitled to receive federal benefits such as social security. In many cases, the Agency has been named the designated payee for these benefits and separate bank accounts are maintained for the benefit of these individuals. The receipts and disbursements of these funds are not reported in these financial statements as they do not represent revenues or expenditures of the Agency.

Capital Assets

Capital assets are stated at cost and depreciated over their estimated useful lives using straight-line depreciation. The estimated useful lives of capital assets are as follows:

	Years
Furniture and equipment	5 - 15
Vehicles	5
Leasehold improvements	12
Buildings & Improvements	35 - 40

Client Loan Funds

The Behavioral Health Division of the Agency maintains revolving loan funds, which are available to meet specific emergency or other needs of qualifying clients.

Pensions

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

Note 2. Summary of Significant Accounting Policies (Continued)

Group Life Insurance

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

Income Tax

The Agency is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and is registered with the Commonwealth of Virginia as a non-profit organization. There is no unrelated business income which would be subject to taxation, and therefore there is no provision for income taxes.

Vacation and Sick Leave

The Agency has an established policy regarding compensated absences (leave) for all regular employees. Compensated absences are recorded as an operating expense in the period earned rather than when paid. The Agency uses a single "Paid Time Off" (PTO) leave plan which replaced the previous separate vacation and sick leave plans. At January 1, 2014, the accumulated annual leave balances were transferred to the PTO plan as the starting balances in the new leave system. Sick leave balances at January 1, 2014 remain on the books and employees can use leave from this bank; however, no more hours accrue to sick leave. PTO is accrued based on years of service using January 1 as a cutoff date each year; PTO balances are not allowed to exceed certain maximum amounts based on years of service. Upon termination of employment, any unused PTO leave is paid and any unused sick leave for the employees with a minimum of five years of continuous employment is paid at 25% of the sick leave hours up to a maximum of $6,000, both calculated as hours times the employee's normal pay rate at the time of termination.

Postemployment Health Insurance

To qualify for postemployment health insurance benefits, Agency employees must terminate with at least 20 years of continuous service. The remaining 75% of accumulated sick leave after converting 25% to a lump sum payout, as stated above, may be converted to health insurance credits which are available to pay the terminated employee's health insurance premiums.

The insurance credits allow the eligible former employee to continue participation in the Agency's health insurance plan after termination until the credits are exhausted. The credits are available to the former employee only and are forfeited upon the former employee's becoming ineligible to participate in the Agency's health insurance plan for any reason. The Agency has not funded the postemployment health insurance plan, and therefore benefits under this plan are paid

Note 2. Summary of Significant Accounting Policies (Continued)

directly by the Agency. No separate plan financial statements are issued. The following schedule shows the changes in the accrued postemployment health insurance liability for the past three years:

Year Ended	Beginning Liability Balance	Benefits Vested	Benefits Paid	Ending Liability Balance	Due Within One Year
June 30, 2018	486,571	34,048	31,685	488,934	39,115
June 30, 2017	505,116	1,536	20,081	486,571	67,521
June 30, 2016	527,977	20,267	43,128	505,116	47,286

The plan remains 100% unfunded, but management has designated a portion of the Agency's unrestricted fund balance (see Note 10). Each year the plan has been in effect, 100% of the obligation for benefits earned under the plan as of year-end has been accrued. The plan does not issue a stand-alone financial report. The most recent actuarial valuation was performed for the year ended June 30, 2012 which showed an unfunded actuarial accrued liability of $298,900 on covered payroll of $8,029,800. (The recorded plan liability exceeds the actuarial accrued liability.)

Group Hospitalization and Life Insurance

All regular employees, including full-time and part-time regularly established positions are eligible to participate in the Agency's group hospitalization insurance program. The Agency contributes the cost of coverage for full-time employees in regular positions and a prorated contribution for eligible part-time employees. All full-time employees participate in the Virginia Retirement System Group Life Insurance Program with all premiums paid by the Agency.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 these estimates.

Reclassifications

Certain accounts in the prior-year financial statements have been reclassified for comparative purposes to conform to the presentation in the current-year financial statements.

New Accounting Pronouncements

In fiscal year 2018, management adopted the provisions of the Governmental Accounting Standards Board Statement No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans and Governmental Accounting Standards Board Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. The statements replace the requirements of GASB statements No. 43 and No. 45 on accounting and financial reporting by employers for postemployment benefits other than pensions. See Note 22 for the restatement of beginning net position.

Note 2. Summary of Significant Accounting Policies (Continued)

Deferred Outflow/Inflow 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 Agency only has two items that qualifies for reporting in this category. It is comprised of contributions to the pension plan and group life insurance made during the current year and subsequent to the net pension asset and net OPEB liability measurement date, which will be recognized as a increase in the net pension asset and a reduction of the net OPEB liability next fiscal year. For more detailed information on these items, reference the pension and OPEB notes.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Agency has two types of items that qualify 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. These include differences between expected and actual experience, change in assumptions, and the net difference between projected and actual earnings on pension plan investments. For more detailed information on these items, reference the pension note.

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 represent 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.

Net Position Flow Assumption

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

Accounts Receivable

Accounts receivable are stated at net realizable value. Receivables related to the provision of services are reported net of contractual allowances and an allowance for doubtful accounts. The Agency evaluates its accounts receivables using historical data and, in certain cases, specific account analysis.

Note 3. Cash and Investments

At year end, the carrying value of the organization's cash on deposit with banks and savings institutions was $10,085,474 and the reconciled bank balances were $10,005,999.

The total bank balances of $10,085,474 and $11,511,933 for June 30, 2018 and 2017, respectively, were covered by the Federal Deposit Insurance Corporation (FDIC) or 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 holding public deposits in excess of the amounts insured by FDIC must pledge collateral to the Commonwealth of Virginia Treasury Board. Financial Institutions may choose between two collateralization methodologies and depending up that choice, will pledge collateral that ranges in the amounts from 50% to 130% of excess deposits. Accordingly, all deposits are considered fully collateralized.

Statutes authorize the Agency 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).

Note 4. Condensed Financial Statements

The following condensed financial statements present the Agency and all its component units along with eliminations necessary to present them as a single reporting entity.

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES & COMPONENT UNITS
STATEMENT OF NET POSITION
June 30, 2018

	Agency	Piney Ridge Apartments	Piney Ridge Apartments II	Ashlawn View	Bellevue	Eliminations	Blended
ASSETS							
Current assets:							
Unrestricted cash & cash equivalents	$ 9,176,884	$ 4,680	$ 10,374	$ 90	$ 693,926	$ -	$ 9,885,954
Fees receivable (less allowance for doubtful accounts)	2,005,270	-	2	-	-	-	2,005,272
Due from other govts. & agencies	158,805	352	3,583	-	-	(18,232)	144,508
Other current assets	3,102,588	-	-	-	-	(768,965)	2,333,623
Restricted current assets	70,804	29,036	30,111	15,038	-	-	144,989
Total current assets	14,514,351	34,068	44,070	15,128	693,926	(787,197)	14,514,346
Capital assets:							
Equipment, buildings, land & improvements	6,558,226	446,711	924,159	598,645	6,298,645	-	14,826,386
Less accumulated depreciation	(2,991,576)	(139,948)	(184,011)	(71,668)	(2,795,122)	-	(6,182,325)
Total capital assets	3,566,650	306,763	740,148	526,977	3,503,523	-	8,644,061
Other assets:							
Organizational costs, net	-	-	-	267	-	-	267
Net Pension Asset - VRS	2,458,114	-	-	-	-	-	2,458,114
Total other assets	2,458,114	-	-	267	-	-	2,458,381
Deferred Outflows of Resources - VRS	423,720	-	-	-	-	-	423,720
Total assets	$ 20,962,835	$ 340,831	$ 784,218	$ 542,372	$ 4,197,449	$ (787,197)	$ 26,040,508
LIABILITIES AND NET POSITION							
Current liabilities:							
Accounts payable	$ 870,430	$ 404	$ 3,818	$ 14,561	$ 83,197	$ (15,000)	$ 957,410
Accrued payroll and other liabilities	851,982	-	-	-	-	-	851,982
Current portion of long-term debt	-	-	-	-	277,229	-	277,229
Deferred revenue	1,711,931	-	-	-	768,965	(768,965)	1,711,931
Restricted assets - consumer deposits	70,804	1,106	1,595	4,466	-	(3,232)	74,739
Total current liabilities	3,505,147	1,510	5,413	19,027	1,129,391	(787,197)	3,873,291
Long-term liabilities:							
Long-term debt non-current portion	-	-	-	-	-	-	-
Net group life insurance liability - VR	781,000	-	-	-	-	-	781,000
Accrued postemployment health ins.	488,934	-	-	-	-	-	488,934
Accrued leave	1,336,461	-	-	-	-	-	1,336,461
Total long-term liabilities	2,606,395	-	-	-	-	-	2,606,395
Total liabilities	6,111,542	1,510	5,413	19,027	1,129,391	(787,197)	6,479,686
Deferred Inflows of Resources - VRS	1,040,542	-	-	-	-	-	1,040,542
Net position:							
Investment in capital assets	3,566,650	306,763	740,148	527,244	3,226,294	-	8,367,099
Restricted for cash held in escrow	-	27,930	28,516	10,572	-	-	67,018
VRS net position	1,060,291	-	-	-	-	-	1,060,291
Unrestricted	9,183,810	4,628	10,141	(14,471)	(158,236)	-	9,025,872
Total net position	13,810,751	339,321	778,805	523,345	3,068,058	-	18,520,280
Total liabilities and net position	$ 20,962,835	$ 340,831	$ 784,218	$ 542,372	$ 4,197,449	$ (787,197)	$ 26,040,508

Note 4. Condensed Financial Statements (continued)

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES & COMPONENT UNITS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
For the Year Ended June 30, 2018

	Agency	Piney Ridge Apartments	Piney Ridge Apartments II	Ashlawn View	Bellevue	Eliminations	Blended
Operating revenues:							
Net services revenue	$ 10,176,189	$ 21,203	$ 37,693	$ 22,392	$ 472,120	$ (472,120)	$ 10,257,477
Other revenues	236,079	-	-	-	-	(6,630)	229,449
Total operating revenues	10,412,268	21,203	37,693	22,392	472,120	(478,750)	10,486,926
Operating expenses:							
Personnel	14,215,490	-	-	-	-	-	14,215,490
Staff development	156,709	-	-	-	-	-	156,709
Facilities	1,480,890	12,754	21,615	16,814	-	(472,120)	1,059,953
Supplies and equip. maintenance	852,394	170	-	-	-	-	852,564
Travel	183,215	-	-	-	-	-	183,215
Consultant/contract	1,814,146	3,684	10,693	3,665	169,278	(164,290)	1,837,176
Depreciation	339,634	10,774	23,271	15,637	136,812	-	526,128
Amortization	-	-	-	641	92	-	733
Bad debt expense	211,567	-	-	-	-	-	211,567
Miscellaneous	-	-	-	-	442	-	442
Total operating expenses	19,254,045	27,382	55,579	36,757	306,624	(636,410)	19,043,977
Operating income (loss)	(8,841,777)	(6,179)	(17,886)	(14,365)	165,496	157,660	(8,557,051)
Nonoperating income (loss):							
Appropriations from government:							
State	7,741,301	-	-	-	-	-	7,741,301
Federal	1,457,645	-	-	-	-	-	1,457,645
Local	982,857	-	-	-	-	(157,660)	825,197
Interest income	41,714	15	13	4	-	-	41,746
Gain on sale of equipment	1,500	-	-	-	-	-	1,500
Interest expense	-	-	-	-	(11,161)	-	(11,161)
Total non-operating income	10,225,017	15	13	4	(11,161)	(157,660)	10,056,228
Total changes in net position	1,383,240	(6,164)	(17,873)	(14,361)	154,335	-	1,499,177
Net position, beginning of year, as restated	12,427,511	345,485	796,678	537,706	2,913,723	-	17,021,103
Net position, end of year	$ 13,810,751	$ 339,321	$ 778,805	$ 523,345	$ 3,068,058	$ -	$ 18,520,280

Note 5. Net Services Revenue

Net services revenue for the years ended June 30, 2018 and 2017 consisted of the following:

	2018	2017
Medicaid	$ 9,232,067	$8,693,718
Direct client fees	529,504	573,596
Third parties	495,906	487,600
	$10,257,477	$9,754,914

Note 6. Allowance for Doubtful Accounts

For the year ended June 30, 2018, the allowance for doubtful accounts was increased by $19,096 net of actual write-offs of $183,945 for consumer accounts and $8,526 for consumer notes. The net increase brought the June 30, 2018 allowance to a balance of $256,576. For the year ended June 30, 2017, the allowance for doubtful accounts was decreased by $42,542 net of actual write-offs of $213,768 for consumer accounts and $8,359 for consumer notes, bringing the June 30, 2017 allowance to a balance to $237,479.

Note 7. Due from Other Governments and Other Agencies

Amounts due from other governments and agencies consisted of the following at June 30:

	2018	2017
Federal	$ 69,051	$ 53,497
Commonwealth of Virginia	50,553	34,698
Other local agencies	24,904	41,924
	$ 144,508	$ 130,119

Note 8. Capital Assets

The current capitalization policy requires the inclusion of those assets with a cost of $5,000 or more. Capital assets at June 30, 2018 and 2017 consisted of the following:

Agency	2017	Additions	Reductions	2018
Construction in progress	$ 667,611	$ -	$ 667,611	$ -
Furniture and equipment	956,433	28,401	6,995	977,839
Vehicles	1,682,659	77,446	36,000	1,724,105
Buildings & improvements	2,811,068	425,939	-	3,237,007
Leasehold improvements	962,477	42,908	386,110	619,275
	7,080,248	574,694	1,096,716	6,558,226
Piney Ridge Corporation				
Land (non-depreciable)	25,570	1,408	-	26,978
Buildings	410,097	-	-	410,097
Furniture and equipment	9,636	-	-	9,636
	445,303	1,408	-	446,711
Piney Ridge Corporation II				
Land (non-depreciable)	55,175	2,536	-	57,711
Buildings	862,245	-	-	862,245
Furniture and equipment	4,203	-	-	4,203
	921,623	2,536	-	924,159
Ashlawn View, Inc.				
Land (non-depreciable)	41,681	-	-	41,681
Buildings	556,964	-	-	556,964
	598,645	-	-	598,645
Bellevue, Inc.				
Land (non-depreciable)	299,140	45,906	-	345,046
Construction in progress	232,058	454,742	-	686,800
Buildings	5,182,102	-	-	5,182,102
Furniture and equipment	84,697	-	-	84,697
	5,797,997	500,648	-	6,298,645
Blended total assets	14,843,816	1,079,286	1,096,716	14,826,386
Less accumulated depreciation	(5,699,191)	(526,129)	(42,995)	(6,182,325)
	$ 9,144,625	$ 553,157	$ 1,053,721	$ 8,644,061

Note 9. Claims, Judgments, and Compensated Absences

Salaried employees' attendance and leave terms make provisions for the granting of a specified number of days leave with pay each year (see Note 2). At June 30, 2018 and 2017, the amounts of earned but unpaid employees' leave were $1,336,461 and $1,219,037, respectively.

Note 10. Net Position

At June 30, 2018 and 2017, net position of the Agency consisted of the following:

	2018	2017
Invested in capital assets, net of related debt:		
Net land, buildings, and equipment	$ 8,366,832	$ 8,680,964
Organizational costs, net	267	1,000
Total invested in capital assets	8,367,099	8,681,964
Unrestricted net position:		
Designated for postemployment health insurance	93,935	126,064
Designated for cash in escrow	67,018	70,476
VRS net pension position	1,060,291	1,408,606
Unrestricted and undesignated	8,931,937	7,555,993
Total net position	$ 18,520,280	$ 17,843,103

Total net assets	$ 18,520,280	$ 17,843,103
Total invested in capital assets	(8,367,099)	(8,681,964)
Designated for postemployment health insurance	(93,935)	(126,064)
Designated for cash in escrow	(67,018)	(70,476)
VRS net pension position	(1,060,291)	(1,408,606)
	$ 8,931,937	$ 7,555,993

Unrestricted net assets were available for current use with the limitation that the Board of Directors has designated $93,935 and $126,064 of unrestricted net assets as of June 30, 2018 and 2017, respectfully, for funding post employment health care benefits. See Postemployment Health Insurance - Note 2.

Note 11. Retirement Plan

The Agency contributes to a mandatory agent and cost-sharing multiple-employer public defined benefit pension plan administered by the Virginia Retirement System ("VRS") Board of Trustees. All full-time, salaried, permanent employees of the Agency are automatically covered by VRS upon employment.

Plan Description: The System administers three different benefit structures for covered employees in the VRS – Plan 1, Plan 2, and a Hybrid Retirement Plan. Each of these benefit structures has a different eligibility criteria. Participants hired before July 1, 2010 and were vested as of January 1, 2013 participate in Plan 1; those hired on or after July 1, 2010 and before January 1, 2014 or were not vested as of January 1, 2013 participate in Plan 2; and most new employees hired on or after January 1, 2014 participate in a new hybrid retirement plan.

Note 11. Retirement Plan (Continued)

Plans 1 & 2 benefits vest after five years of credited service. Members are eligible for an unreduced retirement benefit at age sixty-five with five years of service for Plan 1 (at Social Security normal retirement age for Plan 2). Benefits are payable monthly for life in an amount equal to 1.7 percent of their average final compensation (AFC) for each year of credited service. AFC for Plan 1 is defined as the highest consecutive thirty-six months of reported compensation and for Plan 2 it is the highest sixty months of reported compensation. Plan 1 members are eligible for early retirement at age fifty or fifty-five with creditable service of ten or five years respectively. Plan 2 members may retire early at age sixty with five years of service or when the sum of their age and years of service totals ninety.

Benefits are actuarially reduced for retirees who retire prior to becoming eligible for full retirement benefits. In addition, retirees qualify for an annual cost-of-living adjustment (COLA) beginning in July of their second year of retirement. The maximum COLA in any one year is different for Plan 1 and 2. For Plan 1, an automatic cost- of-living increase is based on the first 3% of the Consumer Price Index (2% for Plan 2) plus half of each percentage increase from 3% to 7% (2% to 4% for Plan 2). The VRS also provides death and disability benefits.

The Hybrid plan includes part defined benefit and part defined contribution. The defined contribution component has two accounts - the Hybrid 401(a) Cash Match and the Hybrid 457 Deferred Compensation Plan. Both the defined benefit and defined contribution components must follow the Defined Benefit Plan business rules established by VRS. Mandatory employees contribute 4% of creditable compensation which goes to the defined benefit component and 1% to the defined contribution component. Also, employees are allowed to make voluntary contributions up to 4% of the defined contribution component. Mandatory employer contributions are 1% of the defined contribution component and a match of the employee voluntary contribution up to 2.5%. The defined benefit contribution varies based on the employer match of the employee voluntary contributions. Plan 1 members were allowed to make an irrevocable decision to opt into the hybrid plan during a special election window which expired April 30, 2014. The Hybrid Retirement Plan's effective date for eligible Plan 1 members who opted in was July 1, 2014. Title 51.1 of the Code of Virginia (1950), as amended, assigns the authority to establish and amend benefit provisions to the General Assembly of Virginia.

Employees Covered by Benefit Terms: Employee membership data related to the plan, as of June 30, 2016, the most recent year for which actuarial information is available, were as follows:

Participants	June 30, 2016
Inactive Members or Their Beneficiaries	
Currently Receiving Benefits	78
Inactive Members	
Vested	47
Non-Vested	40
Active Elsewhere in VRS	59
Total Inactive Members	146
Active Members	219
Total	443

Note 11. Retirement Plan (Continued)

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. Plan 1 and 2 participants are required to contribute 5.00% of their compensation toward their retirement. Prior to July 1, 2012, the 5.00% member contribution was paid by the employer. Beginning July 1, 2012 employees were required to pay the 5.00% member contribution and the employer was required to provide a salary increase equal to the amount of the increase in the employee-paid member contribution.

The Agency's contractually required contribution rate for the year ended June 30, 2018 was 3.60% of covered employee compensation. These rates were based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. This rate, when combined with employee contributions, was expected to finance the costs of benefits earned by employee during the year, with an additional amount to finance any unfunded accrued liability. Contributions from the state agency to the VRS State Employee Retirement Plan were $356,662 and $342,371 for the years ended June 30, 2018 and June 30, 2017, respectively.

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

Actuarial Assumptions: The total pension liability for employees in the Agency's retirement plan was based on an actuarial valuation as of June 30, 2016, using the Entry Age Normal actuarial cost method and the following assumptions, applied to all periods included in the measurement and rolled forward to the measurement date of June 30, 2017.

Significant assumptions and other inputs used to measure the total pension liability include an inflation rate of 2.5%, a rate of future salary increases including inflation of 3.5% - 5.35% and an investment rate of return of 7.0% net of pension plan investment expenses including inflation. Mortality rates: 14% of deaths are assumed to be service related. Rates are determined in accordance with the following tables:

Mortality Table	
For the period before retirement	RP-2000 Employee Mortality Table Projected with Scale AA to 2020 with males set forward 4 years and females set back 2 years
For the period after service retirement	RP-2000 Combined Employee Mortality Table Projected with Scale AA to 2020 with males set forward 1 year
For the period after disability retirement	RP-2000 Disabled Life Mortality Table with males set back 3 years and no provision for future mortality improvements.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from July 1, 2012 through June 30, 2016.

Note 11. Retirement Plan (Continued)

Long-term expected rate of return: The long-term expected rate of return on pension system investments was determined using log-normal distribution analysis in which best-estimate ranges of expected future real rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target assets allocation percentage and by adding expected inflation.

Assumed asset allocation: The target asset allocation and best estimates 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%	69.00%	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%
	100.00%		4.80%
Inflation			2.50%
* Expected arithmetic normal 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: No municipal bond rates were used in the determination of the discount rate.

The discount rate used to determine total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that System member contributions will be made per the VRS Statutes and the employer contributions will be made in accordance with the VRS funding policy at rates equal to the difference between actuarially determined contribution rates adopted by the VRS Board of Trustees and the member rate.

Through the fiscal year ending June 30, 2019, the rate contributed by the employer for the Agency Retirement Plan will be subject to the portion of the VRS Board-certified rates that are funded by the Virginia General Assembly. From July 1, 2019 on, participating employers are assumed to contribute 100% of the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore the Long-term expected rate of return was applied to all periods of projected benefit payments to determine the total pension liability.

Note 11. Retirement Plan (continued)

Periods of projected benefit payments: Projected future benefit payments for all current System members were projected through 2021.

Changes in Net Pension Liability

	Increase (Decrease)			
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)	6/30/2017 Pension Expense
Balance at June 30, 2016	$ 24,508,279	$25,246,160	$ (737,881)	$ -
Changes for the year:				
Service costs	913,918	-	913,918	913,918
Interest on total pension liability	1,688,457	-	1,688,457	1,688,457
Change in assumptions	(321,892)	-	(321,892)	
Difference between expected and actual experience	(115,075)	-	(115,075)	-
Contributions - Employer	-	320,430	(320,430)	-
Contributions - Employee	-	490,069	(490,069)	(490,069)
Net investment income	-	3,095,398	(3,095,398)	-
Projected earnings on plan investments	-	-	-	(1,767,767)
Expensed portion of current-period difference between actual and projected earnings on plan investments		-	-	(265,526)
Expensed portion of current period difference between expected & actual experience in total pension liability		-	-	(28,697)
Expensed portion of current-period changes in assumptions				(80,272)
Benefit payments, including refunds of employee contributions	(774,934)	(774,934)	-	-
Recognition of beginning deferred outflows of resources	-	-	-	377,417
Recognition of beginning deferred inflows of resources	-	-	-	(482,694)
Administrative expense	-	(17,485)	17,485	17,485
Other changes	-	(2,771)	2,771	2,771
Net changes	1,390,474	3,110,707	(1,720,233)	$ (114,977)
Balance at June 30, 2017	$ 25,898,753	$28,356,867	$ (2,458,114)	

Sensitivity analysis: The following presents the net pension asset of the System, calculated using the discount rate of 7%, as well as one that is 1% higher and lower than the current rate.

	1% Decrease (6%)	Current Discount Rate (7%)	1% Increase (8%)
Net Pension (Asset) Liability	$ 1,430,504	$ (2,458,114)	$ (5,629,200)

Note 11. Retirement Plan (continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions: For the year ended June 30, 2017 and 2016, the Agency recognized pension expense (income) of $(114,977) and $170,953 respectively. At June 30, 2018, the Agency 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
Difference between expected and actual experience	$ 20,696	$ 293,795
Changes in assumptions	-	241,620
Net difference between projected and actual earnings on plan investments.	-	418,127
Employer contributions subsequent to the Measurement Date	320,425	-
	$ 341,121	$ 953,542

The $320,425 reported as deferred outflows of resources related to pensions resulting from the Agency's contributions subsequent to the measurement date which will be recognized as a reduction of the Net Pension Liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	
2019	$ (479,772)
2020	(74,042)
2021	(112,414)
2022	(266,618)
Thereafter	-

Pension Plan Data

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

Note 12. Other Postemployment Benefits-Group Life Insurance

General information about the group life insurance program

Plan description

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

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

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

Eligible Employees

The Group Life Insurance Program was established July 1, 1960, for state employees, teachers and employees of political subdivisions that elect the program, including the following employers that do not participate in VRS for retirement:

- City of Richmond
- City of Portsmouth
- City of Roanoke
- City of Norfolk
- Roanoke City Schools Board

Basic group life insurance coverage is automatic upon employment. Coverage end for employees who leave their position before retirement eligibility or who take a refund of their member contributions and accrued interest.

Note 12. Other Postemployment Benefits-Group Life Insurance (Continued)

Benefit amounts

The benefits payable under the Group Life Insurance Program have several components.

- Natural death benefit – The natural death benefit is equal to the employee's covered compensation rounded to the next highest thousand and then doubled.
- Accidental death benefit – The accidental death benefit is double the natural death benefit.
- Other benefit provisions – In addition to the basic natural and accidental death benefits, the program provides additional benefits provided under specific circumstances. These include:
    - Accidental dismemberment benefit
    - Safety belt benefit
    - Repatriation benefit
    - Felonious assault benefit
    - Accelerated death benefit option

Reduction in benefits amounts

The benefit amounts provided to members covered under the Group Life Insurance Program are subject to a reduction factor. The benefit amount reduces by 25% on January 1 following one calendar year of separation. The benefit amount reduces by an additional 25% on each subsequent January 1 until it reaches 25% of its original value.

Minimum benefit amount and cost-of-living adjustment (COLA)

For covered members with at least 30 years of creditable service, there is a minimum benefit payable under the Group Life Insurance Program. The minimum benefit was set at $8,000 by statute. This amount is increased annually based on the VRS Plan 2 cost-of-living adjustment and is currently $8,111.

Contributions

The contribution requirements for the Group Life Insurance Program are governed by §51.1-506 and §51.1-508 of the *Code of Virginia*, as amended, but may be impacted as a result of funding provided to state agencies and school divisions by the Virginia General Assembly. The total rate for the Group Life Insurance Program was 1.31% of covered employee compensation. This was allocated into an employee and an employer component using a 60/40 split. The employee component was 0.79% (1.31% X 60%) and the employer component was 0.52% (1.31% X 40%). Employers may elect to pay all or part of the employee contribution, however the employer must pay all of the employer contribution. Each employer's contractually required employer contribution rate for the year ended June 30, 2018 was 0.52% of covered employee compensation. This rate was based on an actuarially determined rate from an actuarial valuation as of June 30, 2015. The actuarially determined rate, when combined with employee contributions, was expected to finance the costs of benefits payable during the year, with an additional amount to finance any unfunded accrued liability. Contribution to the Group Life Insurance Program from the entity were $129,967 and $124,753 for the years ended June 30, 2018 and June 30, 2017, respectively.

Note 12. Other Postemployment Benefits-Group Life Insurance (Continued)

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

At June 30, 2018, the entities reported a liability of $ 781,000 for its proportionate share of the Net GLI OPEB Liability. The Net GLI OPEB Liability was measured as of June 30, 2017 and the total GLI OPEB liability used to calculate the Net GLI OPEB Liability was determined by an actuarial valuation as of that date. The covered employer's proportion of the Net GLI OPEB Liability was based on the covered employer's actuarially determined employer contributions to the Group Life Insurance Program for the year ended June 30, 2017 relative to the total of the actuarially determined employer contributions for all participating employers. At June 30, 2017, the participating employer's proportion was .05188% as compared to .04974% at June 30, 2016.

For the year ended June 30, 2018, the participating employer recognized GLI OPEB expense of $15,000. Since there was a change in proportionate share between measurement dates, a portion of the GLI OPEB expense was related to deferred amounts from changes in proportion.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 18,000
Net difference between projected and actual earnings on GLI OPEB program investments	-	$ 29,000
Change in assumptions	-	40,000
Changes in proportion	31,000	-
Employer contributions subsequent to the measurement date	51,599	-
Total	$ 82,599	$ 87,000

$51,599 reported as deferred outflows of resources related to the GLI OPEB resulting from the employer's contributions subsequent to the measurement date will be recognized as a reduction of the Net GLI OPEB Liability in the Fiscal Year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the GLI OPEB will be recognized in the GLI OPEB expense in future reporting periods as follows:

Year ended June 30,

FY 2019	($12.000)
FY 2020	($12,000)
FY 2021	($12,000)
FY 2022	($12,000)
FY 2023	($5,000)
Thereafter	($3,000)

Note 12. Other Postemployment Benefits-Group Life Insurance (Continued)

Actuarial assumptions:

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

Inflation 2.5 percent

Salary increases, including inflation –	
General state employees	3.50 percent – 5.35 percent
Teachers	3.50 percent – 5.95 percent
SPORS employees	3.50 percent – 4.75 percent
VaLORS employees	3.50 percent – 4.75 percent
JRS employees	4.50 percent
Locality – General employees	3.50 percent – 5.35 percent
Locality – Hazardous Duty employees	3.50 percent – 4.75 percent
Investment rate of return	7.0 percent, 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 the 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% increase compounded from ages 70 to 90.

Post-disablement:

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

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

Note 12. Other Postemployment Benefits-Group Life Insurance (Continued)

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% increase compounded from ages 70 to 90.

Post-disablement:

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

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

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

Note 12. Other Postemployment Benefits-Group Life Insurance (Continued)

Mortality rates – largest ten locality employers – hazardous duty employees

Pre-retirement:

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

Post-retirement:

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

Post-disablement:

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

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

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

Mortality rates – non-largest ten locality employers – hazardous duty employees

Pre-retirement:

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

Post-retirement:

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

Post-disablement:

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

Note 12. Other Postemployment Benefits-Group Life Insurance (Continued)

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

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

Net GLI OPEB liability

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

	Group Life Insurance OPEB Program
Total GLI OPEB liability	$ 2,942,426
Plan fiduciary net position	1,437,586
Employers' net GLI OPEB liability (asset)	$ 1,504,840
Plan fiduciary net position as a percentage of the total GLI OPEB liability	48.86%

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

Note 12. Other Postemployment Benefits-Group Life Insurance (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%

Discount rate

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

Note 12. Other Postemployment Benefits-Group Life Insurance (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%, 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%) or one percentage point higher (8%) than the current rate:

	1% Decrease (6%)	Current Discount Rate (7%)	1% Increase (8%)
Employer's proportionate share of the Group Life Insurance Program Net OPEB Liability	$1,010,000	$ 781,000	$ 595,000

Group life insurance program fiduciary net position

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

Note 13. Local Support

Local support for the Agency for the fiscal years ended June 30, 2018 and 2017 was as follows:

	2018	2017
Pittsylvania County	$ 325,102	$ 293,913
City of Danville	361,050	329,860
Other local-in-kind support	139,045	138,418
	$ 825,197	$ 762,191

Note 14. Deferred Revenue

Federal and State grant funds received but not expended at fiscal year-end are carried as deferred revenue until such time as they are expended or returned to the grantor agency. Federal funds unexpended at the end of the grant term, generally September 30, would be refunded to the grantor unless an approved reallocation is granted.

At June 30, 2018 and 2017, deferred revenue consists of the following:

	2018	2017
State	$ 1,609,459	$ 2,177,243
Federal	72,304	41,398
Other	30,168	33,008
	$ 1,711,931	$ 2,251,649

Note 15. Long Term Debt

The Bellevue, Inc., which operates on a calendar year, owned facilities that are financed through mortgage note obligations listed below. All notes are secured by a deed of trust on the property and an assignment of inter-agency rents.

Dewey Place and Keen Street
Financing was arranged in the original amount of $935,000 to purchase 103 Dewey Place in Danville, Virginia and to fund a $200,000 renovation of 505 Keen Street, also in Danville.

515 Rison Street
A mortgage loan in the original amount of $450,000 was secured to finance the purchase of 515 Rison Street on January 19, 2007.

	December 31, 2017	December 31, 2016
Financing for Dewey Place and Keen Street Renovation: Note payable in monthly installments of $6,966, including principal and interest at 2.85% and with a balloon payment equal to the remaining balance due at August 1, 2018 of $256,562.	$ 277,229	$ 368,340
Financing for Rison Street Acquisition: Note payable in monthly installments of $3,415, including principal and interest at 2.85%. Final payoff, inlcuding principal and interest in the amount of $73,025, was made on August 27, 2017.	-	95,321
Total notes payable	277,229	463,661
Less current portion	(277,229)	(112,705)
Total long-term notes payable	$ -	$ 350,956

Note modification agreements were executed in 2013 for the two notes listed above. Lower fixed interest rates were established for both notes for the remaining terms of each beginning in June. The debt is held by Bellevue, Inc., the component unit with a fiscal year ended on December 31. Amounts are presented as of December 31, of each year ending within the June 30, 2018 and 2017 fiscal years.

Bellevue has secured a commitment for a construction loan in the amount of $3,300,000 for a major addition to the Hairston Street campus (see note 3) which also includes renovation of existing facilities on the property. During the construction phase, which is expected to last approximately fifteen months, monthly interest only payments will be required at 3.49% of the outstanding balance. At December 31, 2017 there had been no drawdowns on this loan. At the completion of the project, the loan will be converted into permanent financing payable at approximately $23,657 per month over ten years, with the unpaid balance at that time subject to balloon payment or refinancing at rates applicable at that time.

Note 15. Long Term Debt (Continued)

Bellevue and its tenant, the Agency, must maintain their primary business checking accounts with the lending institution. Failure to do so will result in an increase in the interest rate of 3% on the unpaid balance In addition to the above Bellevue has covenanted to maintain debt service coverage equal to 1.15 times the amount determined by the following formula:

<u>Net income plus interest expense plus depreciation and amortization plus extraordinary cash flows</u>
Sum total of all debt service requirements

The loan is secured by a first lien on all property located at 245 Hairston Street and assignment of rents on that property.

Note 16. Commitments

Lease Commitments

The Agency has three operating leases with multiple year terms with its component unit Bellevue, Inc. These leases are disregarded for purposes of this blended report since the underlying assets and liabilities are included as part of the entity. These facilities include the main office complex on Hairston Street and residential facilities at Keen & Middle Streets, the Dewey Place Complex, and the Rison Street Complex. The leases are triple net lease, and the Agency has always been responsible for taxes, maintenance and upkeep, as well as the necessary insurance.

Facilities with one year or less remaining on the lease for office space and other facilities needed to carry out its various programs including the property located at 159 Deer Run Road ($2,825 per month), and the Agency's Gretna office ($1,775 per month).

Note 17. Contingent Liabilities

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the organization expects such amounts, if any, to be immaterial.

At June 30, 2018 and 2017, there were no matters of litigation involving Danville-Pittsylvania Community Services which would materially affect the organization's financial position should any court decision or pending matter be determined unfavorable to the organization.

Note 18. Risk Management

The Agency is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Agency participates in Virginia Association of Counties Group Self Insurance Risk Pool, a public entity risk pool, for public official's errors and omissions, professional liability, medical malpractice, and automobile coverage. The insured limit on this coverage is $1,000,000 per occurrence with no aggregate limitation.

Virginia Association of Counties Group Self Insurance Risk Pool is self-insured for this coverage and the Agency could be assessed for additional premiums in the event the pool incurs losses greater than the Pool's assets. Commercial insurance is carried for all other risks of loss. There have been no significant reductions in insurance coverage from the previous year, and claims have not exceeded coverage in any of the past three fiscal years. The Agency carries $325,000 in blanket employee dishonesty coverage through the Virginia Commonwealth Corporation.

Note 19. Related Party Transactions

As previously stated, Bellevue, Inc. owns and operates real estate leased by the Agency. The Agency is the sole tenant of the properties owned by Bellevue, Inc. (see Note 15 – Long Term Debt and 16 - Commitments) and handles all of Bellevue, Inc.'s administrative responsibilities. As a blended component unit, the intercompany rent is not reported, but Agency payments to Bellevue, Inc. for leases for the years ended June 30, 2018 and 2017 totaled $324,460 for each year.

Note 20. Subsequent Events

Management evaluated events and transactions that occurred after the balance sheet date for potential recognition and disclosure through November 20, 2018, which is the date the financial statements were available to be issued.

Note 21. Cumulated Effect of Change in Accounting Principle

As a result of the implementation of GASB 75, the beginning net position was restated as follows:

	Agency	Piney Ridge Apartments	Piney Ridge Apartments II	Ashlawn View	Bellevue	Blended
Net Position as reported at June 30, 2017	$ 13,249,511	$ 345,485	$ 796,678	$ 537,706	$ 2,913,723	$ 17,843,103
Implementation of GASB Statement No. 75	(822,000)	-	-	-	-	(822,000)
Net Position as restated at June 30, 2017	$ 12,427,511	$ 345,485	$ 796,678	$ 537,706	$ 2,913,723	$ 17,021,103

Note 22. Prepaid Expenses

The Agency paid cash of $742,760 in December, 2017 to Bellevue, Inc. In January 2018 the Agency paid cash of $1,263,917 and transferred land having a value of $993,323 to Bellevue, Inc. The purpose of these transactions is for Bellevue, Inc. to expand the Hairston Street campus. The total of $3,000,000 is recognized by the Agency as prepaid rent. Since Bellevue, Inc. maintains a calendar based fiscal year, only the $742,760 was eliminated in the current year.

REQUIRED SUPPLEMENTAL INFORMATION

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
For the Year Ended June 30, 2018

SCHEDULE OF CHANGES IN NET PENSION LIABILITY

	2017	2016
Total Pension Liability		
Service costs	$ 913,918	$ 861,062
Interest	1,688,457	1,567,108
Change of assumptions	(321,892)	-
Difference between expected and actual experience	(115,075)	36,740
Benefit payments, including refunds of employee contributions	(774,934)	(687,778)
Net change in total pension liability	1,390,474	1,777,132
Total pension liability - beginning	24,508,279	22,731,147
Total pension liability - ending	$ 25,898,753	$ 24,508,279
Plan fiduciary net position		
Contributions - employer	$ 320,430	$ 469,186
Contributions - employee	490,069	437,985
Net investment income	3,095,398	441,999
Benefit payments, including refunds of employee contributions	(774,934)	(687,778)
Administrative expenses	(17,485)	(15,004)
Other expenses	(2,771)	(185)
Net change in plan fiduciary net position	3,110,707	646,203
Plan fiduciary net position - beginning	25,246,160	24,599,957
Plan fiduciary net position - ending	$ 28,356,867	$ 25,246,160
Plan fiduciary net position as a percentage of total pension liability	115.70%	111.06%
Covered-employee payroll	$ 9,560,018	$ 9,350,336
Net pension liability .as a percentage of covered-employee payroll	39.01%	40.39%

NOTES TO SCHEDULE OF CHANGE IN NET PENSION LIABILITY
AND SCHEDULE OF EMPLOYER CONTRIBUTIONS
For the Year Ended June 30, 2018

Changes of benefit terms – There have been no significant changes to the System benefit provisions since the prior actuarial valuation. A hybrid plan with changes to the defined benefit plan structure and a new defined contribution component were adopted in 2012. The hybrid plan applies to most new employees hired on or after January 1, 2014. The liabilities presented do not reflect the hybrid plan since it covers new members joining the System after the valuation date of June 30, 2013, and the impact on the liabilities as of the measurement date of June 30, 2014 are minimal.

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

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

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Date	Contractually Required Contributions	Contributions in Relation to Contractually Required Contributions	Contribution Deficiency (Excess)	Employer's Covered Employees Payroll	Contribution as a % of Covered Employees Payroll
2018	$ 320,493	$ 320,493	$ -	$ 9,909,184	3.23%
2017	$ 320,430	$ 320,430	$ -	$ 9,560,018	3.35%
2016	$ 469,186	$ 469,186	$ -	$ 9,350,336	5.02%
2015	$ 464,029	$ 464,029	$ -	$ 8,720,572	5.32%
2014	$ 470,596	$ 470,596	$ -	$ 8,607,960	5.47%
2013	$ 612,755	$ 612,755	$ -	$ 8,428,997	7.27%
2012	$ 593,469	$ 593,469	$ -	$ 8,233,253	7.21%
2011	$ 773,668	$ 773,668	$ -	$ 7,725,811	10.01%
2010	$ 732,422	$ 732,422	$ -	$ 7,519,061	9.74%
2009	$ 719,702	$ 719,702	$ -	$ 7,307,673	9.85%

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES

SCHEDULE OF EMPLOYER'S SHARE OF NET OPEB LIABILITY AND RELATED RATIOS
GROUP LIFE INSURANCE PROGRAM
For the Year Ended June 30, 2018*

	2018
Employer's proportion of the net GLI OPEB liability (asset)	0.05188%
Employer's proportionate share of the net GLI OPEB liability	$ 781,000
Employer's covered payroll	$ 9,922,972
Employer's proportionate share of the net GLI OPEB liability (asset) as a percentage of its covered payroll	7.87063%
Plan fiduciary net position as a percentage of the total GLI OPEB liability	48.86%

Schedule is intended to show information for 10 years. Since 2018 is the first year for this presentation, only one year of data is available. However, additional years will be included as they become available.

*The amounts presented have a measurement date of the previous fiscal year end.

SCHEDULE OF EMPLOYER CONTRIBUTIONS
GROUP LIFE INSURANCE PROGRAM
For the Years Ended June 30, 2009 through 2018

Schedule of Employer Contributions
For the Years Ended June 30, 2009 through 2018

Date	Contractually Required Contribution (1)	Contributions in Relation to Contractually Required Contribution (2)	Contribution Deficiency (Excess) (3)	Covered-Employee Payroll (4)	Contributions as a % of Covered-Employee Payroll (5)
2018	$ 51,599	$ 51,599	$ -	$ 9,922,972	0.52%
2017	$ 49,762	$ 49,762	$ -	$ 9,569,703	0.52%
2016	$ 47,378	$ 42,908	$ 4,470	$ 8,939,240	0.48%
2015	$ 46,503	$ 42,116	$ 4,387	$ 8,774,167	0.48%
2014	$ 45,711	$ 41,399	$ 4,312	$ 8,624,773	0.48%
2013	$ 44,289	$ 40,111	$ 4,178	$ 8,356,380	0.48%
2012	$ 35,347	$ 22,493	$ 12,854	$ 8,033,319	0.28%
2011	$ 33,625	$ 21,398	$ 12,227	$ 7,642,106	0.28%
2010	$ 26,820	$ 15,125	$ 11,695	$ 5,601,931	0.27%
2009	$ 26,011	$ 19,508	$ 6,503	$ 7,225,334	0.27%

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
GROUP LIFE INSURANCE PROGRAM
For the Year Ended June 30, 2018

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

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

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

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES
SCHEDULE OF CURRENT PROPERTY AND CASUALTY INSURANCE
YEAR ENDED JUNE 30, 2017

Insurance Coverage	Insurance Company Agent Policy Number	Policy Period
Danville Pittsylvania Community Services		
Automobile Liability Physical Damage	Company - Va RISK 2 - VA Local Gov. Risk Mgmt Plan Agent - N/A Policy Number - # G99271	7/1/2017 to 6/30/2018
Public Officials / Directors & Officers Liability	Company - Va RISK 2 - VA Local Gov. Risk Mgmt Plan Agent - N/A Policy Number - # G99271	7/1/2017 to 6/30/2018
Medical Malpractice	Company - Va RISK 2 - VA Local Gov. Risk Mgmt Plan Agent - N/A Policy Number - # G99271	7/1/2017 to 6/30/2018
Crime	Company - Selective Way Insurance Company Agent - Virginia Commonwealth Corporation Policy Number - #2134231	9/1/2017 to 9/1/2018
Inland Marine	Company - Selective Way Insurance Company Agent - Virginia Commonwealth Corporation Policy Number - #2134231	9/1/2017 to 9/1/2018
Property (includes coverage for property of Bellevue, Inc.)	Company - Selective Way Insurance Company Agent - Virginia Commonwealth Corporation Policy Number - #2134231	9/1/2017 to 9/1/2018
Workers Compensation	Company - Vaco Risk Management Programs Agent - N/A Policy Number - # VA-DA-200C-18	7/1/2017 to 7/1/2018
Piney Ridge Apartments Corporation		
Directors & Officers Liability	Company - Ace Fire Insurance Company Agent - Virginia Commonwealth Corporation Policy Number - # NFPVAF112755642-002	10/17/2017 to 10/17/2018
Crime	Company - Philadelphia Indemnity Insurance Co. Agent - Virginia Commonwealth Corporation Policy Number - # PHPK17118911	11/7/2017 to 11/7/2018
Property	Company - Philadelphia Indemnity Insurance Co. Agent - Virginia Commonwealth Corporation Policy Number - # PHPK17118911	11/7/2017 to 11/7/2018
General Liability	Company - Philadelphia Indemnity Insurance Co. Agent - Virginia Commonwealth Corporation Policy Number - # PHPK17118911	11/7/2017 to 11/7/2018

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES
SCHEDULE OF CURRENT PROPERTY AND CASUALTY INSURANCE
YEAR ENDED JUNE 30, 2017

Limits of Liability		Deductible	Annual Premium
Bodily Injury / Property Damage	1,000,000	$1,000	$ 24,409
Uninsured Motorist	1,000,000	$1,000	
Medical Payments	1,000,000	$1,000	
ACV-Comprehensive and ACV-Collision	1,000,000	$1,000	
Occurrence	1,000,000	$1,000	3,131
Aggregate	Unlimited		
Occurrence	2,150,000	$1,000	19,359
Aggregate	Unlimited		
Employee Dishonesty	325,000	$500	484
Funds Transfer Fraud Converge	150,000	$500	
Earthquake	10,000,000	$25,000	730
Real Property (100% Coinsurance)	8,263,597	$1,000	48,581
Personal Property (100% Coinsurance)	1,566,000	$1,000	
Business Income & Extra Expense	Actual Loss	$1,000	
Each Accident	1,000,000	-	176,952
Policy Limit - Disease	1,000,000		
Each Employee - Disease	1,000,000		
		Total	$ 273,646

Occurrence	5,000,000	-	$ 1,500
Aggregate	5,000,000	-	
Employee Dishonesty	50,000	$1,000	100
Building Property (80% Coinsurance)	300,000	$500	1,009
General Aggregate Limit	2,000,000	-	165
Products/Completed Operations Aggregate Limit	2,000,000		
Personal and Advertising Injury Limit	1,000,000		
Each Occurrence Limit	1,000,000		
Damage to Premises Rented (Any One Premises)	100,000		
Medical Expense Limit (Any One Person)	5,000		
		Total	$ 2,774

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES
SCHEDULE OF CURRENT PROPERTY AND CASUALTY INSURANCE
YEAR ENDED JUNE 30, 2017

Insurance Coverage	Insurance Company Agent Policy Number	Policy Period
Piney Ridge Apartments Corporation II		
Directors & Officers Liability	Company - Ace Fire Insurance Company Agent - Virginia Commonwealth Corporation Policy Number - # NFPVAF112755642-002	10/17/2017 to 10/17/2018
Crime	Company - Philadelphia Indemnity Insurance Co. Agent - Virginia Commonwealth Corporation Policy Number - # PHPK1659745	6/28/2017 to 6/28/2018
Property	Company - Philadelphia Indemnity Insurance Co. Agent - Virginia Commonwealth Corporation Policy Number - # PHPK1659745	6/28/2017 to 6/28/2018
General Liability	Company - Philadelphia Indemnity Insurance Co. Agent - Virginia Commonwealth Corporation Policy Number - # PHPK1659745	6/28/2017 to 6/28/2018
Ashlawn View, Inc.		
Directors & Officers Liability	Company - ACE Fire Insurance Co. Agent - Virginia Commonwealth Corporation Policy Number - # NFPVAF112755642	10/17/2017 to 10/17/2018
Blanket Fidelity Bond	Company - Main Street America Group Agent - Virginia Commonwealth Corporation Policy Number - # F263864	8/13/2017 to 8/13/2018
General Liability	Company - Philadelphia Indemnity Insurance Co. Agent - Virginia Commonwealth Corporation Policy Number - # PHPK1718132	11/8/2017 to 11/8/2018

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES
SCHEDULE OF CURRENT PROPERTY AND CASUALTY INSURANCE
YEAR ENDED JUNE 30, 2017

Limits of Liability		Deductible	Annual Premium
Occurrence	5,000,000	-	$ 1,500
Aggregate	5,000,000	-	
Employee Dishonesty	50,000	$500	166
Building Property (80% Coinsurance)	606,960	$500	2,123
General Aggregate Limit	2,000,000	-	397
Products/Completed Operations Aggregate Limit	2,000,000		
Personal and Advertising Injury Limit	1,000,000		
Each Occurrence Limit	1,000,000		
Damage to Premises Rented (Any One Premises)	100,000		
Medical Expense Limit (Any One Person)	5,000		
		Total	$ 4,186

Occurrence	5,000,000	$500	$ 1,980
Aggregate	5,000,000	$500	
Blanket Fidelity Bond	50,000	-	154
General Aggregate Limit	2,000,000	-	1,202
Products/Completed Operations Aggregate Limit	2,000,000		
Personal and Advertising Injury Limit	1,000,000		
Each Occurrence Limit	1,000,000		
Damage to Premises Rented (Any One Premises)	100,000		
Medical Expense Limit (Any One Person)	5,000		
		Total	$ 3,336

COMPLIANCE

HHN&Co.

Harris, Harvey, Neal & Co., LLP
Certified Public Accountants

2309 Riverside Drive • P.O. Box 3424 • Danville, VA 24543
434/792-3220 • Fax 434/792-8604 • www.hhncpa.com

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
Danville-Pittsylvania Community Services
Danville, Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and 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 Danville-Pittsylvania Community Services, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which comprise Danville-Pittsylvania Community Services' basic financial statements, and have issued our report thereon dated November 20, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Danville-Pittsylvania 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Danville-Pittsylvania Community Services' internal control. Accordingly, we do not express an opinion on the effectiveness of Danville-Pittsylvania 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 Danville-Pittsylvania 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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Harris Harvey Neal & Co. LLP

Danville, Virginia
November 20, 2018

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Harris, Harvey, Neal & Co., LLP
Certified Public Accountants

2309 Riverside Drive • P.O. Box 3424 • Danville, VA 24543
434/792-3220 • Fax 434/792-8604 • www.hhncpa.com

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
Danville-Pittsylvania Community Services
Danville, Virginia

Report on Compliance for Each Major Federal Program

We have audited Danville-Pittsylvania 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 Danville-Pittsylvania Community Services' major federal programs for the year ended June 30, 2018. Danville-Pittsylvania Community Services' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Danville-Pittsylvania 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 Danville-Pittsylvania 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 Danville-Pittsylvania Community Services' compliance.

Opinion on Each Major Federal Program

In our opinion, Danville-Pittsylvania 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 ended June 30, 2018.

Report on Internal Control Over Compliance

Management of Danville-Pittsylvania 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 Danville-Pittsylvania 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 Danville-Pittsylvania 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 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.

Harris Harvey Neal & Co. LLP

Danville, Virginia
November 20, 2018

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Certified Public Accountants

2309 Riverside Drive • P.O. Box 3424 • Danville, VA 24543
434/792-3220 • Fax 434/792-8604 • www.hhncpa.com

INDEPENDENT AUDITORS' COMMENTS ON RESOLUTION OF
PRIOR YEAR AUDIT FINDINGS

To The Board of Directors
Danville-Pittsylvania Community Services

No corrective action was required of Danville-Pittsylvania Community Services regarding previously reported audit findings since there were no audit findings reported in the prior period.

Harris Harvey Neal & Co. LLP

Danville, Virginia
November 20, 2018

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2018

Federal Grantor/Program Title		Federal Catalogue Number	Expenditures of Federal Awards
U.S. Department of Health and Human Services			
Passed through Virginia Department of Behavioral Health and Developmental Services			
* Substance Abuse Prevention and Treatment Block Grant		93.959	$ 725,000
Mental Health Block Grant		93.958	80,670
Special Initiative for State Mental Health Authorities to Address the Impact of the Economic Downturn Through Employment Development Federal Contract Number HHSS2832007000201	(1)	93.243	101,413
State Targeted Response to the Opioid Crisis Grant		93.788	151,454
Total U.S. Department of Health and Human Services			1,058,537
U.S. Department of Education			
Passed through Virginia Department of Behavioral Health and Developmental Services			
Part C Early Intervention for Infants & Toddlers With Disabilities & Their Families		84.181	70,564
Passed through Virginia Department of Health			
Healthy Families Danville - Pittsylvania County Maternal, Infant, and Early Childhood Visiting Project		93.505	118,187
Department of Criminal Justice Services - Steps to Success		16.738	52,557
Department of Juvenile Justice, Title II Community Partnership for Academic Success		16.540	73,802
Total U.S. Department of Education			315,110
U.S. Department of Agriculture			
Child and Adult Food Program		10.558	22,041
U.S. Department of Transportation			
Federal Transit Administration Section 5310 Funds			
Enhanced Mobility for Seniors and Individuals with Disabilities FTA Grant numbr VA-2016-024-00		20.513	61,957
Total Expenditures			$ 1,457,645

* Indicates Major Program

(1) The 10% de minimis indirect cost rate is used for this grant.

NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2018

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards (the schedule) includes the federal award activity of Danville Pittsylvania Community Services under programs of the federal government for the year ended June 30, 2018. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of Danville Pittsylvania Community Services, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Danville Pittsylvania Community Services.

Note 2. Summary of Significant Accounting Policies

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. Negative amounts shown on the schedule represent adjustments or credits made in the normal course of business to amounts reported as expenditures in prior years.

Note 3. Indirect Cost Rates

Danville Pittsylvania Community Services has elected to use the 10 percent *de minimis* indirect cost rate as allowed under the Uniform Guidance on noted grants.

DANVILLE-PITTSYLVANIA COMMUNITY SERVICES

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2018

Section 1 - Summary of Audit 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?	None reported
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 of Cluster
93.959	Block Grants for Prevention and Treament of Subtance 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

None

Section III - Federal Award Findings and Questioned Costs

None